

AUDIT REGULATIONS

CORPORATE GOVERNANCE
IMPLEMENTATION GUIDE



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Cefeidas Group is an international advisory firm that helps clients achieve their goals in Latin America. Cefeidas has worked with the IDB and IDB Invest for over a decade. Cefeidas provides professional services in public policy, risk and strategy; corporate governance, stewardship and sustainability; and strategic intelligence and research. www.cefeidas.com



1. CORE PRINCIPLES OF THE AUDIT COMMITTEE AND ITS RULES OF PROCEDURE

The Audit Committee is a specialized body of the Board of Directors that acts as a guardian of the company's financial integrity and internal control system. Its primary role is to independently oversee financial reporting, external and internal audit, risk management, and regulatory compliance processes.

The Audit Committee's Rules of Procedure is the formal document that establishes the operating rules, responsibilities, composition, and operating procedures of this essential body. It is the roadmap that ensures that the Committee operates effectively, independently, and professionally, translating the principles of good corporate governance into concrete and measurable actions.

Why is the Audit Committee important to the success of the company?

Companies require an Audit Committee with robust rules of procedure for multiple reasons. First, it contributes to **mitigating financial risks**, by preventing fraud and material misstatements in financial reporting, identifying budget deviations and liquidity issues early, and monitoring the effectiveness of critical internal controls. Secondly, **it strengthens the credibility of the organization**, generating confidence in the capital markets and among financial institutions, improving the perception of transparency among the different stakeholders, and facilitating access to financing on more favorable terms. It also **allows for proactive regulatory compliance**, ensuring that accounting and auditing standards are observed, preventing regulatory sanctions and reputational damage, and keeping the company up to date with regulatory changes. Finally, an effective Audit Committee **enhances decision-making by** providing reliable and timely financial information to the Board, providing independent insight into critical risks, and facilitating strategic decisions based on verified data.

Why these rules are necessary

An Audit Committee must have rules of procedure because its effectiveness and legitimacy depend on a clear regulatory framework that defines its composition, functions, responsibilities, and procedures. Formal rules guarantee transparency, independence and consistency in its performance, avoiding



Attention!

International studies show that companies without an effective Audit Committee face a significantly increased risk of experiencing financial irregularities, which can result in loss of market value, costly litigation, and irreversible reputational damage.



G20/OECD Principles of Corporate Governance (2023)

These International Principles explicitly recognize the importance of the Audit Committee: *"Audit Committees must be able to exercise independent and objective judgment over the financial affairs of the company, free from conflicts of interest and with direct access to internal and external auditors."*

According to the OECD, the Audit Committee should:

- Be composed mostly of Independent Directors.
- Have at least one member with relevant financial experience.
- Oversee the independence and objectivity of the external auditor.
- Review the effectiveness of the internal control system.

ambiguities or interferences that may compromise its supervisory role.

In addition, the existence of these rules allows the Committee to stay aligned with best corporate governance practices, establishing objective criteria for the appointment of its members, the frequency of its meetings, its relationship with external and internal auditors, and the mechanisms for reporting to the Board. It also helps to define responsibilities and accountability, ensuring that decisions are made on a technical and documented basis.

Finally, a regulated Audit Committee strengthens the confidence of investors, regulators, and other stakeholders by demonstrating that the organization has institutionalized processes in place to control financial risks, ensure information integrity, and comply with applicable standards.

Scope and Application

The Regulations of the Audit Committee have a specific but integrated scope within the general corporate governance framework:

Hierarchical and functional relationship:



Emerging trends in international standards

- **ESG Risk Monitoring:** increasing responsibility for environmental and social risks with a financial impact.
- **Cybersecurity:** increased focus on technology and information risk monitoring.
- **Continuous Audit:** transition to real-time monitoring models through data analytics.
- **Integrated Reporting:** holistic supervision of financial and non-financial information.

Interaction with the Regulations of the Board of Directors

The Audit Committee Rules of Procedure must align perfectly with the Board Regulations, serving as a complementary document that:

- Details the supervisory and financial guidance responsibilities delegated by the Board.
- Respects the hierarchy established in the Board Regulations.
- Defines specific reporting and communication protocols with the entire Board.
- Establishes means of coordination with other Board committees.

The Board Regulations may already contain a section dedicated to Committees, including the Audit Committee. If this is the case, the Board must consider whether it is preferable to develop the Committee's Rules of Procedure with the aim of adding clarity to the Committee's operations.

Objective: What is the purpose of this tool?

The Audit Committee's Rules of Procedure pursue multiple complementary objectives:

Primary objectives

1. Institutionalize independent oversight

- Establish clear and systematic monitoring procedures.
- Ensure the Committee's independence from management.
- Create transparent accountability mechanisms.

2. Ensure the integrity of financial information

- Supervise the financial statement preparation process.
- Verify compliance with applicable accounting principles.
- Ensure complete and timely disclosure of material information.

3. Strengthen the internal control system

- Evaluate the effectiveness of internal controls.
- Identify weaknesses and monitor remediation plans.
- Promote a culture of control throughout the organization.

4. Optimize risk management

Remember

The Audit Committee's Rules of Procedure must always complement and supplement Board Regulations (where applicable). Try not to include clauses that cause contradictions between both documents or with the legal documents constituting the company, such as the bylaws.

Both documents must be reviewed together at least once a year to ensure consistency and avoid duplication or regulatory gaps. The Corporate Secretary must ensure consistency between both documents.

- Oversee the identification and assessment of financial risks.
- Monitor the implementation of mitigation measures.
- Ensure alignment between risk appetite and business strategy.

Secondary objectives

- Facilitate effective communication between external and internal auditors and the Board.
- Protect the interests of all shareholders, especially minority shareholders.
- Improve operational efficiency by identifying opportunities for improvement.
- Serve as a specialized advisory body to the Board on complex financial issues.

Advantages by company type

Family Businesses

In family businesses, an Audit Committee offers specific advantages that contribute to sustainability and professionalization. Firstly, it promotes the professionalization of financial management by introducing discipline and rigor into processes that are usually more informal. It can also reduce family conflicts by establishing clear and objective rules for financial decision-making, preventing personal issues from interfering in business matters. It promotes succession readiness by creating structures and procedures that transcend individuals and ensure institutional continuity.

Growing Medium-sized Businesses

In growing medium-sized companies, an Audit Committee provides decisive benefits to consolidating expansion. It promotes orderly scalability by preparing the financial structure and control mechanisms to accompany growth, and contributes to attracting investors, as it helps to meet the governance standards expected by investment funds and strategic partners. It also allows proactive management of complexity, anticipating the control and supervision needs likely to arise as the operation becomes more sophisticated, and offers competitive differentiation, demonstrating a level of institutional maturity superior to competitors.

Companies with flotation plans

In companies with stock market aspirations, an Audit Committee facilitates early compliance with the regulatory and governance requirements necessary to issue bonds or list shares on the stock exchange. The cost of doing this in advance, rather than rushing to prepare at the last minute, is much lower. It also helps to build a



For **companies with a founder or sole owner**, a well-established Audit Committee is an essential guarantee of control and trust. By acting as an independent oversight mechanism, it ensures that management operates transparently and within the boundaries defined by the organization's strategy and ethical standards. In this sense, it becomes the tool that **"allows you to sleep peacefully at night"**, by providing the certainty that management will not exploit undue advantages or deviate from the legitimate interests of the owner.



Special consideration: Issuance of bonds

Companies that issue bonds or negotiable securities, while maintaining their private character, face similar transparency and oversight requirements to listed companies. A robust Audit Committee is critical to building confidence among bondholders, facilitating better credit ratings, and complying with the covenants typical of these issuances. Institutional investors in corporate bonds especially value the existence of an independent Audit Committee as a sign of strength in corporate governance and financial risk management.

verifiable track record of best practice, which enhances credibility among authorities and investors. It also helps reduce the risk premium, improving the potential valuation in the market, and allows familiarization with public standards, preparing the organization to operate with the transparency and accountability of a listed company.

Listed Companies

For companies already listed on the stock exchange, an Audit Committee is a pillar of comprehensive regulatory compliance, ensuring adherence to stock market standards and strengthening the trust of regulators and shareholders. Additionally, it: offers protection against possible litigation by demonstrating due diligence in financial supervision; contributes to the improvement in equity liquidity by increasing the confidence of institutional investors; and facilitates access to international markets by allowing compliance with the standards required for cross-listing.

Alignment with the Pillars of Good Corporate Governance

The Audit Committee Rules of Procedure put into operation the four fundamental pillars of corporate governance. How this is applied in the Rules of Procedure:

1. Transparency

- They require full disclosure of material financial information.
- They establish communication channels with external and internal auditors.
- They promote proactive disclosure of risks and contingencies.
- They define protocols for handling sensitive information.

2. Accountability

- They clearly define the responsibilities of the Committee and its members.
- They establish mechanisms for periodic reporting to the Board and shareholders.
- They include processes for evaluating the performance of the Committee itself.
- They document all decisions and recommendations in formal minutes.

3. Responsibility

- They establish clear fiduciary duties for Committee members.
- They define financial and operational risk monitoring processes.
- They cover responsibility for the integrity of the internal control system.
- They oversee compliance with legal and regulatory obligations.

4. Fairness

- They ensure that all shareholders receive complete and timely financial information.
- They monitor transactions with related parties to avoid conflicts of interest.
- They ensure that the financial statements accurately reflect the company situation.
- They protect minority shareholder rights through independent oversight.

2. KEY COMPONENTS AND STRUCTURE

Well-structured Audit Committee Rules of Procedure are the cornerstone for the effective functioning of this critical corporate governance body. This document must clearly establish the rules of operation, responsibilities, and scope of action of the Committee, serving as a permanent guide for its members and as a reference for the entire organization.

Breakdown of essential elements

Below is a comprehensive and annotated template for the drafting of the Audit Committee Rules of Procedure. Companies are invited to produce their own detailed documents:

[Cover Page]

RULES OF PROCEDURE OF THE AUDIT COMMITTEE

[Company Name]

Board Approval Date: *[XX/XX/XXXX]*

PREAMBLE

The Board of Directors of [XXXX] (the “Company”), recognizing the importance of maintaining the highest standards of corporate governance and in compliance with international best practices, has established an Audit Committee (the “Committee”) as a specialized support and advisory body.

These Regulations constitute the governance framework according to which the Committee, assisted by its members, will conduct the affairs of the Company in matters within its competence. While it should be interpreted in the context of all applicable laws, regulations, and requirements, as well as in the context of the Company's Articles of Association, [and the Regulations of the Board of Directors], it is not intended to establish legally binding obligations of its own.

ARTICLE I - PURPOSE AND AUTHORITY

1.1. General Purpose

The Audit Committee shall assist the Board of Directors in fulfilling its supervisory responsibilities with respect to:

- a) Integrity of financial information: preparation and review of the Company's financial statements, ensuring that they reasonably reflect its financial position.*
- b) Internal control systems: effectiveness of the internal control system on financial reporting and disclosure controls.*

Practical note:

The Rules of Procedure should be an evolving, flexible, and adaptable document as the company's governance needs and market best practices change.

