

Audit Committee

Institution Name:

SCD:

Charter & Other Guidance

The core composition, authorities, and responsibilities of the Audit Committee (AC or committee) must be in a written charter. However, institutions may use the charter, bylaws, policies, procedures, or other guidance documents to provide more detailed information. Having detailed guidance for the operation of an AC is a sound business practice and also helps to ensure compliance with AC regulatory requirements. The questions below are structured to help examiners differentiate between items that must be covered in the charter and items that can be addressed in other documents if the institution so chooses.

Question	Response	Comment
1. Did the board adopt a written charter for the AC? 620.30		
2. Does the charter or other guidance sufficiently describe the following core requirements: <i>Note: The charter doesn't have to go into great detail, but must set forth the AC's core structure, powers, and duties. Additional detail with regard to the AC composition, authorities, responsibilities, and other aspects of AC membership and operations should be addressed somewhere in the institution's guidance documents (AC charter, bylaws, policy, procedures, etc.).</i>		
a. Committee composition? <ul style="list-style-type: none"> ○ Each member of the AC is a member of the institution's board. 620.30(a) ○ The AC has a minimum of 3 members. 620.30(a) ○ The director(s) designated as financial expert (FE) under 611.210(a)(2) serves on the AC. If more than one, all directors designated as a financial expert must serve on the AC, though only one is required to be present for the AC to convene. <ul style="list-style-type: none"> ▪ In some situations, an FE advisor may be hired to satisfy 620.30(a) (i.e. there is no director designated as an FE and the institution meets criteria of 611.210(a)(2)). ○ Each AC member must be knowledgeable in at least one of the following: 620.30(a) <ul style="list-style-type: none"> ▪ Public and corporate finance ▪ Financial reporting and disclosure ▪ Accounting procedures ○ Each AC member meets the independence requirements. 620.30(b) 		

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<p><i>Note: The charter must identify the minimum composition, but either the charter or separate guidance should provide detailed instructions on how AC members will be identified and determined qualified and independent.</i></p>		
<p>b. Committee authorities?</p> <ul style="list-style-type: none"> ○ Hiring and supervision of external auditor. 620.30(d)(2) ○ Hiring of other experts. 620.30(c) ○ Financial oversight and policy review. 620.30(d)(1) ○ Oversight of internal controls for financial reporting and internal audits. 620.30(d)(3) ○ Access to institution resources. 620.30(c) <ul style="list-style-type: none"> ▪ A two-thirds majority vote of the full board is required to deny an AC request for resources. ○ Any other authorities. FAQs About Governance Changes in 2006 #56 <p><i>Note: The charter must identify the minimum AC authorities, but either the charter or separate guidance should provide detailed instructions on how the AC will exercise these authorities, including reporting back to the full board and interaction with System institution employees.</i></p>		
<p>c. Committee responsibilities related to oversight over financial reports? 620.30(d)(1)</p> <ul style="list-style-type: none"> ○ Oversight of management's preparation of the report to shareholders. ○ Reviewing the impact of any significant accounting and auditing developments. ○ Reviewing accounting policy changes relating to preparation of financial statements. ○ Reviewing annual and quarterly reports prior to release. ○ Recording of AC review of reports and policies. <ul style="list-style-type: none"> ▪ The AC must record agreement or disagreement with any financial report or policy under review by the AC. <p><i>Note: The charter must identify the minimum AC responsibilities, but either the charter or separate guidance should provide detailed instructions on the scope of AC responsibilities.</i></p>		

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<p>d. Committee responsibilities related to the external auditors? 620.30(d)(2)</p> <ul style="list-style-type: none"> ○ Ensuring the external auditor reports directly to the AC. ○ Determining the appointment, compensation, and retention of external auditors issuing audit reports of the institution. 620.30(d)(2)(i) ○ Reviewing the external auditor’s work. 620.30(d)(2)(ii) ○ Giving prior approval for any non-audit services performed by the external auditor. 620.30(d)(2)(iii) <ul style="list-style-type: none"> ▪ Except the AC may not approve those non-audit services specifically prohibited by FCA Regulation 621.31. ○ Ensuring the external auditor complies with the auditor independence provisions of Part 621 Subpart E. 620.30(d)(2)(iv) <p><i>Note: The charter must identify the minimum AC responsibilities, but either the charter or separate guidance should provide detailed instructions on the scope of AC responsibilities.</i></p>		
<p>e. Committee responsibilities related to internal controls? 620.30(d)(3)</p> <ul style="list-style-type: none"> ○ Oversight of the institution’s system of internal controls relating to the preparation of financial reports (including review of these controls for compliance with applicable laws and regulations). ○ Review and supervision of all internal audit functions. <p><i>Note: The charter must identify the minimum AC responsibilities, but either the charter or separate guidance should provide detailed instructions on the scope of AC responsibilities.</i></p>		
<p>f. Additional responsibilities the board has delegated to the AC (beyond those required by regulation), such as oversight related to whistleblower program, corrective action processes, etc.? FAQs About Governance Changes in 2006 #56</p> <p><i>Note: As discussed in FCA’s Informational Memorandum on Whistleblower Programs dated July 9, 2015, AC involvement in the whistleblower program is an industry practice that institutions should consider adopting.</i></p>		

