

# **MID PENN BANK**

## **Audit Committee Charter**

**Last Date of Board Review/Approval:**

**11/28/18**

**Original Board Approval Date: 05/24/00**

**Person Responsible for Policy: Director of Internal Audit**

**Date Last Revised: 11/07/14**

## **PURPOSE**

The Audit Committee is appointed by the Board of Directors of Mid Penn Bancorp, Inc. (the “Company”) and serves the holding company and all subsidiaries. The primary function of the Audit Committee (the “Committee”) is to assist the Board of Directors in fulfilling its responsibilities with respect to internal controls, accounting policies, and auditing and financial reporting practices. The Audit Committee assists the Board of Directors in its oversight of:

- The integrity of the Company’s financial statements;
- Compliance with legal and regulatory requirements;
- The independent public accountants’ qualifications and independence; and
- The performance of the independent public accountants and the Company’s internal audit function.

## **COMPOSITION OF THE AUDIT COMMITTEE**

The Committee will be comprised of three or more directors as determined by the Board of Directors. The members of the Committee will satisfy the independence and financial literacy requirements of the National Association of Securities Dealers and Quotes listing standards, the Securities Exchange Act of 1934, and the rules and regulations of the Securities and Exchange Commission.

The Board of Directors will elect the members of the Committee annually at the organizational meeting and will elect one of the members of the Committee as Committee Chairperson. At least one member must be designated as the “Audit Committee Financial Expert,” thus meeting the qualifications and requirements set forth for the designation under Sarbanes-Oxley Section 407.

## **INDEPENDENT AUTHORITY OF THE AUDIT COMMITTEE AND DELEGATION**

The Committee is authorized to engage independent counsel and other advisors as the Committee determines necessary to carry out its duties, and the Company must provide appropriate funding, as the Committee determines necessary, to compensate the independent auditor and its advisors.

Any duties and responsibilities of the Committee, including, but not limited to, the authority to pre-approve all audit and permitted non-audit services, may be delegated to one or more members of the Committee or to a subcommittee of the Committee, as the Committee may deem appropriate in its sole discretion.

## **AUDIT COMMITTEE MEETINGS**

The Committee shall meet as often as it deems necessary, but not less frequently than four times per calendar year. Attendance by more than 50% of the membership shall constitute a quorum. The affirmative vote of a majority of the members of the Committee present will be required to approve any action of the Committee. Agendas shall be reviewed by the Committee Chairperson in advance.

Minutes of each meeting shall be kept and distributed to each member of the Committee to review and approve prior to the next regularly scheduled meeting. The Committee Chairperson will provide a report of the Committee’s activity to the full Board at its next regularly scheduled meeting.

## **RESPONSIBILITIES AND DUTIES OF THE AUDIT COMMITTEE**

1. Review and update this Charter, at least annually, or as conditions dictate.
2. Meet as often as necessary to fulfill its duties and responsibilities, but not less frequently than four times a year, normally once each quarter.
3. Meet separately and periodically with management, internal auditors (or other personnel or independent contractors responsible for the internal audit function), and with independent auditors.
4. Be directly responsible for the appointment, compensation, retention, and oversight of the work of any public accounting firm engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company. The independent auditor is required to report directly to the Audit Committee.
5. Be directly responsible for the oversight and guidance of the Internal Audit function, both in-house and, if applicable, outsourced, and review Internal Audit Reports and management's responses, as applicable.
6. Review the Company's annual audited financial statements, quarterly financial statements, and any reports or other financial information filed with the SEC, including any certification, report, opinion, or review rendered by the independent public accountants, with management and the independent public accountants, including "Management's Discussion and Analysis of Financial Condition and Results of Operations."
7. Review earnings press releases and financial information and earnings guidance provided to analysts and ratings agencies prior to filing.
8. Discuss with the independent auditors, internal audit, and management, as appropriate, any weaknesses or deficiencies that any of the foregoing have identified relating to financial reporting, internal controls, or other related matters and their proposals for rectifying such weaknesses or deficiencies.
9. Discuss with the independent auditors any audit problems or difficulties encountered during their engagement(s) and management's response to each.
10. Inquire as to the independence of the independent public accountants and obtain from the independent public accountants, at least annually, a formal written statement delineating all relationships between the independent public accountants and the Company as contemplated by the PCAOB Independence Rules.
11. Set clear hiring policies for employees or former employees of the independent auditors.
12. Review and discuss policies with respect to risk assessment and risk management.
13. Report to the Board regarding actions taken by and the activities and findings of the Committee, as well as any recommendations for action by the Board, as appropriate.