Notes:

The most advanced practices for the Audit Committee have been highlighted [in square brackets and orange].

This section describes the context and importance of the Committee within the corporate governance framework. It must reflect the Board's commitment to best practices.

It clearly defines the Committee's mandate and position within the governance structure. It is crucial to establish that the Committee is independent of management. The role of the Committee is one of supervision and advice, not direct administration.

Its purpose must align with applicable local regulations. In regulated markets, it may be necessary to include specific additional responsibilities.

c) *Internal audit function: performance, independence, and effectiveness of the internal audit function.*

d) *External auditors: qualifications, independence, and performance of the Company's external auditors.*

e) *Regulatory compliance: application of the code of ethics and conduct established by the administration and the Board.*

f) *Risk management: supervision of the process of identifying and managing financial and accounting risks, [including environmental, social and governance (ESG) and climate change-related risks].*

g) *Annual report: preparation of the report of the Audit Committee to be included in the Company's annual report.*

h) *[Coordination of investigations: act as a central coordination point for the investigation of complaints related to financial statements, compliance, internal controls, and other matters within its competence].*

1.2. Authority

To fulfil its responsibilities, the Committee must be empowered to:

a) *have unrestricted access: full and unrestricted access to all Company books, records, facilities, and personnel data.*

b) *hire advisors: hiring legal, accounting, or other independent consultants as deemed necessary, charged to the approved budget.*

c) *conduct special investigations: special investigations into any matter within its scope of responsibility.*

d) *hold executive meetings: meetings with management and internal and external auditors in separate sessions when deemed appropriate.*

[e) have authority: exclusive authority to appoint, compensate, and remove, with approval from the Board of Directors, an external auditor who will report directly to the Committee].

ARTICLE II - MEMBERSHIP AND REQUIREMENTS

2.1 - Membership

a) *Number of members: the Committee shall have a minimum of [three (3)] and a maximum of [five (5)] members, all of whom shall be non-executive Directors.*

b) *Independence: at least a majority of members must comply with the independence requirements set forth in [reference to independence policy or applicable regulation].*

c) *Specific limitations: the following may not be members of the Committee:*

- *The Chair of the Board of Directors.*
- *Current Company executives or employees.*



Template:

Annex I of this document gives IDB Invest's definition of an independent director. [Click here.](#)

Template:

A template of the "financial expert profile" is provided in **Annex II** of this document. [Click here.](#)

The Committee's authority should be sufficient to ensure its independence, but it should be exercised responsibly and in coordination with the Board.



Membership in transition:

We recognize that some companies, especially those in the process of formalizing their corporate governance, may find themselves in a **less-than-ideal intermediate situation in which only a minority of Audit Committee members meet independence criteria.**

Although this is not best practice and should be considered temporary, it is preferable to not having a Committee. In such cases, it is critical to: ensure as a minimum absolute that the Chair of the Committee is independent; establish a concrete plan to reach an independent majority with set deadlines; and document this transitional situation in the annual report, explaining the measures planned to achieve a best practice.

- *[Persons who have material business relationships with the Company.*
- *Persons who have been employed by the Company in the last three years.*
- *Direct family members of Company executives].*

2.2 - Qualifications

a) *Financial knowledge: all members must possess basic financial knowledge, defined as the ability to read and understand fundamental financial statements, including:*

- *Balance sheet.*
- *Income Statement.*
- *Cash flow statement.*
- *Notes to the financial statements.*

b) *Financial expert: at least one of the members shall be a “financial expert of the audit committee”, with:*

- *Relevant professional experience in accounting, auditing, or finance.*
- *Knowledge of applicable accounting principles (IFRS or GAAP, as applicable).*
- *Experience in preparing, auditing, or evaluating financial statements of similar complexity.*
- *Understanding of internal controls and financial reporting procedures.*
- *Understanding of the functions of the audit committee.*

c) *Ongoing training: members shall participate in relevant professional development programs at least annually.*

d) *Participation limit: no member may serve on more than three public company audit committees simultaneously, unless the Board determines that such service would not affect the ability to serve effectively.*

2.3 - Appointment and term

a) *Appointment: [Members shall be appointed annually by the Board of Directors, preferably on the recommendation of the Nominating Committee or by the independent members of the Board].*

b) *Duration: [The appointment period will be one (1) year, with the possibility of re-election], subject to maintained status as an Independent Director.*

c) *Rotation: to ensure continuity and renewal, a staggered rotation of members is recommended, with a maximum of [6-9] years of continuous service.*

d) *Removal: members may be removed by the Board at any time, with or without cause.*

When adapting this template, consider:



Size of the business:

- Medium-sized businesses can start with 3 members.
- Simpler structures initially with gradual evolution.
- Combine meetings when space allows.



Industrial equipment:

- Regulated industries (banks, insurance) have additional requirements.
- High-risk sectors require more frequent meetings.
- Technology industries need an emphasis on IT controls.



Ownership structure:

- Family businesses need a special emphasis on independence.
- Clear definition of related parties.
- Robust processes for conflicts of interest.



Corporate Governance maturity:

- Phased implementation can be more effective.
- Start with the basics and evolve.
- Prioritize higher risk areas.

ARTICLE III - OPERATION AND MEETINGS

3.1 - Chair of the Committee

a) *Appointment: the Board shall appoint a Chair of the Committee from among the independent members.*

b) *Responsibilities of the Chair:*

- *Chair all Committee meetings.*
- *Establish the agenda in consultation with the other members and the secretary.*
- *Serve as the primary liaison with the Board.*
- *[Attend the General Shareholders' Meeting to answer questions and be directly accessible to shareholders].*
- *Ensure that the Committee complies with these Rules of Procedure.*
- *Report to the Board on the Committee's activities.*

c) *Absence of the Chair: in the absence of the Chair, the members present shall appoint an interim chair for the meeting.*

3.2 - Frequency and call

a) *Ordinary meetings: the Committee will meet at least [four (4)] times a year, coinciding with the quarterly financial reporting cycle.*

b) *Extraordinary meetings: additional meetings may be convened as required by:*

- *The Chair of the Committee*
- *Any member of the Committee.*
- *The President of the Board.*
- *External or internal auditors when there are urgent matters.*

c) *Notification: the call will be announced at least [five (5)] business days in advance, including:*

- *A detailed agenda.*
- *Relevant support materials.*
- *Location, time and date.*
- *Information for remote attendance if applicable.*

d) *Emergency meetings: in urgent situations, the notification period may be shortened with the consent of all members.*

3.3 - Quorum and voting

a) *Quorum: a majority of the members (physically or virtually present) shall constitute a quorum.*

b) *Remote participation: members may participate by conference call or videoconference.*

It establishes the operating rules that ensure that the functioning of the Committee is efficient and documented. The frequency and structure of meetings must allow all responsibilities to be fulfilled in a timely manner.

Establishing an annual calendar of meetings at the beginning of the year facilitates planning and ensures the participation of all members. Include tentative dates for the review of quarterly and annual financial statements.



Template:

A model agenda for Audit Committee meetings is provided in **Annex III** of this document. [Click here.](#)

c) *Voting: decisions shall be taken by a simple majority of those present. In the event of a tied vote, the Chair shall have the casting vote.*

d) *Written resolutions: resolutions may be adopted without a meeting by unanimous written consent of all members.*

3.4 - Participants and Executive Sessions

a) *Regular participants:*

- *Director of Internal Auditing (when available).*
- *External Auditing Partner.*
- *Chief Financial Officer (CFO) - when required.*
- *Corporate Secretary - for documentation purposes.*

b) *Other participants: the Committee may invite any director, executive or employee as it deems necessary.*

c) *Mandatory executive sessions: the Committee shall hold regular executive sessions:*

- *Committee members only: at the beginning or end of each meeting.*
- *With internal auditors without management: at least quarterly.*
- *With external auditors without management: at least quarterly.*
- *With the CFO without other executives: as required.*

3.5 - Minutes and documentation

a) *Preparation: detailed minutes of each meeting must be prepared, documenting:*

- *Attendees and absentees.*
- *Topics covered and time spent.*
- *Decisions taken and voting.*
- *Agreed actions with responsible parties and deadlines.*
- *Unfinished business for follow-up.*

b) *Approval: the minutes shall be:*

- *Circulated in draft form within [five (5)] business days.*
- *Reviewed by the Chair.*
- *Formally approved at the next meeting.*

c) *Distribution: the approved minutes shall be distributed to the Board of Directors and kept in the corporate records.*

d) *Confidentiality: all Committee documentation must be treated as confidential.*

[3.6 - Secretary of the Committee]

a) *Appointment: the Committee shall have a Secretary, who may be:*

- *The Corporate Secretary of the Company.*
- *A member of the Committee appointed for the function.*
- *A specifically designated experienced professional.*

b) *Responsibilities of the Secretary:*

Red Flag

An absence of executive sessions or insistence on the part of management on being present at all meetings may indicate independence issues. Executive sessions are essential for frank and open discussions.

This section is relevant if the company has not drawn up Terms of Reference for the Corporate Secretary or Corporate Governance Officer that already set out the details of this role in relation to the committees.

- *Preparing the calls and agendas in coordination with the Chair.*
- *Distributing supporting materials in advance as required.*
- *Preparing minutes during meetings.*
- *Maintaining an organized file of all Committee documentation.*
- *Following up on agreed actions.*
- *Coordinating the logistics of meetings.*
- *Serving as the Committee's administrative point of contact.*

c) Confidentiality: the Secretary shall maintain strict confidentiality on all matters of the Committee].

ARTICLE IV - RESPONSIBILITIES AND FUNCTIONS

4.1 - Financial information

The Committee must:

a) Review financial statements:

- *Examine annual and quarterly financial statements prior to publication.*
- *Discuss the financial statements with management and external auditors.*
- *Review the management report and other relevant financial information.*
- *Review press releases on financial results.*
- *Review financial information in prospectuses and other public documents.*

b) Evaluate accounting policies:

- *Review critical accounting policies and significant changes.*
- *Analyze alternative accounting treatment discussed with management.*
- *Review significant accounting estimates and judgments.*
- *Assess the impact of new accounting standards.*
- *Review unusual or complex transactions.*

c) Supervise the reporting process:

- *Evaluate the clarity and completeness of financial disclosure.*
- *Review significant correspondence with regulators on financial issues.*
- *Analyze significant adjustments resulting from audits.*
- *Evaluate management representations to auditors.*

4.2 - Internal control [and risk management]

a) Internal control system over financial reporting:

- *Monitor the effectiveness of the internal control system.*
- *Review significant deficiencies or identified material weaknesses.*
- *Monitor deficiency remediation plans with specific schedules.*
- *Evaluate changes in the internal control environment.*
- *Review management's annual report on internal control.*

This is the most extensive and detailed section of the Regulation. It defines the specific scope of the Committee's work, organized by areas of responsibility. It must be comprehensive but not overly prescriptive, to allow for flexibility.