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Question	Response	Comment
3. Does the charter, policy, procedures, or other guidance specify that the AC must maintain records of meetings, including attendance, for at least 3 fiscal years? 620.30		
4. Does the charter, policy, procedures, or other guidance specify the frequency of AC meetings? Best Practice <i>Note: The AC will have to meet at least quarterly to provide required oversight of quarterly/annual reports to shareholders. 620.5(j)(2); 620.11(c)(3)</i>		
5. Does the AC periodically review its charter and report to the board on its appropriateness and any recommended changes? Director's Role		

Membership/Independence

Identify here if the institution's AC membership and independence comply with FCA Regulations and other guidance.

Question	Response	Comment
6. Are all AC members board members? 620.30(a)		
7. Are there at least 3 AC members? 620.30(a)		
8. Does the AC membership include the board's designated financial expert (FE) or FE advisor from FCA Regulation 611.210(a)(2) ? <i>Note: Each institution must have either a director who is an FE or have contracted for a financial advisor. There may be more than one director designated as the FE. If so, the board should document the basis for determining which FE will be required to be in attendance for the AC to convene. FAQs About Governance Changes in 2006 #14; Director's Role</i>		
9. If the board retained an FE advisor pursuant to FCA Regulation 611.210(a)(2) : <i>Note: Only those institutions with \$500 million or less in total assets as of Jan. 1 each year may have a financial advisor instead of an FE. 611.210(a)(2).</i>		
a. Does that person formally serve as an advisor to the AC? 620.30(c)		
b. Does the AC sufficiently limit the advisor's role to prevent the advisor from acting as a voting member of the AC? 620.30(a) ; FAQs About Governance Changes in 2006 #17		
c. Does the AC establish meeting attendance parameters for the advisor as part of the contract? 620.30 ; FAQs About Governance Changes in 2006 #17		

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<p style="text-align: center;"><i>Note: The financial advisor needs to be available for advice and counsel to the board to the same extent that a director designated as the FE would be.</i></p>		
<p>10. Is each AC member knowledgeable in at least one of the following:</p> <ul style="list-style-type: none"> • public and corporate finance, • financial reporting and disclosure, or • accounting procedures? 620.30(a) <p><i>Note: The institution should identify and document how each AC member meets the knowledge criteria. The knowledge threshold can be achieved by training as discussed in FAQs About Governance Changes in 2006 #53 and the Director's Role</i></p>		
<p>11. Has the AC identified appropriate training for members, consistent with the institution's policy and procedures on director training? 611.210(b); Director's Role</p>		
<p>12. Is each AC member free from any relationship that, in the opinion of the board, would interfere with the exercise of independent judgment as a committee member? 620.30(b); FAQs About Governance Changes in 2006 #53</p> <p><i>Note: The institution should identify and document how its AC members meet the independence requirement.</i></p>		
<p>13. Does the board periodically review AC members' independence, attendance, and completion of training and make membership adjustments accordingly? Director's Role</p> <p><i>Note: AC independence should be monitored on an ongoing basis as independence might change. The institution's standards of conduct process could help facilitate timely identification of changing relationships or circumstances that may affect the independence of AC members.</i></p>		

Committee Operations

Identify here if the AC is effectively carrying out its duties and responsibilities.

Question	Response	Comment
<p>14. Has the AC met at least quarterly, or more frequently if necessary, to fulfill its duties? 620.5(j)(2); 620.11(c)(3)</p> <p><i>Note: Meeting frequency should be based on the institution's level of complexity, but the AC will have to meet at least quarterly to provide required oversight of quarterly/annual reports to shareholders. 620.5(j)(2); 620.11(c)(3)</i></p>		
<p>15. Was the FE (or FE advisor) attendance at AC meetings consistent with AC attendance requirements established by the institution? 620.30(a); FAQs About Governance Changes in 2006 #17</p>		
<p>16. Does the AC report only to the board? 620.30(d)</p>		