14. Make such other recommendations to the Board on such matters, within the scope of its function, as may come to its attention and which in its discretion warrant consideration by the Board.
15. Comply with all pre-approval requirements of Section 10A(i) of the Securities Exchange Act of 1934 and all SEC rules relating to the administration by the Audit Committee of the auditor engagement to the extent necessary to maintain the independence of the auditor.

### **AUDIT COMMITTEE RESPONSIBILITIES FOR THE HANDLING OF ACCOUNTING COMPLAINTS; PROTECTION OF “WHISTLEBLOWERS”**

The Committee has established and shall maintain procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

### **THE AUDIT COMMITTEE’S RELATIONSHIP WITH THE INDEPENDENT PUBLIC ACCOUNTANTS**

The Committee has direct responsibility to select and appoint the Independent Public Accountants (auditors). The Independent Public Accountants shall:

- Provide audit and attestation services to the Company.
- Be licensed to practice as a public accountant.
- Be registered with and inspected by the Securities and Exchange Commission’s Public Company Accounting Oversight Board.
- Be in good standing under the laws of the Commonwealth of Pennsylvania and the state in which the home office of the Company is located.
- Comply with the AICPA’s “Code of Professional Conduct” and meet Securities and Exchange Commission independence rules. (This Code includes professional ethics standards, rules, and interpretations that are binding on all Certified Public Accountants who are members of the AICPA in order for a member to remain in good standing. Therefore, this Code applies to each member Certified Public Accountant who provides audit and attestation services to the Company.)
- Provide the Company with an internal controls report and any management letter at the conclusion of the audit. (The FDIC has determined that management letters are exempt from public disclosure.)

The AICPA provides guidance indicating that a member Certified Public Accountant would not be deemed independent of his or her client when acting or appearing to act in a capacity equivalent to a member of the client’s management or employee. The AICPA’s guidance includes illustrations of activities that would be considered to compromise independence, including authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of the client. Thus, the Independent Public Accountant is forbidden to act or appear to act in any such capacity on behalf of the Company.

### ***Audit Services***

Audit services include the annual financial statement audit (including required quarterly reviews), subsidiary audits, equity investment audits, and other procedures required to be performed by the Independent Public Accountants to be able to form an opinion on the Mid Penn Bancorp, Inc. consolidated financial statements. Audit services also include accounting consultations relating to matters reflected in the financial statements that are the focus of the audit or quarterly reviews; reports on the Company's internal controls, such as reporting on the effectiveness of internal controls; and audit and attest services required by statute or regulation, such as comfort letters, consents, and reviews of SEC filings.

The Committee shall oversee the external audit coverage, including annual retention of the independent public accountants, the scope of the audit services, audit engagement letters, estimated fees, coordination with internal audit, monitoring of audit results, and review of the independent auditor's performance and services.

The Committee shall review the results of the independent auditor's annual audit and interim financial reviews to include:

1. Annual financial statements and accompanying footnotes (including required quarterly reviews),
2. Any significant changes required in the audit plans or scope,
3. Any material differences or disputes with management encountered during the course of the audit,
4. Any material management letter comments and management's response to recommendations,
5. Other matters required to be discussed by AU Section 380.

### ***Audit-Related Services***

Audit-related services are defined as assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the Independent Public Accountants. Audit-related services are not deemed to impair the independence of the auditor and are consistent with the SEC's rules on auditor independence, and therefore, the Committee may grant pre-approval for audit-related services.

Audit related services include, among others, due diligence services pertaining to potential business acquisitions/dispositions; accounting consultations related to accounting, financial reporting, or disclosure matters not classified as "Audit Services," such as those relating to proposed transactions; internal control reviews; consultation on new accounting and financial reporting guidance from rulemaking authorities; financial audits of employee benefit plans; and audit and attest services not required by statute or regulation.

