



Audit Committee Charter Matrix

PURPOSE OF THIS TOOL: Preparing an audit committee charter is often referred to as a best practice and is required for many public companies. It is encouraged for most organizations and required by some states for not-for-profit organizations. However, the charter is often prepared and forgotten except for its annual review. This tool is designed to help audit committees make the charter a living document and use it to manage the agenda.

This tool is meant as a sample of what might be considered to be a best practice. Users of the tool should put their own charter in the first column and use this example as a guide for defining the steps to accomplish each objective, the associated performance measure, and the scheduling.

This tool is intended to serve not-for-profit organizations of all sizes and organizational structures. For instance, some small not-for-profit organizations cannot justify the expense of an internal auditor, while others have very large internal audit departments headed by a senior executive. It is becoming more common in larger organizations to refer to the person heading the internal audit function as the chief audit executive (CAE). As used in this tool, the terms *chief audit executive* and *CAE* refer to the person responsible for the internal audit function, irrespective of their title or organizational role. Similarly, relatively few not-for-profit organizations employ in-house legal counsel. Instead, most not-for-profit organizations rely on the professional services of outside attorneys engaged on a retainer basis or rely on volunteers' services. The guidance provided in this tool is applicable whether in-house resources are employed, an outsource arrangement exists, or volunteers provide services.

Audit Committee Charter Matrix for the Year Ending: _____

Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>1. The chair of the audit committee shall be a member of the board of directors, in good standing, and all members shall be independent in order to serve on this committee.</p> <p>Although not all audit committee members need be members of the board of directors, a majority of the audit committee members should be members of the board of directors.</p>	<p>Test for independence, based on the policies established by the organization.</p> <p>Minimal independence standards would prohibit employees or those with direct financial interests in entities serving the organization from serving on the audit committee.</p> <p>Additionally, an organization's independent auditors should not serve on the audit committee or on the board of directors.</p>	<p>Indicate in the audit committee minutes whenever a new member is appointed.</p>	<p>Affirm annually or whenever a change in status by any audit committee member occurs.</p>	
<p>2. The audit committee should have access to <i>financial expertise</i>, whether in the form of a single individual serving on the committee, or collectively among committee members.</p> <p>If the financial expertise is provided by one individual, it is desirable that he or she be a member of the board of directors. When no single member of the board has the requisite skills, other arrangements should be made to ensure that the audit committee has the financial expertise to carry out its duties.</p> <p>(See the tool "Audit Committee Financial Expertise Considerations," in this toolkit.)</p>	<p>Ascertain that the audit committee has the requisite financial expertise as defined by the organization.</p>	<p>Indicate in audit committee meeting minutes how financial expertise is available to the audit committee.</p>	<p>Affirm annually and when there is a change in status.</p>	

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<p>3. Review the committee's charter annually, reassess the adequacy of this charter, and recommend any proposed changes to the board of directors.</p> <p>Consider changes that are necessary as a result of new laws or regulations.</p>	<p>Review the charter each year. Assess the appropriateness of each point in the charter in light of the previous year's experience. Assess the completeness of the charter in light of new best practices and new legal or regulatory requirements.</p>	<p>Report to the board on the appropriateness of the audit committee charter and any revisions recommended.</p>	<p>Review annually, unless changes are needed during the course of the year.</p>	
<p>4. The audit committee will meet as needed to address matters on its agenda, but not less frequently than twice each year. The audit committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.</p>	<p>In-person meetings should be held at least once each year. All members are expected to attend each meeting in person, via telephone conference, or videoconference.</p> <p>Telephone conference meetings may be held more frequently.</p> <p>The agendas for meetings should be prepared and provided to members in advance, along with appropriate briefing materials.</p>	<p>Prepare minutes that document decisions made and action steps following meetings and review for approval.</p> <p>Meeting minutes should be filed with the board of directors.</p>	<p>Minutes should be distributed as soon as possible but no later than before the next meeting.</p>	
<p>5. Conduct executive sessions with the outside auditors, executive director, and chief financial officer (CFO). If the organization has a chief audit executive (CAE), general counsel, or outside counsel, executive sessions should be conducted with each of these individuals as well. Circumstances may dictate that additional executive sessions may be needed with the director of financial reporting, controller, or others as desired by the Committee. (See the tool "Conducting an Audit Committee Executive Session: Guidelines and Questions," in this toolkit.)</p>	<p>Establish these sessions in conjunction with regularly scheduled meetings or as necessary.</p>	<p>Develop action steps to be taken, if appropriate.</p>	<p>Review as necessary, but not less frequently than regularly scheduled meetings.</p>	

