

THE AUDIT COMMITTEE AGENDA AND PROCESSES—A HELPFUL REMINDER TOOL
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I. OVERVIEW

The following materials discuss audit committee agenda topics from two perspectives (1) current agenda issues of focus in the present environment, and (2) an ongoing longer-term audit committee meeting agenda topic list. The Audit Committee Agenda is updated periodically depending on developments. Audit committees are regulated or impacted by numerous statutes, cases, rules, regulations and pronouncements. The audit committee is a subcommittee of the board. While some audit committee responsibilities are mandatory, other committee functions and responsibilities are discretionary or voluntary depending on the circumstances. Although an increasing number of the functions and responsibilities are specified by statute, rule, regulation or the audit committee charter, an audit committee's standard of care remains significantly dependent on due diligence and prudent judgment.

Of course, actual agenda topics will vary from entity to entity, and also will depend on the facts and circumstances pertinent to the particular meeting. These materials do not include every possible agenda topic. It is also not intended to suggest that an audit committee should address each topic that is listed. The list is intended as a helpful tool to prompt consideration of potential agenda topics.

These materials do not provide legal, accounting or other professional advice; are not a solicitation for work; do not apply to any particular person, entity, event, transaction or situation; and are only a summary. If you have questions or issues about a particular specific situation, you need to seek your own legal, accounting or other professional assistance, and you should not rely on the materials in this paper. The materials in this paper are update and changed periodically.

Broadly speaking:

1. An audit committee member should be knowledgeable about all applicable audit committee duties that are specified by statute, rule or regulation; all duties specified in the audit committee charter (if there is one); and the business judgment rule.
2. An audit committee member should be qualified to serve as an audit committee member including by statute, rule, or regulation, and with respect to independence, experience, education and knowledge about the business entity and its industry, and the relevant subject matter areas including for example but not limited to accounting, auditing, fraud, financial reporting, internal controls, compliance, etc.
3. I suggest that the audit committee and its members consider following an overall process for issue spotting, agenda selection, information collecting, evaluation, decision making, minutes, reporting and follow up.

4. An audit committee member must significantly rely upon other people to provide information and assist the audit committee member satisfy his or her oversight, due diligence and decision making duties, including the CFO, internal audit, the outside auditor, GRC and/or compliance and ethics, the CEO, the other members of the audit committee, the anonymous hotline and whistleblower processes, other members of the board, and the audit committee's independent counsel and consultants (possibly also including HR in some organizations or circumstances). Make sure that these people upon who you rely are up to the task.
5. Meet in executive sessions and have a direct line of communication as a standard practice (in other words, scheduled as a matter of practice and not just when there is a specific problem) with internal audit, the CFO, GRC and/or compliance and ethics, and the outside auditor. Stay in contact with the CEO as needed.
6. As a subcommittee of the board, report to the board or to the board chair as a standard practice even if the board gives the audit committee decision making ability over certain matters or issues.
7. Finally, ask people that you are relying upon and who provide you with information, or who in some manner are helping you perform or satisfy your duties of diligence and oversight: What else do you know that I should know?

II. CURRENT AGENDA ISSUES OF FOCUS IN THE PRESENT ENVIRONMENT

The following is a list of potential audit committee agenda issues in the present environment based on current events.

- The impact of the economic downturn on the company, and particularly its financial statements and the accounting function.
- The calculation of the estimate or reserve for uncollectibles.
- Possible obsolete inventory.
- Difficulties with suppliers, supply chain availability, change in supplier finance and/or credit terms, and possible supplier bankruptcy.
- Difficulties or changes with buyers, reduced product purchases, and changes in finance and/or credit terms.
- Difficulties or changes with critical partners and/or industries.
- Increasing interactions and communications with the CFO, CEO, internal audit, the outside auditor, and GRC and/or compliance and ethics, and a heightened level of awareness, inquiry, diligence and oversight. "What do you know that you think we should be aware of, or possibly focus on currently or in the future?"

- The propensity that fraud and fraudulent activities may increase in times of financial difficulty and hardship.
- Tone at the top, and communicating tone at the top throughout the company.
- Possible layoffs within the company.
- Proposed new laws and increasing regulation and oversight including at the local, state, federal, international, and other (e.g., U.N.) levels. Increasing exposure to environmental and climate regulation and liability.
- The new SEC proxy access rules.
- Issues pertaining to liquidity, credit availability, and going concern issues.
- Possible new tax laws and liability increases.
- Conversion to international financial reporting standards.
- Continuing SEC focus of the foreign corrupt practices act.
- And, looking more forward, the possible effects of inflationary or deflationary pressures.

III. ONGOING LONGER-TERM AGENDA TOPIC LIST FOR DISCUSSION PURPOSES

The following is an ongoing longer-term list of potential audit committee meeting agenda topics.

