

Audit (and Compliance) Committee Charter Assessment Tool for Financial Institutions

	Acceptable	Better	Desirable	Best Practice
I. Establishment	Any written document, including Board resolution.	Incorporated in bylaws ¹ or corporate governance guidelines, with clear terms of reference on roles and responsibilities.	Incorporated in corporate Charter or Articles of Association, with more detailed terms of reference on roles, responsibilities, composition, functioning, and procedures.	Same. ²
II. Purpose	Assisting the Board in oversight of preparation and presentation of financial statements and monitoring their integrity. ³	<ol style="list-style-type: none"> 1. Same. 2. Recommending accounting policies; reviewing adherence to accounting policies.⁴ 	<ol style="list-style-type: none"> 1. Same 2. Same. 3. Overseeing the work of the External Auditor. 4. Assisting the Board in ensuring the Bank's compliance with applicable laws and regulations, as well as the Bank's Charter, bylaws and other internal regulations.⁵ 5. Overseeing the adequacy of internal controls. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 6. Acting as central coordination point for investigation of complaints relating to financial statements, compliance, internal controls, etc.
III. Composition	<ol style="list-style-type: none"> 1. Three or more Board members. 2. Only non-executive Board members.⁶ 	<ol style="list-style-type: none"> 1. Same. 2. Same, but majority independent Board members, including the committee chair. 3. At least one member with recent and relevant financial/accounting expertise. 	<ol style="list-style-type: none"> 1. Three to five Board members. 2. Same, but all members independent. 3. Same. 4. Acceptable level of recent and relevant financial/accounting expertise in the aggregate. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. All members with recent and relevant financial/accounting expertise.
IV. Individual Committee Membership Qualifications	Time and desire to fulfill obligations.	<ol style="list-style-type: none"> 1. Same. 2. At least one Committee member with recent and relevant financial/accounting expertise. 3. Financial literacy. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same, and periodic professional education/training for all Committee members. 4. Introductory briefing for all new Committee members. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Less than 75% attendance at Committee meetings in one year automatic threshold for non-reappointment. 6. Limit number of other memberships on other board committees; do not serve on other committees which may involve executive decisions (e.g., Investment, Credit, or Executive Committee).

1 By-laws refer to internal corporate documents which do not have to be filed externally (with corporations' registry or the regulator).

2 "Same" indicates that the recommendation of the identical number in the column immediately to the left is carried over into the column. Should the recommendation be only partially identical, any differences are *italicized*.

3 Defined in this limited way, such a Committee should not be referred to as also a "Compliance Committee".

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5 The term "internal regulations" should be interpreted in the narrow sense and exclude rules dealing with operational procedures.

6 In most jurisdictions with two-tiered Boards, all members of the Supervisory Board are non-executives.

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				7. Reviewing from time to time the Committee competency of the members in discharging their duties and providing appropriate training.
V. Committee Chair	Appointed by non-executive Board Chair, Board as a whole, or the Committee.	<ol style="list-style-type: none"> 1. Same. 2. Is an independent Board member. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Has an appropriate recent and relevant expertise (e.g. finance/accounting). 	<ol style="list-style-type: none"> 1. Appointed by independent members of the Board or Committee. 2. Same. 3. Same.
VI. Appointment to Committee	Appointed by Board Chair, Board as a whole or Corporate Governance/Nominations Committee.	<ol style="list-style-type: none"> 1. Same, <i>and full Board ratification of Committee members where nomination is by Chair or Corporate Governance/Nominations Committee.</i> 2. Minimal or no management (e.g., CEO) or controlling shareholder influence in Committee member nominations. 3. Fixed terms, preferably annual, but not exceeding Board terms. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. One-year renewable terms. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same.
VII. Remuneration (in addition to compensation for work as a Member of the full Board)	Is solely related to fulfilling the obligations of a Committee member (no form of payment which would compromise independence (e.g., salary, consulting, finders' fees, etc.)).	<ol style="list-style-type: none"> 1. Same, <i>payment as Committee fees and/or meeting fees is the preferred form.</i> 2. Adequate level of payment so as to create expectation of responsibility. 	<ol style="list-style-type: none"> 1. Annual Committee fees. 2. Same. 3. Additional per meeting fees. 4. Additional fee for Chair. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same.
VIII. Meetings	<ol style="list-style-type: none"> 1. May be called by the Committee Chair. 2. Approved annual calendar of regular meetings.⁷ 3. At least semiannual meetings. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. May be requested by the Board Chair, CEO or CFO. 	<ol style="list-style-type: none"> 1. Same, <i>and by any two Committee members.</i> 2. Same. 3. At least quarterly meetings. 4. Same. 5. Meetings may be in person, by telephone, web, or other electronic communication means agreeable to Committee. 6. Ability to act by unanimous written consent. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same, <i>or requested by the Chief of Internal Audit, the External Auditor and Chief Compliance Officer.</i> 5. Same. 6. Same.
IX. Attendance and Notice	<ol style="list-style-type: none"> 1. Quorum required. 	<ol style="list-style-type: none"> 1. Same, <i>and simple majority as a minimum.</i> 2. Same. 	<ol style="list-style-type: none"> 1. Same. 2. Same, <i>with minimum 48 hour notice.</i> 	<ol style="list-style-type: none"> 1. Same, <i>with qualified majority for certain important issues.</i> 2. Same, <i>with minimum 1 week notice.</i>

