

ACNB CORPORATION & SUBSIDIARIES

BOARD AUDIT COMMITTEE CHARTER

ORGANIZATION

The Audit Committee is a committee of independent members of the Board of Directors. Its function is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to the Securities and Exchange Commission (SEC), the shareholders or the public; the systems of internal controls which management and the Board of Directors have established; and, the audit process.

AUTHORIZATION

The Audit Committee of ACNB Corporation and Subsidiaries is a standing committee of the Board of Directors authorized by the Bylaws of ACNB Corporation.

PURPOSE

The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibility relating to (i) the integrity of the Company's financial statements and financial reporting process and the Company's systems of internal accounting and financial controls; (ii) the performance of the internal audit function; (iii) the annual independent audit of the Company's financial statements, the engagement of the independent registered public accounting firm as independent auditors, and the evaluation of the independent auditors' qualifications, independence and performance; (iv) enterprise risk assessment and management; (v) the Company's compliance with legal and regulatory requirements, including the Company's disclosure controls and procedures; (vi) the fulfillment of the other responsibilities set out herein; and, (vii) monitoring the Company's compliance with the Code of Ethics. The report of the Audit Committee required by the rules of the SEC shall be included in the Company's annual proxy statement.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditors. In carrying out its oversight responsibilities, as permitted under the Pennsylvania Business Corporation Law of 1988, as amended, the Audit Committee members are entitled to rely in good faith on the expertise, integrity and knowledge of management, the internal and independent auditors, and corporate counsel.

MEMBERSHIP AND STRUCTURE

The Audit Committee shall be comprised of at least three members of the Board, and the members must be independent in accordance with the Company's independence standards. In addition, the members must meet the experience and expertise requirements set forth by the Board of Directors and applicable laws and regulations (including the Sarbanes-Oxley Act of 2002).

All members of the Audit Committee shall have a general understanding of finance and accounting practices, and at least one member of the Committee shall be an "audit committee financial expert" as defined by the SEC. Each member shall be free of any relationship that, in the opinion of the Board, would under applicable laws and regulations make the director not independent. No Committee member shall simultaneously serve on the audit committees of more than two other public companies. A Chair shall be appointed by the full Board. The Chair or a designee shall lead all regular sessions of the Committee and set the agenda for the Committee meetings.

AUTHORITY

The Audit Committee shall have the sole authority to select, evaluate, appoint and replace the independent auditors (subject to shareholder ratification) including the resolution of disagreements between management and the independent auditors regarding financial reporting, and shall approve in advance all audit engagement fees and terms and all non-audit engagements with the independent auditors. The Audit Committee shall consult with management, but shall not delegate these responsibilities.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting, or other consultants to advise the Audit Committee. The Company shall provide funding, as determined by the Audit Committee, for payment of compensation to the independent auditors and to any advisors employed by the Audit Committee and for ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties. Any communications between the Audit Committee and legal counsel in the course of obtaining legal advice shall be considered privileged communications of the Company, and the Audit Committee shall take all necessary steps to preserve the privileged nature of those communications.

The Audit Committee may form and delegate authority to subcommittees, comprised of one or more members of the Committee, as necessary or appropriate. Each subcommittee shall have the full power and authority of the Audit Committee.

The Audit Committee may conduct or authorize investigations into any matter, within the Audit Committee's scope of responsibilities, brought to its attention.

MEETINGS

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee may hold special meetings upon the call of the Chair of the Committee. At Committee meetings, a majority of the total members shall constitute a quorum. A member of the Audit Committee or a person designated by the Audit Committee shall keep minutes. The Committee shall regularly report to the Board on the Audit Committee's activities, and periodically review and evaluate its own performance. The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

All members of the Board who are not members of the Committee may attend meetings of the Committee, but may not vote. The Committee may invite to its meetings any management or other personnel of the Company, or any third parties, as it deems appropriate in order to carry out its responsibilities.

RESPONSIBILITIES AND DUTIES

In carrying out its responsibilities, the Audit Committee believes its policies and procedures should remain flexible, in order to best react to changing conditions and ensure to the directors and shareholders that the corporate accounting and reporting practices of the Company are in accordance with all requirements.

The Audit Committee's responsibilities and duties are designated by the categories listed below:

1. Financial Statement and Disclosure Matters

- Review the regular internal reports to management prepared by the internal audit function and management's response.