A robust process includes reviewing preliminary drafts of financial statements with sufficient time to ask questions and request changes before final publication.



Template:

Annex IV of this document provides a Matrix of Audit Committee responsibilities. [Click here.](#)

[b) Risk Assessment and Management:

- *Review the annual financial and accounting risk assessment.*
- *Oversee financial risk management policies.*
- *Evaluate significant exposures and mitigation techniques.*
- *Review insurance coverage for financial risks.*
- *Monitor emerging risks that may impact the financial report.*
- *Ensure that the risk assessment framework includes risks related to climate change, ESG criteria, and sustainability].*
- *Oversee the adoption and implementation of the “Three Lines of Defense” model in risk management and control].*

The Board of Directors may have a **Risk Committee** specifically established to address this issue. In its absence, this function falls by affinity to the Audit function.

The Board may decide to call the Audit Committee the "Audit and Risk Committee", to make explicit the full function of this body.

c) Prevention and detection of corporate fraud

- *Monitor the Company's anti-fraud programs.*
- *Review fraud risk assessments.*
- *Evaluate controls to prevent and detect fraud.*
- *Review significant fraud investigations.*

4.3 - External Audit*a) Selection and appointment:*

- *[Recommend to the Board the appointment, re-election, or dismissal of the external auditor.]*
- *[Appoint, compensate, and dismiss, with the approval of the Board of Directors, the external auditor, who will report directly to the Committee].*
- *Approve the fees and terms of the auditing contract.*
- *Evaluate proposals from audit firms where appropriate.*

The level of authority of the Committee to appoint and dismiss the External Auditor must be established:

- By recommendation to the Board
- By a decision with the approval of the Board.

b) Independence and objectivity:

- *Obtain annual written confirmation of auditor independence.*
- *Pre-approve all audit and non-audit services.*
- *Establish clear policies on permitted and prohibited services.*
- *Review relationships between the auditor and the Company.*
- *Monitor the hiring of former employees of the auditor.*
- *Ensure compliance with cooling-off period requirements.*

c) Oversight of audit work:

- *[Review and discuss the annual audit plan, including scope, materiality, and areas of focus].*
- *Monitor audit progress.*
- *Discuss significant findings and recommendations.*
- *Review management letters.*
- *Evaluate management's response to recommendations.*
- *Resolve disagreements between management and auditors.*
- *[Review and discuss all audit and non-audit services prior to engagement].*

There are rotation periods defined by law or regulation in several countries in Latin America and the Caribbean. This point should reflect the same standards and requirements.

d) Rotation:

- *Ensure rotation of the lead member every [five (5) years].*
- *Consider the rotation of the audit firm according to best practices.*

e) Performance evaluation:

- Conduct a formal annual evaluation of the external auditor, *[in accordance with the External Audit Quality Policy]*, considering:
 - o Quality of the audit team.
 - o Communications quality and opportunity.
 - o Independence and objectivity.
 - o Knowledge of the business and industry.
 - o Value for money.

4.4 - Internal Audit

a) Structure and resources:

- Review and approve the internal audit charter, with the approval of the Board.
- *[Approve the appointment, evaluation and dismissal of the Director of Internal Auditing, with the approval of the Board].*
- Evaluate the organizational structure of the function.
- *[Ensure the adequacy of resources, budget, and personnel training].*
- Review the qualifications of internal audit personnel.
- *[On an annual basis, review the advantages and disadvantages of maintaining the function internally versus outsourcing or co-sourcing].*

b) Plan and execution:

- *[Approve the annual risk-based internal audit plan].*
- Monitor significant changes to the approved plan.
- Review significant audit reports.
- *[Monitor the status of findings and recommendations with systematic follow-up].*
- Evaluate the implementation of corrective actions.
- *[Ensure that internal auditing reviews information related to climate, ESG criteria, and sustainability prior to public disclosure].*

c) Independence and effectiveness:

- Ensure a direct reporting line to the Committee.
- Confirm unrestricted access to information and personnel.
- Evaluate the effectiveness of the function annually.
- Review key performance indicators.
- Consider periodic external quality reviews.

Use an structured evaluation tool with specific criteria and obtain feedback from management on the performance and quality of the auditor.



Template:

A template of the External Auditor's quality evaluation criteria is provided in **Annex V** of this document. [Click here](#).

The Director of Internal Auditing must have the ability to direct contact the Chair of the Committee and meet regularly without the presence of management. Consider external evaluation of the

4.5 - Compliance [and ethics]

[a) Code of Ethics:

- Review and recommend updates to the code of ethics.
- Monitor compliance and exceptions granted to executives.
- Oversee ethics training programs.
- Review significant conflicts of interest.
- Evaluate the organization's ethical culture.

b) Complaints channel:

- Establish comprehensive procedures for:
 - o Receipt and handling of complaints on accounting and audit matters or any irregularity.
 - o Confidential and anonymous submission of concerns through multiple channels (24/7 phone line, email, physical mailbox, web portal).
 - o Appropriate, independent, and prompt investigation of complaints received.
- Review periodic reports on:
 - o The number and type of complaints received.
 - o The status of investigations.
 - o Actions taken and resolutions.
- Ensure absolute protection against retaliation, with an explicit non-retaliation policy.
- Oversee channel communication to all employees, vendors, and third parties.
- Establish a protocol so that complaints about senior management go directly to the Committee without intermediation].

c) Transactions with related parties:

- Review and approve policies concerning related parties.
- Pre-approve significant transactions.
- Evaluate market terms.
- Review related disclosures.

d) Regulatory compliance:

- Monitor compliance with applicable laws and regulations.
- Review communications from regulators.
- Monitor responses to regulatory inspections.
- Assess significant fines or penalties.

4.6 - Reporting and communication

a) Reporting to the Board of Directors:

- Regularly report on Committee activities at each Board meeting.
- Immediately raise critical issues that require urgent attention.
- Provide approved minutes of all Committee meetings.
- Present an annual evaluation of the Committee's performance.
- Communicate recommended changes in policies or procedures.

b) Annual report to shareholders:

The company may have an **Ethics Committee** established specifically to deal with ethical issues. In its absence, this function can fall by affinity to the Audit function.

The Board may decide to call the Audit Committee the "Audit and Ethics Committee", to make explicit the full function of this body.

The whistleblowing channel should preferably be operated by an independent third party, available 24/7, multilingual, and with the option of anonymity. Complaints about senior management should go directly to the Committee.

This section establishes the Committee's formal communication mechanisms with the Board, shareholders, and other stakeholders, ensuring transparency and accountability.

- *[Prepare a comprehensive report, to be included in the Company's annual report, that includes:*
 - o *The composition of the Committee and qualifications of members.*
 - o *The number of meetings held and attendance.*
 - o *A summary of main activities carried out.*
 - o *An evaluation of the independence of the external auditor.*
 - o *A breakdown of fees paid to the external auditor by type of service.*
 - o *The main risks identified and actions taken.*
 - o *The status of the internal control system.*
 - o *Significant issues considered during the year].*

c) *Communication with regulators:*

- *Oversee all significant communications with regulatory authorities.*
- *Review responses to information requests.*
- *Monitor compliance with regulatory commitments.*

d) *Communication with auditors:*

- *Maintain an open and direct line of communication with internal and external auditors.*
- *Assist in resolving differences between management and auditors.*
- *Ensure that significant findings are communicated promptly.*

e) *Transparency and disclosure:*

- *[Ensure the Committee's Rules of Procedure are publicly available].*
- *Supervise disclosure of relevant financial and non-financial information.*
- *[Review all press releases related to financial results prior to publication.]*

4.7 - Coordination with other bodies

a) *Coordination with other Board Committees:*

- *[Establish coordination mechanisms with the Risk Committee (if separate)].*
- *Coordinate with the Compensation Committee on incentives and their impact on risks.*
- *Share relevant information with the Corporate Governance Committee.*
- *Hold joint meetings when warranted by the topic.*
- *Avoid duplication of activities and ensure full coverage.*

b) *Relationship with the [Statutory Auditor/Audit Commission/Fiscal Board (where applicable)]:*

- *Maintain regular communication.*
- *Share relevant information about the powers of each body.*

- *Coordinate supervisory activities without overlap.*

Effective coordination with other governance bodies avoids the duplication of efforts and ensures comprehensive coverage of responsibilities.

- *Hold at least one annual joint meeting.*

4.8 - Other responsibilities

a) Self-assessment:

- *Conduct a formal annual performance appraisal.*
- *Identify areas of improvement.*
- *Develop action plans.*
- *Report results to the Board.*

c) Updating the Rules of Procedure:

- *Review these Rules of Procedure annually.*
- *Propose necessary updates.*
- *Ensure alignment with best practices.*

d) Contingencies and litigation:

- *Review significant litigation and its potential impact.*
- *Evaluate related accounting provisions.*
- *Monitor tax and regulatory contingencies.*
- *Review insurance coverage for litigation.*

e) [Information technology:

- *Oversee IT controls related to financial reporting.*
- *Review cybersecurity in relation to financial information.*
- *Evaluate business continuity for critical financial systems.*
- *Ensure IT controls are extended to critical vendors and third parties where applicable].*

f) [Crisis management:

- *Establish specific protocols for financial or reputational crises.*
- *Define urgent call procedures (shortening of notification terms).*
- *Establish crisis communication lines with key stakeholders.*
- *Maintain a continuity plan for Committee functions.*
- *Coordinate response with Board Crisis Committee, where applicable].*

ARTICLE V - RESOURCES AND AUTHORITY TO HIRE ADVISORS

5.1 - Budget

[a) Annual budget: The Committee shall have an annual budget approved by the Board, sufficient to cover:

- *Compensation of the external auditor.*
- *Fees from external advisors when required.*
- *Training and refresher programs for members.*
- *Ordinary administrative expenses.*
- *External evaluations where applicable].*

The Committee must have its own resources to maintain its independence from the administration. This includes its own budget and exclusive authority to hire advisors.

[b) Additional funds: the Committee shall be entitled to access additional funds in unforeseen circumstances or special investigations.]

[c) Administration: the Committee shall have exclusive authority over the administration of its budget].

5.2 - Hiring consultants

a) Exclusive authority: the Committee shall have exclusive authority to:

- Hire independent legal advisors and agree their compensation.
- Hire accounting or financial advisors.
- Hire other experts as needed.
- Terminate the services of any advisor.

b) Without prior approval: hiring will not require prior approval from the Board or management.

c) Accountability: advisors will report directly and be accountable to the Committee.

Maintaining a list of pre-qualified advisors can expedite hiring when urgent assistance is needed.

ARTICLE VI - CONTINUOUS IMPROVEMENT

6.1 - Ongoing training

a) Induction Program: new members will receive comprehensive guidance on:

- Company operations and risks.
- Responsibilities of the Committee.
- Relevant policies and procedures.
- Current audit and accounting topics.

b) Continuous update: all members will participate in:

- Update sessions on regulatory changes.
- Relevant conferences and seminars.
- Training on emerging topics.