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<p>6. The audit committee shall be authorized to hire independent auditors, counsel, or other consultants as necessary. (This may take place any time during the year.)</p> <p>(See the tool “Points to Consider When Engaging External Resources,” in this toolkit.)</p> <p>(See the tool “Sample Request for Proposal Letter for CPA Services,” in this toolkit.)</p>	<p>Establish a policy for the audit committee to preapprove engaging independent auditors and other experts.</p> <p>Discuss whether a budget should be established for this purpose.</p> <p>Requests for proposals (RFPs) should be used if time permits.</p>	<p>Prepare an engagement letter for each engagement.</p> <p>Report submitted by external accountant, counsel, or consultant.</p>	<p>Continually review the policy and compliance with it as needed.</p>	
<p>7. Review and approve the appointment, replacement, reassignment, or dismissal of the CAE.</p> <p>(See the tool “Guidelines for Hiring the Chief Audit Executive (CAE),” in this toolkit.)</p>	<p>Meet in executive session at each meeting with the CAE.</p> <p>Hold special meetings as may be necessary to address appointment, reassignment, or dismissal of the CAE.</p> <p>The audit committee chair should be available if any unforeseen issues arise between meetings relating to the CAE.</p> <p>Meet at least once annually with other members of executive management and the independent auditors to discuss the performance of the CAE. Discuss job satisfaction and other employment issues with the CAE.</p>	<p>Report to the full board on the performance of the CAE, including the effectiveness of the internal audit function.</p>	<p>Conduct ongoing reviews, as changes can be made at any time during the year.</p>	

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<p>8. Appoint the independent auditors to be engaged by the organization, establish the audit fees of the independent auditors, and preapprove any nonaudit services provided by the independent auditors, including tax services, before the services are rendered.</p> <p>Review with management the significance of bidding out audit services.</p> <p>(See the tools “Sample Request for Proposal Letter for CPA Services” and “Peer Review of CPA Firms: An Overview,” in this toolkit.)</p>	<p>At least once each year, discuss each of these items with management, the CAE, and the board of directors.</p> <p>Review total audit fee in relation to any nonaudit services being provided by the independent auditors.</p> <p>Review and evaluate the professional relationship with the auditors, including continuity of partner, manager, and staff; and level of service provided by auditors.</p> <p>Review the scope of <i>all</i> services provided by the audit firm throughout the organization.</p>	<p>Document these discussions in the audit committee meeting minutes. Report on findings and provide recommendations to the board as considered necessary.</p>	<p>Review soon after the audit has been approved by the board, so the recommendation for the appointment of the outside auditor in the next fiscal year can be documented in the board minutes.</p>	
<p>9. Review with management the policies and procedures with respect to officers, key employees (executive director, CFO, chief operating officer), disqualified persons as defined by the IRS (under Internal Revenue Code Section 4958), expense accounts, and perks, including excess benefit transactions; consider the results of any review of these areas by the internal auditor or the independent auditors.</p>	<p>Ensure written policies and procedures exist.</p> <p>Discuss with the CAE, or equivalent, the need for testing by either the internal auditors, independent auditors, or other parties.</p>	<p>Report issues, if any, to the board.</p>	<p>Review policies and procedures annually.</p> <p>Review any significant findings as they arise.</p>	

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<p>10. Inquire of management, the CAE, and the independent auditors about significant risks or exposures facing the organization; assess the steps management has taken or proposes to take to minimize such risks to the organization; and periodically review compliance with such steps.</p>	<p>Document the material risks that the organization faces. Update as events occur. Review with management and the CAE on a periodic basis.</p>	<p>Submit a risk report to the board and the independent auditors including mitigation strategies and quantifiable risks and insurance to cover such risks, e.g., loss of business.</p>	<p>Review at least once each year, and more frequently if necessary.</p>	
<p>11. Review with the independent auditors, CFO, controller, and CAE the audit scope and plan of the internal auditors, if applicable, and the independent auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.</p>	<p>Meet with external audit partner, CFO, controller, and CAE to discuss scope of the previous year's audit, and lessons learned. Later, discuss planned scope for audit of current year and the standard of work to be followed. In addition, discuss the timing of progress reports, to be provided by the independent auditors, and the communications process to be followed in the event of deviations from the plan.</p>	<p>Document the meeting in the audit committee meeting minutes.</p>	<p>On an annual basis, review the scope of the previous year's audit, and the interrelationship between the internal and independent auditors with respect to the scope of the independent auditors' work.</p> <p>At another of the meetings each year, review the plans of Internal Audit for audits in the current year, if applicable.</p>	
<p>12. Consider reviewing with management and the CAE:</p> <ul style="list-style-type: none"> • Significant findings on internal audits during the year and management's responses thereto • Whether Internal Audit encountered any difficulties in the course of its audits, such as any restrictions on the scope of its work or access to required information 	<p>Review reports of all internal audits issued since the previous meeting and planned for the upcoming year along with the status of each planned audit.</p> <p>Review and discuss the findings for each audit completed since the prior meeting, and management's response to the report.</p> <p>Discuss internal audit department budget and staffing with the CAE.</p>	<p>Report on the status of all internal audits planned for the next quarter and/or year.</p> <p>Internal Audit should provide a summary of findings for completed audits, including management's plan to address findings and weaknesses identified.</p>	<p>Review at each meeting.</p>	