⁷ In addition to regular Committee meetings, extraordinary meetings may be held whenever needed and appropriate with agenda set in advance.

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	2. Advance notice required; may be waived with unanimous written consent.	3. Agenda and related materials to be provided in advance unless the Chair (or other convener) believes confidentiality requires otherwise, in which case general description of subject of the meeting to be circulated, with a statement from the Chair as to reasons for confidentiality. 4. Minutes to be prepared and distributed to Committee members. The Board has access to review them.	3. Same. 4. Same. 5. The External Auditor sent notices of all meetings. 6. The Chief of Internal Audit and Chief Compliance Officer sent notices of all meetings. 7. All non-committee members may be asked to leave the meeting at any time. 8. The External Auditor is allowed to attend all meetings at Bank's expense. 9. The Chief of Internal Audit and Chief Compliance Officer allowed attending all meetings. 10. At least one annual meeting separately with the External Auditor, Chief of Internal Audit and Chief Compliance Officer held without management present.	3. Same. 4. Same. 5. Same. 6. Same. 7. Same. 8. Same, and the External Auditor is provided at all meetings with opportunity to meet with Committee without management present. 9. Same, and the Chief of Internal Audit and Chief Compliance Officer are provided at all meetings with opportunity to meet with Committee without management present. 10. Same. 11. Independent members meet separately (non-committee meeting) at least once per year to discuss their effectiveness.
X. Reporting to the Board	Verbal or written reports to the Board as needed.	1. Same. 2. Annual written report to the Board. ⁸	1. Same, but at least quarterly. 2. Same.	1. Written reports or minutes to the Board following each Committee meeting. 2. Same.
XI. Evaluation⁹			1. Annual evaluation of work the Committee has performed over the previous year. 2. Annual evaluation of Committee effectiveness, including processes and procedures.	1. Same. 2. Same. 3. Periodic evaluation of the Committee Charter, with written report to the Board suggesting improvements, if any. 4. Periodic independent evaluation of Committee effectiveness.
XII. Ethics / Confidentiality	1. General referencing to the Bank's code of ethics. 2. Ensuring that the code of ethics is in writing and that arrangements are made for all employees to be aware of it. ¹⁰	1. Same. 2. Same. 3. Committee members covered by specific provisions applicable to Board members as included in the Bank's general code of ethics or by code of ethics for all Board members.	1. Same. 2. Same. 3. Same.	1. Same. 2. Same. 3. Same. 4. Statement in the Bank's Charter that Committee members in particular may receive confidential information that may not be disclosed. 5. Reviewing and providing recommendations to improve the Bank's code of ethics at least every two years.

8 Annual written report to the Board may be basis of report to shareowners in jurisdictions which require such reports.

9 The Corporate Governance/Nominations Committee may coordinate evaluation of the Board and all Committees at some companies. For more on evaluations, see Corporate Governance and Nominations Committee Charter Assessment Tool of the IFC's Advanced Methodology for Financial Institutions.

10 See Section XIII, Acceptable, 2 of the Corporate Governance and Nominations Committee Charter Assessment Tool of the IFC's Advanced Methodology for Financial Institutions.