6.2 - Revision of the Rules of Procedure

a) Annual review: these Rules of Procedure will be reviewed annually, considering:

- Changes in applicable regulations.
- The evolution of international best practices.
- Self-assessment results.
- Recommendations from auditors or regulators.

b) Approval of changes: any modification will require approval by the Board of Directors.

c) Communication: changes will be communicated to all relevant stakeholders.

ARTICLE VII - HANDLING INFORMATION AND CONFIDENTIALITY

7.1 - Insider information

a) *Definition: insider information includes any material, non-public information that could affect the price of the Company's securities.*

b) *Handling procedures:*

- *Committee members are subject to the Company's Insider Information Policy.*
- *[Set blackout periods for transactions].*
- *Maintain a complete record of access to insider information.*
- *Require confidentiality commitments from all participants in meetings.*

c) *Disclosure protocol:*

- *[Coordinate with the Investor Relations area].*
- *Ensure that any disclosure is simultaneous, complete, and truthful.*
- *Document decisions on disclosure times.*

7.2 - Confidentiality

a) *General obligation: all Committee members, the Secretary, and any invitees shall maintain strict confidentiality concerning:*

- *Committee discussions.*
- *Information received based on their position.*
- *Ongoing investigations.*
- *Whistleblower information.*

b) *Exceptions: information may be disclosed only when:*

- *Required by law or regulation.*
- *The Board authorizes its disclosure.*
- *It is part of the Committee's public report.*

c) *Validity: the obligation of confidentiality remains in force even after the termination of office.*

7.3 - Whistleblower protection

[a) Non-retaliation policy: the Company shall maintain a strict policy of non-retaliation against any person who in good faith:

- *Files a complaint with the Committee.*
- *Provides information in an investigation.*
- *Participates in related proceedings.*
- *Opposes practices they consider illegal or unethical].*

b) *Measures of protection:*

- *The whistleblower's identity will be kept confidential to the extent permitted by law.*
- *Investigations will be conducted with discretion.*
- *Any attempt at retaliation will be severely punished.*

This section establishes clear protocols for handling sensitive and privileged information, ensuring compliance with legal and ethical obligations.

- *The Committee will monitor the employment status of whistleblowers for a reasonable period of time.*

c) Responsibility of the Committee:

- *To monitor the effectiveness of the non-retaliation policy.*
- *To investigate allegations of retaliation.*
- *To report any violations to the Board.*
- *To recommend disciplinary action when appropriate.*

ARTICLE VIII - FINAL PROVISIONS

8.1 - Validity

These Rules of Procedure shall enter into force upon their approval by the Board of Directors, replacing any previous version.

8.2 - Interpretation

a) In case of any doubts about this document's interpretation, the Board's criteria shall prevail.

b) In case of conflict with legal or statutory provisions, the latter shall prevail.

8.3 - Disclosure

a) These Rules of Procedure shall be:

- *[Published on the company website and kept updated].*
- *Referenced in the annual corporate governance report.*
- *Available to all stakeholders upon request.*

[b) An executive summary of the main responsibilities and composition of the Committee shall be included in the annual report].

Approval by Board of Directors

Date: *[XX/XX/XXXX] - [Signature of Chair of the Board]*

Outsourced or "in-house" internal audit?

One of the strategic decisions that the Audit Committee must evaluate is the operating model of the internal audit function. The company can opt for its own, outsourced, or a mixed team.

Internal audit with own team (in-House): offers the fundamental advantage of in-depth knowledge of the business. The internal team can develop a detailed understanding of the company's specific operations, culture, and risks, enabling issues to be identified more accurately and quickly. Their continuous availability also facilitates immediate responses to urgent situations, special investigations, or unscheduled audits. Confidentiality is also reinforced by maintaining sensitive information within the organization, without the need to share it with third parties. The team specializes as time goes on.

Outsourced internal audit: provides immediate access to specialized expertise and market best practices. External firms have professionals with experience in multiple industries, advanced methodologies, and specialized technical knowledge that would be expensive to develop internally. In addition, it offers financial flexibility through a variable cost model that allows the budget to be adjusted according to the specific needs of the audit plan. The greater separation from management can also reinforce objectivity in identifying sensitive problems.

3. STEP-BY-STEP IMPLEMENTATION GUIDE

Successful implementation of the Audit Committee's Rules of Procedure requires a methodological and structured approach. This process typically takes 3 to 5 months from the initial decision to the actual operation of the Committee.

The process presented here must be adapted according to the specific context of each company, its level of maturity in corporate governance, size, and operational complexity (not all companies necessarily have to apply every step).

Preparation phase

1

Weeks 1 to 3

Action 1: Evaluation of the current state and formation of the work team

<p>Capability assessment:</p> <ul style="list-style-type: none"> Evaluate the current structure of financial supervision and internal control. Identify gaps between current practices and IDB Invest/OECD standards. Analyze the availability of independent directors with financial expertise. Review the status of the internal audit function. 	<p>Implementation Team:</p> <ul style="list-style-type: none"> Designate a project lead (ideally the Corporate Secretary or CFO). Form a working group: 2 Directors (including one independent), Corporate Secretary, Financial Director, and Legal Advisor. Set a detailed schedule with specific milestones.
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Responsibilities of the Project Lead:

- Coordinate evaluation of candidates for the Committee.
- Manage necessary documentation.
- Liaise with external auditors.
- Report progress to the

Critical Point: The decision to establish an Audit Committee is delicate and must be carefully evaluated according to the context of each company. Many companies, especially medium-sized and family businesses, face **frequent difficulties in finding multiple independent directors with the required expertise**, posing a real challenge in markets where the pool of qualified directors is limited. Faced with this situation, a pragmatic approach is recommended: if it is not possible to reach the ideal standard immediately, consider in order of preference: **a) postponing its formation** until you have at least two qualified independents; or **b) establishing a Transitional Committee with at least one independent as Chair**, formally committing to reach the ideal composition within a set period. In any case, any transitional structure should consider hiring specialized external advisors to temporarily compensate for gaps in independence or expertise. This will ensure that the Committee can fulfill its critical functions while evolving towards its optimal composition.

Design phase

2

Weeks 4 and 5

Action 2: Definition of the composition and structure of the Committee

Determine the optimal composition, considering:

- Minimum 3 members, maximum 5.
- Majority of independent Directors (at least 2/3).
- Chair of the Committee must be an independent Director.
- At least one member with proven accounting or financial expertise.
- No executive may be a voting member.

3

Weeks 6 to 8

Action 3: Drafting the Committee's Rules of Procedure

Core content:

- Purpose and authority of the Committee.
- Composition and independence requirements.
- Specific responsibilities (see Section 2).
- Frequency of meetings (minimum quarterly).
- Relationship with internal and external auditing.
- A process for reporting to the Board.
- Budget and own resources.

Work sessions:

- Weekly meetings of 2-3 hours.
- Comparative review with best practices.
- Incorporation of specific regulatory requirements.
- Validation with potential Committee members.

4

Weeks 9 and 10

Action 4: Legal Validation and Regulatory Alignment

The legal advisor must verify, with the assistance of the Corporate Secretary:

- Compliance with securities market legislation (if applicable).
- Consistency with bylaws and Board Regulations.
- Alignment with sectoral banking/financial regulations.
- Clear delimitation of legal responsibilities.
- Protection of the Committee's independence.



Validation and approval phase

5

Weeks 11 and 12

Action 5: Engagement with key stakeholders

Consultation strategy:

- Individual presentation to each Director (45-minute sessions).
- Meeting with external auditors to get their perspective.
- Consult with the internal audit team.
- Session with Senior Management to align expectations.

Document all observations and adjust the Rules of Procedure according to relevant feedback.

6

Weeks 13 and 14

Action 6: Formal approval by the Board of Directors

Documentation for approval:

- Executive memorandum (2 pages) highlighting benefits and requirements.
- Draft Rules of Procedure of the Audit Committee.
- Proposal of Committee members with profiles.
- Estimated budget of the Committee.
- Resolution forming the Committee.



Implementation and operation phase

7

Weeks 15 and 16

Action 7: Operational establishment of the Committee

Startup activities:

- Formal appointment of members and Chair.
- Specific budget allocation.
- Coordination of first meeting with external auditors.
- Definition of the annual calendar of sessions.

Develop starter work kit:

- Induction manual for Committee members (10-15 pages).
- Agenda templates and minutes.
- Findings tracking matrix.
- Board communication protocol.

8

Weeks 17 and 18

Action 8: Specialized training and first session

Training program:

- **Committee Members:** 4-hour workshop on fiduciary responsibilities, applicable accounting standards, and risk management.
- **Internal Audit:** 2-hour session on reporting to the Committee and communication protocols.
- **Corporate Secretary:** 3-hour training in Committee document management.

First session of the Committee (Pilot):

- Review of the approved Rules of Procedure.
- Approval of the annual work plan.
- Setting immediate priorities.
- Executive meeting with external auditor (without the presence of management).

9

Weeks 19 and 20

Action 9: Integration with the internal control system


Process alignment:

- Update the internal audit mandate to report to the Committee.
- Establish a protocol for escalating critical findings.
- Integrate Committee calendar with financial reporting cycle.
- Define the external auditor's annual evaluation process.
- Create a recommendation tracking mechanism.

Supplementary documents to create:

- Quality policy and External Audit services contracting.
- Matrix of competencies required for members.
- Annual Committee evaluation procedure.





Post-implementation monitoring

Take into account the effectiveness of the sessions, quality of the information received and presented by different actors, and clarity of roles with other bodies. To identify necessary improvements, make adjustments to the regulation without having to wait for the year of its implementation. This makes it possible to avoid integrating bad practices into the Committee's culture.

4. TIME CONSIDERATIONS

Identifying the optimal time to establish or review the Rules of Procedure

Not all time frames are equally conducive to implementing or updating the Audit Committee Rules of Procedure. There are specific events that create “windows of opportunity” when the organization is most receptive to change and the benefits of robust regulation become especially evident. Recognizing these critical moments is key to maximizing the success of implementation.



Changes in ownership and financing structure: significant changes in shareholding composition or financing structure frequently demand an immediate update of the Audit Committee Rules of Procedure:

TYPE OF CHANGE	IMPLICATIONS FOR THE RULES OF PROCEDURE
INSTITUTIONAL INVESTOR FUNDING	Greater rigor in financial supervision, specific reporting requirements, high ESG standards.
DEBT OR BOND ISSUANCE PROCESS	Strengthening of internal controls, greater transparency in financial reporting, compliance with contractual requirements (covenants).
PREPARATION FOR STOCK MARKET OPENING	Compliance with stock market regulations, independent majority committee, robust audit procedures.
MERGER OR ACQUISITION	Integration of control systems, harmonization of accounting policies, due diligence supervision.
FINANCIAL RESTRUCTURING	Greater scrutiny on cash flows, supervision of compliance with creditors, monitoring of critical indicators.



Example:

A medium-sized company that receives IDB Invest funding typically has between 6 and 12 months to raise its audit and internal control standards to the expected level. The Audit Committee Rules of Procedure become a critical tool to demonstrate this commitment.