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<p><i>Note: Institution managers can attend portions of AC meetings, but should not be active participants or serve as ex officio members. AC meetings should include portions of time where only members are in attendance. Best Practice</i></p>		
<p>17. Does the board periodically require reports from the AC? Director's Role</p> <p><i>Note: The AC should report its proceedings and recommendations to the board after each committee meeting.</i></p>		
<p>18. Has the AC maintained adequate records of meetings, including attendance, for at least 3 fiscal years? 620.30</p> <p><i>Note: The minutes should reflect decisions made at the meeting, issues discussed, and questions raised. The minutes should clearly capture director attendance, voting results, and reference to attachments reviewed or used by the AC. If a financial expert (FE) advisor is used, the AC should reflect attendance in the minutes as well. FAQs About Governance Changes in 2006 #17</i></p>		
<p>19. Do AC meeting minute's record agreement or disagreement with any financial report or policy under review by the AC and approval of non-audit services? 620.30(d)(1); 620.5(i)(2)</p>		
<p>20. If the AC consists of the entire board, were separate AC meetings held (e.g., separate agenda, meeting, and minutes)? FAQs About Governance Changes in 2006 #54</p> <p><i>Note: AC business should not occur intermittently during board meetings as it would be difficult to distinguish when acting in the AC role or the general board role. A best practice is to have less than the full board serving as the AC. FAQs About Governance Changes in 2006 #55</i></p>		
<p>21. Was the AC permitted to contract with independent legal counsel and expert advisors, if needed? 620.30(c)</p>		
<p>22. Did the institution allow for monetary and nonmonetary resources for the AC (e.g. funds to hire outside legal advisors and expert advisors and supply the committee ordinary administrative support and expenses)? 620.30(c)</p> <p><i>Note: While the board should monitor AC resource use, the AC must have sufficient autonomy to carry out its duties.</i></p>		
<p>23. If the institution denied the AC any requested resource, was a two-thirds majority vote of the full board obtained first? 620.30(c)</p>		
<p>24. Has the AC executed its responsibilities with respect to financial reports by effectively: 620.30(d)(1)</p>		
<p style="padding-left: 40px;">a. Overseeing management's preparation of each financial report to shareholders?</p>		
<p style="padding-left: 40px;">b. Reviewing the impact of any significant accounting and auditing developments?</p>		

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c. Reviewing accounting policy changes relating to preparation of financial statements?		
d. Reviewing annual and quarterly reports prior to release? <i>Note: Annual and quarterly reports must state that financial statements were prepared under AC oversight. 620.5(i)(2); 620.11(c)(3). The annual report must also state if external auditor non-audit services were approved by the AC. 620.5(i)(2)</i>		
25. Has the AC provided effective administration and oversight of its relationship with the external auditor by:		
a. Ensuring the external auditor reports directly to the AC? 620.30(d)(2)		
b. Determining the appointment, compensation, and retention of external auditors? 620.30(d)(2)(i) ; FAQs About Governance Changes in 2006 #55		
c. Reviewing the external auditor’s work? 620.30(d)(2)(ii)		
d. Giving prior approval for any non-audit services performed by the external auditor, except the AC may not approve those non-audit services specifically prohibited by FCA Regulation? 620.30(d)(2)(iii) ; FAQs About the Disclosure and Reporting Rule #13; See 621.31 for prohibited non-audit services <i>Note: If the accountant auditing the financial statements is also performing a non-audit service, the AC must pre-approve that service – regardless of the cost of the service. The AC review should consider if there would be any conflicts of interest arising from the non-audit service being performed by the same external auditor issuing an opinion on the financial statements. Tax services are considered a separate, reportable non-audit service per 620.5(i)(2) (see also FAQs About the Disclosure and Reporting Rule #11 through 13).</i>		
e. Complying with the auditor independence provisions of Part 621 Subpart E of the regulations? 620.30(d)(2)(iv)		
26. Has the AC provided effective oversight of the institution’s system of internal controls relating to preparation of financial reports, including controls relating to compliance with applicable laws and regulations? 620.30(d)(3) ; 618.8430(d) ; FAQs About Governance Changes in 2006 #56 & 57		

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<i>Note: The AC should document its periodic review of the internal control policy and related procedures.</i>		
27. Has the AC provided effective review and supervision of the institution's internal audit functions? 620.30(d)(3) ; FAQs About Governance Changes in 2006 #56		
28. Has the AC effectively carried out any additional responsibilities delegated to it by the board, such as oversight related to whistleblower program, corrective action processes, etc., consistent with the AC charter, policies, plans, and procedures? FAQs About Governance Changes in 2006 #56		

Other Comments:

This workpaper is not intended to create any rights, substantive or procedural, enforceable at law or in any administrative proceeding. While the workpaper was carefully reviewed for applicability and accuracy, changes may occur in the wording or interpretation of laws and regulations. If a situation arises where the workpaper becomes inconsistent with applicable laws or regulations, the requirement of the laws or regulations will prevail. Examination scope may vary between institutions. On a particular examination activity, the workpaper may not pertain to all factual situations or interpretations, additional concerns or issues may be addressed that are not covered in the workpaper, and some portions of the workpaper may not be used.