
AUDIT COMMITTEE INSTITUTE
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אחריות ועדת הביקורת בחברות הנסחרות בארה"ב

עו"ד אהרן מ. למפרט

חומר נלווה למצגת

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Securities Exchange Act of 1934, as amended

Section 10A(m) [SOX Section 301]

(m) STANDARDS RELATING TO AUDIT COMMITTEES.—

(1) COMMISSION RULES.—

(A) IN GENERAL.—Effective not later than 270 days after the date of enactment of this subsection, the Commission shall, by rule, direct the national securities exchanges and national securities associations to prohibit the listing of any security of an issuer that is not in compliance with the requirements of any portion of paragraphs (2) through (6).

(B) OPPORTUNITY TO CURE DEFECTS.—The rules of the Commission under subparagraph (A) shall provide for appropriate procedures for an issuer to have an opportunity to cure any defects that would be the basis for a prohibition under subparagraph (A), before the imposition of such prohibition.

(2) RESPONSIBILITIES RELATING TO REGISTERED PUBLIC ACCOUNTING FIRMS.—The audit committee of each issuer, in its capacity as a committee of the board of directors, shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, and each such registered public accounting firm shall report directly to the audit committee.

(3) INDEPENDENCE.—

(A) IN GENERAL.—Each member of the audit committee of the issuer shall be a member of the board of directors of the issuer, and shall otherwise be independent.

(B) CRITERIA.—In order to be considered to be independent for purposes of this paragraph, a member of an audit committee of an issuer may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee—

(i) accept any consulting, advisory, or other compensatory fee from the issuer; or

(ii) be an affiliated person of the issuer or any subsidiary thereof.

(C) EXEMPTION AUTHORITY.—The Commission may exempt from the requirements of subparagraph (B) a particular relationship with respect to audit committee members, as the Commission determines appropriate in light of the circumstances.

(4) COMPLAINTS.—Each audit committee shall establish procedures for—

(A) the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and

(B) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

(5) AUTHORITY TO ENGAGE ADVISERS.—Each audit committee shall have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties.

(6) FUNDING.—Each issuer shall provide for appropriate funding, as determined by the audit committee, in its capacity as a committee of the board of directors, for payment of compensation—

- (A) to the registered public accounting firm employed by the issuer for the purpose of rendering or issuing an audit report; and
- (B) to any advisers employed by the audit committee under paragraph (5).

Rule 10A-3 under the Exchange Act – Listing Standards Relating to Audit Committees

- a. Pursuant to section 10A(m) of the Securities Exchange Act of 1934 (the “Act”) and section 3 of the Sarbanes-Oxley Act of 2002:
 1. *National securities exchanges.* The rules of each national securities exchange registered pursuant to section 6 of the Act must, in accordance with the provisions of this section, prohibit the initial or continued listing of any security of an issuer that is not in compliance with the requirements of any portion of paragraph (b) or (c) of this section.
 2. *National securities associations.* The rules of each national securities association registered pursuant to section 15A of the Act must, in accordance with the provisions of this section, prohibit the initial or continued listing in an automated inter-dealer quotation system of any security of an issuer that is not in compliance with the requirements of any portion of paragraph (b) or (c) of this section.
 3. *Opportunity to cure defects.* The rules required by paragraphs (a)(1) and (a)(2) of this section must provide for appropriate procedures for a listed issuer to have an opportunity to cure any defects that would be the basis for a prohibition under paragraph (a) of this section, before the imposition of such prohibition. Such rules also may provide that if a member of an audit committee ceases to be independent in accordance with the requirements of this section for reasons outside the member’s reasonable control, that person, with notice by the issuer to the applicable national securities exchange or national securities association, may remain an audit committee member of the listed issuer until the earlier of the next annual shareholders meeting of the listed issuer or one year from the occurrence of the event that caused the member to be no longer independent.
 4. *Notification of noncompliance.* The rules required by paragraphs (a)(1) and (a)(2) of this section must include a requirement that a listed issuer must notify the applicable national securities exchange or national securities association promptly after an executive officer of the listed issuer becomes aware of any material noncompliance by the listed issuer with the requirements of this section.
 5. *Implementation.*
 - i. The rules of each national securities exchange or national securities association meeting the requirements of this section must be operative, and listed issuers must be in compliance with those rules, by the following dates:

- A. July 31, 2005 for foreign private issuers and small business issuers (as defined in Rule 12b-2); and
 - B. For all other listed issuers, the earlier of the listed issuer's first annual shareholders meeting after January 15, 2004, or October 31, 2004.
- ii. Each national securities exchange and national securities association must provide to the Commission, no later than July 15, 2003, proposed rules or rule amendments that comply with this section.
 - iii. Each national securities exchange and national securities association must have final rules or rule amendments that comply with this section approved by the Commission no later than December 1, 2003.
- b. *Required standards.*

1. *Independence.*

- i. Each member of the audit committee must be a member of the board of directors of the listed issuer, and must otherwise be independent; provided that, where a listed issuer is one of two dual holding companies, those companies may designate one audit committee for both companies so long as each member of the audit committee is a member of the board of directors of at least one of such dual holding companies.
- ii. *Independence requirements for non-investment company issuers.* In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is not an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:
 - A. Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or
 - B. Be an affiliated person of the issuer or any subsidiary thereof.

iii. *Independence requirements for investment company issuers.* In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:

- A. Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or
- B. Be an “interested person” of the issuer as defined in section 2(a)(19) of the Investment Company Act of 1940.

iv. *Exemptions from the independence requirements.*

- A. For an issuer listing securities pursuant to a registration statement under section 12 of the Act, or for an issuer that has a registration statement under the Securities Act of 1933 covering an initial public offering of securities to be listed by the issuer, where in each case the listed issuer was not, immediately prior to the effective date of such registration statement, required to file reports with the Commission pursuant to section 13(a) or 15(d) of the Act:
 - 1. All but one of the members of the listed issuer’s audit committee may be exempt from the independence requirements of paragraph (b)(1)(ii) of this section for 90 days from the date of effectiveness of such registration statement; and
 - 2. A minority of the members of the listed issuer’s audit committee may be exempt from the independence requirements of paragraph (b)(1)(ii) of this section for one year from the date of effectiveness of such registration statement.
- B. An audit committee member that sits on the board of directors of a listed issuer and an affiliate of the listed issuer is exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if the member, except for being a director on each such board of directors, otherwise meets the

independence requirements of paragraph (b)(1)(ii) of this section for each such entity, including the receipt of only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of each such entity.

- C. An employee of a foreign private issuer who is not an executive officer of the foreign private issuer is exempt from the requirements of paragraph (b)(1)(ii) of this section if the employee is elected or named to the board of directors or audit committee of the foreign private issuer pursuant to the issuer's governing law or documents, an employee collective bargaining or similar agreement or other home country legal or listing requirements.

- D. An audit committee member of a foreign private issuer may be exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if that member meets the following requirements:
 - 1. The member is an affiliate of the foreign private issuer or a representative of such an affiliate;
 - 2. The member has only observer status on, and is not a voting member or the chair of, the audit committee; and
 - 3. Neither the member nor the affiliate is an executive officer of the foreign private issuer.

- E. An audit committee member of a foreign private issuer may be exempt from the requirements of paragraph (b)(1)(ii)(B) of this section if that member meets the following requirements:
 - 1. The member is a representative or designee of a foreign government or foreign governmental entity that is an affiliate of the foreign private issuer; and
 - 2. The member is not an executive officer of the foreign private issuer.

- F. In addition to paragraphs (b)(1)(iv)(A) through (E) of this section, the Commission may exempt from the requirements of paragraphs (b)(1)(ii) or (b)(1)(iii) of this section a particular relationship with respect to audit committee

members, as the Commission determines appropriate in light of the circumstances.

2. *Responsibilities relating to registered public accounting firms.* The audit committee of each listed issuer, in its capacity as a committee of the board of directors, must be directly responsible for the appointment, compensation, retention and oversight of the work of any registered 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 listed issuer, and each such registered public accounting firm must report directly to the audit committee.
3. *Complaints.* Each audit committee must establish procedures for:
 - i. The receipt, retention, and treatment of complaints received by the listed issuer regarding accounting, internal accounting controls, or auditing matters; and
 - ii. The confidential, anonymous submission by employees of the listed issuer of concerns regarding questionable accounting or auditing matters.
4. *Authority to engage advisers.* Each audit committee must have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties.
5. *Funding.* Each listed issuer must provide for appropriate funding, as determined by the audit committee, in its capacity as a committee of the board of directors, for payment of:
 - i. Compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer;
 - ii. Compensation to any advisers employed by the audit committee under paragraph (b)(4) of this section; and
 - iii. Ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

c. *General exemptions.*

1. At any time when an issuer has a class of securities that is listed on a national securities exchange or national securities association subject to the requirements of this section, the listing of other classes of securities of the

listed issuer on a national securities exchange or national securities association is not subject to the requirements of this section.