Crises or adverse events: paradoxically, crisis situations can be powerful catalysts to strengthen the Audit Committee:

- **Fraud or accounting irregularities:** opportunity to prepare independent investigation protocols, create reporting channels, increase frequency of meetings.

- **Failures in internal controls:** preparation for the comprehensive review of control systems, and direct supervision of remediation.
- **Problems with external auditor:** Create clear procedures for a change of auditor, reinforced independence criteria.
- **Liquidity crisis:** Establishment of intensified cash flow monitoring, revision of financial projections.
- **Reputational scandal:** Approval of communication protocols with stakeholders, and supervision of crisis management.



Regulatory and legislative changes: The constantly evolving regulatory framework creates specific requirements for updating the Rules of Procedure:

- **New corporate or capital market legislation:** Mandatory compliance with deadlines set by the regulatory authority.
- **Changes in accounting standards (IFRS):** Adaptation of accounting review and supervision procedures.
- **Sector-specific regulation:** Banks, insurers face particular requirements.
- **International standards:** Adoption of OECD principles, IDB Invest standards, IFC, CAF, or sustainability requirements.
- **Anti-laundering and anti-corruption regulations:** Strengthening of compliance supervision procedures.



Organizational evolution and growth: Certain milestones in business development naturally require changes to the Rules of Procedure:

- **International expansion:** need to monitor multi-jurisdictional compliance and currency risks.
- **Launch of new business lines:** adaptation of controls to new risks.
- **Digital transformation:** incorporation of cybersecurity and technological risk supervision.
- **Accelerated growth:** formalization of processes to tackle greater operational complexity.
- **Professionalization of family business:** transition to institutional auditing practices.



Review and update cycle:

The Audit Committee's Rules of Procedure must be maintained as an evolving document that develops along with the organization:

Mandatory annual review

- **When:** Preferably in the last quarter of the fiscal year, allowing any changes to take effect with the new fiscal year.
- **Who:** Led by the Chair of the Committee with the participation of all members.
- **What to review:** Alignment with regulatory changes of the year, effectiveness of current procedures, incorporation of lessons learned, updating of best market practices, and adjustments for changes in organizational structure.

Thorough Three-Year Review

- **Scope:** Comprehensive evaluation with external benchmarking.
- **Methodology:** Consider hiring a specialized independent consultant.
- **Result:** Strategic rethinking of the role and functioning of the Committee.

5. COMMON OBSTACLES AND WARNING SIGNS

The difference between a regulation that effectively strengthens corporate governance and one that exists only as a formality lies in the ability to anticipate and overcome specific obstacles related to the development, approval, and implementation of the document.

Warning signs of poor implementation of the Rules of Procedure



Problems in the document development phase: the first set of challenges arises during the process of creating the Rules. An early sign of problems is when **the development of the Rules is completely delegated to external legal advisors** without active participation of the Board of Directors or when an attempt is made **to prepare the document without having formally constituted the Committee**. This initial disconnect between those who draft the regulation and those who must implement it generates technically correct but operationally unfeasible documents.

The absence of a participatory drafting process is another critical issue. When the regulation is developed in isolation, without consulting the future members of the Committee or internal and external auditors, or without considering the operational context of the company, the result is a document that does not reflect real supervision needs. Particularly concerning is when the internal audit area is not involved in the drafting process, as they are the ones who will have continual interaction with the Committee, as established by the Rules.

The problem of “regulatory copy-paste” represents one of the most common challenges. Companies frequently **copy regulations from other organizations without adapting them to their specific context**. A regulation designed for a publicly traded company with multiple international subsidiaries will be completely unsuitable for a medium-sized family business in the process of institutionalization. This lack of personalization is highlighted when the Rules of Procedure include references to regulations that do not apply to the company, mentions non-existent organizational structures, or establishes procedures that are impossible to comply with given the available resources.



The trap of excessive legalese

A frequent trap is to write the Rules in a legal language so complex that it is incomprehensible to its main users. When the document is full of cross-references to articles of law, legal Latinisms and complex grammatical constructions, Committee members – who are often not lawyers – cannot fully understand their responsibilities and powers. This language barrier transforms the regulation into an intimidating document that leads to more confusion than clarity, causing Committee members to ignore it in practice and operate based on their personal interpretation of good practices.



Challenges in approval and legitimacy: the Rules approval process faces particular challenges when **there is no clarity on the required approval hierarchy**. Although the Board of Directors must approve the Rules of Procedure of the Audit Committee, confusion often arises as to whether the Shareholders' Meeting should also ratify them, especially when the bylaws do not specifically provide for the existence of committees. This ambiguity can result in regulations with questionable legal validity, compromising the authority of the Committee from its inception.

The Board of Directors' reluctance to delegate actual authority to the Committee represents another significant obstacle. Some Boards pass **regulations that in theory give broad powers to the Committee, but in practice keep all important decisions centralized**. This phenomenon is highlighted when the Rules of Procedure state that the Committee will “recommend” rather than “approve,” or when each action of the Committee requires subsequent ratification by the full Board, diluting its effectiveness and leading to the duplication of work.

Typical drafting and execution problems



Overdesign versus underdesign: The overdesign of the Rules manifests when **the document attempts to comprehensively cover every single possible scenario**, resulting in a text of 50 or more pages full of detailed procedures that paralyze the operations of the Committee. This maximalist approach typically includes complex decision matrices for each type of transaction, lengthy forms that require hours of preparation, and procedures so detailed that any minor deviation constitutes a default. The result is a regulation that generates more bureaucracy than added value, discouraging the effective participation of directors and creating a culture of formal compliance rather than substantive oversight.

On the other side of the coin, underdesign produces **regulations so generic that they do not provide real guidance for the operation of the Committee**. A two-page Rules of Procedure document that simply states that “the Committee shall oversee the audit function” without defining what it means to oversee, how this oversight is carried out, or what tools the Committee has at its

disposal to do so, is equally futile. This excessive simplicity leaves too much room for interpretation and can result in a Committee that does not clearly understand its mandate or lacks the necessary tools to fulfil it.

The optimal balance requires a regulation that clearly states the fundamental elements – composition, responsibilities, authority, key processes – while maintaining enough flexibility to adapt to changing circumstances. The document should be specific enough to provide clear direction, but not so detailed as to become an operational straitjacket.



Deficiencies in content and structure: failure to define critical elements in the Rules of Procedure is a fundamental problem that ultimately compromises its effectiveness. When the document **does not clearly establish the minimum composition of the Committee, the requirements of independence and financial expertise of its members, or the minimum frequency of meetings**, this leads to ambiguities that generate interpretative conflicts. When there is no definition for what constitutes “relevant financial experience” or what “independence” means in the specific context of the company, this leaves room for interpretations that may compromise the effectiveness of the Committee.

A Rules document that **does not clearly establish reporting and communication lines** leads to organizational confusion. If the document does not specify that the internal audit must have a direct reporting line to the Committee, or does not establish the right of the Committee to meet without the presence of management, this compromises the fundamental independence of the oversight function. Equally problematic is when the Rules of Procedure **do not define the process for the hiring, evaluation, and potential dismissal of the external auditor**, leaving these critical decisions without a clear regulatory framework.

An absence of updating mechanisms in the Rules of Procedure represents a further significant challenge. A document that **does not contain provision for its own review and update process** quickly becomes obsolete in the face of regulatory changes, business development, or lessons learned through practice. The Rules should clearly state who can propose amendments, how these proposals are evaluated and approved, and how often the entire document should be reviewed.

What-if scenarios

“What if there is a conflict between the Committee's Rules of Procedure and the bylaws?”



Situation: After months of implementation, the legal advisor identifies that the regulations of the Audit Committee grant powers that contradict the provisions of the company's bylaws, particularly in relation to the hiring of the external auditor.

Implications of the conflict: The legal validity of the Rules of Procedure is questioned, the decisions made by the Committee under these powers can be questioned, and uncertainty arises about the real authority of the Committee. External auditors may question the validity of their role, and regulators may identify deficiencies in corporate governance.

Appropriate Resolution: The Board should act immediately to resolve the inconsistency. If the bylaws are highly restrictive, an Extraordinary Meeting must be called to modify them and align them with the best practices of corporate governance. In the meantime, the Committee must operate within the limits established by the bylaws, clearly documenting the limitations identified. The bylaws should be temporarily amended to remove inconsistencies, with a clear plan to restore full powers once the bylaws are amended.



"What if the Rules of Procedure do not provide for virtual meetings?"

Situation: Committee members often have difficulty meeting in person, or a health crisis or extraordinary event prevents face-to-face Committee meetings, but the Rules of Procedure only provide for physical meetings and require face-to-face unanimity for critical decisions.

Operational Challenge: The Committee cannot meet legally under its own Rules of Procedure, oversight of the audit function is paralyzed at a critical time, and there is no legal basis to make decisions remotely. This paralysis occurs precisely when the Committee's oversight is most needed due to the increased risks during the crisis.

Necessary adaptation: The Board must approve an urgent modification to the Rules of Procedure allowing virtual meetings with the same powers as those in person. The new text should specify acceptable technological means, security and confidentiality requirements, the quorum verification and voting process, and mechanisms for documenting virtual sessions. This



Main challenges of the functioning of the Committee

The effective functioning of the Audit Committee faces three main challenges. Firstly, the **challenges of independence and competence:** personal relationships can affect the objectivity of members and it is difficult to maintain constant technical updates in the face of growing financial and regulatory complexity. Secondly are the **challenges of resources and support,** given that the administration can limit access to information or hinder the work of the Committee, while the time available for its members is often insufficient for thorough preparation. Finally, **challenges relating to the organizational culture** can hinder its performance in contexts where questioning decisions is not well received (for example, family businesses) or where the Committee is perceived as a controlling entity rather than as an ally of good governance.

modification must not only provide for emergencies but also facilitate the attendance of independent members.



“What if there is a disagreement about the interpretation of the Rules of Procedure?”

Situation: The CEO, CFO, or the whole Board argue that, according to their interpretation of the Rules of Procedure, certain issues do not need to be presented to the Audit Committee, while the Committee interprets that they should be reviewed.

Conflict of Interpretation: A dispute arises as to the actual extent of the Committee's responsibilities under the Rules of Procedure. Ambiguity in wording allows for multiple valid interpretations, and there is no clear mechanism for resolving interpretive disputes set forth in the document.

Resolution mechanism: The Rules must be clarified through a formal interpretation by the Board of Directors that establishes the precedent for future cases. The clarification must be documented as an interpretative annex to the Rules of Procedure. The document should then undergo a comprehensive review to identify and eliminate other potential ambiguities. The updated Rules should include a specific process for resolving future interpretative disputes, possibly involving binding external legal opinion.

Key differences between the Audit Committee and Audit Bodies

The Audit Committee and the Statutory Auditors/Audit Committee/Fiscal Board/Fiscal Auditors are not interchangeable or redundant bodies. The first is a management body that advises the Board with a preventive and technical approach. The second is an independent supervisory body that protects the interests of shareholders with a focus on verification and compliance. Both strengthen corporate governance from complementary perspectives, and their effective coordination generates positive synergies for the organization.