1. Overview of general considerations:

- Review of the audit committee charter and committee responsibilities.
- Review of audit committee member qualifications, changes and disclosures.
- Use of legal counsel and consultants.
- Review of pre-meeting and meeting processes; preparation and dissemination of agenda and meeting materials.
- Consideration of executive session, and of potential non-committee members to consult with prior to or to be present part of the time at the meeting, including the CEO, the CEO, the chief internal auditor, the outside auditor, in-house counsel, the company's GRC and/or compliance and ethics officer, outside counsel retained by the audit committee, other outside consultants, and other people from management.

-Review of the business judgment rule, reliance on other people, and decision making process; issue spotting; relevant inquiries; investigation as necessary; input and advice; evaluation; need for additional information; and follow-up.

- Consideration of new accounting/auditing, legal, governmental, regulatory, company, industry and other developments relevant to the audit committee's responsibilities and functions.

-Consideration of audit committee annual performance evaluation process.

-Documenting and reporting committee activities; minutes; reporting to and interacting with the board.

-Document retention policies and practices.

2. Overview of possible meeting specific topics of consideration:

-Judgment about the quality, not just acceptability, of the company's accounting and transaction principles, methods, timing and estimates.

-Clarity, consistency and completeness of company financial statement accounting information.

-Financial statement impact of certain items such as timing of transactions, period cutoff procedures, accounting policy selection, estimates, contingencies, reserves, revenue recognition, inventories, goodwill, judgments, uncertainties and unusual transactions.

-Outside auditor's responsibilities under Generally Accepted Auditing Standards (GAAS), including scope of services.

-Critical accounting policies, principles and practices used and consistently applied, and related changes including any change to a possibly less appropriate accounting principle; consider alternative acceptable practices discussed and not discussed with management, and the treatment preferred by the outside auditor.

-Difficulties encountered during the review or audit. Were there any limitations?

-Consultations with other accountants by management or outside auditor.

-Analytic and other evaluation of financial statements.

-Material communications between outside auditor and management, including the management letter.

-Material communications between outside auditor and internal auditor function.

-Disagreements between management and outside auditor.

- Any other significant matters that came to outside auditor's attention, including improvements recommended by the auditor.
- Internal control design, implementation, operation, changes, assessment, deficiencies or weaknesses, and corrections.
- Off-balance sheet transactions, arrangements, obligations (including contingent) and other company relationships.
- Possible material misstatement due to departure from Generally Accepted Accounting Principles (GAAP).
- Testing for fraudulent or unlawful acts or activities.
- Critical matters identified during the review or audit.
- Significant review or audit adjustments and unadjusted differences, including differences that were determined by management to be immaterial individually and in the aggregate to the financial statements taken as a whole.
- Outside auditor's comments about internal audit, accounting and CFO functions.
- Are financial statements free of material misstatements?
- Consideration of notes to the financial statements and MD&A.
- Consideration of financial information releases; and investor communication processes and information provided.
- Completion of officer certification, and internal and disclosure control requirements and processes.
- Possible insider and related party transactions, and conflicts of interest.
- Discussions with outside auditor pursuant to SAS 114 (auditor's communications with those charged with governance); SAS 115 (communicating internal control related matters identified in an audit); SAS 109 (understanding the entity and its environment); SAS 99 (consideration of fraud in a financial statement audit); SAS 54 (unlawful activities); and SAS 116 (interim financial statements).
- Other information included in the financial statements and documents containing the financial statements, including presentation of pro forma financial information.
- Recommend board approval of the outside auditor's opinion or report, and the financial statements; and presentation to the board.

3. Outside auditor services:

- Outside auditor retention and compensation.
- Outside auditor independence and related disclosure of information; partner/manager rotation.
- Services to be performed: audit, review or compilation services; possible tax services; possible additional non-audit services; and approval of services.
- Timing and planning for services to be provided.

4. Overview of additional topics of considerations, on more of an ongoing basis:

- Follow-up items, new matters, and other.
- The agenda, activities and oversight of the internal audit function; specific reports from internal audit regarding its activities.
- Issues specific to the company; specific to the industry.
- Ethics, legal and whistleblower reporting protections and processes; complaints and corporate investigations—confidential and anonymous submission, and procedures for receipt, retention, and treatment of complaints regarding accounting, internal controls, and auditing matters, and possible unlawful acts.
- Anti-retaliation policies and practices.
- Tone at the top and the communication of tone at the top; governance; code of ethics; consideration of the agenda and activities of the compliance and ethics function for which the audit committee has responsibility or oversight; and workplace policies and practices.
- GRC (governance, risk and compliance), ERM (enterprise risk management), compliance and ethics, risk management, and possible liability or legal exposure issues for which the audit committee has responsibility.
- Audit committee D&O insurance coverage.
- Understanding information provided by audit, review and compilation opinions or reports.

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