IFC Board Toolkit

Specimen Charter – Audit Committee

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**Audit Committee Charter
for Company ABC**

Date Approved by the Board: DD/MM/YYYY

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# Objective

1. The Board of Directors (“Board”) of the Company has resolved to establish an Audit Committee (“Committee”), whose function is one of oversight and is separate from that of the Company’s management, internal audit department, and External Auditors.
2. The primary responsibilities of the Committee are to assist the Board in:
	1. **Fulfilling** its oversight of the integrity of the financial statements of the Company and its consolidated subsidiaries and any formal announcements relating to the Company’s financial performance;
	2. **reviewing** the Company’s internal control system and risk management framework;
	3. **monitoring** and reviewing the effectiveness of the Company’s internal audit function;
	4. **recommending** to the Board that the External Auditor be put to the shareholders for their approval in a General Meeting and approving the remuneration and terms of engagement of the External Auditor;
	5. **monitoring** and reviewing the External Auditors’ independence and objectivity and the effectiveness of the audit process;
	6. **developing** and implementing policy on the engagement of the External Auditor to supply non-audit services; and
	7. **ensuring** the Company’s compliance with all legal and regulatory requirements and other internal Company regulations.

# Committee Composition

1. A majority vote of Board members shall appoint the Committee, which shall consist of no fewer than three members, the exact number to be determined from time to time by the Board, all of whom shall be nonexecutive directors and a majority of whom shall meet the independence requirements set out in the [Relevant Regulations]. The Chair of the Board shall not be a member of the Committee.
2. As long as they remain directors of the Company, members shall serve for 1 year, with the possibility of re-election so long as each continues to be independent.
3. At least one Committee member shall have recent and relevant financial expertise, as determined by the Board.
4. At least one Committee member shall have relevant literacy about climate risks and opportunities.**[[1]](#footnote-1)** For climate-sensitive industries,[[2]](#footnote-2) this Committee member shall have in-depth knowledge of climate, environmental, and social risks and opportunities related to the industry.
5. The Board shall designate one member of the Committee who meets the independence requirements to act as its Chair. The Chair, with input from other Committee members, shall set the agenda for Committee meetings, which shall be distributed to the Board, and shall attend the annual General Meeting of the Company’s shareholders to discuss with shareholders matters that are the responsibility of the Committee. If the Chair or their designee is unable to attend a Committee meeting, the remaining members present should elect one of their number present to chair the meeting.
6. The Secretary of the Company or their designee shall act as secretary to the Committee.
7. The Committee may request that any director, officer, member of the internal audit function, other employee of the Company, or any other person whose advice and counsel the Committee seeks attend any meeting and provide such pertinent information as the Committee requests. The head of the internal audit function shall meet with the Committee at least annually without management present. The Committee may exclude from its meetings any person it deems appropriate.
8. The Company’s External Auditors will be invited to attend meetings of the Committee regularly and shall meet with the Committee at least annually without management present.

# Procedures for Meetings

1. The Committee shall meet as often as it deems necessary, but in any case at least four times per year, with meetings held to coincide with key dates in the financial reporting and audit cycle, at such times and places as the Committee Chair determines, with further meetings to occur, or actions to be taken by unanimous written consent, when the Committee or its Chair deem it necessary or desirable. Special meetings may be convened upon the request of the Board, the chief executive officer, the head of internal audit function and the audit partner of the Company’s External Auditors. The Committee shall develop and approve the annual calendar of its meetings.
2. Meetings of the Committee may be conducted when the members are physically present or in the form of either video- or audio-conferences.
3. Notice and details of meetings shall be given to members of the Committee at least 5 working days in advance, unless otherwise agreed unanimously.
4. Two members of the Committee shall constitute a quorum, provided that each is an independent director. When more than two members are present, the act of the majority of such members at a meeting at which a quorum exists shall be the act of the Committee, and when only two members are present, the unanimous vote of the two members shall constitute the act of the Committee. The Committee can also act at any time by unanimous written consent.
5. The Committee shall keep minutes of its meetings, which shall be circulated to members for objections and approval. If no objection is lodged within 5 business days, the minutes shall be approved. Once approved, such minutes shall be provided to the Board.
6. Except as expressly provided in these Terms of Reference, the Committee shall set its own rules of procedure.

# Compensation

No member of the Audit Committee may receive, directly or indirectly, any compensation from the Company other than fees paid to directors for service on the Board, additional fees paid to directors for service on a committee of the Board (including the Committee) or as the Chair of any committee, and a pension or other deferred compensation for prior service that is not contingent on future service on the Board as long as it does not compromise the Committee member’s independence.