Characteristics	Audit Committee	Statutory Auditors/Audit Commission/Fiscal Board/Fiscal Auditors
Nature	Support and advice to the Board, which elects it.	Independent supervisory body, external to the administration, appointed by the Assembly.
Focus	Active, preventive, and prospective. Contributes to strategic decisions.	Reactive and verification activities. Report errors, fraud, or non-compliance.
Composition	Preferably independent Board members.	Composition defined by law: Requirements of suitability and technical specialization defined.
Frequency	Frequently scheduled meetings.	Concentrated engagement at key moments.

8. ANNEXES AND RESOURCES

Glossary of Terms

Below, we present a comprehensive glossary of terms used in this document, including the terminological variations across major Latin American and Caribbean countries.

Term used	Meaning	Variations by country/region
Senior Management (Alta Gerencia)	A group of top-level executives who report directly to the General Manager or CEO, including vice presidents and executives in key areas.	Argentina: Gerencia Superior, Gerencia. Chile: Plana Ejecutiva. Brazil: Alta Administração, Diretoria Executiva. Anglicism: Management.
Annual General Meeting (Asamblea General de Accionistas)	A company's highest governing body, where shareholders exercise their rights and make key decisions.	Brazil: Assembleia Geral de Acionistas. Peru, Ecuador: Junta General de Accionistas.
External Audit (Auditoría Externa)	Professional or independent firm hired to examine and issue an opinion on the financial statements of the company, verifying that they reasonably reflect the financial situation in accordance with the applicable accounting standards.	Also: Auditor Independiente, Firma de Auditoría.
Internal Auditing (Auditoría Interna)	Independent and objective assurance and consultation, designed to add value and improve the operations of an organization, helping it to meet its objectives by evaluating and improving the effectiveness of risk management, control, and corporate governance processes.	Accepted Anglicism: Internal Audit.
C-Level/C-Suite	Senior executives whose titles begin with "Chief" (CEO, CFO, COO, etc.).	English-language term adopted with increasing frequency in Spanish. Local alternatives: Primer nivel ejecutivo, Plana gerencial.
CEO (Chief Executive Officer)	A company's highest executive authority, responsible for day-to-day management.	This Anglicism is widely accepted. Mexico: Director General. Argentina: Gerente General. Colombia: Presidente Ejecutivo, Presidente (en empresas grandes). Brazil: Diretor Geral, Diretor Presidente.
Conflict of Interest (Conflicto de Interés)	Situation in which personal interests may interfere with the interests of the company.	Used consistently in all countries.
Independent Director (Consejero Independiente)	Board member with no material relationship to the company, management, or controlling shareholders.	Used widely in the region. Chile: Director Externo Independiente.
Board of Directors (Consejo de Administración)	Collegiate body chosen by the shareholders to oversee company management.	Argentina, Chile: Directorio, Junta Directiva. Colombia, Venezuela: Junta Directiva. Perú: Directorio. Brazil: Conselho de Administração.

Term used	Meaning	Variations by country/region
Internal Control (Control Interno)	Process designed and implemented by the Board of Directors, management, and other personnel to provide reasonable assurance about the achievement of objectives related to operations, financial reporting, and compliance with laws and regulations.	Technical variant: Sistema de Control Interno.
Financial Statements (Estados Financieros)	Structured accounting reports that present an entity's financial position, performance, and cash flows over a given period, typically including the balance sheet, income statement, cash flow statement, and explanatory notes.	Argentina/Chile: Estados Contables, Estados Financieros. Brazil: Demonstrações Financeiras. Anglicism: Financial Statements.
Corporate Governance (Gobierno Corporativo)	Framework used to direct and control a company.	Brazil: Governança Corporativa. Academic variant: Gobernanza Empresarial, Gobernanza Corporativa.
Audit Findings (Hallazgos de Auditoría)	Deficiencies, weaknesses, or areas for improvement identified by auditors (internal or external) during their reviews that require the attention of the administration and follow-up by the Audit Committee.	Argentina/Chile: Observaciones de Auditoría, Hallazgos. Brazil: Achados de Auditoria. Also: Recomendaciones de auditoría.
Induction (Inducción)	Orientation program for new Board members coordinated by the Secretary.	Brazil: Onboarding de Conselheiros. Mexico: Programa de integración. Argentina/Chile: Capacitación inicial.
KPI (Key Performance Indicators)	Critical performance metrics used to measure progress toward objectives.	This Anglicism is widely accepted. Alternatives: Indicadores clave de gestión, Métricas de desempeño.
Materiality (Materialidad)	Magnitude of an omission or inaccuracy of financial information that, individually or in the aggregate, could influence the economic decisions that users make based on the financial statements.	Mexico: Importancia Relativa, Materialidad. Argentina/Chile: Significación, Importancia Relativa. Brazil: Materialidade, Relevância. Technical Anglicism: Materiality
Minutes (Minuta)	Formal document that records what was discussed and decided at a Board meeting. Also known as "Acta".	Brazil: Ata. Mexico: Minuta. Argentina/Chile: Acta de sesión. Colombia: Acta de reunión.
IFRS (NIIF)	International Financial Reporting Standards: A set of accounting standards issued by the International Accounting Standards Board (IASB) that specify how financial statements should be prepared and presented, adopted in most Latin American and Caribbean countries.	English: IFRS (International Financial Reporting Standards). Brazil: IFRS (pronounced in English), although Normas Internacionais is also used. Also: Normas contables internacionales.
Board Chair (Presidente del Consejo de administración)	The person who presides over and leads Board meetings.	Argentina, Chile: Presidente del Directorio. Colombia: Presidente de la Junta. Brazil: Presidente do Conselho.
Corporate Secretariat (Secretaría Corporativa)	Role of the specialized professional responsible for ensuring the proper functioning of corporate governance, serving as a liaison between the Board, management, and shareholders.	Brazil: Secretário do Conselho/Secretário de Governança Mexico: Secretario del Consejo. Chile/Argentina: Secretario del Directorio. Colombia: Secretario de la Junta.
Stakeholders	All parties affected by the company.	This Anglicism is widely accepted. Alternatives: Grupos de interés, Partes interesadas

Term used	Meaning	Variations by country/region
<p>Three Lines of Defense (Model of) (Tres Líneas de Defensa (Modelo de))</p>	<p>Risk management framework where: (1) the first line is operational management that identifies and manages risks; (2) the second line includes oversight functions such as risk management and compliance; and (3) the third line is internal auditing that provides independent assurance.</p>	<p>Spanish: Tres Líneas de Defensa, Modelo de Tres Líneas. Brazil: Três Linhas de Defesa. English (widely used): Three Lines Model. Note: In 2020, the IIA updated the name to “Three Lines Model” (removing “of Defense”).</p>

Annex I: Definition of Independent Director (IDB Invest)

An independent director is a Board member who does not hold a material interest in the company, any of its shareholders, or respective affiliates (whether directly or as a partner, shareholder, director, or senior management employee of a person holding such an interest):

- a) is not, and has not been over the last three years, an employee of the company or its affiliates;
- b) does not have, and has not had over the last three years, any business relationship with the company or its affiliates, either directly or indirectly (for example, as a consultant, supplier, or client). Nor are they a director or senior management employee of a person/entity that has or has had such a relationship;
- c) is not affiliated with nor a contributor to any non-profit organization that receives significant funding from the company or its affiliates;
- d) does not receive and has not received in the past three years, any additional remuneration from the company or its affiliates other than their director's fee, and such director's fee does not constitute a significant portion of their annual income;
- e) is not a senior management employee of another company whose board includes any member of the company's senior management;;
- f) is not, and has not at any time during the last three years, been affiliated with or employed by a current or former auditor of the company or any of its affiliates;
- g) holds no material interest in the company or its affiliates;
- h) is not an immediate family member of anyone who fails to meet any of the criteria set out in (a) through (h);
- i) is identified in the company's annual report, distributed to its shareholders, as an independent director; and
- j) has not served on the board for over ten years.

A person shall be deemed to be "affiliated" with an entity if such person (i) has a direct or indirect ownership interest in; or (ii) is employed by such entity. "Material interest" shall mean direct or indirect ownership of voting shares representing at least 2% of the outstanding voting power or equity of the company or any of its affiliates.

Annex II: Audit Committee Financial Expert Profile

According to international best practices and the G20/OECD Principles of Corporate Governance, at least one member of the Audit Committee must qualify as a “financial expert”. This Annex suggests some of the criteria for identifying and evaluating candidates who meet this critical requirement. It is up to the company to define the profile if it is not detailed by local regulation.

Definition of Financial Expert

A financial expert of the Audit Committee is a person who, through education and relevant professional experience, has acquired specialized knowledge and skills in accounting, auditing, corporate finance, and financial reporting, which allow him/her to have a thorough understanding of:

- The complexity of the accounting and financial reporting principles applicable to the company.
- The preparation, audit, analysis, and evaluation of financial statements comparable in scope and complexity to those of the company.
- Internal controls over financial reporting.
- The functions of the Audit Committee in financial supervision.

Minimum Academic Qualifications

Basic training (at least one of the following):

- University degree in Accounting, Auditing, Finance, or Business Administration with emphasis on finance.
- Postgraduate degree (Master's or MBA) with a focus on finance.
- Equivalent training demonstrable through extensive professional experience.

Relevant professional certifications (desirable):

- Certified Public Accountant (CPA) or local equivalent.
- Certified Internal Auditor (CIA).
- Certification in Risk Management (CRMA, FRM).
- Certified Financial Analyst (CFA).
- Certification in Corporate Governance (ICGN, IBGC, ICGC, etc.).

Professional Experience Required

Minimum experience: 10 years of relevant professional experience, which may include:

Profile 1: Accounting/Auditing Experience

- Minimum 5 years in external audit leadership positions in a recognized firm (Big Four or prestigious regional), or
- minimum 5 years as a Director/Financial Manager (CFO/Controller) in a company of comparable complexity, or
- minimum 5 years as Director of Internal Audit in a medium or large organization.
- Responsibilities exercised: Supervision of preparation or audit of financial statements, management of accounting/audit teams, interaction with Audit Committees.

Profile 2: Executive Financial Experience

- Minimum 8 years as CFO, VP of Finance or Controller in medium/large company, or
- minimum 8 years in investment banking, financial analysis, or financial risk management in recognized institutions.
- Exercised responsibilities: Preparation of audited financial statements, management of relationships with external auditors, presentation to investors/Board.

Profile 3: Regulatory/Academic Experience

- Minimum 10 years in securities market regulatory bodies or financial superintendencies in areas of accounting supervision/auditing, or
- minimum 10 years as a university professor of financial accounting, auditing, or corporate finance at postgraduate level.
- Exercised responsibilities: Review of financial statements, evaluation of accounting regulatory compliance, published academic research.

