

# Audit Committee

[Note: In line with customary law firm practice, this charter contains bracketed annotations to guide the drafter when preparing a document for a client. Unless otherwise specified, section numbers refer to applicable sections of the California Nonprofit Integrity Act. For further guidance on the California Nonprofit Integrity Act, go to [oag.ca.gov/charities/faq](http://oag.ca.gov/charities/faq). The annotations are for reference purposes only and should be removed before sending a draft to the client. In addition, certain portions of the template reflect specific "best practice" guidance and recommendations from various sources, including the IRS, Independent Sector and other nonprofit resource providers, and law firms.]

## Authority

1. The Committee is a committee of the Board established under Section 5.1 of the Bylaws.

## Membership

1. Only directors may serve on the Committee. The Board will appoint members of the Committee and a Chair, each to serve for one-year terms. Appointment to the Committee requires a majority vote of the directors then in office.
2. The Committee may not include staff members, including the Executive Director or [Chief Financial Officer] of Client. [§12586(e)(2)] Members of the Finance Committee may serve on the Committee, with the limitations that the Chair of the Committee may not serve on the Finance Committee and that Finance Committee members cannot comprise fifty percent or more of the Committee. [§12586(e)(2)]
3. No person may serve on the Committee who has a material financial interest in Client or in any entity doing business with Client. [§12586(e)(2)] Committee members may not receive any compensation from Client in excess of the compensation, if any, received by Board members for Board service. [§12586(e)(2)]
4. The Board may fill vacancies on the Committee. The Board may remove a Committee member from the Committee at any time, with or without cause.

## Operations

1. The Committee will meet with such frequency as it may determine. The Chair of the Committee will preside over Committee meetings. A majority of Committee members will constitute a quorum. Committee approvals will require a vote of a majority of the Committee members present at a meeting at which a quorum is present.

2. The Committee will report its activities to the Board on a regular basis and will keep minutes of its meetings.
3. Unless the Committee otherwise directs, the Executive Director may attend all Committee meetings.
4. The Committee may invite any non-Committee member to attend meetings or meet with Committee members.
5. [The \_\_\_\_\_ will serve as the Committee's staff liaison.]
6. The Committee will review this charter periodically and recommend any proposed changes to the [Governance Committee][Board] for review. The Board may amend this charter at any time.

## Responsibilities

1. Review the performance and make recommendations to the Board on the retention and, when appropriate, termination of the independent auditor, and negotiate the terms of engagement subject to Board approval. [§12586(e)(2). IRS Form 990 Part XII, Line 2c]
2. Meet with the auditor and staff to discuss the audit plan, relevant new financial reporting requirements, the annual financial statements and the completed audit. [IRS Form 990 Part XII, Line 2c]
3. Review the audit and determine whether to accept the audit. [§12586(e)(2)]
4. Review the auditor's observations including any management letter and confer with the auditor to satisfy Committee members that Client's financial affairs are in order. [§12586(e)(2)]

**Statutory limitations on committee authority:** Because of statutory limitations, the Board may not authorize the Committee to, and the Committee may not: fill vacancies on the Board or on any committee with Board authority; designate or remove from office any directors, or lengthen the term of any director; fix compensation of the directors; amend, repeal, or adopt provisions of the bylaws or articles of incorporation; amend or repeal any Board resolution that is, by its own express terms, not so amendable or repealable; create Board committees or appoint members of Board committees; authorize indemnification for any agent of Client; expend corporate funds to support a nominee for director after there are more people nominated for director than can be elected; authorize the merger of Client, or the lease or transfer of substantially all of Client's assets; authorize or revoke the decision to wind up and dissolve Client; or approve a self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law. [California Nonprofit Corporation Law §5212(a)]

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5. Approve any engagement of the auditor for non-audit services and verify that such services conform to standards in the Yellow Book issued by the U.S. Comptroller General. [*§12586(e)(2)*]
6. Review Client's annual IRS Form 990 filing. [*IRS Form 990 Part VI.B, Lines 11a, b; Form 990 Policy Memo re Form 990 Distribution and Review Policy*]
7. Review periodically Client's risk management profile and policies, litigation matters and insurance coverage and complaints or other communications made under Client's Whistleblower Policy. [*Form 990 Policy Memorandum re Whistleblower Policy*]
8. Comply in all respects with the requirements of the California Nonprofit Integrity Act and all other applicable laws relating to audit committees.