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XIII. Authority and Resources	Having access to the External Auditor, Chief of Internal Audit, General Counsel, Chief Compliance Officer and other agents of the Bank.	<ol style="list-style-type: none"> 1. Same. 2. The External Auditor reports to the Committee.¹¹ 3. The Internal Audit function reports independently to the committee. 	<ol style="list-style-type: none"> 1. Same, <i>without necessarily going through the hierarchy (though the hierarchy should be respected absent compelling reasons to avoid it).</i> 2. Same. 3. Same. 4. Requiring the presence of any executive officer of the Bank and its affiliates or other employee at Committee meeting or other venue. (CEO to be notified unless investigatory conflict.) 5. Authorizing, or conducting, any investigations within its area of responsibility; having the right to hire independent experts for such investigations, approve terms of such engagements, and having such investigations paid for by the Bank. 6. Having the right to investigate any employee complaints (whistle-blowing) related to financial reporting matters. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 6. Same. 7. Having an annual budget sufficient to achieve Committee needs, and having the right to access additional funds in unforeseen circumstances. 8. Ensuring the adequacy of the whistle-blowing procedures of the Bank.¹²
XIV. Responsibilities – Reports to Shareowners	Reporting to shareowners annually on its own activities, including Charter, members, number of meetings, and attendance.	<ol style="list-style-type: none"> 1. Same. 2. Reviewing any releases of information (e.g. earnings press releases, periodic regulatory filings) which relate to financial statements. 	<ol style="list-style-type: none"> 1. Same. 2. Reviewing of the disclosure/financial reporting practices of the Bank. 	<ol style="list-style-type: none"> 1. Same, and including how the Committee guarantees the External Auditor’s independence and on fees paid to the External Auditor for each type of audit and non-audit services; litigation and other risks; information on integrity of internal controls, internal audit, and compliance and on any special issues considered during the previous year. 2. Same. 3. Committee Chair to be directly accessible to shareowners as determined by the Chair and/or Committee (e.g. available to take questions at the Annual General Meeting).
XV. Responsibilities – Financial Reports	1. Reviewing key accounting policies and practices (especially any changes) to ensure compliance with local and any applicable standards/regulations.	<ol style="list-style-type: none"> 1. Same. 2. Same, <i>and reviewing all interim financial statements irrespective of whether it is required by law and providing recommendations to the Board and shareholders.</i> 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Monitoring communications from regulatory agencies in regards to accounting matters. 4. Periodically considering whether the Bank should incorporate any 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Ensuring that the Committee and the Bank are abreast of material pending changes under consideration by accounting standard

11 See also Section XVII of this Tool.

12 See also Section XIX of this Tool.

	Acceptable	Better	Desirable	Best Practice
	2. Approving annual reports, annual financial statements, as well as any interim financial statements, if required by law, in advance of Board and shareholder approval.		extra-financial reporting to shareholders, including whether it should participate in any extra-financial programs such as the Global Reporting Initiative.	setters, including through participation in fora, etc. organized by standard setters. 6. Regularly monitoring the adequacy of external financial reporting practices against peers.
XVI. Responsibilities – Internal Controls	<ol style="list-style-type: none"> 1. Reviewing controls and procedures for compliance with financial reporting requirements. 2. Reviewing findings of all regulatory reviews. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Reviewing and advising on internal control procedures, be cognizant of what management and Board have identified as key risks.¹³ 4. Reviewing and approving of the comprehensive listing of related parties, as required by law. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Reviewing related party transactions prior to the Board consideration. 6. Discussing any internal control weaknesses with the External Auditor, particularly any findings to be referenced in the Management Letter. Ensuring that the Chief of Internal Audit is aware of findings. 7. Monitoring remediation of weaknesses in internal controls previously identified by the Committee, the Chief of Internal Audit, the External Auditor or others, including those in particular identified in the Management Letter. 8. Reviewing whistleblower policies.¹⁴ 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 6. Same. 7. Same. 8. Same. 9. Ensuring that the Bank has adequate methods by which concerns about controls/accounting/fraud/malfeasance, etc. may come to light (e.g. phone “tip” lines, e-mail access, and mailbox to provide complaints or suggestions).
XVII. Responsibilities – Internal Audit	<ol style="list-style-type: none"> 1. Ensuring appropriate staffing for the internal audit function. 2. Reviewing significant reports of the Chief of Internal Audit. 	<ol style="list-style-type: none"> 1. Same. 2. Reviewing and taking action on all reports of the Chief of Internal Audit. 3. Being informed in a timely fashion of significant issues discovered by the internal audit function. 4. Reviewing and recommending improvements of the by-law on the internal audit function. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Having the opportunity to express the Committee’s opinion about the appointment or removal of the Chief of Internal Audit. 6. Approving the annual work plan of the internal audit function and monitoring significant deviations from plan. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Approving the appointment and dismissal of the Chief of Internal Audit. 6. Same. 7. Periodically reviewing the adequacy of internal audit function, including the resources, training, and expertise necessary to perform its responsibilities.

¹³ See also Risk Policy Committee Charter Assessment Tool of the IFC’s Advanced Methodology for Financial Institutions.

¹⁴ See also Section XIX of this Tool.