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<ul style="list-style-type: none"> Any changes required in the scope of its internal audit The Internal Audit department's budget and staffing The Internal Audit department's charter Internal Audit's compliance with the Institute of Internal Auditors' (IIA's) Standards for the Professional Practice of Internal Auditing (Standards), if applicable. <p>Internal Audit should meet separately with the independent auditors.</p>	<p>Discuss Internal Audit's compliance with IIA Standards, if applicable, including the requirement for a peer review once every five years. If the organization receives federal funds, Internal Audit is required to have a peer review once every three years if the independent auditors plan to rely on their work to reduce the external audit scope.</p> <p>Review the internal audit charter periodically and update, if necessary.</p>			
<p>13. Inquire of the executive director and CFO regarding the sources of support and revenue of the organization from a subjective as well as an objective standpoint.</p>	<p>Discuss sources of support and revenue with the executive director, CFO, and other executives. Identify any issues addressed, and their resolution.</p>	<p>Include an agenda for executive sessions. (See the tool "Conducting an Audit Committee Executive Session: Guidelines and Questions," in this toolkit.)</p>	<p>Review, as necessary, but at least annually.</p>	
<p>14. Review with the independent auditors and the CAE:</p> <ul style="list-style-type: none"> The adequacy of the organization's internal controls, including computerized information system controls and security Any related significant findings and recommendations of the independent auditors and internal audit services, together with management's responses thereto 	<p>Review the reports of the internal audit team for all audits completed since the prior audit committee meeting.</p> <p>Review key internal controls with the CAE, and understand how these controls will be tested during the year.</p> <p>Review these plans with the independent auditors to understand their scope with respect to key controls.</p>	<p>Report to the board on issues relating to internal controls, with emphasis on management's ability to override controls and the monitoring and testing relating to this capacity.</p>	<p>Submit a comprehensive report to the board at a specified meeting each year.</p> <p>Update on anything new, or any changes to the internal control system, at every meeting.</p>	

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(See the tools “Internal Control: A Tool for the Audit Committee,” and “Fraud and the Responsibilities of the Audit Committee: An Overview” in this toolkit.)	Review with the CAE the plans for audits of other elements of the control environment. Determine that all internal control weaknesses are quantified, reviewed, and addressed.			
15. Review with management and the independent auditors the effect of any regulatory and accounting initiatives, as well as other unique transactions and financial relationships, if any. (See the tool “Unique Transactions and Financial Relationships,” in this toolkit.)	Independently, through professional reading and continuing education, keep up-to-date on new developments related to the not-for-profit industry, the organization’s specific sector, and the environment in which the organization operates, including any regulatory requirements it may be subject to. Discuss with management and the independent auditors in meetings.	Record discussion and any action steps in audit committee meeting minutes.	Review as necessary.	
16. Review with management, and the CAE, any interim financial reports issued since the last meeting.	Discuss the financial statements with emphasis on changes in reporting, new and unusual transactions, and financial trends.	Record discussion and any action steps in audit committee meeting minutes.	Review as necessary.	
17. Review with each public accounting firm that performs an audit: • All critical accounting policies and practices used by the organization.	Discuss each matter, and related matters that may come to the attention of the audit committee and/or the independent auditors through this process. Create an action plan and follow-up plan as necessary.	Submit reports and documentation of discussions and resolution of disagreements.	Review, at least annually, and/or in conjunction with the year-end audit.	

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<ul style="list-style-type: none"> All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the organization, the ramifications of each alternative, and the treatment preferred by the organization. (See the tool "Issues Report From Management," in this toolkit.)				
18. Review all material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.	Discuss each item with the independent auditors and management (including the CAE) and conclude on the appropriateness of the proposed resolution.	Submit reports and documentation of discussions, resolution of issues, and the action plan for any items requiring follow-up and monitoring.	Review, at the completion of the external audit.	
19. Review with management and the independent auditors: <ul style="list-style-type: none"> The organization's annual financial statements and related footnotes The independent auditors' audit of the financial statements and their report thereon The independent auditors' judgments about the quality, not just the acceptability, of the organization's accounting principles as applied in its financial reporting Any significant changes required in the independent auditors' audit plan 	Discuss each matter, and others that may come to the attention of the audit committee through this process, with management (including the CAE) and the independent auditors. Review with management the course of action to be taken for any action requiring follow-up. Monitor any follow-up action that requires continued audit committee intervention.	Submit reports and documentation of discussions, resolution of disagreements, or action plan for any item requiring follow-up.	Review at the completion of the annual external audit.	