2. At any time when an issuer has a class of common equity securities (or similar securities) that is listed on a national securities exchange or national securities association subject to the requirements of this section, the listing of classes of securities of a direct or indirect consolidated subsidiary or an at least 50% beneficially owned subsidiary of the issuer (except classes of equity securities, other than non-convertible, non-participating preferred securities, of such subsidiary) is not subject to the requirements of this section.
3. The listing of securities of a foreign private issuer is not subject to the requirements of paragraphs (b)(1) through (b)(5) of this section if the foreign private issuer meets the following requirements:
 - i. The foreign private issuer has a board of auditors (or similar body), or has statutory auditors, established and selected pursuant to home country legal or listing provisions expressly requiring or permitting such a board or similar body;
 - ii. The board or body, or statutory auditors is required under home country legal or listing requirements to be either:
 - A. Separate from the board of directors; or
 - B. Composed of one or more members of the board of directors and one or more members that are not also members of the board of directors;
 - iii. The board or body, or statutory auditors, are not elected by management of such issuer and no executive officer of the foreign private issuer is a member of such board or body, or statutory auditors;
 - iv. Home country legal or listing provisions set forth or provide for standards for the independence of such board or body, or statutory auditors, from the foreign private issuer or the management of such issuer;
 - v. Such board or body, or statutory auditors, in accordance with any applicable home country legal or listing requirements or the issuer's governing documents, are responsible, to the extent permitted by law, for the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, to the extent permitted by law, the 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 issuer; and

- vi. The audit committee requirements of paragraphs (b)(3), (b)(4) and (b)(5) of this section apply to such board or body, or statutory auditors, to the extent permitted by law.
4. The listing of a security futures product cleared by a clearing agency that is registered pursuant to section 17A of the Act or that is exempt from the registration requirements of section 17A pursuant to paragraph (b)(7)(A) of such section is not subject to the requirements of this section.
 5. The listing of a standardized option, as defined in Rule 9b-1(a)(4), issued by a clearing agency that is registered pursuant to section 17A of the Act is not subject to the requirements of this section.
 6. The listing of securities of the following listed issuers are not subject to the requirements of this section:
 - i. Asset-Backed Issuers (as defined in Rule 229.1101 of this chapter).
 - ii. Unit investment trusts (as defined in section 4(2) of the Investment Company Act of 1940); and
 - iii. Foreign governments (as defined in Rule 3b-4(a)).
 7. The listing of securities of a listed issuer is not subject to the requirements of this section if:
 - i. The listed issuer, as reflected in the applicable listing application, is organized as a trust or other unincorporated association that does not have a board of directors or persons acting in a similar capacity; and
 - ii. The activities of the listed issuer that is described in paragraph (c)(7)(i) of this section are limited to passively owning or holding (as well as administering and distributing amounts in respect of) securities, rights, collateral or other assets on behalf of or for the benefit of the holders of the listed securities.
- d. *Disclosure.* Any listed issuer availing itself of an exemption from the independence standards contained in paragraph (b)(1)(iv) of this section (except paragraph (b)(1)(iv)(B) of this section), the general exemption contained in paragraph (c)(3) of this section or the last sentence of paragraph (a)(3) of this section, must:

1. Disclose its reliance on the exemption and its assessment of whether, and if so, how, such reliance would materially adversely affect the ability of the audit committee to act independently and to satisfy the other requirements of this section in any proxy or information statement for a meeting of shareholders at which directors are elected that is filed with the Commission pursuant to the requirements of section 14 of the Act; and
 2. Disclose the information specified in paragraph (d)(1) of this section in, or incorporate such information by reference from such proxy or information statement filed with the Commission into, its annual report filed with the Commission pursuant to the requirements of section 13(a) or 15(d) of the Act.
- e. *Definitions.* Unless the context otherwise requires, all terms used in this section have the same meaning as in the Act. In addition, unless the context otherwise requires, the following definitions apply for purposes of this section:
1.
 - i. The term affiliate of, or a person affiliated with, a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.
 - ii.
 - A. A person will be deemed not to be in control of a specified person for purposes of this section if the person:
 1. Is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the specified person; and
 2. Is not an executive officer of the specified person.
 - B. Paragraph (e)(1)(ii)(A) of this section only creates a safe harbor position that a person does not control a specified person. The existence of the safe harbor does not create a presumption in any way that a person exceeding the ownership requirement in paragraph (e)(1)(ii)(A)(1) of this section controls or is otherwise an affiliate of a specified person.
 - iii. The following will be deemed to be affiliates:
 - A. An executive officer of an affiliate;
 - B. A director who also is an employee of an affiliate;

C. A general partner of an affiliate; and

D. A managing member of an affiliate.

- iv. For purposes of paragraph (e)(1)(i) of this section, dual holding companies will not be deemed to be affiliates of or persons affiliated with each other by virtue of their dual holding company arrangements with each other, including where directors of one dual holding company are also directors of the other dual holding company, or where directors of one or both dual holding companies are also directors of the businesses jointly controlled, directly or indirectly, by the dual holding companies (and, in each case, receive only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of the dual holding companies or any entity that is jointly controlled, directly or indirectly, by the dual holding companies).
2. In the case of foreign private issuers with a two-tier board system, the term board of directors means the supervisory or non-management board.
3. In the case of a listed issuer that is a limited partnership or limited liability company where such entity does not have a board of directors or equivalent body, the term board of directors means the board of directors of the managing general partner, managing member or equivalent body.
4. The term control (including the terms controlling, controlled by and under common control with) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.
5. The term dual holding companies means two foreign private issuers that:
 - i. Are organized in different national jurisdictions;
 - ii. Collectively own and supervise the management of one or more businesses which are conducted as a single economic enterprise; and
 - iii. Do not conduct any business other than collectively owning and supervising such businesses and activities reasonably incidental thereto.
6. The term executive officer has the meaning set forth in § 240.3b-7.
7. The term foreign private issuer has the meaning set forth in § 240.3b-4(c).

8. The term indirect acceptance by a member of an audit committee of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the member or by an entity in which such member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary of the issuer.
9. The terms listed and listing refer to securities listed on a national securities exchange or listed in an automated inter-dealer quotation system of a national securities association or to issuers of such securities.

Instructions to Rule 10A-3:

1. The requirements in paragraphs (b)(2) through (b)(5), (c)(3)(v) and (c)(3)(vi) of this section do not conflict with, and do not affect the application of, any requirement or ability under a listed issuer's governing law or documents or other home country legal or listing provisions that requires or permits shareholders to ultimately vote on, approve or ratify such requirements. The requirements instead relate to the assignment of responsibility as between the audit committee and management. In such an instance, however, if the listed issuer provides a recommendation or nomination regarding such responsibilities to shareholders, the audit committee of the listed issuer, or body performing similar functions, must be responsible for making the recommendation or nomination.
2. The requirements in paragraphs (b)(2) through (b)(5), (c)(3)(v), (c)(3)(vi) and Instruction 1 of this section do not conflict with any legal or listing requirement in a listed issuer's home jurisdiction that prohibits the full board of directors from delegating such responsibilities to the listed issuer's audit committee or limits the degree of such delegation. In that case, the audit committee, or body performing similar functions, must be granted such responsibilities, which can include advisory powers, with respect to such matters to the extent permitted by law, including submitting nominations or recommendations to the full board.
3. The requirements in paragraphs (b)(2) through (b)(5), (c)(3)(v) and (c)(3)(vi) of this section do not conflict with any legal or listing requirement in a listed issuer's home jurisdiction that vests such responsibilities with a government entity or tribunal. In that case, the audit committee, or body performing similar functions, must be granted such responsibilities, which can include advisory powers, with respect to such matters to the extent permitted by law.
4. For purposes of this section, the determination of a person's beneficial ownership must be made in accordance with Rule 13d-3.

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Microsoft Corporation Audit Committee Charter and Responsibilities Calendar

Updated: July 1, 2008

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Related Links

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Role

The Audit Committee of the Board of Directors assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and reporting practices of the Company, and such other duties as directed by the Board. The Committee's purpose is to oversee the accounting and financial reporting processes of the Company, the audits of the Company's financial statements, the qualifications of the public accounting firm engaged as the Company's independent auditor to prepare or issue an audit report on the financial statements of the Company and internal control over financial reporting, and the performance of the Company's internal audit function and independent auditor. The Committee reviews and assesses the qualitative aspects of financial reporting to shareholders, the Company's processes to manage business and financial risk, and compliance with significant applicable legal, ethical, and regulatory requirements. The Committee is directly responsible for the appointment (subject to shareholder ratification), compensation, retention, and oversight of the independent auditor.

[↑ Top of page](#)**Membership**

The membership of the Committee consists of at least three directors, all of whom shall meet the independence requirements established by the Board and applicable laws, regulations, and listing requirements. Each member shall in the judgment of the Board have the ability to read and understand fundamental financial statements and otherwise meet the financial sophistication standard established by the requirements of the NASDAQ Stock Market, LLC. At least one member of the Committee shall in the judgment of the Board be an "audit committee financial expert" as defined by the rules and regulations of the Securities and Exchange Commission. The Board appoints the members of the Committee and the chairperson. The Board may remove any member from the Committee at any time with or without cause.

Generally, no member of the Committee may serve on more than three

audit committees of publicly traded companies (including the Audit Committee of the Company) at the same time. For this purpose, service on the audit committees of a parent and its substantially owned subsidiaries counts as service on a single audit committee.

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Operations

The Committee meets at least eight times a year. Additional meetings may occur as the Committee or its chair deems advisable. The Committee will cause to be kept adequate minutes of its proceedings, and will report on its actions and activities at the next quarterly meeting of the Board. Committee members will be furnished with copies of the minutes of each meeting and any action taken by unanimous consent. The Committee is governed by the same rules regarding meetings (including meetings by conference telephone or similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the Board. The Committee is authorized and empowered to adopt its own rules of procedure not inconsistent with (a) any provision of this Charter, (b) any provision of the Bylaws of the Company, or (c) the laws of the state of Washington.

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Communications

The independent auditor reports directly to the Committee. The Committee is expected to maintain free and open communication with the independent auditor, the internal auditors, and management. This communication will include periodic private executive sessions with each of these parties.

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Education

The Company is responsible for providing new members with appropriate orientation briefings and educational opportunities, and the full Committee with educational resources related to accounting principles and procedures, current accounting topics pertinent to the Company, and other matters as may be requested by the Committee. The Company will assist the Committee in maintaining appropriate financial literacy.