- Review and discuss with management and the independent auditors the annual audited financial statements, including disclosures made in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and recommend to the Board whether the audited financial statements should be included in the Company’s Form 10-K.
- Prepare annually a report for inclusion in the Company’s proxy statement relating to its annual meeting of shareholders. In that report, the Audit Committee shall state whether it has: (i) reviewed and discussed the audited financial statements with management; (ii) discussed with the independent auditors the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board and the SEC, as may be modified or supplemented from time to time; and, (iii) received from the independent auditors written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor’s Communications with Audit Committees, as that standard may be modified or supplemented from time to time, and discussed with the independent auditors the independence of the independent auditors. Based on the review and discussion of (i) through (iii) above, the Audit Committee shall state whether it recommends that the audited financial statements be included in the Company’s Form 10-K.
- Review and discuss with management and the independent auditors the Company’s quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent auditors’ reviews of the quarterly financial statements.
- Receive a disclosure from the Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Forms 10-Q about (i) any significant deficiencies in design or operation of internal controls or material weaknesses therein and (ii) any fraud, whether or not material, involving management or other employees who have a significant role in the Company’s internal controls.
- At least annually prior to the filing of the Audit Committee Report with the SEC (and more frequently if appropriate), review and discuss reports from the independent auditors on, among other things, certain:
 - o Critical accounting policies and practices to be used;
 - o Alternative treatments of financial information within generally accepted accounting principles;
 - o Other material written communications between the independent auditors and management, such as any management letter and the Company’s response to such letter or schedule of unadjusted differences; and,
 - o Difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, any significant disagreements with management, and communications between the audit team and the audit firm’s office with respect to difficult auditing or accounting issues presented by the engagement.
- Review and discuss with management and the independent auditors, at least annually, significant accounting and financial reporting issues, including complex or unusual transactions and judgments concerning significant estimates or significant changes in the Company’s selection or application of accounting principles, and recent professional, accounting and regulatory pronouncements and initiatives, and understand their impact on the Company’s financial statements.
- Review with management the Audit Committee’s evaluation of the Company’s internal control structure and procedures for financial reporting and review periodically, but in no event less frequently than quarterly, management’s conclusions about the efficacy of such internal controls and procedures, including any significant deficiencies in or material noncompliance with such controls and procedures.
- Discuss with management the Company’s major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company’s risk management policies.

2. Authorization of the Company's Whistleblower Policy

- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.
- Treatment of Certain Complaints
 - o The protection of corporate whistleblowers shall be the responsibility of the Audit Committee.
 - o The Audit Committee shall protect anyone who comes forth with any information concerning any irregularities or fraudulent activity being performed. The Sarbanes-Oxley Act of 2002 expands the federal statute concerning retaliation against a witness to prohibit interference with the lawful employment or livelihood of a witness for providing information relating to the commission of a federal offense.
 - o The Audit Committee shall provide for employees of a public company who provide evidence of fraud. The Company may not fire, demote, suspend, threaten, harass, or otherwise discriminate against an employee because of the employee's involvement in a securities or fraud-related investigation involving the Company. Any employee who is adversely treated because of his or her whistleblowing activities may sue the Company within 90 days after the date of the discriminatory act for compensatory damages and attorney's fees. The employee must make a prima facie case showing that his or her whistleblowing activities were a contributing factor in the unfavorable personnel action alleged in the complaint, while the employer must show by clear and convincing evidence that it would have taken the same unfavorable personnel action in the absence of the whistleblowing behavior.

3. Oversight of the Company's Relationship with Independent Auditors

- The independent auditors shall report directly to the Audit Committee.
- Review and discuss the scope and plan of the independent audit.
- Review and appraise the audit efforts of the Company's independent auditors and internal audit function.
- Provide an open avenue of communication with the independent auditors.
- On an annual basis, review and discuss with the auditors all significant relationships the auditors have with the Company to determine the independence and objectivity of the internal and independent auditors and take appropriate action to oversee the independence of the independent auditors.
- Ensure receipt from the independent auditors of a formal written statement delineating all relationships between the auditors and the Company, consistent with Public Company Accounting Oversight Board requirements.
- Review the performance of the independent auditors and approve any proposed discharge of the independent auditors when circumstances warrant.
- Review with management and the independent auditors at the completion of the annual examination:
 - o The Company's annual financial statements and related footnotes;
 - o The independent audit of the financial statements and report thereon;
 - o Any significant changes required in the independent audit plan; and,
 - o Any serious difficulties or disputes with management encountered during the course of the audit.
- Review the internal audit function of the Company including the independence and authority of its reporting obligations, the proposed audit plans for the coming year, and the coordination of such plans with the independent auditors.

- Provide sufficient opportunity for the internal and independent auditors to meet with the members of the Audit Committee without members of management present. Among the items to be discussed in these meetings are the independent auditors' evaluation of the Company's financial, accounting and internal controls.
- Receive and discuss a report from the independent auditors at least annually regarding:
 - o The independent auditors' internal quality control procedures;
 - o Any material issues raised by the most recent quality control review, or peer review (if applicable), of the independent auditors, or by any inquiry or investigation by governmental professional authorities within the preceding five years respecting one or more independent audits carried out by the independent auditors;
 - o Any steps taken to deal with any such issues; and,
 - o All relationships between the independent auditors and the Company, in order to assess the independent auditors' independence.
- Approve guidelines for the retention of the independent auditors for any non-audit services and determine procedures for the approval of audit and non-audit services in advance. In accordance with such procedures, the Audit Committee shall approve in advance any audit or non-audit services provided to the Company by the independent auditors, all as required by applicable law or listing standards. Preapproval authority may be delegated to one or more members of the Audit Committee.
- Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditors which guidelines shall meet the requirements of applicable law and listing standards.
- Ensure the rotation of audit partners every five years, as well as consider whether there should be regular rotation of the audit firm itself.

