

# Audit committee responsibilities



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The primary role of the audit committee is to provide oversight of the company's financial reporting, audit process, system of internal controls, disclosures, and compliance with laws and regulations. Both NYSE and Nasdaq listing requirements require that the audit committee be composed of no less than three independent members. While the exchanges require members to be financially literate, their definitions and specific requirements differ slightly.

As corporate risks continue to evolve, so has the breadth of the audit committee's purview, and it is now often the committee charged with oversight of various risks, including cyber, operational, compliance, and others that could impact shareholder value. Therefore, risk management expertise, along with digital and cyber competencies, have become highly valued skills among audit committee members. The audit committee sits at the hub of internal and external audit—and is therefore positioned to oversee the roles of each party where there are intersecting responsibilities. In doing so, the following are key responsibilities of the audit committee:

- Oversight of financial reporting, including internal controls
- Oversight of the external auditor
- Oversight of internal auditors
- Oversight of the company's risk management policies and processes (specifics of this oversight may vary if a separate risk committee or other discrete topic committee, such as cyber, exists)
- Oversight of processes to comply with laws and regulations and deter fraud

For a more fulsome picture of the audit committee’s responsibilities, refer to our **Audit committee oversight checklist**. Or if you are looking to enhance the audit committee’s core practices, refer to the **appendix** for our full audit committee library.

### Key elements of audit committee oversight



# SEC requirements for the audit committee

- Be directly responsible for the appointment, compensation, retention, and oversight of the independent audit firm, including resolution of disagreements between management and the auditor regarding financial reporting.
- Independent auditors report directly to the audit committee.
- Establish procedures for: (i) the receipt, retention, and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by company employees of concerns regarding questionable accounting or auditing matters.



- Have the authority to engage independent counsel and other advisors, as the committee determines necessary to carry out its duties.
- Receive appropriate funding, as determined by the audit committee, to pay: (i) compensation to any auditing firm engaged, (ii) compensation to any advisors employed by the audit committee, and (iii) the committee's ordinary administrative expenses that are necessary for it to carry out its duties.
- Preapprove all audit and allowable non-audit services to be provided by the independent auditor.
- The independent auditor must report to the audit committee on a timely basis: (i) all critical accounting policies used by the company, (ii) alternative accounting treatments that have been discussed with management along with the potential ramifications of using those alternatives, and (iii) other written communications provided by the auditor to management, including a schedule of unadjusted audit differences.
- Disclose the name of at least one member who meets the SEC's definition of an 'audit committee financial expert'; if no one does, disclose why not.
- Include a report in the proxy statement outlining whether the audit committee has: (i) reviewed and discussed the company's audited financial statements with management, (ii) discussed with the independent auditors the matters required to be discussed under Public Company Accounting Oversight Board (PCAOB) AU 380, and (iii) received from the auditors disclosures regarding the auditors' independence required under PCAOB Ethics and Independence Rule 3526. Further, the report should include a statement by the audit committee indicating whether, based on the review and discussions noted above, it recommends to the board of directors that the audited financial statements be included in the company's annual report on Form 10-K or 10-KSB (as applicable) for filing with the SEC.
- Include the audit committee charter in the proxy statement at least once every three years or if major changes are made to the charter.

# Audit committee financial expert definition

**The SEC defines an ‘audit committee financial expert’ as a person who has the following attributes:**

- An understanding of generally accepted accounting principles (GAAP) and financial statements
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the company’s financial statements, or experience actively supervising one or more persons engaged in such activities
- An understanding of internal controls and procedures for financial reporting
- An understanding of audit committee functions



**Under the SEC’s rules, a person must have acquired such attributes through any one or more of the following:**

- Education and experience as a principal financial officer, principal accounting officer, controller, public accountant, or auditor, or experience in one or more positions that involve the performance of similar functions
- Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor, or person performing similar functions
- Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing, or evaluation of financial statements
- Other relevant experience

**A note on audit committee reports in proxy statements**

For years, the reports that audit committees submitted in proxy statements mostly covered the required items. Then some investors began to ask for more insight into how audit committees were overseeing the external auditors. That led many companies to expand their audit committee reports and/or other proxy disclosures to better describe the audit committee’s oversight. As with other trends in evolving governance practices, the change is much more evident at larger companies.