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Authority

The Committee will have the resources and authority necessary to discharge its duties and responsibilities. The Committee has sole authority to retain and terminate outside counsel or other experts or consultants, as it deems appropriate, including sole authority to approve the firms' fees and other retention terms. The Company will provide the Committee with appropriate funding, as the Committee determines, for the payment of compensation to the Company's independent auditor, outside counsel, and other advisors as it deems appropriate, and administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention. The Committee will have access to the Company's books, records, facilities, and personnel. Any communications between the Committee and legal counsel in the course of obtaining legal advice will be considered privileged communications of the Company, and the Committee will take all necessary steps to preserve the privileged nature of those communications.

The Committee may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Committee.

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Responsibilities

The Committee's specific responsibilities in carrying out its oversight role are delineated in the Audit Committee Responsibilities Calendar. The Responsibilities Calendar will be updated annually as necessary to reflect changes in regulatory requirements, authoritative guidance, and evolving oversight practices. The most recently updated Responsibilities Calendar will be considered to be an addendum to this Charter.

The Committee relies on the expertise and knowledge of management, the internal auditors, and the independent auditor in carrying out its oversight responsibilities. Management of the Company is responsible for determining the Company's financial statements are complete, accurate, and in accordance with generally accepted accounting principles and establishing satisfactory internal control over financial reporting. The independent auditor is responsible for auditing the Company's financial statements and the effectiveness of the Company's internal control over financial reporting. It is not the duty of the Committee to plan or conduct audits, to determine that the financial statements are complete and accurate and in accordance with generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Company's standards of business conduct, codes of ethics, internal policies, procedures, and controls.

KEY: ● = WHEN PERFORMED Audit Committee Meetings

Microsoft Corporation Audit Committee Responsibilities Calendar

RESPONSIBILITY	Q1	Q2	Q3	Q4	As Req'd
1. The agenda for Committee meetings will be prepared in consultation between the Committee chair (with input from the Committee members), Finance management, the senior internal audit employee designated by the Committee to act as its direct liaison (the "Internal Audit Executive"), and the independent auditor.	●	●	●	●	●
2. Review and update the Audit Committee Charter and Responsibilities Calendar annually.				●	
3. Complete an annual evaluation of the Committee's performance.		●			
4. Provide a report in the annual proxy that includes the Committee's review and discussion of matters with management and the independent auditor.	●				
5. Include a copy of the Committee charter					●

	as an appendix to the proxy statement at least once every three years.					
6.	Appoint or replace the Independent auditor and approve the terms on which the independent auditor is engaged for the ensuing fiscal year.	•			•	
7.	At least annually, evaluate the independent auditor's qualifications, performance, and independence, including that of the lead partner. The evaluation will include obtaining a written report from the independent auditor describing the firm's internal quality control procedures; any material issues raised by the most recent Public Company Accounting Oversight Board inspection, internal quality control review, or PCAOB review, of the firm or by any inquiry or investigation by governmental or professional authorities within the past five years, concerning an independent audit or audits carried out by the firm, and any steps taken to deal with those issues; and all relationships between the independent auditor and the Company.				•	•
8.	Resolve any disagreements between management and the independent auditor about financial reporting.					•
9.	Establish and oversee a policy designating permissible services that the independent auditor may perform for the Company, providing for preapproval of those services by the Committee subject to the de minimis exceptions permitted under applicable rules, and quarterly review of any services approved by the designated member under the policy and the firm's non-audit services and related fees.	•	•	•	•	•
10.	Review the responsibilities, resources, functions, and performance of the Company's internal audit department.				•	
11.	Review and approve the appointment or change in the Internal Audit Executive.					•
12.	Ensure receipt from the independent auditor of a formal written statement delineating all relationships between the auditor and the company, consistent with Independence Standards Board Standard No. 1, and actively engage in a dialogue with the auditor about any disclosed relationships or services that may impact the objectivity and independence of the auditor, and take appropriate action to oversee the independence of the independent auditor.	•				•

13.	Advise the Board about the Committee's determination whether the Committee consists of three or more members who are financially literate, including at least one member who has financial sophistication and is a financial expert.	•						
14.	Inquire of management, the Internal Audit Executive, and the independent auditor about significant risks or exposures, review the Company's policies for risk assessment and risk management, and assess the steps management has taken to control such risk to the Company.				•	•		
15.	Review with Finance management, the independent auditor, and the Internal Audit Executive the audit scope and plan, and coordination of audit efforts to ensure completeness of coverage, reduction of redundant efforts, the effective use of audit resources, and the use of independent public accountants other than the appointed auditors of the Company.	•		•			•	
16.	Review with Finance management, the independent auditor, and the Internal Audit Executive:							
	a. The Company's annual assessment of the effectiveness of its internal controls and the independent auditor's attestation.	•						
	b. The adequacy of the Company's internal controls, including computerized information system controls and security.	•	•	•	•	•	•	
	c. Any "material weakness" or "significant deficiency" in the design or operation of internal control over financial reporting, and any steps taken to resolve the issue.	•	•	•	•	•	•	
	d. Any related significant findings and recommendations of the independent auditor and internal audit together with management's responses.						•	
17.	Review with Finance management any significant changes to GAAP and/or MAP policies or standards.	•	•	•	•	•	•	
18.	Review with Finance management and the independent auditor at the completion of the annual audit:	•						•
	a. The Company's annual financial statements and related footnotes, and recommend that the audited financial statements be included in the Form 10-K.							
	b. The independent auditor's audit of the financial statements and its report							

	thereon, including any matters to be communicated by the Independent auditor pursuant to Section 10A of the Securities Exchange Act of 1934.					
	c. Any significant changes required in the Independent auditor's audit plan.					
	d. Any serious difficulties or disputes with management encountered during the course of the audit, and management's response.					
	e. Other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards.					
19.	Review with Finance management and the Independent auditor at least annually the Company's critical accounting policies.				•	•
20.	Review policies and procedures with respect to transactions between the Company and officers and directors, or affiliates of officers or directors, or transactions that are not a normal part of the Company's business, and review and approve those related-party transactions that would be disclosed pursuant to SEC Regulation S-K, Item 404.				•	•
21.	Review with Finance management and the Internal Audit Executive:	•	•	•	•	•
	a. Significant findings by the Independent auditor or the Internal Audit Executive during the year and management's responses.					
	b. Any difficulties encountered in the course of their audit work, including any restrictions on the scope of their work or access to required information.					
	c. Any changes required in planned scope of their audit plan.					
22.	Participate in a telephonic meeting among Finance management, the Internal Audit Executive and the Independent auditor before each earnings release to review the earnings release, financial information, use of any non-GAAP information, and earnings guidance.	•	•	•	•	
23.	Review with Finance management and the Independent auditor the Company's quarterly financial statements and analyses prepared by management setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial	•	•	•	•	

	statements, including analyses of the effects of alternative GAAP methods on the financial statements.				
24.	Review with the Independent auditor the following:	•	•	•	•
	a. Alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with management, ramifications of use of the alternative disclosures and treatments, and the treatment preferred by the Independent auditor.				
	b. Other material written communications between the Independent auditor and management (e.g., schedule of unadjusted differences).				
25.	Review with Finance management, the Internal Audit Executive and the Independent auditor the periodic reports of the Company (including the disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations") and other financial filings with the SEC prior to filing with the SEC.	•	•	•	•
26.	After review, recommend to the Board acceptance and inclusion of the annual audited financial statements in the Company's Annual Report on Form 10-K.	•			
27.	In connection with each periodic report of the Company, review:	•	•	•	•
	a. Management's disclosure to the Committee and the Independent auditor under Section 302 of the Sarbanes-Oxley Act, including identified changes in internal control over financial reporting.				
	b. The contents of the Chief Executive Officer and the Chief Financial Officer certificates to be filed under Sections 302 and 906 of the Sarbanes-Oxley Act and the process conducted to support the certifications.				
28.	Monitor the appropriate standards adopted as a code of conduct for the Company.		•		•
29.	Review with the Compliance Officer legal and regulatory matters that may have a material impact on the financial statements, related Company compliance policies and programs, and reports received from regulators.	•	•	•	•
30.	Develop, review, and oversee procedures		•		•

	for (i) receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, and auditing matters and (ii) the confidential, anonymous submission of employee concerns regarding accounting or auditing matters.					
31.	Meet with the independent auditor in executive session to discuss any matters the Committee or the independent auditor believes should be discussed privately with the Audit Committee.	•	•	•	•	
32.	Meet with the Internal Audit Executive in executive session to discuss any matters the Committee or the Internal Audit Executive believes should be discussed privately with the Audit Committee.	•	•	•	•	
33.	Meet with Finance management in executive session to discuss any matters the Committee or Finance management believes should be discussed privately with the Audit Committee.					•
34.	Set clear hiring policies for the Company's hiring of employees or former employees of the independent auditor who were engaged in the Company's account, and ensure the policies comply with any regulations applicable to the Company.					•

Revised: July 1, 2008

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Check Point Software Technologies Ltd. Audit Committee Charter

PURPOSE OF THE AUDIT COMMITTEE

The purpose of the Audit Committee of the Board of Directors of Check Point Software Technologies Ltd. is to (i) oversee and monitor the Company's financial reporting process and systems of internal controls regarding finance and accounting on behalf of the Board of Directors, (ii) reveal improprieties in the management of the Company, in consultation with the Company's internal auditor and independent auditors, and (iii) review and pass upon those transactions for which audit committee approval is required pursuant to Israel's Companies Law.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Board of Directors recognizes that the Company's management is responsible for preparing the Company's financial statements and that independent auditors are responsible for auditing those financial statements. In fulfilling these responsibilities, management and the independent auditors are ultimately accountable to the Audit Committee and the Board of Directors.

Nothing in this Charter should be construed to imply that the Audit Committee is required to provide or does provide any assurance or certification as to the Company's financial statements or as to its compliance with laws, rules or regulations. In order to fulfill its oversight responsibility, the Audit Committee must be capable of conducting free and open discussions with management, internal and independent auditors, employees and others regarding the quality and integrity of the financial statements and the system of internal controls.