4. Financial Reporting Processes

- In consultation with the independent auditors and the internal auditors, review the integrity of the Company's financial reporting processes, both internal and external.
- Review any differences in the independent auditors' judgments relating to the interpretation of the Company's accounting principles as applied in its financial reporting.
- Review and approve, if appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditors, management, or the internal audit function.
- Review with the Chief Executive Officer, Chief Financial Officer and independent auditors the financial report before it is filed with the SEC or other regulators.
- Receive on a regular basis a summary of findings from completed internal audits and a progress report on the proposed internal audit plan, with explanations for any deviations from the original plan.
- Review the financial statements contained in the annual report to shareholders with management and the independent auditors to determine that the independent auditors are satisfied with the disclosure and content of the financial statements to be presented to the shareholders. Any changes in accounting principles, the effect of any regulatory and accounting initiatives, and off-balance sheet structures should be reviewed.
- Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system.

5. Oversight of Audit and Risk Review (ARR)

The Audit Committee may contract for internal audit services as necessary to assess the adequacy and effectiveness of internal accounting controls, financial systems or financial statements, and the accuracy of management reporting and compliance with laws, regulations and Company policy. As used in this section or subsequent sections, the “lead or coordinating auditor” refers to the Company’s internal auditor or, if such services are outsourced, to the auditor of the firm primarily responsible for the Company’s internal audit functions.

- Review and discuss the appointment or replacement of the lead or coordinating auditor and/or the outsourced internal audit firm.
- Review and discuss the ARR findings that have been reported to management, management’s responses, and the progress of the related corrective action plans.
- Review and evaluate the adequacy of the work performed by the lead or coordinating auditor and ARR function, and ensure that the ARR function is independent and has adequate resources to fulfill its duties, including implementation of the annual audit plan.
- Review any significant disagreement among management and the independent auditors or the internal audit function in connection with the preparation of the financial statements.
- Review with the independent auditors, the lead or coordinating auditor, and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.
- Inquire of management, the lead or coordinating auditor of the internal audit function, and the independent auditors about significant risks or exposures and assess the steps management has taken to minimize such risk to the Company.
- Consider, in consultation with the independent auditors and the lead or coordinating auditor of the internal audit function, the audit scope and plan of the internal auditors.
- Review with the lead or coordinating auditor of the internal audit function and the independent auditors the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- Consider and review with the independent auditors and the lead or coordinating auditor of the internal audit function:
 - o The adequacy of the Company’s internal controls including computerized information, system controls, and security;
 - o Any related significant findings and recommendations of the independent auditors and internal auditors together with management’s responses thereto;
 - o Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information; and,
 - o Any changes required in the planned scope of their audit plans.
- Review and assess the adequacy of the Internal Audit Charter annually and recommend any proposed changes to the Board for approval.

6. Enterprise Risk Management Oversight Responsibilities

- Review and discuss with management the scope and guidelines to govern the process for assessing and managing the Company’s credit, operational/transaction, strategic, reputation, compliance/legal, liquidity, market and interest rate risks.
- Receive and review reports regarding the Company’s enterprise risk management activities, and review the steps management has taken to monitor and control such exposures.

- Ensure that the Company's enterprise risk management philosophy is communicated within the Company and to the Board of Directors.

7. Compliance Oversight Responsibilities

- Review periodically with management and the independent auditors any correspondence with, or other action by, regulators or governmental agencies, any material legal affairs of the Company, and the Company's compliance with applicable law and listing standards.
- Review and discuss with management and the independent auditors any correspondence with, or the findings of any examinations by, regulatory agencies, published reports, or auditor observations that raise significant issues regarding the Company's financial statements or accounting policies.
- Obtain regular updates from management and Company counsel regarding compliance matters and legal matters that may have a significant impact on the financial statements or the Company's compliance policies.
- Advise the Board with respect to policies and procedures regarding compliance with the Company's Code of Ethics including review of the process for communicating the Code of Ethics to Company personnel and for monitoring compliance.
- Review periodically the Code of Ethics and ensure that management has established a system to enforce this Code.
- Review activities, organizational structure, and qualifications of the internal audit function.
- Review, with the Company's counsel, any legal matter that could have a significant impact on the Company's financial statements, related Company compliance policies and programs, and reports received from regulators.
- Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate.
- Possess the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent counsel, accountants, or others to assist it in the conduct of any investigation or as it deems necessary to carry out its duties.
- Perform such other functions as assigned by law, the Bylaws, or the Board of Directors.
- Ensure no improper influence by the Board of Directors or management in the conduct of internal or external audits.