IFC Board Toolkit

Charter Assessment Tool: Audit Committee



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IFC Board Toolkit

Charter Assessment Tool: Audit Committee

Audit Committee Charter Assessment Tool for Non-Financial Institutions

|  | 1. Basic | **+** | | 1. Intermediate Practices | **+** | | 1. Good International Practices | **+** | | 1. Leadership |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| I. Establishment | 1. Any written document, including Board resolution | | 1. Incorporated into By-Laws[[1]](#footnote-2) or corporate governance guidelines, with clear terms of reference on roles and responsibilities | | | 1. Incorporated into corporate Charter or Articles of Association, with more-detailed terms of reference on roles, responsibilities, composition, functioning, and procedures | | | 1. Same[[2]](#footnote-3) | |
| II. Purpose | 1. Assist Board in overseeing preparation and presentation of financial statements and monitor their integrity[[3]](#footnote-4) | | 1. Same 2. Recommend accounting policies; review adherence to accounting policies[[4]](#footnote-5) 3. Oversee work of External Auditor 4. Help Board ensure Company’s compliance with applicable law and regulations and Company’s Charter, By-Laws and other internal regulations[[5]](#footnote-6) 5. Oversee adequacy of internal controls and Internal Audit function | | | 1. Same 2. Same 3. Same, *and recommend level of assurance over environmental, social, and environmental (ESG); sustainability; and climate reporting* 4. Same 5. Same | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Act as central coordination point for investigation of complaints relating to financial statements, compliance, internal controls, etc. | |
| III. Composition | 1. Three or more Board members 2. Only nonexecutive Board members[[6]](#footnote-7) | | 1. Same 2. Same, *but majority independent Board members including Committee Chair* 3. At least one member with recent, relevant financial or accounting expertise | | | 1. Three to five Board members 2. Same, *but all members independent* 3. Acceptable level of recent, relevant financial or accounting expertise in the aggregate 4. At least one Committee member with relevant knowledge about climate risks and opportunities[[7]](#footnote-8) 5. For climate-sensitive industries[[8]](#footnote-9) this Committee member has in-depth knowledge of climate and environmental and social risks and opportunities related to the industry | | | 1. Same 2. Same 3. All members with recent and relevant financial or accounting expertise 4. Acceptable level of recent, relevant climate change expertise in the aggregate | |
| IV. Commitment and Professional  Development of Committee Members | 1. Time and desire to fulfill obligations | | 1. Same 2. Recent, relevant financial literacy 3. Recent, relevant literacy about climate risks and opportunities | | | 1. Same 2. Same, *and periodic professional education or training for all Committee members* 3. Same, *and periodic professional education or training for all Committee members* 4. Introductory briefing for all new Committee members | | | 1. Same 2. Same 3. Same 4. Same 5. Less than 75% attendance at Committee meetings in 1 year automatic threshold for non-reappointment 6. Limited number of memberships on other board committees; no service on other committees that may involve executive decisions (e.g., Investment, Credit, Executive Committee) 7. Review Committee competency of members in discharging their duties from time-to-time and provide appropriate training | |
| V. Committee Chair | 1. Appointed by Board, nonexecutive Board Chair, or Committee | | 1. Same 2. Independent Board member | | | 1. Same 2. Same 3. Appropriate recent, relevant expertise (e.g., finance, accounting) | | | 1. Appointed by independent members of Board or Committee 2. Same 3. Same | |
| VI. Appointment to Committee | 1. Appointed by Board, Board Chair, or Corporate Governance or Nominations Committee | | 1. Same, *and full Board ratification of Committee members if nomination is by Chair or Corporate Governance or Nominations Committee* 2. Minimal or no management (e.g., chief executive officer (CEO)) or controlling shareholder influence in Committee member nominations 3. Fixed terms, preferably annual, but not exceeding Board terms | | | 1. Same 2. Same 3. One-year renewable terms | | | 1. Same 2. Same 3. Same | |
| VII. Remuneration (in Addition to Compensation for Work as Member of Full Board) | 1. Solely related to fulfilling obligations of a Committee member (no form of payment that would compromise independence; e.g., salary, consulting, finders’ fees) | | 1. Same, *payment as Committee fees or meeting fees is preferred form* 2. Adequate level of payment to create expectation of responsibility | | | 1. Annual Committee fees 2. Same 3. Additional per-meeting fees 4. Additional fee for Chair | | | 1. Same 2. Same 3. Same 4. Same | |