The specific duties of the Audit Committee shall be as follows:

Independent Auditors

1. Appoint an independent accountant to audit the financial statements of the Company or to perform other audit, review or attest services for the Company, and terminate the engagement of the independent auditors, subject to the ratification and approval by the Company's shareholders to such appointment or termination, in each case, to the extent required by Israeli laws; review and approve in advance the fees and terms of all audit services and all non-audit services permitted under Israeli laws and regulations, U.S. securities laws and regulations and the regulations of the Relevant Listing Authority (as hereinafter defined), after such authority is delegated to the Audit Committee by the Board of Directors and subject to the ratification and approval by the Company's shareholders of such compensation, to the extent required by Israeli laws. Approval of audit and permitted non-audit services may also be made by one or more members of the Audit Committee as shall be designated by the Audit Committee or the chair of the Audit Committee and the member or

members granting such approval shall report such approval to the Audit Committee at the next scheduled meeting.

2. Ensure the auditors' independence by:
 - (i) ensuring that the auditors at least annually submit to the Audit Committee a formal written statement delineating all relationships between the auditors and the Company;
 - (ii) actively engaging in a dialogue with the auditors with respect to any disclosed relationships or services that may impact their objectivity and independence, including under U.S. securities laws and regulations and the matters required by Independence Standards Board Standard No. 1 Independence Discussions with Audit Committees (as it may be modified or supplemented);
 - (iii) reviewing any relationships between the auditors and the Company, or any other relationship, that may adversely affect independence; and
 - (iv) evaluating with the assistance of the Company's management the qualifications, performance and independence of the independent auditor, including the lead partner of the independent auditor.
3. Annually require the auditors to confirm in writing their understanding of the fact that they are accountable to the Audit Committee.
4. Annually review the auditors' proposed audit plan and approach, as well as staffing and timing of the audit and related matters.
5. Obtain from management, review and approve, a description of issues and responses whenever a second opinion is proposed by management to be sought from another outside accountant.

Financial Statements

6. Conduct a post-audit, pre-issuance review of the Company's annual financial statements, any judgments or reporting issues in connection therewith, the independent auditors' opinion thereon, and any significant difficulties or disagreements between the independent auditors and management in connection with the Company's financial statements. Review the Company's critical accounting policies and any changes thereto.
7. Discuss the annual financial statements with the appropriate officers and/or employees of the Company and with the independent auditors, and discuss with the auditors the matters required to be discussed by relevant auditing standards, including the quality, and not just the acceptability, of the critical accounting policies and underlying estimates used in the financial statements. Consider the impact of acceptable alternative accounting principles that are communicated by the independent auditor, internal auditors or the Company's management. Resolve any disagreements between the independent auditors and management of the Company.
8. If the Audit Committee finds the annual financial statements acceptable, recommend to the Board of Directors that they be included in the Company's annual report on Form 20-F.

9. Prepare a report to the shareholders of the Company in each proxy statement, to the extent required by applicable law, the rules and regulations of the Securities and Exchange Commission (the "Commission") or any Relevant Listing Authority (as hereinafter defined).

10. Review with the Company's management and the independent auditors the quarterly earnings releases and the schedule of unrecorded adjustments to the Company's financial statements and the reasons underlying the Company's assessment of the immateriality of such adjustments.

11. With regard to any public filings, releases or reports that include financial statements or data, the Chairman of the Audit Committee and/or any member or members of the Audit Committee whom he or she designates, shall review with management and the independent auditor the financial statements or data to be included in such filing, release or report prior to filing or release thereof.

Internal Accounting and Control Functions

12. Review the adequacy of the Company's system of internal accounting and financial controls.

13. At least annually review the quality of internal accounting and financial controls, the independent auditors' report or opinion thereon and any recommendations the independent auditors may have for improving or changing the Company's internal controls, as well as management's letter in response thereto and any other matters required to be discussed under Statement of Auditing Standards No. 61 (as it may be modified or supplemented).

14. Review the Company's major financial risk exposures and the steps management has taken and proposes to take to monitor and control such exposures.

15. Establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

15A. Appoint/recommend to the Board of Directors for appointment and evaluate, in consultation with executive management, the Company's internal auditor.

15B. Review and approve the budgets and staffing for the internal auditor and staff.

15C. Annually review the results of the internal auditor's reviews and audits.

15D. Review proposed future internal audit plans.

General

16. Annually review the Audit Committee Charter, and any provisions of the Company's articles of association, which refer to the Audit Committee, and propose to the Board of Directors necessary or appropriate revisions.

17. Prior to the beginning of each fiscal year, the Chairman shall draft a proposed schedule of the Audit Committee's activities for the coming year, and the times at which such activities shall occur, including preliminary agendas for each proposed meeting of the Audit Committee, which shall be submitted to the Audit Committee for its review and approval, with such changes as the Audit Committee shall determine to be appropriate.

18. Engage independent counsel and other advisors as the Audit Committee determines necessary to carry out its duties. The Company shall provide appropriate funding to the Committee to pay the independent auditors and any advisors employed by the Audit Committee, as well as ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

Reporting Responsibilities

19. Periodically report its activities, concerns, conclusions and recommendations to the Board of Directors.

AUTHORITY

20. The Audit Committee and each of its members may communicate directly and/or privately with the Company's directors, officers, employees, consultants, agents, internal auditors, independent auditors, counsel (including inside and outside counsel) and advisors, and any and all third parties in the performance of the Audit Committee's functions.

21. The Audit Committee may cause an investigation to be made into any matter within the scope of its responsibilities under this Charter, as the Audit Committee deems necessary, or as otherwise requested by the Board or Directors. The Audit Committee may require Company personnel to assist in any such investigation.

COMMITTEE MEMBERSHIP

22. The membership of the Audit Committee shall consist of three or more directors each of whom shall:

- (i) have been appointed by the Board of Directors;
- (ii) be free of any relationship to the Company which, in the opinion of the Board of Directors, may interfere with the exercise of independence from management and the Company or could influence his or her judgment as a member of the Audit Committee;
- (iii) otherwise meet the requirements of independence prescribed by Israeli law, United States securities laws and regulations or the rules and regulations of The Nasdaq Stock Market or any other market on or through which the Company's securities may be traded (the "Relevant Listing Authority"), as such rules may be amended from time to time; and
- (iv) be or shall become (within a reasonable period of time after his or her appointment to the Committee) "financially literate," as such qualification is interpreted by the Board of

Directors in its discretion (subject to any requirements prescribed by Israeli law, United States securities laws, the rules and regulations of the Commission or the rules and regulations of the Relevant Listing Authority).

In addition, at least one member of the Audit Committee shall be a financial expert, as such qualification is determined by the Board of Directors in its discretion (subject to any requirements prescribed by Israeli law, United States securities laws, the rules and regulations of the Commission or the rules and regulations of the Relevant Listing Authority).

23. The Board of Directors reserves all authority permitted under Israeli law, United States securities laws, the rules and regulations of the Commission, and the rules and regulations of the Relevant Listing Authority in connection with any matter referred to in this Charter, including but not limited to the determination of independence of Audit Committee members.

MEETINGS

24. The Audit Committee shall meet as often as necessary to fulfill its functions as determined by the Committee, but not less than once during each calendar quarter.

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

AUDIT COMMITTEE CHARTER

As amended February 27, 2006

Status

The Audit Committee is a committee of the Board of Directors (the "Board").

Membership

The Audit Committee shall consist of three or more directors (other than the Chairman of the Board), all of whom, in the judgment of the Board of Directors, shall be independent in accordance with the requirements of the Israeli Companies Law - 1999 (the "Companies Law"), the U.S. Securities and Exchange Commission (the "SEC") and NASDAQ. The Committee shall include the Company's two (2) independent external directors ("Statutory Independent Directors") elected in accordance with the Companies Law. Each member shall have, in the judgment of the Board of Directors, the ability to read and understand the Company's basic financial statements. A member of the Audit Committee shall be, in the judgment of the Board of Directors, an audit committee financial expert in accordance with the rules and regulations of the SEC and may also serve as the audit committee financial expert who, in the judgment of the Board of Directors, shall have accounting or related financial management expertise in accordance with NASDAQ listing standards. The Chairman of the Committee ("Chairman") shall be designated by the Board.

Purpose

The Audit Committee shall represent and assist the Board of Directors with the oversight of: (a) the integrity of the Company's financial statements, (b) the qualifications and independence of the Company's independent auditors, (c) the effectiveness of the Company's internal controls, (d) the performance of the Company's internal audit function and the independent auditors (e) management's antifraud program and controls, including identification of fraud risks and implementation of anti-fraud measures, and (f) in accordance with the Companies Law, approve any transaction or acts

requiring its approval and to find defects, to the extent such exist, in the business management of the Company, in consultation with the Company's independent auditors and internal auditor, and to propose to the Board ways of correcting them. Except as otherwise required by applicable laws, regulations or listing standards, all major decisions are considered by the Board of Directors as a whole.

Responsibilities

1. Select and retain (subject to approval by the Company's shareholders), and terminate when appropriate, the independent auditors, set the independent auditors' compensation (subject to approval by the Company's shareholders and/or the board of directors), oversee and evaluate the work of the independent auditors and pre-approve all audit services to be provided by the independent auditors.
2. Pre-approve all permitted non-audit services to be performed by the independent auditors and establish policies and procedures for the engagement of the independent auditors to provide permitted audit and non-audit services.
3. At least annually, receive and review: (a) a report by the independent auditors describing the independent auditors' internal quality-control procedures and any material issues raised by the most recent internal quality-control review, peer review or Public Company Accounting Oversight Board ("PCAOB") review, of the independent auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (b) other required reports from the independent auditors.

