

## ► ILLUSTRATIVE AUDIT COMMITTEE CHARTER

The following illustrative Audit Committee Charter is intended as an example to assist the audit committee in constructing its own company-specific<sup>1</sup> charter that will be used as a working document or practical roadmap to outline its responsibilities and required duties. The charter should be assessed continually, but at least annually, to ensure that it captures and portrays the role of the audit committee accurately.

Note: The information below may further be converted to a matrix to allow listing of specific action steps and defined deliverable dates.

### COMMITTEE ROLE

The committee's role is to act on behalf of the board of directors and oversee all material aspects of the company's financial reporting, internal control and audit functions, except those specifically related to the responsibilities of another standing committee of the board. The audit committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders and on company processes for the management of business/financial risk and for compliance with significant applicable legal, ethical and regulatory requirements. The role also includes coordination with other board committees and maintenance of strong, positive working relationships with management, external and internal auditors, counsel and other committee advisors.

### COMMITTEE MEMBERSHIP

The committee shall consist of at least three independent, non-executive board members. Committee members shall have: (1) knowledge of the primary industries in which the company operates; (2) the ability to read and understand fundamental financial statements, including a company's balance sheet, income statement, statement of cash flows and key performance indicators; and (3) the ability to understand key business and financial risks and related controls and control processes. The committee shall have access to its own counsel and other advisors at the committee's sole discretion. At least one member, preferably the chair, should be literate in business and financial reporting and control, including knowledge of the regulatory requirements, and should have past employment experience in finance or accounting or other comparable experience or background and shall be deemed "an audit committee financial expert"<sup>2</sup>. Committee appointments shall be approved annually by the full board upon recommendation of the nominating committee. The committee chairperson shall be selected by the committee members or by the nominating committee.

### COMMITTEE OPERATING PRINCIPLES

The committee shall fulfill its oversight responsibilities within the context of the following overriding principles:

#### Communications

The chair and others on the committee shall, to the extent appropriate, maintain an open avenue of contact throughout the year with senior management, other committee chairs and other key committee advisors (e.g., external and internal auditors, etc.), as applicable, to strengthen the committee's knowledge of relevant current and prospective business issues.

#### Education/Orientation

The committee, with management, shall develop and participate in a process for review of important financial and operating topics that present potential significant risk to the company. Additionally, individual committee members are encouraged to participate in relevant and appropriate education to ensure understanding of the business and environment in which the company operates.

#### Annual Plan

The committee, with input from management and other key committee advisors, shall develop an annual plan responsive to the "primary committee responsibilities" detailed herein. The annual plan shall be reviewed and approved by the full board.

<sup>1</sup> In constructing its charter, the audit committee needs to consider the specific responsibilities and requirements of the audit committee as outlined under SEC rules as well as the Company's respective listing exchange and should include consideration of additional facts and circumstances specific to the Company.

<sup>2</sup> As defined under applicable SEC rules.

## Meeting Agenda

Committee meeting agendas shall be the responsibility of the committee chair, with input from committee members. It is expected that the chair will also ask for management and key committee advisors, and perhaps others, to participate in this process.

## Expectations and Information Needs

The committee shall communicate committee expectations and the nature, timing and extent of committee information needs to management, internal auditors and external parties, including external auditors. Written materials, including key performance indicators and measures related to key business and financial risks, shall be received from management, auditors and others at least one week in advance of meeting dates. Meeting conduct will assume committee members have reviewed written materials in sufficient depth to participate in committee/board dialogue.

## External Resources

The committee shall be authorized to access internal and external resources, as the committee requires, in carrying out its responsibilities. This includes the authority to hire and terminate internal and external auditors and advisors, as well as the responsibility to approve services and fees paid to such resources.

## Meeting Attendees

The committee shall request members of management, counsel, internal and external auditors, as applicable, to participate in committee meetings, as necessary, to carry out the committee's responsibilities. Periodically and at least annually, the committee shall meet in private sessions with only the committee members. It shall be understood that meetings between the committee and/or the committee chair with either internal or external auditors, or counsel, may, at any time, be deemed necessary, with or without management's attendance. In any case, the committee shall meet in executive sessions separately with internal and external auditors, at least annually.