# Functions and Responsibilities

The Committee shall have such authority as it may require to perform any functions or meet any obligations as the internal regulations of the Company may stipulate or the [Relevant Regulations] recommend or require of it. In particular, and without limitation to the foregoing, the Committee shall have the following specific authority (in addition to any other authority that the Board may from time-to-time delegate to the Committee):

1. ***Information Seeking***

The Committee shall be authorized to:

* 1. Investigate any activity within its authority as outlined in this charter; and
	2. Seek any information that it requires from any employee of the Company. All employees are directed to cooperate with any request from the Committee.
1. ***Internal Audit***
	1. The Committee shall:
		1. **Monitor** and review the effectiveness and organizational structure of the Company’s internal audit function in the context of the Company’s overall risk management system;
		2. **approve** the appointment and removal of the head of the internal audit function and review the qualifications and effectiveness of internal audit personnel;
		3. **consider** and approve the remit of the internal audit function and ensure that it has adequate resources and appropriate access to information to perform its function effectively and in accordance with the relevant professional standards;
		4. **review** and assess the annual internal audit plan;
		5. **review** promptly all reports on the Company from the internal auditors;
		6. **review** and monitor management’s responsiveness to the findings and recommendations of the internal auditor;
		7. **ensure** that the Company’s risk assessment framework includes climate risks and that internal audit **reviews** climate-related information, including risks and opportunities that climate change poses to the business, before the information is disclosed publicly; and
		8. **meet** the head of internal audit at least once a year, without management present, to discuss their remit and any questions arising from the internal audits. The head of internal audit shall be given the right of direct access to the Chair of the Board and the Committee.
2. ***External Auditors***
	1. The Committee shall consider and make recommendations to the Board, to be put to shareholders for approval, in relation to the appointment, re-appointment, and removal of the Company’s External Auditors. The Committee shall oversee the selection process for new auditors, and if an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.
	2. The Company’s External Auditors shall report directly to the Committee.
	3. In addition to its responsibilities above, the Committee shall oversee the relationship with the External Auditor, including (but not limited to):
		1. **Approving** their remuneration, whether fees for audit or non-audit services, and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
		2. **approval** of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
		3. **assessing** their independence and objectivityannually, considering relevant professional and regulatory requirements and the relationship with the auditor as a whole, including provision of any non-audit services;
		4. **satisfying** itself that there are no relationships (e.g., family, employment, investment, financial, business) between the auditor and the Company (other than in the ordinary course of business);
		5. **agreeing** with the Board a policy on employment of former employees of the Company’s External Auditor and monitoring implementation of this policy;
		6. **monitoring** the External Auditor’s compliance with relevant ethical and professional guidance on the rotation of audit partners; comparing the level of fees that the Company pays with the overall fee income of the firm; and monitoring firm, partner, and other related requirements; and
		7. **assessing** their qualifications, expertise, and resources and the effectiveness of the audit process annually, including a report from the External Auditor on its own internal quality procedures.
	4. The Committee shall develop and implement policy on the supply of non-audit services by the External Auditor, considering relevant ethical guidance and legal requirements.
	5. The Committee shall consider whether, to ensure the continuing independence of the External Auditor, there should be regular rotation of the lead audit partner.
	6. The Committee shall review and discuss with the Board, the External Auditors, and the Company’s internal auditors the performance and adequacy of the Company’s internal audit function, including its responsibilities, budget, staffing, and any proposed changes in the scope or procedures of the internal audit. The Committee shall monitor and review management’s responses to recommendations of the External Auditor, including those in the Management Letters.
3. ***Financial Reporting and Financial Statements***
	1. The Committee shall monitor, review, and assess the integrity of the financial statements of the Company and any formal announcements related to the Company’s financial performance and review any significant reporting issues and judgments contained therein.
	2. The Committee shall discuss interim financial statements with management and External Auditors periodically, as appropriate, and review and approve them before Board approval.
	3. The Committee shall discuss the annual financial statements with management and External Auditors annually and review and approve them before Board approval.
	4. Before their release, the Committee shall discuss with management and External Auditors Company disclosures required by laws, rules, and regulations, including announcements of a price sensitive nature.
	5. The Committee shall discuss with the External Auditors the results of any audit or review of the Company’s financial information (prior to the release of such information) and the matters required to be disclosed in them according to applicable standards.
	6. The Committee shall review and challenge where necessary:
		1. The consistency of, and any changes to, accounting policies annually and across the Company or group;
		2. the methods used to account for significant or unusual transactions if different approaches are possible;
		3. whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, considering the views of the External Auditor;
		4. the clarity of disclosure in the Company’s financial reports and the context in which statements are made; and
		5. all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).
	7. The Committee shall review the findings of the audit with the External Auditor, including a discussion of any major problems that arose during the audit, any accounting and audit judgments, and levels of errors identified during the audit.
	8. The Committee shall review with the internal auditors and the External Auditors their annual audit plans and the degree of coordination of such plans and ensure that such coordination is consistent with the scope of the audit engagement.
	9. The Committee shall oversee and regularly review the adequacy and performance of established procedures for the receipt, retention, and treatment of complaints that the Company receives regarding financial reporting, accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by Company employees of concerns regarding questionable financial reporting, accounting, auditing, or other matters. The Committee’s objective shall be to ensure that arrangements are in place for the proportionate, independent investigation of such matters and for appropriate follow-up.
4. ***Environmental, Social, and Governance; Sustainability; and Climate Reporting***
	1. The Committee shall oversee non-financial reporting based on standards such as those of the Global Reporting Initiative, the Sustainability Accounting Standards Board, and the International Sustainability Standards Board.
	2. The Committee shall ensure that environmental, social, and governance (ESG); sustainability; and climate issues are disclosed, preferably in the Company’s Annual Report or a separate sustainability report.
	3. The Committee shall ensure that the Company obtains high quality independent assurance on ESG, sustainability, and climate reporting.
5. ***Internal Controls and Risk Management***
	1. The Committee shall monitor and review the internal control and risk management systems of the Company.
	2. The Committee shall ensure that internal control and risk management incorporate climate- and sustainability-related risks, and that corrective actions on the Company’s or its Stakeholders’ e.g., contractors, subcontractors, third parties and supply chain are taken, and climate-related control deficiencies identified in internal audit as well as external service providers’ reports.
	3. The Committee shall review all material related party transactions prior to the Board consideration.
	4. The Committee shall discuss the Company’s disclosure controls and procedures (including any significant internal control deficiencies or material weaknesses and any changes implemented in light of material control deficiencies or weaknesses) with the Board and External Auditors periodically before issuing quarterly or annual financial statements).
	5. The Committee shall discuss with management and the internal auditors and the External Auditors the Company’s policies with respect to risk assessment and risk management. This discussion should cover the Company’s risk tolerance, major financial and non-financial risk exposure, and the steps management has taken to monitor and control these exposures.
6. ***Compliance***
	1. The Committee shall review the findings of any examinations by regulatory and supervisory agencies.
	2. The Committee shall review with the Company’s legal counsel, the internal auditors, and other appropriate parties legal matters that may have a material impact on the Company’s financial statements and compliance procedures and any material reports received from or communications with regulators or government agencies.