Specific Technical Knowledge Required

Accounting and Financial Reporting

- Mastery of IFRS or applicable local accounting principles (US GAAP if relevant).
- Understanding of critical accounting policies and significant estimates.
- Ability to analyze and interpret complex financial statements (consolidations, financial instruments, derivatives).
- Knowledge of disclosure requirements and presentation of financial information.

Auditing

- Understanding of auditing standards (ISA - International Standards on Auditing or local equivalents).
- Knowledge of the external audit process: planning, execution, reporting.
- Understanding of concepts of materiality, audit risk, and evidence.
- Ability to evaluate the quality and independence of the auditor's work.

Internal Control

- Knowledge of the COSO internal control framework.
- Understanding of internal controls over financial reporting (ICFR).
- Ability to identify material weaknesses and significant deficiencies.
- Experience in evaluating the effectiveness of control systems.

Financial Risk Management

- Identification and assessment of financial and accounting risks.
- Understanding of fraud risks and preventive/detective controls.
- Knowledge of early warning indicators (red flags).

Desirable Personal Competencies

- Critical Thinking: Ability to constructively question and analyze complex information.
- Effective communication: Ability to explain technical issues to non-specialist audiences.
- Integrity and ethics: Impeccable professional reputation and commitment to the highest ethical standards.
- Independence of criteria: Ability to maintain objectivity under pressure.
- Continuous learning: Commitment to constant updating on accounting regulations and best practices.

Disqualification Criteria

The following may not serve as the Committee's financial expert:

- Persons sanctioned by regulators for accounting, financial, or audit irregularities.
- Former partners of the Company's external audit firm during the "cooling off" period (typically 2-3 years).
- People with material conflicts of interest that compromise their independence.
- Individuals who do not meet the independence requirements established for the Committee.

Commitment to Continuous Updating

The Committee's financial expert must commit to:

- Participating in at least 12 hours of training a year in accounting, auditing, or corporate governance.
- Keeping up to date on changes in applicable accounting standards (IFRS).
- Attending relevant specialist conferences or seminars.
- Maintaining current professional certifications (if applicable).

Annex III: Model agenda for Audit Committee meeting

Company: [Company Name]
Meeting No.: [##/yyyy] – [Ordinary / Extraordinary]
Date: [Month, DD of YYYY]
Time: [HH:MM] – [HH:MM] (estimated duration: [X] hours)
Location: [Boardroom / Videoconference]

Committee Members:

[Name], Committee Chair Confirmed Absent with apologies
[Name], Member Confirmed Absent with apologies
[Name], Member Confirmed Absent with apologies

Guests:

[Name, CFO] – Topics 1-6
[Name, Director of Internal Audit] – Topics 1-5
[Name, External Audit Partner, Firm XYZ] – Topics 1, 7-8
[Name, External Audit Manager] – Topics 1, 7-8
[Name, Corporate Secretary] – All

INITIAL EXECUTIVE SESSION (Committee Members Only)

Duration: 15 minutes | Time: [HH:MM - HH:MM]

1. Opening of the meeting

- Verification of quorum.
- Declaration of conflicts of interest (if any).
- Decision: Formal approval of the proposed agenda.

2. Previous confidential topics

- Follow-up to confidential topics from previous meeting.
- Issues that require prior discussion among members.
- Preparation for the session with management and auditors.

Decision: None. Enter: CFO, Director of Internal Audit, External Auditors, Secretary

PLENARY SESSION (With Management and Auditors)

Duration: 2 hours 30 minutes | Time: [HH:MM - HH:MM]

FORMAL MATTERS: Duration: 10 minutes

3. Approval of minutes of previous meeting

- Review of minutes of [previous meeting date].
- Corrections or clarifications (if any).

Decision: Approval of minutes [ID##]

4. Follow-up on pending actions

- Review of matrix of actions agreed in previous meetings.
- Status report by managers.
- Identification of actions that require more time or escalation.

Documents: Meeting Minutes [date] (sent [date]), Action Tracking Matrix (sent [date]).

FINANCIAL AND ACCOUNTING INFORMATION: Duration: 40 minutes

5. Presentation of financial statements [period]. Person responsible: CFO

a) Executive summary of financial results

- Revenue, EBITDA, net income vs. budget and prior year.
- Main variations and explanations.
- Relevant key performance metrics (KPIs).

b) Balance sheet and cash flow review

- Evolution of assets, liabilities, and equity.
- Liquidity position and compliance with financial *covenants*.
- Cash flow projection for the next 6-12 months.

c) Significant accounting policies and estimates

- Changes in accounting policies (if applicable) and justification.
- Critical accounting estimates: provisions, impairment, valuations.
- Significant judgments exercised in the preparation of financial statements.

d) Disclosures and Notes to the Financial Statements

- Adequacy of risk disclosures, transactions with related parties.
- Contingencies and material commitments.
- Events after the end of the period

Committee questions and discussion

[Add questions and discussion summary]

Documents: Financial statements [period] (sent [date]), Analysis of budget vs. actual variations (sent [date]), Explanatory notes on accounting estimates (sent [date])

Expected decision: Recommendation to the Board on [approval /disclosure] of financial statements [period].

EXTERNAL AUDIT: Duration: 30 minutes

6. External audit progress report [period]. Person responsible: External Audit Partner.

a) Audit status

- Progress vs. approved audit plan.
- Focus areas and hours invested per area.
- Estimated date of completion and issuance of opinion.

b) Preliminary findings (if applicable)

- Proposed adjustments and resulting impact on financial statements.
- Suggested accounting reclassifications.
- Audit differences (pass adjustments) with justification.

c) Complex accounting issues or significant judgments

- Discussion of alternative accounting treatments considered.
- Final thoughts of the auditor and technical rationale.
- Disagreements with management (if any) and their resolution.

d) Weaknesses identified in internal control

- Significant deficiencies or material weaknesses (if any).
- Preliminary recommendations for remediation.
- Minor observations on process improvements.

e) Evaluation of the cooperation of the finance team

- Quality and opportunity of information provided.
- Access to necessary documentation and personnel.
- Challenges encountered during the audit (if any).

Committee questions and discussion

[Add questions and discussion summary]

Documents: Audit Plan [period] (reference), Audit Progress Report (submitted [date]), Draft Management Letter (if available)

Expected decision: [None at this time. Follow up at next meeting.]

INTERNAL AUDIT: Duration: 35 minutes

7. Report of internal audit activities [period]. Person responsible: Director of Internal Audit

a) Execution of the annual audit plan

- Completed audits vs. approved annual plan.
- Justification of deviations from the plan (if any).
- Audits in progress and upcoming scheduled audits.

b) Completed audit findings and recommendations

- Summary of critical and high-risk findings.
- Audited areas: [list, e.g. Accounts Receivable, Inventories, Purchases].
- Recommendations issued with implementation deadlines.

c) Follow-up of previous findings

- Status of implementation of previous recommendations.
- Recurring or slow remediation findings.
- Escalation of unresolved findings (if applicable).

d) Assessment of the control environment

- Observations on the culture of control in the organization.
- Tone from above and its impact on controls.
- Identified emerging risks.

e) Internal audit resources and budget

- Adequacy of resources (personnel, tools, budget).
- Team training needs.
- Proposals for investment in audit technology (if applicable).

Committee questions and discussion

[Add questions and discussion summary]

Documents: Annual Internal Audit Plan [year] (baseline), Quarterly Internal Audit Report (submitted [date]), Findings Tracking Matrix (submitted [date]), Completed Audit Reports [list] (submitted [date])

Expected decision:

- Approval of modifications to the audit plan (if proposed).
- Instructions on critical findings that require escalation.

RISK AND COMPLIANCE MANAGEMENT: Duration: 25 minutes

8. Update on financial and accounting risk management. Person responsible: CFO/Risk Manager (if position exists)

a) Financial risk map

- Main financial risks identified: credit, liquidity, market, operational
- Changes in risk profile vs. previous assessment
- Emerging risks (e.g. regulatory, macroeconomic changes)

b) Risk indicators (KRIs)

- Risk monitoring metrics and their evolution
- Alerts or limits exceeded (if any)
- Analysis of trends and projections

c) Mitigation actions implemented

- Additional controls implemented
- Updated contingency plans
- Risk transfer (insurance, coverages)

Committee questions and discussion

[Add questions and discussion summary]

9. Regulatory Compliance Report. Person responsible: CFO/Compliance Officer (if the role exists)

a) Regulatory compliance status

- Compliance with applicable regulations: stock market, tax, labor, environmental (according to relevance)
- Inspections or audits of regulators (if any)
- Fines, penalties, or observation letters received (if any)

b) Regulatory changes on the horizon

- New laws or regulations that will impact the company
- Adaptation plan and necessary resources
- Risks of non-compliance and their potential impact

c) Update on whistleblowing channel

- Complaints received in the period (number and categories)
- Status of ongoing investigations
- Closed cases and actions taken (no whistleblowers identified)
- Channel effectiveness: communication, accessibility

Committee questions and discussion

[Add questions and discussion summary]

Documents: Updated Financial Risk Map (submitted [date])

KRIs Dashboard (submitted [date])

Compliance report [period] (submitted [date])

Reporting channel statistics (submitted [date])

Expected decision:

- Risk appetite validation
- Instructions on risks that require special attention

[OTHER MATTERS: Duration: 10 minutes]

10. Other topics relevant to the Committee

a) Update on special projects

[Example: Implementation of new IFRS]

[Example: ERP system upgrade]

[Example: Due diligence for acquisition]

b) Training for the Committee

- Proposed training session on [topic]
 - Upcoming relevant conferences or seminars
- c) Review of Committee Rules of Procedure (if applicable)
- Proposals for amendment
 - Annual review schedule
11. Miscellaneous items and closure of plenary session
- Confirmation of the date of the next meeting
 - Other matters members wish to address

Departure: CFO, Internal Audit Director, Secretary. Remaining: Committee Members + External Auditors

EXECUTIVE SESSION WITH EXTERNAL AUDITORS (without management)

Duration: 20 minutes | Time: [HH:MM - HH:MM]

12. Confidential discussion with external auditors

a) Evaluation of management cooperation

- [Were there limitations to the scope of the audit?
- Was management transparent and cooperative?
- Was there resistance to recommendations or adjustments?]

b) Financial integrity concerns

- [Are there any concerns about management integrity?
- Were risks of fraud or irregularities identified?
- Is the management's accounting judgment of appropriate quality?]

c) Assessment of the control environment

- Observations on culture of control and ethics
- Tone from above: Senior Management's Commitment to Controls
- Systemic weaknesses in internal control (if any)

d) Auditor independence

- Confirmation that there are no threats to independence
- Discussion of non-audit services (if provided)
- Any undue pressure from management (if any)

e) Other issues that auditors consider important to communicate to the Committee

f) Feedback from the Committee to the auditors

- Preliminary auditor performance assessment
- Areas where the Committee expects improvement
- Recognition of observed good practices

Departure: External auditors. Remaining: Committee members only

FINAL EXECUTIVE SESSION (Committee Members Only)