4. At least annually, consider the independence of the independent auditors, including whether the provision by the independent auditors of permitted non-audit services is compatible with independence, and obtain and review a report from the independent auditors describing all relationships between the auditors and the Company.
5. Review with the independent auditors: (a) the scope and results of the audit; (b) significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements including critical accounting policies, judgments made in connection with the preparation of the financial statements and analyses of the effects of alternative U.S. generally accepted accounting principles ("U.S. GAAP"), (c) any problems or difficulties that the auditor encountered in the course of the audit work, and management's response; (d) any accounting adjustments that were proposed by the independent auditors but were "passed" (as immaterial or otherwise) and any material communications between the audit team and the independent auditors' national office respecting auditing or accounting issues presented by the engagement; and (e) any questions, comments or suggestions the auditor may have relating to the internal controls, and accounting practices and procedures, of the Company or its subsidiaries.
6. Review, at least annually, the scope and results of the internal audit program, including then current and future programs of the Company's internal auditor, procedures for implementing accepted recommendations made by the independent auditors, and any significant matters contained in reports from the internal auditor.
7. Review with the independent auditors, the internal auditor and management: (a) the adequacy and effectiveness of the systems of internal controls (including any significant deficiencies and significant changes in internal controls reported to the Audit Committee by the independent auditors or management), accounting practices, and disclosure controls and procedures (and management reports thereon), of the Company and its subsidiaries; (b) any material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences; and (c) current accounting trends and developments, and take such action with respect thereto as may be deemed appropriate.
8. Review with management and the independent auditors the annual and quarterly financial statements of the Company, including: (a) the Company's disclosures under "Operating and Financial Review and Prospects;" (b) any material changes in accounting principles or practices used in preparing the financial statements prior to the filing of a report on Form 20-F or 6-K with the SEC; and (c) the items required by Statement of Auditing Standards 61¹ as in effect at that time in the case of the annual statements and Statement of Auditing Standards 100² as in effect at that time in the case of the quarterly statements.
9. Recommend to the Board of Directors, based on the review described in paragraphs 4 and 8 above, whether the financial statements should be included in the annual report on Form 20-F.
10. Review, from time to time with the Company's management, earnings press releases, as well as Company policies with respect to earnings press releases, financial information and earnings guidance provided to analysts and rating agencies.
11. Discuss Company policies with respect to risk assessment and risk management, including any off-balance sheet arrangements, and review contingent liabilities and risks that may be material to the Company and major legislative and regulatory developments which could materially impact the Company's contingent liabilities and risks.
12. Review: (a) the status of compliance with laws, regulations, and internal procedures; and (b) the scope and status of systems designed to promote Company compliance with laws, regulations and internal

¹ Statement of Accounting Standards 61 relates to the requirement for the auditor to determine that certain matters relating to the conduct of an audit are communicated to the Audit Committee.

² Statement of Auditing Standards 100 was issued to provide additional guidance on performing reviews of interim financial information and to incorporate the requirement of the SEC for timely filings of interim financial information.

procedures, including the Company's Code of Business Conduct, through receiving reports from management, legal counsel and third parties, as determined by the Audit Committee.

13. Establish procedures for the confidential and anonymous receipt, retention and treatment of complaints regarding the Company's accounting, internal controls and auditing matters, as well as for the confidential, anonymous submissions by Company employees of concerns regarding questionable accounting or auditing matters.
14. Establish policies for the hiring of employees and former employees of the independent auditors.
15. Obtain the advice and assistance, as appropriate, of independent counsel and other advisors as necessary to fulfill the responsibilities of the Audit Committee, and receive appropriate funding from the Company, as determined by the Audit Committee, for the payment of compensation to any such advisors.
16. Conduct an annual performance evaluation of the Audit Committee and evaluate the adequacy of its charter.
17. Approve, in accordance with the Companies Law and NASDAQ requirements, and subject to Board and/or shareholder approval to the extent required, any
 - a. proposed transaction in which an executive officer or director of the Company (an "office holder") has a direct or indirect personal interest and which is outside the ordinary course of the Company's business, which is not in accordance with market conditions or which may materially influence the earnings, assets or liabilities of the Company;
 - b. a material action that may otherwise be deemed to constitute a breach of the duty of loyalty of any office holder, provided that such action is done in good faith and does not cause the Company harm;
 - c. terms of service of directors (including terms of their employment as officers of the Company); and
 - d. indemnification, insurance and exemptions to office holders;subject, in each case, to the condition that the transaction does not harm the Company's welfare, as determined by the Committee. The Committee shall not be

entitled to grant these approvals, unless at least one of the two Statutory Independent Directors was present at the meeting in which the approval was given.

Meetings

The Audit Committee shall meet at least six times each year and at such other times as it deems necessary to fulfill its responsibilities. The Company's internal auditor and the independent auditors shall be given notice of Committee meetings and shall be entitled to participate therein, subject to determination by the Committee to exclude them from all or any part of the meeting. Upon the request of the Company's internal auditor to convene a meeting of the Committee to discuss a particular matter, the Chairman shall convene such meeting within a reasonable time following the date of the request, provided that the Chairman shall believe that there is a good reason for such a meeting. The Audit Committee shall periodically meet separately, in executive session, with management, the internal auditor and the independent auditors. The Committee shall periodically report to the Board of Directors with respect to its activities and make recommendations to the Board of Directors as appropriate.

Limitation of Committee's Role

While the Committee has the authority, powers, and responsibilities set forth in this Charter, it is not the duty of the 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 U.S. GAAP and applicable legal, accounting, and other requirements. These are the responsibilities of the Company's management and independent auditors.

Charter Amendment

Any member of the Committee may submit proposed Charter amendments to the Board. The Board shall circulate any proposed charter amendment(s) to members of the Committee immediately upon receipt. By a majority vote, the Board may approve the amendments to this Charter.

Audit Committee Best Practices¹

Important Qualities

To be effective, audit committee members should be:

- prepared to devote a significant amount of time to service on the audit committee;
- able, and willing, to inform themselves about the company and its industry so that they can thoughtfully and objectively analyze the company's financial reporting processes, financial statements and financial disclosures; and
- willing to ask tough, probing questions of management, the internal audit department (if the company has one) and the independent auditors regarding these matters and to be persistent in getting adequate answers to their questions.

Best Practices – Additional Considerations

We recommend that the Board evaluate the following additional considerations when determining how to increase audit committee member independence and financial literacy:

- implementing training and education programs to ensure that audit committee members remain current on recent accounting and finance developments;
- increasing the number of audit committee members to include more than the minimum number required by Nasdaq and the NYSE;
- prohibiting directors who are not considered “independent” from serving on the audit committee, even if permissible under “exceptional and limited” circumstances;
- avoiding even the appearance of impropriety by making certain that no member of the audit committee has any business or family relationship with the company or its management team, other than as a director;
- distributing to potential audit committee members a written description of the qualifications, responsibilities and time commitments expected;
- considering whether it is advisable to limit the term of audit committee members;
- evaluating whether audit committee members are receiving an appropriate level of compensation given their responsibilities;
- evaluating whether the company's charter, bylaws and director indemnification agreements provide adequate protections for audit committee members; and
- evaluating whether the company's D&O insurance policy provides adequate coverage to audit committee members.

Principal Functions of the Audit Committee

The audit committee assists the Board in fulfilling its statutory and fiduciary oversight responsibilities relating to the company's financial accounting, reporting and controls. Its principal functions are to:

¹ Excerpted from Audit Committee Duties and “Best Practices,” Fenwick & West LLP, Corporate & Securities Law Update.

- monitor the periodic reviews of the accounting and financial reporting processes and systems of internal control that are conducted by the company's independent auditors, financial and senior management and internal auditing department (if the company has one); and
- review and evaluate the independence and performance of the company's independent auditors.

In performing these oversight functions, the Board and audit committee should seek to oversee the adoption of quality accounting policies and internal controls, and hire effective independent auditors, in order to deter fraud, anticipate financial risks and promote accurate, timely and meaningful disclosure of financial and other information to the Board, the public and the SEC.

Each company faces its own unique circumstances, so each audit committee should tailor its practices to address those circumstances. The following "best practices" are suggestions intended as a guide to assist audit committees in establishing practices and procedures that are appropriate for their particular companies.

Best Practices – Monitoring the Accounting and Financial Reporting Processes and Systems of Internal Control

In monitoring a company's accounting and financial reporting processes and systems of internal control, an audit committee could consider the following "best practices":

Conduct and Timing of Meetings

- hold audit committee meetings without restrictions or time constraints at least quarterly;
- maintain minutes of each meeting;
- schedule audit committee meetings well in advance to coincide with completion of each quarter's financial statements and prior to finalizing the company's quarterly earnings release;
- distribute written materials for review by the audit committee sufficiently in advance of the meeting;
- meet separately with each of the key players involved in the financial reporting process – members of management, the internal audit department (if the company has one) and the independent auditors – at least once per quarter to review internal controls, the fullness and accuracy of the company's financial statements, the financial reporting process and other appropriate matters;
- communicate openly and effectively (in and out of scheduled meetings) with management, the internal audit department (if the company has one) and the independent auditors;
- periodically report to the Board of Directors on significant matters related to the audit committee's responsibilities;

Set Policies Regarding Required Notifications

- establish policies for when and how the audit committee will be notified of important events, such as:
 - proposed changes in accounting principles;
 - disagreements between management and the independent auditors;

- significant changes in management's estimates;
- use of any non-GAAP accounting principles; and
- unusual financial statement adjustments above a specified dollar threshold;

Review the Adequacy of Internal Controls at Least Quarterly

- monitor and discuss (with management, the internal audit department (if the company has one) and the independent auditors) the company's internal control structure to determine whether the company's policies are working and are responsive to the current environment;
- evaluate weaknesses or breakdowns in the company's internal control system, monitor control breakdowns of competitors and re-examine relevant areas within the company;
- evaluate whether internal controls are enforced consistently, requiring management to follow the same controls as general staff;
- evaluate the adequacy of the number of personnel devoted to internal control procedures, including whether key functions are segregated, and the quality of personnel in key internal control positions;