### ***Tax Services***

The SEC has stated that the Independent Public Accountants can provide tax services to the Company, such as tax compliance, tax planning, and tax advice without impairing the auditor's independence. The Committee may grant pre-approval for those tax services that the Committee has reviewed and believes would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

### *All Other Services*

Based on the SEC's rules prohibiting the Independent Public Accountant from providing specific non-audit services, certain other non-audit services are permitted. Accordingly, the Committee may grant pre-approval for any permissible non-audit service classified in All Other Services that it believes is a routine and recurring service, would not impair the independence of the auditor, and is consistent with the SEC's rules on independence. In determining pre-approval for a non-audit service, the Committee shall consider the nature, extent, and fee of the non-audit service to ensure that the auditor's independence will not be impaired.

Approval will **not** be granted for non-permissible services listed by the SEC. Such non-permissible services include the following:

- Bookkeeping or other services related to the accounting records or financial statements of the audit client.
- Financial information systems design and implementation.
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports.
- Actuarial services.
- Internal audit outsourcing services.
- Management functions.
- Human resources.
- Broker-dealer, investment adviser, or investment banking services.
- Legal services.
- Expert services unrelated to the audit.

### *General*

The Committee shall obtain and review a report from the independent auditors at least annually regarding:

1. The independent auditor's internal quality control procedures,
2. Any material issues raised in the most recent internal quality review or peer review and any inquiries by governmental or professional authorities regarding the firm's independent audits of other clients,
3. Any steps taken to deal with any such issues, and
4. All relationships between the independent auditor and the Company, including a review and evaluation of the lead partner and taking into account the opinions of management and the Company's internal auditors.

The Committee is required to consider reports from the independent auditor on:

1. The Company's critical accounting policies and practices,
2. All alternative treatments of financial information permitted within GAAP that have been discussed with management, the ramifications of the use of such treatments, and the treatment preferred by the auditor, and
3. All other written communications between the firm and management.

The Committee shall pre-approve the provision by the independent auditor of all audit and non-audit services, except for those with a fee at the de minimis level, and any changes or modifications to such services. All pre-approvals of services and fees will be limited to one year. The de minimis level is provided whereby pre-approval may be waived for non-audit services that meet all of the following requirements:

1. The aggregate amount of all such services is not more than five percent of the total amount of fees paid to the independent auditor during the year in which the services are provided.
2. Such services were not recognized as non-audit services by the Company at the time of the engagement.
3. The services are promptly brought to the attention of the Audit Committee and approved prior to the completion of the audit.

The Committee may delegate pre-approval authority to the Committee Chairman in order to act between meetings. The Committee Chairman shall report any pre-approval decisions to the Committee at its next scheduled meeting. As part of its pre-approval process, the Committee will review the auditor's qualifications, reputation, and competence and receive a report by the independent auditor describing the independent auditor's internal quality control procedures and any material issues raised by the most recent internal quality control review, peer review, or PCAOB review of the independent auditing firm, or by any inquiry or investigation by governmental or professional authorities, and any steps taken to address any such issues.

The Committee is responsible for overseeing the resolution of any disputes between management and the independent auditors.

The Committee is directed to resolve disagreements in analyzing any internal control deficiencies and management or employee fraud identified in the CEO/CFO certifications required by the Sarbanes-Oxley Act.

#### **THE AUDIT COMMITTEE'S RELATIONSHIP WITH THE INTERNAL AUDIT FUNCTION**

The Committee has authorized an in-house Internal Audit function at the Company as outlined in the Internal Audit Charter and Internal Audit Policy. The Committee shall provide direct oversight and guidance to the function, and the Internal Audit function shall report directly to the Committee for independence purposes.

#### **LIMITATIONS**

The Audit Committee is responsible for the duties and responsibilities set forth in this Charter. However, its role is oversight and therefore it is not responsible for either the preparation of the Company's financial statements or the auditing of the Company's financial statements. Management has the responsibility for preparing the financial statements and implementing internal controls and the independent auditors have the responsibility for auditing the financial statements and monitoring the effectiveness of the internal controls, subject, in each case, to the oversight of the Audit Committee described in this Charter. The review of the financial statements by the Audit Committee is not of the same character or quality as the audit performed by the independent auditors.