| VIII. Meetings | 1. Committee Chair may call 2. Approved annual calendar of regular meetings[[9]](#footnote-10) 3. At least semiannual meetings | | 1. Same 2. Same 3. Same 4. Board Chair, CEO, or chief financial officer may request | | | 1. Same, *and by any two Committee members* 2. Same 3. At least quarterly meetings 4. Same 5. Meetings may be in person, by telephone, or online or other electronic communication means agreeable to Committee 6. Ability to act by unanimous written consent | | | 1. Same 2. Same 3. Same 4. Same, *or requested by Chief of Internal Audit, External Auditor, or Chief Compliance Officer* 5. Same 6. Same | |
| IX. Attendance and Notice | 1. Quorum required 2. Advance notice required; may be waived with unanimous written consent | | 1. Same, *and simple majority as a minimum* 2. Same 3. Agenda and related materials to be provided in advance unless Chair (or other convener) believes confidentiality requires otherwise, in which case general description of subject of meeting to be circulated with a statement from Chair as to reasons for confidentiality 4. Minutes to be prepared and distributed to Committee members; Board has access to review them | | | 1. Same 2. Same, *with minimum 48-hour notice* 3. Same 4. Same 5. External Auditor sends notices of all meetings 6. Chief of Internal Audit and Chief Compliance Officer send notices of all meetings 7. All non-Committee members may be asked to leave the meeting at any time 8. External Auditor allowed to attend all meetings at Company’s expense 9. Chief of Internal Audit and Chief Compliance Officer allowed to attend all meetings 10. At least one annual meeting separately with External Auditor, Chief of Internal Audit, and Chief Compliance Officer without management present | | | 1. Same, *with qualified majority for certain important issues* 2. Same, *with minimum 1 week notice* 3. Same 4. Same 5. Same 6. Same 7. Same 8. Same, *and External Auditor provided at all meetings with opportunity to meet with Committee without management present* 9. Same, *and Chief of Internal Audit and Chief Compliance Officer 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 Board | 1. Oral or written reports to Board as needed | | 1. Same 2. Annual written report to Board[[10]](#footnote-11) | | | 1. Same, *but at least quarterly* 2. Same | | | 1. Written reports or minutes to Board after each Committee meeting 2. Same | |
| XI. Evaluation[[11]](#footnote-12) |  | |  | | | 1. Annual evaluation of work Committee has performed over previous year 2. Annual evaluation of Committee effectiveness, including processes and procedures | | | 1. Same 2. Same 3. Periodic evaluation of Committee Charter, with written report to Board suggesting improvements if any 4. Periodic independent evaluation of Committee effectiveness | |
| XII. Ethics and Confidentiality | 1. General reference to Company’s code of ethics 2. Ensure that code of ethics is in writing and arrangements are made for all employees to be aware of it | | 1. Same 2. Same 3. Committee members covered by specific provisions applicable to Board members as included in Company’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 Company’s Charter that Committee members in particular may receive confidential information that may not be disclosed 5. Review and provide recommendations to improve Company’s code of ethics at least every 2 years | |
| XIII. Authority and Resources | 1. Have access to External Auditor, Chief of Internal Audit, General Counsel, Chief Compliance Officer, and other Company agents | | 1. Same 2. External Auditor reports to Committee[[12]](#footnote-13) 3. Internal Audit function reports independently to committee | | | 1. Same, *without necessarily going through hierarchy (although hierarchy should be respected absent compelling reasons to avoid it)* 2. Same 3. Same 4. Require presence of any executive officer of the Company and its affiliates or other employee at Committee meeting or other venue (CEO to be notified unless investigatory conflict) 5. Authorize or conduct any investigations within its area of responsibility; have right to hire independent experts for such investigations, approve terms of such engagements, and have Company pay for such investigations 6. Have right to investigate any employee complaints (whistleblowing) related to financial reporting | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same 7. Have annual budget sufficient to achieve Committee needs and have right to access additional funds in unforeseen circumstances 8. Ensure adequacy of Company whistleblowing procedures[[13]](#footnote-14) | |