	Acceptable	Better	Desirable	Best Practice
XVIII. Responsibilities – External Audit	<ol style="list-style-type: none"> 1. Reviewing with management and the External Auditor audited financial statements, any interim statements, if audited, or other material communications relating to the Bank. 2. Establishing, in conjunction with the External Auditor, the auditing standards to be used subject to applicable regulation. 3. Setting procedures for hiring the External Auditor so as to ensure its independence (e.g., a formal tender procedure). 4. Signing and authorizing the terms of engagement and on the appointment, reappointment, or removal of the external auditors. 	<ol style="list-style-type: none"> 1. Same 2. Same. 3. Same. 4. Approving the audit scope and plan. 5. Approving the hiring of the External Auditor, subject to shareowner approval, where required.¹⁵ 6. Obtaining any legal/regulatory declarations needed from the External Auditor. 7. Ensuring that the Bank follows appropriate record retention policies for accounting documents. 8. Formally meeting with the External Auditor at least annually. 9. Reviewing with the External Auditor any difficulties encountered during the conduct of the audit. 10. Reviewing all regulatory oversight reports relevant to Committee’s responsibility. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 6. Same. 7. Same. 8. Same. 9. Same. 10. Same. 11. Evaluating the performance of the External Auditor on an annual basis. 12. Establishing high-level conditions for hiring the External Auditor (e.g. auditor rotation or lead partner rotation policy), if any. 13. Reviewing disputes between management and the External Auditor. 14. Discussing with management any non-audit services to be purchased from the External Auditor, so as to preserve independence of audit. 15. Reviewing and tracking the formal process of review and follow-up of Management Letters. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same, <i>and directly hiring and setting the compensation of the External Auditor, subject to shareowner approval.</i>¹⁶ 4. Same. 5. Same. 6. Same. 7. Same. 8. Same. 9. Same. 10. Same. 11. Same. 12. Same. 13. Same. 14. Same, <i>and setting standards/policies for purchase of any non-audit services from the External Auditor, so as to preserve independence of audit and approve contracts for such services.</i> 15. Same. 16. Ensuring that the Committee and the Bank are abreast of material pending changes under consideration by audit standard-setters, including through participation in fora, etc. organized by standard-setters. 17. Generally keeping abreast of auditing/accounting trends in the industry and geographic market. 18. Discussing with the External Auditor, at least annually, any disciplinary or regulatory findings about the audit firm itself, and exploring any issues which might compromise its independence. 19. Putting the audit contract out for market competition periodically.
XIX. Responsibilities – Compliance	<p>Reviewing all regulatory examination findings.</p>	<ol style="list-style-type: none"> 1. Same. 2. Reviewing with the General Counsel, Chief Compliance Officer or other appropriate corporate officer, the Bank’s compliance program. 	<ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Reviewing regulatory changes that may affect compliance regime. 	<ol style="list-style-type: none"> 1. Same. 2. Same, <i>including provision for acceptance and retention of complaints (see section XVI, Best Practice), and receiving reports on compliance at least semiannually.</i> 3. Same.

15 In some jurisdictions, shareowner approval may not be required.

16 The best practice is for the Audit Committee to be empowered to directly hire and manage the External Auditor without going through the Board, which may have executive officers as Members. However, in certain jurisdictions, the ultimate decision-making on this issue may rest with shareholders.

	Acceptable	Better	Desirable	Best Practice
		<p>3. Reviewing all disciplinary actions against corporate officers found to have violated standards of ethical conduct.</p>	<p>5. Regularly evaluating the work plans and reports prepared by the unit responsible for the Bank’s Anti-Money Laundering function.</p> <p>6. Ensuring that employees of the Bank’s compliance office receive adequate training.</p> <p>7. Discussing with the General Counsel any pending litigation or other legal matters which could have a material affect on the Bank’s financial statements, ways of doing business and/or public reputation.</p>	<p>4. Same.</p> <p>5. Same, <i>and evaluating the adequacy and effectiveness of the Bank’s procedures and systems for ensuring compliance with legal and regulatory requirements and internal operating procedures, including, but not limited, to those relating to anti-money laundering and combating the financing of terrorism.</i></p> <p>6. Same.</p> <p>7. Same.</p> <p>8. Ensuring that the Committee and the Bank are abreast of material pending changes under consideration by regulatory agencies, including through participation in fora, etc. organized by these agencies.</p> <p>9. Reviewing any waivers of the Bank’s code of ethics.¹⁷</p>

¹⁷ Points 9 and 10 may also be a responsibility of the Corporate Governance/Nominations Committee.