

## **AUDIT COMMITTEE BEST PRACTICES CHECKLIST**

### **General**

1. Members have the appropriate predefined qualifications to meet the objectives of the audit committee's charter, including appropriate financial literacy.
2. Audit committee members have differing perspectives due to a diversity of experiences and backgrounds.
3. The audit committee demonstrates integrity, credibility, trustworthiness, willingness to actively participate, industry knowledge, ability to constructively handle conflict, interpersonal skills, and proactiveness.
4. The level of independence of the audit committee is acceptable.
5. The audit committee reviews its charter annually to determine whether its responsibilities are adequately described.
6. The audit committee ensures compliance with corporate governance regulations and guidelines.
7. The audit committee has developed a continuing education program to enhance its members' understanding of relevant auditing, accounting, regulatory, and industry issues.
8. New audit committee members are provided with an orientation program to educate them on the company and their responsibilities.
9. The audit committee, in conjunction with the nominating committee (or its equivalent) as appropriate, creates a succession plan for audit committee members, including the audit committee chair.

### **Understanding the Business, Including Risks**

10. The audit committee considers the economic circumstances and political pressures on management that may impact the quality of financial reporting.
11. The audit committee considers the significant risks faced by the authority. Examples include (but are not limited to):
  - Regulatory requirements
  - Concentrations (e.g., suppliers and customers)
  - Competitive trends

- Financing/liquidity needs
  - Financial exposures
  - Business continuity
  - Company reputation
12. Management provides the audit committee with performance reports and explanations for significant variances.

## **Process & Procedures**

13. The audit committee regularly reports to the board of directors.
14. The audit committee dedicates appropriate time and resources to execute its responsibilities.
15. The audit committee participates in the development of a calendar and agenda to ensure that responsibilities are met.
16. Members have the option to influence meeting agendas in order to address emerging issues.
17. The audit committee encourages input on the meeting agenda from management, the internal auditor, the external auditor, and the board of directors.
18. The agenda and related information (e.g., prior meeting minutes, press releases, financial statements) are circulated in advance of meetings, to allow members sufficient time to study and understand the information.
19. Meetings are held at least quarterly.
20. The audit committee has private executive sessions with management, internal audit and external audit.
21. The written materials provided to audit committee members are appropriately balanced (i.e., relevant and concise).
22. If a whistleblower hotline exists, the audit committee reviews the log of incoming calls.

## **Communications and Information**

23. The “tone at the top” set by the audit committee promotes organization-wide awareness of corporate ethics, quality financial reporting, and strong internal controls.
24. The level of openness between members of the audit committee and other board members is acceptable.
25. The level of openness between the audit committee and relevant parties (management, internal audit, and external audit) is acceptable.
26. For matters that require specialized expertise, the audit committee engages external parties as appropriate.
27. The audit committee receives information from management related to changes in the organization on a timely basis.
28. The audit committee receives and analyzes information from management on significant trends and variations from budget.
29. Members are made aware of communications received from agencies (e.g., governmental or regulatory) relating to areas of alleged violations or areas of non-compliance.
30. Members periodically visit company locations to conduct on-site meetings with key members of management.

## **Oversight of the Financial Reporting Process, Including Internal Controls**

31. The audit committee considers the quality and appropriateness of financial accounting and reporting.
32. The audit committee reviews regulatory reports and other filings.
33. The audit committee oversees management’s procedures for enforcing the company’s code of conduct.
34. The audit committee oversees the organization’s whistleblower process.
35. The audit committee considers the transparency of disclosures.
36. The audit committee reviews the company’s accounting policies.
37. The audit committee has sufficient understanding of management’s process of developing and summarizing financial information (quarterly and annually).

38. The audit committee has a process for the review of significant issues prior to quarterly and annual earnings releases (i.e., with management and the external auditors).
39. The audit committee understands and approves the process used by management to identify related-party transactions.
40. The audit committee considers the transparency of related-party disclosures.
41. The audit committee reviews the processes related to financial statements certifications made by the President and Treasurer (if required under legislation).
42. The audit committee receives sufficient information to evaluate the organization's system of internal controls (e.g., financial reporting and disclosure controls, operation controls, and compliance controls).
43. The audit committee oversees the organization's external financial reporting, and internal control over financial reporting.
44. The audit committee evaluates the internal control testing conducted by management, the internal auditors, and external auditors to assess the process of reasonably detecting internal control issues or fraud.
45. The audit committee believes that management's scope of internal control testing adequately supports its internal control assessment (as required by state legislation).
46. If management's assessment of internal controls resulted in the identification of significant deficiencies or material weaknesses, plans to address these issues are reviewed by the audit committee.
47. The audit committee makes inquiries of the appropriate parties (external auditor, internal auditor and management) on the depth of experience and sufficiency of staff.
48. The audit committee reviews the management recommendation letters written by the auditors (external and internal) to ensure that all significant matters raised are addressed.
49. The audit committee evaluates management's action plans as applicable (i.e., to address internal control deficiencies and related corrective actions).
50. The audit committee takes action to ensure resolution when there are instances of repeat comments from auditors and others about internal controls.

51. All adjustments to the financial statements resulting from the audit process are reviewed by the audit committee.
52. The audit committee is consulted when management is seeking a second opinion on an accounting or auditing matter.

### **Oversight of Audit Functions**

53. The audit committee evaluates the coordination of work between the auditors (external and internal) to ensure that they appropriately address their different areas of responsibility.
54. The audit committee regularly reviews the internal audit function (e.g., the charter, audit plan, budget, compliance, and staff quality and continuity).
55. The audit committee oversees the role of the internal audit director from selection to termination (e.g., appointment, evaluation, compensation and retention).
56. The audit committee approves the reporting relationships of the internal audit director.
57. The audit committee oversees the role of the external auditors from selection to termination (e.g., appointment, oversight, evaluation, retention, and approval of services).
58. The audit committee reviews the appropriateness of the audit fees paid to the external auditor.
59. The audit committee comprehensively reviews management's representation letters to the external auditors (including making inquiries about any difficulties obtaining the representations).
60. The audit committee assesses the overall independence of the external auditor.
61. The audit committee pre-approves any internal control-related service provided by the external auditor.
62. The audit committee considers the scope of non-audit services provided by the external auditor in determining the external auditor's independence.
63. The audit committee reviews other professional services provided by outside consultants.