# Committee Performance Evaluation

The Committee shall review its own performance at least annually in such manner as it deems appropriate and submit an evaluation, including any recommendations for change, to the full Board for review, discussion, and approval.

# Access to Advisors and Training

1. The Committee shall have its own budget and the authority to engage and obtain advice and assistance from internal or external legal, accounting, or other advisors at the Company’s expense without having to seek Board approval.
2. The Committee shall make determinations with respect to payment of the Company’s External Auditors and other advisors that the Committee retains.
3. Committee members shall receive appropriate training on taking office and on an ongoing and timely basis to ensure that they can perform their functions.

# Reporting Obligations

1. The Committee shall maintain minutes of its meetings and give regular reports to the Board, including on the Committee’s actions, conclusions, and recommendations and such other matters as the Board shall from time to time specify. Reports to the Board may take the form of oral reports by the Committee Chair or any other member of the Committee that the Committee designates to give such report.
2. In addition to its reporting obligations above, the Committee shall prepare a report describing its work in discharging its responsibilities to be included in the Company’s Annual Report.
3. This Charter, as may be amended from time to time, shall be posted on the Company’s website.

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www.ifc.org/corporategovernance

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1. This is good practice in particular if there is no separate sustainability committee with literacy about climate risks and opportunities among its members. [↑](#footnote-ref-1)
2. Climate-sensitive industries are those that are materially exposed to high-intensity GHG 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 reduce the material impact on financial, environmental, and social performance. [↑](#footnote-ref-2)