Monitor the Company's Internal Audit Function

- review on at least an annual basis, and participate in, the budget and staffing for the internal audit department (if the company has one);
- review the internal audit function on at least an annual basis, including the independence and authority of its reporting obligations and the coordination of the company's internal audit personnel with management and independent auditors;
- review the assignments and priorities for the internal audit team;
- meet with the internal auditors at least quarterly to discuss the preparation of company's financial statements, the adequacy of the company's financial reporting processes, the company's internal control structure, the internal auditors' methods of risk assessments, the results of those assessments and other appropriate matters;

General Review and Discussion of Financial Statements and Financial Disclosures at Least Once Per Quarter

- review and discuss the quarterly and audited financial statements with management before they are released publicly;
- review the content, tone and quality of the text of each earnings release, including the adequacy and presentation of any pro forma earnings disclosures;
- review the company's Forms 10-Q and 10-K before they are finalized and filed with the SEC, in particular Management's Discussion and Analysis ("MD&A");
- review the company's financial disclosures (in press releases and SEC filings) for understandability and transparency;
- in connection with the audit committee's review and discussion of quarterly and annual financial statements and financial disclosures, address the following (among other things) in discussions with management and, where appropriate, the independent auditors:
 - the company's business, overall business environment and risks, including business and industry trends, the company's competitive position and strategy and how the company is affected by current economic conditions;
 - analyst and press reports, and competitors' statements, about the company, its competitors and its industry, and how the company is responding to relevant issues and risks;

- differences in reported versus planned results;
- how the company's results differ from its competitors;
- the impact of the loss of a significant customer or supplier;
- seasonality effects;
- the impact of items that are not likely to be recurring;
- segments of the company's business that have a disproportionate impact on the company's revenue and results of operations;
- the company's liquidity situation, including the potential effects of offbalance sheet arrangements, covenants in debt and other agreements and trading activities;
- any related-party transactions;
- the risk of misstatements in the company's financial statements or in MD&A;
- risks related to the creditworthiness of the company and its customers;
- the impact of changes in company sales policies (for example, the level of discounts given to customers or the length of customer payment periods);
- the volume of sales transactions closed near the end of each quarter;
- the existence of any reciprocal or barter transactions;
- the company's investments in customers or suppliers;
- the existence of any transactions that raise form over substance issues;
- the company's creation of any special purpose entities;
- the company's policies about managing and assessing risk; and
- the status of legal and regulatory matters (also discuss with inside and/or outside legal counsel);

Review and Discuss Accounting Policy Issues at Least Once Per Quarter

- discuss with management the company's selection, application and disclosure of its "critical" accounting policies in MD&A;
- discuss significant estimates and judgments made by management in choosing and applying its accounting policies;
- discuss with management and the independent auditors the quality, not just the acceptability, of the accounting principles used by management, including alternative accounting methods within GAAP;
- discuss with management and the independent auditors the likelihood that materially different amounts would be reported under different conditions or using different assumptions in applying the company's accounting policies;
- consider how management's accounting choices affect the consistency, clarity and completeness of the financial statements and related disclosures;
- consider how the company's accounting principles differ from industry norms;
- discuss with management any new accounting policies or proposed changes in accounting policies;
- examine accounting policies relating to the timing of transactions and the period in which they are recorded;
- inquire about and analyze any changes in the way items are accounted for;
- question the guidelines management uses to determine what is and is not material;
- study items deemed "immaterial" and understand why this is so;
- discuss other significant or unusual accounting matters, such as:
 - the company's revenue recognition policies and compliance with relevant accounting standards, including Staff Accounting Bulletin No. 101, and any trends that are affecting the company's recognition of revenue (such as an

- increase in period end shipments, changes in the mix of sales by distribution channel or type of customer and changes in the mix of products and services);
- restructuring charges;
- the use of reserves and accruals;
- the effect of acquisitions and dispositions on revenues and earnings;
- impairment assessments for inventory, goodwill and other long-lived and intangible assets;
- contingent liabilities; and
- accounting for marketable debt and equity securities;
- discuss with management any second opinions it has sought from other outside auditors;

Address Risk of Fraudulent Reporting

- review approval authority for entering into significant transactions;
- assess the risk of fraudulent financial reporting by inquiring about common red flags, including the following:
 - cash flow problems;
 - requests to change the external auditors;
 - large or unusual transactions at or near year end;
 - material transactions with related parties;
 - off balance sheet transactions involving special purpose entities;
 - overly complex transactions which suggest form over substance;
 - missing records of the company;
 - side arrangements;
 - unusual variances in the company's financial results;
 - significant changes in income tax rates;
 - warnings or complaints from employees; and
 - sudden turnover in key management positions;

Review Duties and Performance of Audit Committee

- review and reassess at least annually the adequacy of the audit committee's charter;
- review at least quarterly the committee's intention, and ability, to fulfill all of the duties set forth in the audit committee charter;
- review at least annually the audit committee's performance, including an assessment from the Board of Directors as a whole;

Review and Address Issues Raised in Annual Management Letter

- promptly review with management, the internal audit department (if the company has one) and the independent auditors all recommendations made by the independent auditors in their annual management letter;
- approve a schedule for implementing any recommended changes as a result of the annual management letter and monitor compliance with the schedule;

Assess the Audit Committee's Role in Monitoring Compliance with the Company's Code of Conduct and the Law

- consider whether the audit committee should assume responsibilities in connection with monitoring compliance with the company's code of ethical conduct (if it has one) and legal compliance, including the following:
 - reviewing the company's code of ethical conduct;

- reviewing reports that summarize the company's monitoring of compliance with its code of ethical conduct and legal compliance;
- reviewing the fairness of any proposed material transaction between management of the company and the company (excluding transactions that are subject to review by the Compensation Committee of the Board); and
- making recommendations regarding such transactions to the Board;

Other Key Functions and Powers

- review and assess the qualifications and performance of the company's management with respect to financial reporting and disclosure issues;
- ensure that the audit committee has unrestricted access to company personnel and documents;
- ensure that the audit committee has the ability to conduct special investigations into matters within the scope of its duties;
- ensure that the audit committee has the power to retain outside legal counsel, experts and other advisors (such as independent forensic accountants);
- evaluate whether the company has in place processes that will provide audit committee members with adequate information from the company in order for them to be well informed with respect to the company's financial operations, including details regarding the company's operating results, significant press releases made by the company during the relevant time period and disclosures made in company SEC filings;
- discuss with management what policies are in place to promote accurate and timely reporting of financial results; and
- prepare a report to the company's stockholders for inclusion in the company's annual proxy statement as required by SEC rules and regulations.

Best Practices - Monitoring the External Audit Function

In monitoring the company's external audit function, the audit committee could consider the following "best practices":

Participate in the Retention, Review and Discharge of the Independent Auditors

- participate in hiring, firing and changing of the independent auditors;
- review the independent auditors' audit plan;
- review the amount of estimated audit fees to be charged by the independent auditors and any other significant compensation to be paid to the independent auditors;
- inquire about the adequacy of staffing, experience levels and qualifications of the auditors assigned to the company (including experience with the company's industry) and the adequacy of time being spent by the more experienced partner or manager (including total hours and their time as a percentage of total audit hours spent on the company);
- inquire about the adequacy of the time being spent on areas that require judgment or represent the greatest reporting risk, including the adequacy of time being sent by the more experienced partner or manager (including total hours);
- review the performance of the independent auditors;
- communicate with the company's independent auditors about the company's expectations regarding its relationship with the auditors, including the following:
 - the independent auditors' ultimate accountability to the Board and the audit committee, as representatives of the company's stockholders; and

- the ultimate authority and responsibility of the Board and the audit committee to select, evaluate and, where appropriate, replace the independent auditors;

Discuss the Company's Financial Statements and Accounting Policies with the Independent Auditors

- before public release, review with the independent auditors both the quarterly financial statements (after the independent auditors have completed their review under Statement on Auditing Standards No. 71), and the audited financial statements;
- in connection with quarterly and annual reviews, obtain the independent auditors' explanation and analysis of any questions or concerns involving the accounting policies and resulting financial statements, including:
 - whether management's approach to accounting is conservative, moderate or aggressive;
 - whether management's methods are common practices in the industry;
 - the reasoning behind the independent auditors' determinations of the approach and methods used by the company;
 - the quality, completeness and clarity of the overall financial disclosure under GAAP; and
 - what were the key items that management and the independent auditors focused on during the quarterly and annual reviews;
- in connection with the quarterly and annual review of the company's financial statements, discuss with the independent auditors the matters set forth under Statement on Auditing Standards No. 61, including:
 - the auditors' responsibility under generally accepted auditing standards;
 - the company's significant accounting policies and any new or different accounting policies it has adopted;
 - the impact of any significant or unusual transactions and the accounting for such transactions;
 - management's judgments and accounting estimates;
 - significant audit adjustments that may have an effect on the financial reporting process;
 - any disagreements with management;
 - the auditors' judgments about the quality, not just the acceptability, of the company's accounting principles;
 - major issues discussed with management prior to retention; and
 - any difficulties encountered in performing the annual audit or conducting the SAS No. 71 quarterly review;
- require the independent auditors to provide the audit committee with a copy of the management letter provided to management, and discuss the letter with the independent auditors;
- discuss with the independent auditors their periodic reviews of the adequacy of the company's accounting and financial reporting processes, staffing and systems of internal control;
- discuss the independent auditors' methods for risk assessments and the results of those assessments and any changes in the scope of the audit as a result of such risk assessments;

Monitor the Independence of the Independent Auditors

- monitor at least quarterly the independence of the independent auditors by:

- obtaining from the auditors written disclosure of all relationships between the auditors and the company, including the nature of the services provided to the company and the fees charged for each type of service provided;
- confirming that the auditors believe that they are independent from the company; and
- discussing independence issues with the auditors, scrutinizing consulting services provided by the auditors, reviewing the relationships between the auditors and the company's management and finance staff (including any prior employment relationships), evaluating whether any of the company's internal functions have been outsourced to the auditors and evaluating the relative importance of the company's business to the audit firm;
- consider whether fees billed for information technology services and other nonaudit services are compatible with maintaining the auditors' independence;
- consider requiring pre-approval by the audit committee of non-audit services provided by outside auditors, or those above a specified dollar threshold or involving certain types of services (such as information technology services); and
- inquire about the manner in which the audit partner is compensated for his work on the company, including whether the partner receives any compensation based on the non-audit services provided to the company.