| XIV. Responsibilities—Reports to Shareholders | 1. Report to shareholders annually on its structure and activities, including Charter, members, number of meetings, and attendance | | 1. Same 2. Review any releases of information (e.g., earnings press releases, periodic regulatory filings) related to financial statements | | | 1. Same 2. Review disclosure and financial and ESG-, sustainability-, and climate-reporting practices of Company | | | 1. Same, *and including how Committee guarantees External Auditor’s independence and on fees paid to External Auditor for each type of audit and non-audit service; litigation and other risks; information on integrity of internal controls, internal audit, and compliance and on any special issues considered during previous year* 2. Same 3. Committee Chair to be directly accessible to shareowners as Chair or Committee determines (e.g., available to take questions at Annual General Meeting) | |
| XV. Responsibilities—Financial Reports | 1. Review key accounting policies and practices (especially any changes) to ensure compliance with local and any applicable standards and regulations 2. Approve annual reports, annual financial statements, and any interim financial statements, if required by law, in advance of Board and shareholder approval | | 1. Same 2. Same, *and review all interim financial statements irrespective of whether required by law, and provide recommendations to Board and shareholders* 3. Periodically consider whether Company should provide any nonfinancial reporting to shareholders or the public, including whether it should participate in nonfinancial reporting based on standards such as from the Global Reporting Initiative, Sustainability Accounting Standards Board, or International Sustainability Standards Board | | | 1. Same 2. Same 3. Same, *and consider integrated reporting* 4. Monitor communications from regulatory agencies regarding accounting matters | | | 1. Same 2. Same 3. Same 4. Same 5. Ensure that Committee and Company are abreast of material pending changes under consideration by accounting standard setters, including through participation in fora, for example organized by standard setters 6. Regularly monitoring the adequacy of external financial and nonfinancial reporting practices against those of peers | |
| XVI. Responsibilities—ESG, Sustainability,  Climate Reporting[[14]](#footnote-15) | 1. Ensure that ESG, sustainability, and climate reporting follows minimum national requirements | | 1. Ensure that ESG, sustainability, and climate concerns are disclosed in Company’s Annual Report or separate sustainability report 2. Ensure that Company publishes its GHG scope 1 and 2 emissions | | | 1. Same 2. Same, *and including material scope 3 emissions* 3. Review Company’s net zero targets 4. Ensure that Company discloses scenario analysis and climate-related metrics[[15]](#footnote-16) 5. Ensure that ESG, sustainability, and climate reporting includes operations and activities of all material subsidiaries 6. Ensure that Company obtains at least negative or limited assurance on sustainability reporting and climate-related disclosures | | | 1. Ensure that ESG, sustainability, and climate change concerns are disclosed in Company’s integrated report 2. Same*, and including all scope 3 emissions* 3. Same, *and ensure that the Science Based Target Initiative or similar provider approves net zero targets* 4. Same 5. Same 6. Ensure that ESG and climate data are subject to annual reasonable assurance attestation by an independent provider under International Auditing and Assurance Standards Board Standards or International Standard on Assurance Engagements 3000 or 3410 | |
| XVII. Responsibilities—Internal Controls | 1. Review controls and procedures for compliance with financial reporting requirements 2. Review findings of all regulatory reviews | | 1. Same 2. Same 3. Review and advise on internal control procedures; be cognizant of what management and Board have identified as key risks[[16]](#footnote-17) 4. Review and approve comprehensive listing of related parties, as required by law 5. Ensure that Company has incorporated climate-related risks into internal control policies and procedures (e.g., procurement policy revised to ensure that environmental, social, and climate-related risks are adequately captured across Company’s operations and value chains in all related geographic locations) | | | 1. Same 2. Same 3. Same 4. Same 5. Same, *and ensure that* the “Three Lines Model”[[17]](#footnote-18) *in risk management and control has been adopted and climate-related internal control procedures extended to contractors, subcontractors, third parties, and supply chain as relevant* 6. Review related-party transactions before Board consideration 7. Discuss any internal control weaknesses with External Auditor, particularly any findings to be referenced in Management Letter; ensure that Chief of Internal Audit is aware of findings 8. Monitor remediation of weaknesses in internal controls that Committee, Chief of Internal Audit, External Auditor, or others have identified, including those in particular identified in the Management Letter 9. Review whistleblowing policies[[18]](#footnote-19) | | | 1. Same 2. Same 3. Same 4. Same 5. Same, *and take corrective actions on the company’s and its stakeholders’ (e.g., contractors, subcontractors, third parties, supply chain) climate-related control deficiencies identified in internal audit as well as external service providers’ reports* 6. Same 7. Same 8. Same 9. Same 10. Ensuring that Company has adequate methods by which concerns about controls, accounting, fraud, malfeasance, etc. may come to light (e.g., phone tip lines, e-mail access, mailbox to deposit complaints or suggestions) | |