## Meeting Frequency

The committee shall meet at least quarterly. Additional meetings shall be scheduled as considered necessary by the committee or chair.

## Reporting to the Board of Directors

The committee, through the committee chair, shall report periodically, as deemed necessary, but at least semiannually, to the full board. In addition, summarized minutes from committee meetings, separately identifying monitoring activities from approvals, shall be available to each board member at least one week prior to the subsequent board of director's meeting.

## Self-Assessment

The committee shall review, discuss and assess its own performance as well as its role and responsibilities, seeking input from senior management, the full board and others. Changes in role and/or responsibilities, if any, shall be recommended to the full board for approval.

## COMMITTEE RESPONSIBILITIES

### Financial Reporting

- Discuss, review and assess the annual and interim financial statements with management and the auditors before they are released to the public or filed with the SEC and formally recommend to the board that the audited annual financial statements be included within the company's annual report filed with the SEC.
- Discuss, review and assess the key financial statement issues and risks, their impact or potential effect on reported financial information, the processes used by management to address such matters, related auditors' views, and the basis for audit conclusions.
- Approve changes in important accounting principles and the application thereof in both interim and annual financial reports.
- Advise financial management and the auditors that they are expected to provide a timely analysis of significant current financial reporting issues and practices.

### Risks and Controls

- Review and assess the company's business and financial risk management process, including the adequacy of the overall control environment and controls in selected areas representing significant risk.

- Review and assess the company's system of internal controls for detecting accounting and financial reporting errors, fraud and defalcations, legal violations, and noncompliance with the corporate code of conduct. In that regard, review the related findings and recommendations of the external and internal auditors, together with management's responses.
- Review with legal counsel any regulatory matters that may have a material impact on the financial statements.
- Review the results of the annual audits of directors' and officers' expense accounts and management perquisites prepared by the internal auditors.

### External and Internal Auditors

- Recommend the selection of the external auditors for approval by the board of directors.
- Instruct the external auditors that they are responsible to the board of directors and the audit committee as representatives of the shareholders. In that regard, confirm that the external auditors will report all relevant issues to the committee in response to agreed-upon expectations.
- Review the performance of the external and internal auditors.
- Obtain a formal written statement from the external auditors consistent with standards set by the Public Company Accounting Oversight Board. Additionally, discuss with the auditors any relationships or nonaudit services that may affect their objectivity or independence.
- Consider, in consultation with the external and internal auditors, their audit scopes and plans to ensure completeness of coverage, reduction of redundant efforts and the effective use of audit resources.
- Review and pre-approve requests for any audit-related or permitted non-audit services to be performed by the external auditors, and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter.
- Review with management and the external auditors the results of the annual audits and related comments in consultation with other committees as deemed appropriate, including any difficulties or disputes with management, any significant changes in the audit plans, the rationale behind adoptions and changes in accounting principles, and accounting estimates requiring significant judgments.
- Provide a medium for the external auditors to discuss with the audit committee their judgments about the quality, not just the acceptability, of accounting principles and financial disclosure practices used or proposed to be adopted by the company.
- Discuss the significant findings of the audit including:
  - Critical accounting policies and practices used by the company;
  - Alternative accounting treatments within generally accepted accounting principles related to material items that have been discussed with management; and
  - Other material written communications between the accounting firm and management (e.g., management representation letters, engagement letters, etc.).
- Review with the external auditor the audit firm's quality control policies and procedures and any material issues raised by the most recent internal quality control review of the firm.
- Approve changes in the directors of the internal audit function.
- Instruct the internal auditors that they are responsible to the board of directors through the committee.
- Review with the internal auditors any changes in the scope of their plans.
- Review with the internal auditors the results of their monitoring of compliance with the code of conduct.

### Other

- Establish and monitor procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters.
- Prepare the required audit committee report to be included within the company's annual proxy statement.
- Review and update the committee's charter at least annually.
- Review and update the company's code of conduct.
- Review and approve significant conflicts of interest and related party transactions.
- Conduct or authorize investigations into any matter within the committee's scope of responsibilities. The committee will be empowered to retain independent counsel and other professionals to assist in conducting any investigation.