Duration: 20 minutes | Time: [HH:MM - HH:MM]

13. Discussion among Committee members

a) Evaluation of the information received

- Quality, completeness, and timeliness of information

- Areas where additional information or more detail is required
- Credibility of management explanations

b) Identification of issues of concern or follow-up

- Matters that require special attention from the Committee
- Risks to be escalated to the Board
- Need for additional investigations or special audits

c) Dynamics assessment with management and auditors

- [Is Management being transparent and proactive?
- Are auditors exercising enough professional skepticism?
- Are there tensions that the Committee should handle?]

d) Coordination with the Board of Directors

- Issues to be reported to the Board by the Committee Chair
- Recommendations or decisions requiring Board approval
- Preparation of the Committee report for next Board meeting

14. Agreed actions and next steps

- Summary of decisions made at this meeting
- Assignment of responsible parties and deadlines for agreed actions
- Topics to include in the agenda for the next meeting

15. Formal closing of the meeting

Closing time: [HH:MM]

[Signature of the Chair of the Committee]

Annex IV: Audit Committee Responsibilities Matrix

This matrix clarifies the responsibilities of the Audit Committee in relation to other corporate governance bodies, ensuring that there are no gaps or duplications. The matrix is organized by functional area and clearly indicates who leads, who supports/advises, and who should be informed. **Each company must develop its own matrix in accordance with the regulations approved by the Board.**

Legend:

R = Responsible/Lead: Has primary responsibility and decision authority

A = Approve/Authorize: Decision must be approved before implementation

C = Consultation/Advisor: Must be consulted prior to decision to provide expert input

I = Informed: Must be informed after the decision is made

1. FINANCIAL INFORMATION

Role/Activity	Audit Committee	Board of Directors	Management (CEO/CFO)	External Auditor	Internal Auditor	Shareholders
Preparation of the financial statements	C	I	R	C	C	-
Review of financial statements prior to publication	R	A	C	C	I	-
Approval of annual and quarterly financial statements	C	R	I	-	-	A
Evaluation of critical accounting policies	R	I	C	C	I	-
Review of significant changes in accounting policies	R	A	C	C	C	I
Analysis of significant accounting estimates and judgments	R	I	C	C	C	-
Review of unusual or complex transactions	R	I	C	C	C	-
Assessment of significant adjustments resulting from audit findings	R	C	C	R	I	-
Review of public financial disclosures	R	A	C	C	I	I
Monitoring of press releases on financial results	R	A	C	-	-	I
Evaluation of the clarity and completeness of financial disclosure.	R	I	C	C	I	-

2. INTERNAL CONTROL AND RISK MANAGEMENT

Role/Activity	Audit Committee	Board of Directors	Management (CEO/CFO)	External Auditor	Internal Auditor	Shareholders
Design and implementation of the internal control system	C	I	R	C	C	-
Monitoring the effectiveness of the internal control system	R	A	C	C	R	-
Identification of significant deficiencies in controls	C	I	C	R	R	-
Review of material weaknesses identified	R	I	C	C	R	-
Oversight of deficiency remediation plans	R	C	R	I	R	-
Evaluation of the internal control environment	R	I	C	C	R	-
Supervision of the financial risk identification process	R	C	R	-	R	-
Review of financial risk management policies	R	A	C	-	C	-
Assessment of significant exposures and mitigation measures	R	I	R	-	R	-
Monitoring of risks related to climate change and ESG criteria	R	C	R	-	R	-
Prevention and detection of corporate fraud	R	I	R	C	R	-
Review of fraud risk assessments	R	I	C	-	R	-
Overseeing significant fraud investigations	R	C	R	-	R	I

3. EXTERNAL AUDIT

Role/Activity	Audit Committee	Board of Directors	Management (CEO/CFO)	External Auditor	Internal Auditor	Shareholders
Selection and appointment of the external auditor	R	A	C	-	C	A
Evaluation of proposals from audit firms	R	C	I	-	C	-
Approval of fees and terms of the audit contract	R	A	C	-	-	-
Assessment of the external auditor's independence	R	C	I	R	-	-
Pre-approval of audit and non-audit services	R	I	I	I	-	-
Review of the annual audit plan	R	I	C	R	C	-
Monitoring of audit progress	R	I	C	R	I	-
Review of significant findings and recommendations	R	I	C	R	C	-

Evaluation of management's response to recommendations	R	I	R	C	C	-
Resolving disagreements between management and auditors	R	C	C	R	-	-
Overseeing senior partner turnover	R	I	I	R	-	-
Consideration of audit firm rotation	R	A	C	-	-	-
Formal annual evaluation of the external auditor	R	I	C	-	C	-

4. INTERNAL AUDIT

Role/Activity	Audit Committee	Board of Directors	Management (CEO/CFO)	External Auditor	Internal Auditor	Shareholders
Review and approval of the internal audit charter	R	A	C	-	C	-
Appointment of the Director of Internal Audit	R	A	C	-	-	-
Evaluation of the Director of Internal Audit	R	A	C	-	-	-
Dismissal of the Director of Internal Audit	R	A	I	-	-	-
Assessment of the internal audit organizational structure	R	C	C	-	C	-
Ensure adequacy of resources and budget	R	A	I	-	C	-
Approval of the annual internal audit plan	R	I	C	C	R	-
Review of significant audit reports	R	I	I	C	R	-
Monitoring the status of findings and recommendations	R	I	R	-	R	-
Evaluation of implementation of corrective actions	R	I	R	C	R	-
Confirmation of the independence of the internal audit function	R	C	I	-	C	-
Annual function performance review	R	C	C	C	I	-
Coordination between internal and external audit	R	I	C	C	R	-

5. COMPLIANCE AND ETHICS

Role/Activity	Audit Committee	Board of Directors	Management (CEO/CFO)	External Auditor	Internal Auditor	Shareholders
Revision of the Code of Ethics	R	A	C	-	C	I
Monitoring compliance with the code of ethics	R	I	R	-	R	-
Monitoring of code exceptions for executives	R	C	C	-	R	-
Establishment of a whistleblowing channel	R	A	C	-	C	-
Monitoring the operation of the whistleblowing channel	R	I	R	-	R	-
Review of periodic reports on complaints	R	I	R	-	R	-
Oversight of whistleblowing investigations	R	I	C	-	R	-
Protection against whistleblower retaliation	R	I	R	-	R	-
Review and approval of policies on related parties	R	A	C	-	C	-
Pre-approval of related party transactions	R	C	C	-	C	-
Monitoring compliance with laws and regulations	R	I	R	C	R	-
Review of communications from regulators	R	I	C	-	C	-
Oversight of responses to regulatory inspections	R	I	R	-	R	-

6. REPORTING AND COMMUNICATION

Role/Activity	Audit Committee	Board of Directors	Management (CEO/CFO)	External Auditor	Internal Auditor	Shareholders
Regular report to the Board on Committee activities	R	I	I	-	-	-
Immediate communication of critical matters	R	I	I	-	-	-
Preparation of annual report for shareholders	R	A	C	C	C	I
Presentation at the General Shareholders' Meeting	R	C	I	-	-	I
Oversight of communications with regulators	R	I	R	C	C	-
Ensure publication of the Committee's Rules of Procedure	R	A	I	-	-	I

7. CORPORATE GOVERNANCE AND SELF-ASSESSMENT

Role/Activity	Audit Committee	Board of Directors	Management (CEO/CFO)	External Auditor	Internal Auditor	Shareholders
Conducting of an annual self-assessment	R	I	-	-	C	-
Identification of areas for improvement	R	C	C	C	C	-
Development of improvement action plans	R	A	C	-	C	-
Annual Review of the Committee's Rules of Procedure	R	A	C	-	C	-
Coordination with other Board Committees	R	C	I	-	-	-
Ongoing training of Committee members	R	C	I	-	I	-
Contracting of external advisors	R	I	I	-	-	-

8. TECHNOLOGY AND EMERGING RISKS

Role/Activity	Audit Committee	Board of Directors	Management (CEO/CFO)	External Auditor	Internal Auditor	Shareholders
Oversight of IT controls related to financial reporting	R	I	C	C	R	-
Cybersecurity review in relation to financial information	R	I	R	-	R	-
Business continuity assessment for financial systems	R	I	R	-	R	-
Supervision of controls over critical suppliers	R	I	R	-	R	-
Review of information related to ESG criteria and sustainability	R	I	R	-	R	-

Authority: When the Committee is designated “R” (Responsible), it means that it leads the process, but strategic or high-impact decisions require approval from the Board (“A”), and decisions affecting shareholders require approval from the General Assembly (“A”).

Distinction of roles:

- Management: Responsible for implementation and daily operation.
- Audit Committee: Responsible for supervision and advice.
- Board: Responsible for approving strategic decisions.
- Shareholders: Responsible for fundamental decisions (appointment of auditors, approval of financial statements).

Annex V: External Auditor quality assessment criteria model

These criteria serve as a suggestion for the hiring, annual evaluation, and possible dismissal of the external auditor.

Each Audit Committee must develop its own criteria.

1. Quality of the Audit Team (Weight: 25%)

- Experience and knowledge of the lead member.
- Technical competence of the assigned team.
- Continuity of key personnel.
- Member availability and accessibility.

2. Knowledge of the Business and Industry (Weight: 15%)

- Understanding of operations and business model.
- Familiarity with sectoral risks.
- Knowledge of applicable regulation.

3. Quality of Communication (Weight: 15%)

- Clarity and thoroughness of presentations to the Committee.
- Proactivity in identifying and communicating risks.
- Accessibility for inquiries outside of formal auditing.
- Quality of written communication (letters, reports).

4. Independence and Objectivity (Weight: 20%)

- Is independence of fact and appearance maintained?
- Was the lead partner rotated according to schedule?
- Were non-audit services kept within limits?
- Were no former employees of the auditor hired for key roles without a cooling-off period?
- Was annual confirmation of independence received and satisfactory?

5. Deadline Compliance (Weight: 10%)

- Timely delivery of the audit plan.
- Compliance with work schedule.
- Delivery of final report within agreed timeframe.

6. Added Value of Recommendations (Weight: 10%)

- Relevance of observations on internal control.
- Practicality of suggested recommendations.
- Input on best practices in the sector.

7. Evaluation of Fees (Weight: 5%)

Quality-Price Ratio Analysis:

- Current Audit Fee: [USD \$_____]
- Additional service fees (prior year): [USD \$_____]
- Ratio of additional services/audit: [____%] (ideal: <30%)
- Variation vs. previous year: [+/- ____%]
- Benchmarking: [Within Range / Above / Below]

Key question: Are the fees appropriate given the scope, complexity, and quality of the service provided?

8. Consolidation of Results

Final grading:

- Excellent: Recommend renewal without comments.
- Satisfactory: Recommend renovation with identified areas for improvement.
- Requires improvement: Establish action plan with auditor; evaluate continuity in next cycle.
- Deficient: Initiate auditor change process.

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PSOJ, "Navigating Corporate Governance" (2024)

AUTHORIZATION:

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