| XVIII. Responsibilities—Internal Audit | 1. Ensure appropriate staffing for internal audit function 2. Review significant reports of Chief of Internal Audit 3. If there is no internal audit function, review need for one annually and disclose to shareholders why one does not exist | | 1. Same 2. Review and act on all reports of Chief of Internal Audit 3. Be informed in a timely fashion of significant problems that internal audit function discovers 4. Review and recommend improvements to By-Laws on internal audit function 5. Ensure that company’s risk assessment framework includes climate change | | | 1. Same 2. Same 3. Same 4. Same 5. Ensure that internal audit reviews climate-related information, including risks and opportunities that climate change poses or provides to the business before the information is disclosed publicly 6. Have opportunity to express Committee’s opinion on appointment or removal of Chief of Internal Audit 7. Approve annual work plan of internal audit function and monitor significant deviations from plan | | | 1. Same 2. Same 3. Same 4. Same 5. Ensure that internal audit provides high-quality independent assurance that climate-related risks and opportunities are identified considering all major stakeholders’ views; managed according to Company’s strategic objectives and ESG, sustainability, and climate key performance indicators; mitigated; and reported to the public in a universally recognized framework 6. Approve appointment and dismissal of Chief of Internal Audit 7. Same 8. Periodically review adequacy of internal audit function, including resources, training, and expertise necessary to perform its responsibilities 9. If internal audit is outsourced, review advantages and disadvantages of in-house vs outsourced (or co-sourced) annually | |
| XIX. Responsibilities—External Audit | 1. Review with management and External Auditor audited financial statements; any interim statements, if audited; and other material communications relating to Company 2. Establishing, in conjunction with the External Auditor, the auditing standards to be used subject to applicable regulation 3. Set procedures for hiring External Auditor to ensure its independence (e.g., formal tender procedure) 4. Sign and authorize terms of engagement and appointment, reappointment, or removal of external auditors | | 1. Same 2. Same 3. Same 4. Approve audit scope and plan 5. Approve hiring of External Auditor, subject to shareholder approval, where required[[19]](#footnote-20) 6. Obtain any legal or regulatory declarations needed from External Auditor 7. Ensure that Company follows appropriate record-retention policies for accounting documents 8. Formally meet with External Auditor at least annually 9. Review with External Auditor any difficulties encountered during conduct of audit 10. Review all regulatory oversight reports relevant to Committee’s responsibility | | | 1. Same 2. Same 3. Same 4. Same 5. Same 6. Same 7. Same 8. Same 9. Same 10. Same 11. Evaluate performance of External Auditor annually 12. Establish high-level conditions for hiring External Auditor (e.g., auditor rotation or lead partner rotation policy), if any 13. Review disputes between management and External Auditor 14. Discuss with management any non-audit services to be purchased from External Auditor to preserve independence of audit 15. Review and track formal process of review and follow-up of Management Letters | | | 1. Same 2. Same 3. Same, *and directly hire and set compensation of External Auditor, subject to shareholder approval*[[20]](#footnote-21) 4. Same 5. Same 6. Same 7. Same 8. Same 9. Same 10. Same 11. Same 12. Same 13. Same 14. Same, *and set standards and policy for purchase of any non-audit services from External Auditor to preserve independence of audit and approve contracts for such services* 15. Same 16. Ensure that Committee and Company are aware of material pending changes under consideration by audit standard setters, including through participation in fora, for example organized by standard setters 17. Generally keep abreast of auditing and accounting trends in the industry and geographic market 18. Discuss with External Auditor, at least annually, any disciplinary or regulatory findings about audit firm itself and explore any issues that might compromise its independence 19. Put audit contract out for market competition periodically | |
