

5 Suggestions to Perfect Your Audit Committee Charter

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The quality and completeness of the audit committee charters that I have seen typically range from very good to great. This is why there is no mention in this article, other than here, of core audit committee responsibilities such as auditor appointment, audit review, monitoring of whistleblowing incidents, or conflicts of interest reporting. However, here are my top five suggestions that should be considered for strengthening even a great audit committee charter.

1. Incorporate All Your State Audit Committee Requirements into the Charter

For example, under California law there are stated guidelines as to who can and cannot serve on the audit committee. The most well-known California rule is that no more than 50% of the audit committee can comprise finance committee members. Most California audit committee charters I see cover this rule. But many California audit committee charters I see don't include the lesser-known but equally important rules. For example, in California the chair of the audit committee is also prohibited from serving on the finance committee. Make sure you know your state audit committee requirements, if any, and ensure that they are embedded into your charter.

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2. Minutes of Meetings

Part VI, Section A, question 8 of IRS Form 990 reminds us that as a best practice, organizations should memorialize all board meetings with documented minutes. This also applies to all meetings of subcommittees of the board. The audit committee is a subcommittee of the board, so documented minutes should be produced for each meeting. Accordingly, this should be stated in the charter.

3. Executive Sessions

Most audit committees build into their charter the notion that they can hold executive sessions with specific parties. In almost all cases it is either written or implied that executive session means organization staff members are excused from the meeting and the audit committee meets alone with the external auditors or other parties. However, executive sessions can be much broader than this and should probably be defined as such. For example, since the responsibility of audit committees includes a broad understanding of risk, and since a significant risk facing any organization today is cybersecurity, it is probably appropriate for the audit committee to want to meet in executive session with the chief information officer.

4. The Authority to Independently Consult with and Retain Outside Legal Counsel

The audit committee should be collaborative most of the time but function objectively all the time. The authority of the audit committee to retain outside legal counsel, if needed, is recommended to be included in the charter. If the need arises, having this documented within the charter will be important to the audit committee in exercising its responsibilities. Conversely, it might prove almost impossible in certain circumstances for the audit committee to exercise its duties without this authority.

5. Self-Review

Self-review is a powerful and useful process if performed correctly and periodically. It provides an appropriate time and forum for members of a committee to voice suggestions to improve the effectiveness of the committee on which they serve. Certainly, the absence of an appropriate time and forum to voice these suggestions for improvement can lead to problems down the road. This is why embedding a periodic audit committee effectiveness self-review requirement and process into the charter is highly recommended. The audit committee charter should also be self-reviewed periodically.

BDO has a Nonprofit Audit Committee Guide with these and many other suggestions and tools for audit committees, which you can access on BDO's Institute for Nonprofit Excellence Resource Center [here](#).

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