Audit Committee Charter Matrix

PURPOSE OF THIS TOOL: Preparing an audit committee charter is often referred to as a best practice and is required for many public companies. It is encouraged for most organizations and required by some states for not-for-profit organizations. However, the charter is often prepared and forgotten except for its annual review. This tool is designed to help audit committees make the charter a living document and use it to manage the agenda.

This tool is meant as a sample of what might be considered to be a best practice. Users of the tool should put their own charter in the first column and use this example as a guide for defining the steps to accomplish each objective, the associated performance measure, and the scheduling.

This tool is intended to serve not-for-profit organizations of all sizes and organizational structures. For instance, some small not-for-profit organizations cannot justify the expense of an internal auditor, while others have very large internal audit departments headed by a senior executive. It is becoming more common in larger organizations to refer to the person heading the internal audit function as the chief audit executive (CAE). As used in this tool, the terms *chief audit executive* and *CAE* refer to the person responsible for the internal audit function, irrespective of their title or organizational role. Similarly, relatively few not-for-profit organizations employ in-house legal counsel. Instead, most not-for-profit organizations rely on the professional services of outside attorneys engaged on a retainer basis or rely on volunteers' services. The guidance provided in this tool is applicable whether in-house resources are employed, an outsource arrangement exists, or volunteers provide services.

Audit Committee Charter Matrix for the Year Ending: _____

Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>1. The chair of the audit committee shall be a member of the board of directors, in good standing, and all members shall be independent in order to serve on this committee.</p> <p>Although not all audit committee members need be members of the board of directors, a majority of the audit committee members should be members of the board of directors.</p>	<p>Test for independence, based on the policies established by the organization.</p> <p>Minimal independence standards would prohibit employees or those with direct financial interests in entities serving the organization from serving on the audit committee.</p> <p>Additionally, an organization's independent auditors should not serve on the audit committee or on the board of directors.</p>	<p>Indicate in the audit committee minutes whenever a new member is appointed.</p>	<p>Affirm annually or whenever a change in status by any audit committee member occurs.</p>	
<p>2. The audit committee should have access to <i>financial expertise</i>, whether in the form of a single individual serving on the committee, or collectively among committee members.</p> <p>If the financial expertise is provided by one individual, it is desirable that he or she be a member of the board of directors. When no single member of the board has the requisite skills, other arrangements should be made to ensure that the audit committee has the financial expertise to carry out its duties.</p> <p>(See the tool "Audit Committee Financial Expertise Considerations," in this toolkit.)</p>	<p>Ascertain that the audit committee has the requisite financial expertise as defined by the organization.</p>	<p>Indicate in audit committee meeting minutes how financial expertise is available to the audit committee.</p>	<p>Affirm annually and when there is a change in status.</p>	

Audit Committee Charter Matrix

Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>3. Review the committee's charter annually, reassess the adequacy of this charter, and recommend any proposed changes to the board of directors. Consider changes that are necessary as a result of new laws or regulations.</p>	<p>Review the charter each year. Assess the appropriateness of each point in the charter in light of the previous year's experience. Assess the completeness of the charter in light of new best practices and new legal or regulatory requirements.</p>	<p>Report to the board on the appropriateness of the audit committee charter and any revisions recommended.</p>	<p>Review annually, unless changes are needed during the course of the year.</p>	
<p>4. The audit committee will meet as needed to address matters on its agenda, but not less frequently than twice each year. The audit committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.</p>	<p>In-person meetings should be held at least once each year. All members are expected to attend each meeting in person, via telephone conference, or videoconference. Telephone conference meetings may be held more frequently. The agendas for meetings should be prepared and provided to members in advance, along with appropriate briefing materials.</p>	<p>Prepare minutes that document decisions made and action steps following meetings and review for approval. Meeting minutes should be filed with the board of directors.</p>	<p>Minutes should be distributed as soon as possible but no later than before the next meeting.</p>	
<p>5. Conduct executive sessions with the outside auditors, executive director, and chief financial officer (CFO). If the organization has a chief audit executive (CAE), general counsel, or outside counsel, executive sessions should be conducted with each of these individuals as well. Circumstances may dictate that additional executive sessions may be needed with the director of financial reporting, controller, or others as desired by the Committee. (See the tool "Conducting an Audit Committee Executive Session: Guidelines and Questions," in this toolkit.)</p>	<p>Establish these sessions in conjunction with regularly scheduled meetings or as necessary.</p>	<p>Develop action steps to be taken, if appropriate.</p>	<p>Review as necessary, but not less frequently than regularly scheduled meetings.</p>	

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Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>6. The audit committee shall be authorized to hire independent auditors, counsel, or other consultants as necessary. (This may take place any time during the year.)</p> <p>(See the tool "Points to Consider When Engaging External Resources," in this toolkit.)</p> <p>(See the tool "Sample Request for Proposal Letter for CPA Services," in this toolkit.)</p>	<p>Establish a policy for the audit committee to preapprove engaging independent auditors and other experts.</p> <p>Discuss whether a budget should be established for this purpose.</p> <p>Requests for proposals (RFPs) should be used if time permits.</p>	<p>Prepare an engagement letter for each engagement.</p> <p>Report submitted by external accountant, counsel, or consultant.</p>	<p>Continually review the policy and compliance with it as needed.</p>	
<p>7. Review and approve the appointment, replacement, reassignment, or dismissal of the CAE.</p> <p>(See the tool "Guidelines for Hiring the Chief Audit Executive (CAE)," in this toolkit.)</p>	<p>Meet in executive session at each meeting with the CAE.</p> <p>Hold special meetings as may be necessary to address appointment, reassignment, or dismissal of the CAE.</p> <p>The audit committee chair should be available if any unforeseen issues arise between meetings relating to the CAE.</p> <p>Meet at least once annually with other members of executive management and the independent auditors to discuss the performance of the CAE. Discuss job satisfaction and other employment issues with the CAE.</p>	<p>Report to the full board on the performance of the CAE, including the effectiveness of the internal audit function.</p>	<p>Conduct ongoing reviews, as changes can be made at any time during the year.</p>	

Audit Committee Charter Matrix

Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>8. Appoint the independent auditors to be engaged by the organization, establish the audit fees of the independent auditors, and preapprove any nonaudit services provided by the independent auditors, including tax services, before the services are rendered.</p> <p>Review with management the significance of bidding out audit services.</p> <p>(See the tools "Sample Request for Proposal Letter for CPA Services" and "Peer Review of CPA Firms: An Overview," in this toolkit.)</p>	<p>At least once each year, discuss each of these items with management, the CAE, and the board of directors.</p> <p>Review total audit fee in relation to any nonaudit services being provided by the independent auditors.</p> <p>Review and evaluate the professional relationship with the auditors, including continuity of partner, manager, and staff, and level of service provided by auditors.</p> <p>Review the scope of all services provided by the audit firm throughout the organization.</p>	<p>Document these discussions in the audit committee meeting minutes. Report on findings and provide recommendations to the board as considered necessary.</p>	<p>Review soon after the audit has been approved by the board, so the recommendation for the appointment of the outside auditor in the next fiscal year can be documented in the board minutes.</p>	
<p>9. Review with management the policies and procedures with respect to officers, key employees (executive director, CFO, chief operating officer), disqualified persons as defined by the IRS (under Internal Revenue Code Section 4958), expense accounts, and perks, including excess benefit transactions; consider the results of any review of these areas by the internal auditor or the independent auditors.</p>	<p>Ensure written policies and procedures exist.</p> <p>Discuss with the CAE, or equivalent, the need for testing by either the internal auditors, independent auditors, or other parties.</p>	<p>Report issues, if any, to the board.</p>	<p>Review policies and procedures annually.</p> <p>Review any significant findings as they arise.</p>	

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Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>Inquire of management, the CAE, and the independent auditors about significant risks or exposures facing the organization; assess the steps management has taken or proposes to take to minimize such risks to the organization; and periodically review compliance with such steps.</p>	<p>Document the material risks that the organization faces. Update as events occur. Review with management and the CAE on a periodic basis.</p>	<p>Submit a risk report to the board and the independent auditors including mitigation strategies and quantifiable risks and insurance to cover such risks, e.g., loss of business.</p>	<p>Review at least once each year, and more frequently if necessary.</p>	
<p>11. Review with the independent auditors, CFO, controller, and CAE the audit scope and plan of the internal auditors, if applicable, and the independent auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.</p>	<p>Meet with external audit partner, CFO, controller, and CAE to discuss scope of the previous year's audit, and lessons learned. Later, discuss planned scope for audit of current year and the standard of work to be followed. In addition, discuss the timing of progress reports, to be provided by the independent auditors, and the communications process to be followed in the event of deviations from the plan.</p>	<p>Document the meeting in the audit committee meeting minutes.</p>	<p>On an annual basis, review the scope of the previous year's audit, and the interrelationship between the internal and independent auditors with respect to the scope of the independent auditors' work. At another of the meetings each year, review the plans of Internal Audit for audits in the current year, if applicable.</p>	
<p>12. Consider reviewing with management and the CAE:</p> <ul style="list-style-type: none"> • Significant findings on internal audits during the year and management's responses thereto • Whether Internal Audit encountered any difficulties in the course of its audits, such as any restrictions on the scope of its work or access to required information 	<p>Review reports of all internal audits issued since the previous meeting and planned for the upcoming year along with the status of each planned audit. Review and discuss the findings for each audit completed since the prior meeting, and management's response to the report. Discuss internal audit department budget and staffing with the CAE.</p>	<p>Report on the status of all internal audits planned for the next quarter and/or year. Internal Audit should provide a summary of findings for completed audits, including management's plan to address findings and weaknesses identified.</p>	<p>Review at each meeting.</p>	

Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<ul style="list-style-type: none"> Any changes required in the scope of its internal audit The Internal Audit department's budget and staffing The Internal Audit department's charter Internal Auditor's compliance with the Institute of Internal Auditors' (IIA's) Standards for the Professional Practice of Internal Auditing (Standards), if applicable. Internal Audit should meet separately with the independent auditors. 	<p>Discuss Internal Auditor's compliance with IIA Standards, if applicable, including the requirement for a peer review once every five years. If the organization receives federal funds, Internal Audit is required to have a peer review once every three years if the independent auditors plan to rely on their work to reduce the external audit scope.</p> <p>Review the internal audit charter periodically and update, if necessary.</p>			
<p>13. Inquire of the executive director and CFO regarding the sources of support and revenue of the organization from a subjective as well as an objective standpoint.</p>	<p>Discuss sources of support and revenue with the executive director, CFO, and other executives. Identify any issues addressed, and their resolution.</p>	<p>Include an agenda for executive sessions. (See the tool "Conducting an Audit Committee Executive Session: Guidelines and Questions," in this toolkit.)</p>	<p>Review, as necessary, but at least annually.</p>	
<p>14. Review with the independent auditors and the CAE:</p> <ul style="list-style-type: none"> The adequacy of the organization's internal controls, including computerized information system controls and security Any related significant findings and recommendations of the independent auditors and internal audit services, together with management's responses thereto 	<p>Review the reports of the internal audit team for all audits completed since the prior audit committee meeting.</p> <p>Review key internal controls with the CAE, and understand how these controls will be tested during the year.</p> <p>Review these plans with the independent auditors to understand their scope with respect to key controls.</p>	<p>Report to the board on issues relating to internal controls, with emphasis on management's ability to override controls and the monitoring and testing relating to this capacity.</p>	<p>Submit a comprehensive report to the board at a specified meeting each year.</p> <p>Update on anything new, or any changes to the internal control system, at every meeting.</p>	

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Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>(See the tools "Internal Control: A Tool for the Audit Committee," and "Fraud and the Responsibilities of the Audit Committee: An Overview" in this toolkit.)</p>	<p>Review with the CAE the plans for audits of other elements of the control environment. Determine that all internal control weaknesses are quantified, reviewed, and addressed.</p>			
<p>15. Review with management and the independent auditors the effect of any regulatory and accounting initiatives, as well as other unique transactions and financial relationships, if any. (See the tool "Unique Transactions and Financial Relationships," in this toolkit.)</p>	<p>Independently, through professional reading and continuing education, keep up-to-date on new developments related to the not-for-profit industry, the organization's specific sector, and the environment in which the organization operates, including any regulatory requirements it may be subject to. Discuss with management and the independent auditors in meetings.</p>	<p>Record discussion and any action steps in audit committee meeting minutes.</p>	<p>Review as necessary.</p>	
<p>16. Review with management, and the CAE, any interim financial reports issued since the last meeting.</p>	<p>Discuss the financial statements with emphasis on changes in reporting, new and unusual transactions, and financial trends.</p>	<p>Record discussion and any action steps in audit committee meeting minutes.</p>	<p>Review as necessary.</p>	
<p>17. Review with each public accounting firm that performs an audit. • All critical accounting policies and practices used by the organization.</p>	<p>Discuss each matter, and related matters that may come to the attention of the audit committee and/or the independent auditors through this process. Create an action plan and follow-up plan as necessary.</p>	<p>Submit reports and documentation of discussions and resolution of disagreements.</p>	<p>Review, at least annually, and/or in conjunction with the year-end audit.</p>	

Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<ul style="list-style-type: none"> All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the organization, the ramifications of each alternative, and the treatment preferred by the organization. <p>(See the tool "Issues Report From Management," in this toolkit.)</p>	<p>18. Review all material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.</p>			
<p>19. Review with management and the independent auditors:</p> <ul style="list-style-type: none"> The organization's annual financial statements and related footnotes The independent auditors' audit of the financial statements and their report thereon The independent auditors' judgments about the quality, not just the acceptability, of the organization's accounting principles as applied in its financial reporting Any significant changes required in the independent auditors' audit plan 	<p>Discuss each item with the independent auditors and management (including the CAE) and conclude on the appropriateness of the proposed resolution.</p> <p>Discuss each matter, and others that may come to the attention of the audit committee through this process, with management (including the CAE) and the independent auditors.</p> <p>Review with management the course of action to be taken for any action requiring follow-up.</p> <p>Monitor any follow-up action that requires continued audit committee intervention.</p>	<p>Submit reports and documentation of discussions, resolution of issues, and the action plan for any items requiring follow-up and monitoring.</p> <p>Submit reports and documentation of discussions, resolution of disagreements, or action plan for any item requiring follow-up.</p>	<p>Review, at the completion of the external audit.</p> <p>Review at the completion of the annual external audit.</p>	

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Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<ul style="list-style-type: none"> Any serious difficulties or disputes with management encountered during the audit Matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, <i>Communication With Audit Committees</i> (AICPA, Professional Standards, vol. 1, AU sec. 380), as amended, related to the conduct of the audit. <p>(See the tool "Discussions With the Independent Auditor: What to Expect," in this toolkit.)</p>				
<p>20. Review with the general counsel and the CAE, legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements, related organization compliance policies, and programs and reports received from regulators.</p>	<p>Discuss whether the organization is in compliance with laws and regulations that govern the environment(s) in which it operates, as well as other applicable laws and regulations.</p>	<p>Report to the board that the review has taken place and any matters that need to be brought to its attention.</p>	<p>Review at least annually.</p>	
<p>21. Periodically review the organization's code of conduct/ethics to ensure that it is adequate and up-to-date.</p>	<p>Review results with the CAE and general counsel. Consider any adjustments that may be necessary to the organization's code of conduct/ethics.</p>	<p>Report to the board that the review of the code of conduct/ethics was done.</p>	<p>Review at least annually. Review any significant findings as they arise.</p>	

Audit Committee Charter Matrix

Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>Review with the CAE and the organization's general counsel the results of their review of the monitoring of compliance with the organization's code of conduct/ethics.</p> <p>(See the tool "Independence and Related Topics: Conflicts of Interest, Related Parties, Inurement, and Other Issues," in this toolkit.)</p>	<p>Consider steps that may need to be taken to ensure that compliance is at the highest possible level.</p>	<p>Recommend changes to the code of conduct/ethics to the board as needed.</p>		
<p>22. Review the procedures for the receipt, retention, and treatment of complaints received by the organization regarding accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, current status, and resolution if one has been reached.</p> <p>(See also the tool "Sample Whistleblower Tracking Report," in this toolkit.)</p>	<p>Review procedures with CAE and the general counsel.</p> <p>Review all complaints that have been received and the status of resolution.</p> <p>Ensure that proper steps are taken to investigate complaints and resolve them in a timely fashion.</p>	<p>Review an original of each complaint received, no matter the media used to submit.</p> <p>Discuss the status or resolution of each complaint.</p> <p>Review a cumulative list of complaints submitted to date to review for patterns or other observations.</p>	<p>Review at least annually.</p>	
<p>23. Review procedures for the confidential, anonymous submission by employees of the organization of concerns regarding questionable accounting or auditing matters.</p> <p>Review any submissions that have been received, the current status, and the resolution, if one has been reached.</p>	<p>Review procedures with the CAE and the general counsel.</p> <p>Review all complaints that have been received and the status of resolution.</p> <p>Ensure that proper steps are taken to investigate complaints and resolve timely.</p>	<p>Review an original of each complaint received no matter the media used to submit.</p> <p>Discuss the status of resolution of each complaint</p> <p>Review a cumulative list of complaints submitted to date to review for patterns or other observations.</p>	<p>Review at least annually.</p>	

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Audit Committee Charter	Steps to Accomplish the Objective (Checklist)	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
(See also the tool "Sample Whistleblower Tracking Report," in this toolkit.)				
24. The audit committee will perform such other functions as assigned by the organization's charter or bylaws, or the board of directors.	Monitor developments in the regulatory and legislative and legal environment and respond to any new requirements as needed.		Review new business at all meetings.	
25. The audit committee will evaluate the independent auditors and internal audit function, if applicable. (See the tools "Evaluating the Internal Audit Team: Guidelines and Questions" and "Evaluating the Independent Auditors: Questions to Consider," in this toolkit.)	Use information from executive sessions conducted throughout the year. Use a formal assessment tool for each group.	Submit recommendations for change in process and procedures. For independent auditors, request proposals if changes are being considered.	Review after completion of the annual audit.	
26. The audit committee will review its effectiveness.	The audit committee will review its accomplishments and make recommendations for improving its effectiveness.	Discuss recommendations with board of directors.	Review annually.	
27. Create an agenda for the ensuing year or review and approve the agenda submitted by the CAE.	Complete the "Audit Committee Charter Matrix." (Use this tool as a sample, and tailor it to your organization.)		Review before the upcoming year.	
28. Oversee the preparation of, or prepare, an audit committee annual report.	Review and discuss the report with CAE and auditors.	Annual report finalized and approved. Present to board.	Review annually upon completion of audited financial statements	