| XX. Responsibilities—Compliance | 1. Ensure that responsibility for company compliance is clearly defined in organization, whether in separate compliance unit or as part of another unit (e.g., legal) | | 1. Same, *but better to have separate compliance lead depending on industry and nature of Company’s compliance requirements* 2. Review Company’s compliance program with General Counsel, Chief Compliance Officer, or other appropriate corporate officer 3. Review all disciplinary actions against corporate officers found to have violated standards of ethical conduct | | | 1. Same 2. Same 3. Same 4. Review regulatory changes that may affect compliance regime 5. Ensure that employees of the Company’s compliance office receive adequate training 6. Discuss with General Counsel any pending litigation or other legal matters that could have a material effect on Company’s financial statements, way of doing business, or public reputation 7. Ensure that compliance function provides feedback to Audit Committee or Board on Company’s ESG and climate strategy, risk appetite, and ESG and climate key performance indicators | | | 1. Same 2. Same, *including provision for acceptance and retention of complaints (see section XVI, Best Practice) and receive reports on compliance at least semiannually* 3. Same 4. Same, *and evaluate adequacy and effectiveness of Company’s procedures and systems for ensuring compliance with legal and regulatory requirements and internal operating procedures* 5. Same 6. Same 7. Same 8. Ensure that Committee and Company are aware of material pending changes under consideration by regulatory agencies, including through participation in fora, for example organized by these agencies 9. Review any waivers of Company’s code of ethics[[21]](#footnote-22) | |

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1. By-Laws refer to internal corporate documents that do not have to be filed externally (with corporations’ registry or the regulator). [↑](#footnote-ref-2)
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, differences are *italicized.* [↑](#footnote-ref-3)
3. Defined in this limited way, such a Committee should not be referred to as a “Compliance Committee.” [↑](#footnote-ref-4)
4. Defined in this limited way, such a Committee should not be referred to as a “Compliance Committee.” [↑](#footnote-ref-5)
5. The term “internal regulations” should be interpreted in the narrow sense and exclude rules about operational procedures. [↑](#footnote-ref-6)
6. In most jurisdictions with two-tiered Boards, all members of the Supervisory Board are nonexecutive members. [↑](#footnote-ref-7)
7. In particular if there is no separate sustainability committee with literacy about climate risks and opportunities among its members. [↑](#footnote-ref-8)
8. Climate-sensitive industries are those that are materially exposed to high-intensity greenhouse gas emissions or to the effects of direct or indirect impacts of climate change. Examples of climate-sensitive industries include aviation, oil, gas, mining, heavy industry (steel, cement), chemical manufacturing, and large agro-commodity production or processing. These are primarily industries with high emissions intensity, in which climate action focuses on mitigation measures. There are additional weather-dependent industries in which changes in climate can affect operations or production for which climate change adaptation measures are key to reducing the material impact on financial or environmental and social performance. [↑](#footnote-ref-9)
9. In addition to regular Committee meetings, extraordinary meetings may be held whenever needed and appropriate, with agenda set in advance. [↑](#footnote-ref-10)
10. Annual written report to Board may be the basis of report to shareholders in jurisdictions that require such reports. [↑](#footnote-ref-11)
11. Corporate Governance or Nominations Committee may coordinate evaluation of Board and all committees at some companies. [↑](#footnote-ref-12)
12. See also Section XIX of this Tool. [↑](#footnote-ref-13)
13. See also Section XX of this Tool. [↑](#footnote-ref-14)
14. This task could alternatively be charged to the Risk Committee or Sustainability Committee. [↑](#footnote-ref-15)
15. TCFD Guidance on Scenario Analysis for Non-Financial Companies. [↑](#footnote-ref-16)
16. See also Risk Policy Committee Charter Assessment Tool of the IFC’s Advanced Methodology for Financial Institutions. [↑](#footnote-ref-17)
17. The Institute of Internal Audit (IIA) Three Lines Model. [↑](#footnote-ref-18)
18. See also Section XX of this Tool. [↑](#footnote-ref-19)
19. In some jurisdictions, shareholder approval may not be required. [↑](#footnote-ref-20)
20. Best practice is for the Audit Committee to be empowered to hire and manage the External Auditor directly without going through the Board, which may have executive officers as members, although in certain jurisdictions, the ultimate decision making may rest with shareholders. [↑](#footnote-ref-21)
21. Points 8 and 9 may also be a responsibility of the Corporate Governance/Nominations Committee. [↑](#footnote-ref-22)