

THE AUDIT COMMITTEE AGENDA

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I. INTRODUCTION

This paper is part of a series of papers that cover essential public and private company audit committee functions and responsibilities in a quick-read summary format. This paper covers the audit committee agenda from two perspectives (1) potential current agenda issues of focus in the present environment, and (2) a more broad ongoing long-term audit committee meeting agenda topic list. The Audit Committee Agenda discusses agenda topics, and is variously updated quarterly or more often as appropriate based on the current environment. Audit committees are regulated or impacted by numerous statutes, cases, rules, regulations and pronouncements. While some audit committee responsibilities are mandatory, other committee functions and responsibilities are discretionary depending on the circumstances. Although an increasing number of the functions and responsibilities are specified by statute, rule or regulation, an audit committee's standard of care remains significantly dependent on due diligence and prudent judgment.

Additional materials can be found at <http://davidtate.us>: the Audit Committee Agenda covers audit committee agenda issues and is written from a quarterly or mid-term perspective; the Audit Committee (and related) Review discusses current and up-to-date news and developments, and is prepared monthly or more often; and various additional papers provide comprehensive discussions about audit committee topics relating to responsibilities, functions, governance and interacting with other people.

Contact me if you are looking for a speaker on these or other audit committee topics, or if you are looking for help with audit committee activities including help with an audit committee evaluation process.

The materials in this paper do not provide legal, accounting or other professional advice. These materials are not a solicitation for work. The materials do not apply to any particular person, entity, event, transaction or situation. These materials are only a summary. It should be clear that 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 absolutely should not rely on the summary materials in this paper. The materials in this paper are update and changed periodically, and cannot be relied upon for that additional reason.

II. POTENTIAL CURRENT AGENDA ISSUES OF FOCUS IN THE PRESENT ENVIRONMENT

The following is a bullet point list of potential audit committee agenda issues in the present environment based on current events. This list is reviewed and updated as necessary on a quarterly or

more often basis as appropriate. The list is 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 that might be particularly relevant in the current environment.

- The impact of the current 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 and the outside auditor to see how things are going and what might be on the horizon. A heightened level of awareness, inquiry and diligence. "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.
- Issues pertaining to liquidity, credit availability, and going concern issues.
- Possible new tax laws and liability increases.
- Conversion to international financial reporting standards.
- And, looking more forward, the possible effects of inflationary pressures.

III. AUDIT COMMITTEE MEETING AGENDA TOPIC LIST FOR DISCUSSION PURPOSES

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

list of potential agenda topics is updated from time-to-time. 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. The list does 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.

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 compliance 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 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 Principals (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 54 (unlawful activities); SAS 99 (fraud); SAS 109 (understanding the entity and its environment); SAS 100 (interim financial statements); and SAS 112 (internal control).

-Other information included in the financial statements and documents containing the financial statements, including presentation of pro forma financial information.

-Recommendation that the board approve the auditor's opinion or report, and the financial statements; 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; approval of services.

-Timing and planning for services to be provided.

4. Overview of other 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 polices 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.

-Risk management or ERM, 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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