

***FEDERAL RESERVE BANK OF PHILADELPHIA***  
***AUDIT COMMITTEE CHARTER***  
***Approved December 19, 2019***

**ORGANIZATION**

Consistent with the Bylaws of the Federal Reserve Bank of Philadelphia, there shall be a committee of the Board of Directors known as the Audit Committee comprised of no fewer than three directors. All members of the Audit Committee should be independent and financially literate (i.e., able to understand financial statements and general finance concepts and at least one member should have banking, accounting, or other relevant financial proficiency.<sup>1</sup> The Chairman of the Board is an ex-officio voting member of the Audit Committee. Two members of the Audit Committee shall constitute a quorum for the transaction of business, and action of the Committee shall be upon a majority of those present at any meeting of the Committee. The duties and responsibilities of Audit Committee members are in addition to those duties defined for members of the Board of Directors.

**PURPOSE**

The Audit Committee is responsible for ensuring the effectiveness and independence of the internal audit function, as well as to provide assistance to the Board of Directors through the oversight of the internal and external financial reporting processes and by ensuring that management maintains an effective system of internal control. This responsibility includes assurance that the General Auditor is not dependent on any Reserve Bank executive or operating officer for the security of his/her position, that the General Auditor has access to the Board of Directors on a confidential basis, and that the Audit function is independent of Federal Reserve Bank management, both by intent and actual practice. It is the responsibility of the Audit Committee to maintain open communications among the directors, senior management, General Auditor, external auditor and the Board of Governors.

**RESPONSIBILITIES**

- To review and approve the annual schedule of local audits and participation in System audits based on reasonable assurances that the proposed scope<sup>2</sup> and frequency of audits provide an appropriate level of audit attention, and to coordinate with any external audit conducted at the direction of the Board of Governors.
- To review and approve the annual Audit Department budget based on reasonable assurances that the budget is sufficient to carry out an effective audit program and that significant variances, if any, from existing System and Bank guidelines are justified.
- To review and approve the Audit Department's Strategic and Tactical Plan.
- To formally appraise the performance of the General Auditor, following guidelines set forth by the Reserve Bank for evaluating the performance of other officers.

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<sup>1</sup> Federal Reserve Administrative Manual ("FRAM") 1-007 clarifies that members of the Audit Committee are considered to be "independent" if they have no relationship with the Reserve Bank that might interfere with the exercise of their independence from management and the Reserve Bank. Examples of relationships include (i) a director being employed by that Reserve Bank within the past five years; (ii) a director accepting compensation from that Reserve Bank other than compensation for board services; (iii) a director being a member of the immediate family of an individual who has been employed by that Reserve Bank as an officer within the past five years; and (iv) a director being a partner in, or controlling shareholder or an executive officer of, any for-profit business to which that Reserve Bank made, or from which that Reserve Bank received, payments that have been significant to the Reserve Bank within the past five years. FRAM 1-007 further clarifies that a director who is an officer or director of a depository institution or its holding company is not considered to have a relationship that interferes with his or her independence solely because the depository institution makes payments to the Reserve Bank for financial services or an extension of credit.

<sup>2</sup> FRAM 1-006 clarifies the scope of a Federal Reserve Bank internal audit function's responsibility for auditing the Bank's professional staff functions, such as banking and consumer compliance supervision, community affairs, research, public programs, and legal.

- To initiate for Board of Directors' approval all actions affecting the salary or classification of the General Auditor.
- To recommend to the Board of Directors the appointment and termination (including separation payments) of the General Auditor, and to concur with any reassignment of the General Auditor to another position in the Reserve Bank.
- To review and discuss with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the Bank's financial statements, including any significant changes in the Bank's selection or application of accounting principles, any significant issues as to the adequacy of the Bank's internal controls and any special steps adopted in light of material control deficiencies.
- To review the plan of the external auditor and the results of the external audit.
- To provide sufficient opportunities for the external auditor to meet in executive session with the members of the Audit Committee, without management or the General Auditor present, to discuss the Reserve Bank's financial statements and other issues such as fraud. Audit Committee members should be prepared to answer inquiries from the external auditors, especially concerning fraud and the mitigation of fraud.
- To obtain from the General Auditor an independent and objective assessment of the effectiveness of the Reserve Bank's risk management, control and governance processes.
- To hold regular meetings (at least five annually) to permit adequate and timely discussion of audit results, losses and irregular occurrences, and other matters of concern to the auditors and directors, and to have executive sessions with the General Auditor, as needed, whenever regular meetings are attended by other officers of the Bank.
- To bring before the Board of Directors any matters reported by the Board of Governors, General Auditor, or external auditors that warrant the Board's attention, and to ensure that audit recommendations and concerns receive proper attention by Bank management.
- To evaluate management's identification of fraud risk and the implementation of fraud preventative and detective controls. The Committee shall reinforce "tone at the top" and direct the conduct of special investigations as warranted.
- To ensure that the internal audit activity is operating in conformance with mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework.
- To annually complete a self-evaluation of the Audit Committee's own performance and effectiveness and recommend any changes to the Audit Committee and Audit Department charters as appropriate.
- To report regularly to the Board of Directors through the Audit Committee Chair on the Audit Committee's activities, including the results of the Audit Committee's self-evaluation and any recommended changes to the Audit Committee's charter.
- To establish procedures for (1) the confidential, anonymous submission by employees of complaints and concerns regarding questionable accounting, internal accounting control, or auditing matters; and (2) the receipt, retention, and treatment of such complaints and concerns.
- To engage independent counsel and other advisors as it determines necessary to carry out its duties.

The committee shall perform such other duties as assigned by the Board of Directors.