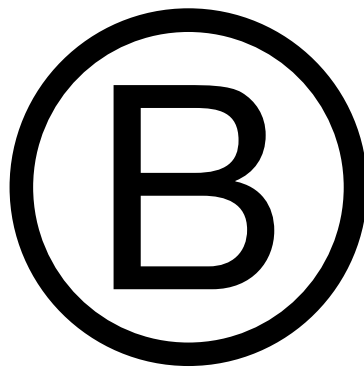


Certified



Corporation[™]

bcorporation.net

B Resource Guide:

Creating and Improving Your Audit Committee



B Resource Guide:

Creating and Improving Your Audit Committee

What's in this Guide:

- I. Definition: What is an Audit Committee?
- II. Duties and Best Practices
- III. Toolkits and Templates
- IV. Sample Audit Committee Charters

I. Definition: What is an Audit Committee? ¹

In a publicly-held company, an **audit committee** is an operating committee. Committee members are normally drawn from members of the Company's board of directors. An audit committee of a publicly traded company in the United States is composed of independent and outside directors referred to as non-executive directors.

In any company or nonprofit organization, the Audit Committee provides a crucial link between the board and the independent auditor and serves a key role in helping the board to fulfill its fiduciary duty to oversee the organization's finances.

Responsibilities of the audit committee typically include:

- Overseeing the financial reporting process.
- Monitoring choice of accounting policies and principles.
- Establishing policies and practices to prevent financial fraud.
- Monitoring internal control process.
- Overseeing hiring and performance of the external auditors
- Arranging for a standard 'whistle-blowing' procedure.

The U.S. Securities and Exchange Commission (SEC) first recommended that publicly held companies establish audit committees in 1972. The stock exchanges followed in 1978 by either requiring or recommending that companies establish audit committees. Over the years, various initiatives to strengthen and increase the responsibilities of audit committees have been made.

In 2002, the Sarbanes-Oxley Act increased audit committees' responsibilities and authority, and raised membership requirements and committee composition to include more independent directors. In response, the SEC and the stock exchanges proposed new regulations and rules to strengthen audit committees.

The duties of an audit committee are typically spelled-out in a committee charter, often available on the entity's website.



B Resource Guide: *Creating and Improving Your Audit Committee*

II. Duties and Best Practices

Fenwick & West, LLP has published an excellent guide to audit committee duties and best practices:
http://www.fenwick.com/docstore/Publications/Corporate/sec/Corp_Sec_03-21-02.pdf

The main issues of concern are the independence of the members, their qualifications for financial oversight, how up to date they are in current regulatory changes, and how the committee works to assure that its monitoring of accounting and financial control processes is effective.

According to KPMG's Five Guiding Principles for Audit Committees, http://www.kpmg.com/aci/docs/~ACI_5%20Guiding%20Principles-WebFINAL.pdf, the financial reporting risks, corporate cultures and governance across different companies are so varied that it is impossible to define a set of best practices that will suit every company when it comes to audit committees. Still, they believe there are five guiding principles for audit committees and corporate leaders should consider when developing, evaluating, and refining the audit committee's oversight processes and practices:

1. Recognize that one size does not fit all.
2. Have the "right" people on the committee.
3. Monitor and insist on the right "tone at the top."
4. Ensure the oversight process facilitates the committee's understanding and monitoring of key roles, responsibilities, and risks within the financial reporting environment.
5. Articulate and exercise the committee's direct responsibility for the external auditor.

KPMG's Audit Committee Institute regularly publishes information for audit committees based on current events and regulation. For example, their publication "Ten To-Do's for Audit Committees in 2008,"

http://www.kpmg.com/aci/docs/aci_publications/ACIs_Ten_To_Do_for_Audit_Committees_in_2008.pdf² includes details on the following recommendations for Audit Committee members:

1. Be a catalyst for improving risk management and oversight.
2. Closely monitor management's disclosure committee.
3. Be up-to-speed on fair value, IFRS, and other key financial reporting issues and developments.
4. Make sure the CFO and the finance organization have what they need to succeed.
5. Ensure there's a shared vision for internal audit.
6. Encourage (expect) frequent, informal communications with the audit engagement partner.
7. Be prepared for a crisis.
8. Make sure the full board is aware of the audit committee's activities and needs.
9. Assess the tone at the top and throughout the organization.
10. Take a hard look at the audit committee's performance. Dow Corporation



B Resource Guide: *Creating and Improving Your Audit Committee*

III. Toolkits and Templates

The AICPA Audit Committee Toolkit: Corporate <http://www.aicpa.org/Audcommctr/toolkitscorp/homepage.htm> This site gives permission for all to download and customize its corporate audit committee templates, which include a charter for the audit committee, and guides for hiring external auditors and counsel and for examining off-balance sheet transactions, among others.

The Difference between Audit Committees and Finance Committees
<http://www.aicpa.org/Audcommctr/download/toolkitsnpo/chart.pdf>

IV. Sample Audit Committee Charters

Dell
<http://www.dell.com/content/topics/global.aspx/corp/governance/en/audit?c=us&l=en&s=corp>

Microsoft
<http://www.microsoft.com/about/companyinformation/corporategovernance/committees/audit.msp>

Dow Corporation
<http://www.dow.com/corpgov/board/audit.htm>

Elizabeth Arden
http://corporate.elizabetharden.com/audit_committee_charter.html

Micron
<http://www.micron.com/about/governance/audit>

Lockheed Martin
http://www.lockheedmartin.com/investor/corporate_governance/committeecharters/AuditCommitteeCharter.html

Wyndham Worldwide
http://www.wyndhamworldwide.com/investors/corporate_governance/committee/audit_committee_charter.cfm

BP
<http://www.bp.com/sectiongenericarticle.do?categoryId=9014853&contentId=7014806>

Ashland
http://www.ashland.com/ashland/board_committees/acc.asp



B Resource Guide: *Creating and Improving Your Audit Committee*

¹ http://en.wikipedia.org/wiki/Audit_committee

² http://www.kpmg.com/aci/docs/aci_publications/ACIs_Ten_To_Do_for_Audit_Committees_in_2008.pdf

© 2008 KPMG LLP, a U.S. limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.