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<ul style="list-style-type: none"> Any serious difficulties or disputes with management encountered during the audit Matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, <i>Communication With Audit Committees</i> (AICPA, Professional Standards, vol. 1, AU sec. 380), as amended, related to the conduct of the audit. <p>(See the tool "Discussions With the Independent Auditor: What to Expect," in this toolkit.)</p>				
20. Review with the general counsel and the CAE, legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements, related organization compliance policies, and programs and reports received from regulators.	Discuss whether the organization is in compliance with laws and regulations that govern the environment(s) in which it operates, as well as other applicable laws and regulations.	Report to the board that the review has taken place and any matters that need to be brought to its attention.	Review at least annually.	
21. Periodically review the organization's code of conduct/ethics to ensure that it is adequate and up-to-date.	Review results with the CAE and general counsel. Consider any adjustments that may be necessary to the organization's code of conduct/ethics.	Report to the board that the review of the code of conduct/ethics was done.	Review at least annually. Review any significant findings as they arise.	

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<p>Review with the CAE and the organization's general counsel the results of their review of the monitoring of compliance with the organization's code of conduct/ethics.</p> <p>(See the tool "Independence and Related Topics: Conflicts of Interest, Related Parties, Inurement, and Other Issues," in this toolkit.)</p>	<p>Consider steps that may need to be taken to ensure that compliance is at the highest possible level.</p>	<p>Recommend changes to the code of conduct/ethics to the board as needed.</p>		
<p>22. Review the procedures for the receipt, retention, and treatment of complaints received by the organization regarding accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, current status, and resolution if one has been reached.</p> <p>(See also the tool "Sample Whistleblower Tracking Report," in this toolkit.)</p>	<p>Review procedures with CAE and the general counsel.</p> <p>Review all complaints that have been received and the status of resolution.</p> <p>Ensure that proper steps are taken to investigate complaints and resolve them in a timely fashion.</p>	<p>Review an original of each complaint received, no matter the media used to submit.</p> <p>Discuss the status or resolution of each complaint.</p> <p>Review a cumulative list of complaints submitted to date to review for patterns or other observations.</p>	<p>Review at least annually.</p>	
<p>23. Review procedures for the confidential, anonymous submission by employees of the organization of concerns regarding questionable accounting or auditing matters.</p> <p>Review any submissions that have been received, the current status, and the resolution, if one has been reached.</p>	<p>Review procedures with the CAE and the general counsel.</p> <p>Review all complaints that have been received and the status of resolution.</p> <p>Ensure that proper steps are taken to investigate complaints and resolve timely.</p>	<p>Review an original of each complaint received no matter the media used to submit.</p> <p>Discuss the status of resolution of each complaint</p> <p>Review a cumulative list of complaints submitted to date to review for patterns or other observations.</p>	<p>Review at least annually.</p>	

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(See also the tool "Sample Whistleblower Tracking Report;" in this toolkit.)				
24. The audit committee will perform such other functions as assigned by the organization's charter or bylaws, or the board of directors.	Monitor developments in the regulatory and legislative and legal environment and respond to any new requirements as needed.		Review new business at all meetings.	
25. The audit committee will evaluate the independent auditors and internal audit function, if applicable. (See the tools "Evaluating the Internal Audit Team: Guidelines and Questions" and "Evaluating the Independent Auditors: Questions to Consider," in this toolkit.)	Use information from executive sessions conducted throughout the year. Use a formal assessment tool for each group.	Submit recommendations for change in process and procedures. For independent auditors, request proposals if changes are being considered.	Review after completion of the annual audit.	
26. The audit committee will review its effectiveness.	The audit committee will review its accomplishments and make recommendations for improving its effectiveness.	Discuss recommendations with board of directors.	Review annually.	
27. Create an agenda for the ensuing year or review and approve the agenda submitted by the CAE.	Complete the "Audit Committee Charter Matrix." (Use this tool as a sample, and tailor it to your organization.)		Review before the upcoming year.	
28. Oversee the preparation of, or prepare, an audit committee annual report.	Review and discuss the report with CAE and auditors.	Annual report finalized and approved. Present to board.	Review annually upon completion of audited financial statements	