# Listing exchange requirements for the audit committee

	NYSE	Nasdaq
<b>Number of members</b>	At least three	At least three
<b>Number of meetings</b>	Does not specify a number of meetings  Listing rules call for the committee to meet and review the company's annual audited financial statements and quarterly financial statements. This would suggest at least four meetings per year.	Does not specify a number of meetings
<b>Must be independent directors</b>	Yes, under both the NYSE's listing standards and SEC Rule 10A-3	Yes, under both the Nasdaq's listing standards and SEC Rule 10A-3; under exceptional and limited circumstances, may have one non-independent director
<b>Requirements for financial knowledge</b>	All members are financially literate (or become so within a reasonable period after joining the committee), and at least one member has accounting or related financial management expertise	All members must be able to read and understand fundamental financial statements, and at least one member has experience in finance/accounting or certification in accounting that results in the individual having financial sophistication
<b>Other requirements</b>	No audit committee member may serve on the audit committee of more than three public companies unless the board determines that such simultaneous service and related time commitments don't impair the member's ability to serve effectively on the company's audit committee. If this exception is used, the board's determination must be disclosed in the proxy statement.	None
<b>Written charter, reviewed annually</b>	Yes, and it must be posted on the company's website and reviewed annually	Yes, and it must be posted on the company's website and reviewed annually

The listing exchanges also assign specific responsibilities to audit committees in addition to the SEC's requirements.

## **NYSE**

- At least annually, obtain and review a report by the independent auditor describing: the firm's internal quality control procedures; any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the auditor and the company.
- Meet to review and discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the company's specific disclosures under 'Management's Discussion and Analysis of Financial Condition and Results of Operations.'
- Discuss the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.
- Periodically, meet separately with management, with internal auditors (or others responsible for the internal audit function), and with the independent auditor.
- Set clear hiring policies for the employees or former employees of the independent audit firm.
- Review with the independent auditor any audit problems or difficulties and management's response.
- Periodically discuss with management policies relating to risk assessment and risk management.
- Oversee the performance of the internal audit function (an internal audit function is required for companies listed on the NYSE).
- Assist the board in oversight of the company's compliance with legal and regulatory requirements.
- Conduct an annual performance evaluation.
- Report regularly to the board.

## Nasdaq

- Receive from the independent auditor a formal written statement delineating all relationships between the auditor and the company, actively engage in a dialogue with the auditor regarding any disclosed relationships or services that may impact the objectivity and independence of the auditor, and take, or recommend that the full board take, appropriate action to oversee the independence of the outside auditor.
- Oversee the company's financial and accounting processes and the audits of the financial statements.
- Review related party transactions.

Many Nasdaq companies also voluntarily adopt many of the NYSE-mandated committee responsibilities.

## Other considerations—foreign private issuers

- Foreign private issuers (FPIs), as defined by the SEC, that are listed on US exchanges may generally follow home country governance practices, with limited exceptions, including certain audit committee requirements. Because these rules are highly technical, consultation with US legal counsel is advisable. Appendix D of our **Going public? What you need to know about corporate governance** summarizes selected requirements.



# Appendix

PwC's Governance Insights Center has a full library of publications, including many focused on the audit committee. The insights in these papers go beyond the basics to include leading practices and questions for directors to consider in their roles.

- [Audit committee newsletter](#)
- [Audit committee dashboard reporting](#)
- [Audit committee effectiveness: practical tips for the chair](#)
- [Audit committee oversight checklist](#)
- [Disclosure committee essentials](#)
- [Financial reporting oversight](#)
- [Four focus areas in finance transformation for the audit committee](#)
- [Oversight in the AI era: understanding the audit committee's role](#)
- [Overseeing internal investigations](#)
- [Non-GAAP measures - The role of the audit committee](#)
- [Overseeing the external auditors](#)
- [Redefining internal audit oversight: strategies for audit committees](#)
- [The audit committee and sustainability oversight](#)

# How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner or one of the PwC specialists below.

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