

Contents

About the Author xiii

About the Institute of Internal Auditors xiv

Preface xv

1 Evolution of Audit Committees 1

- Early Events 1
- SEC Regulatory, Legal, and Private Sector Initiatives 2
- Regulation Arising from Banking Scandals 5
- Stock Exchange Initiatives 5
- Sarbanes-Oxley Act of 2002 6
- Directors' Liability 8
- Private Company and Not-for-Profit Governance Initiatives 9
- Future Outlook 10
- Key Points in Chapter 1 11

2 Full Board Responsibilities and Effective Board Processes 13

- Introduction 13
- Responsibilities of the Board of Directors 13
 - General Responsibilities of Directors 14
 - Importance of Being Fully Informed 16
 - Specific Responsibilities of Directors 17
- Best Practices Boards Should Embrace 18
- Overview of Current Legally Required Board Member Duties 19
 - Duties of Care and Loyalty 20
 - Additional Duties 24
- Directors' Rights 24
- Areas of Special Concern for the Board as a Whole 25
- Recommended Elements of Board Practices and Processes 26
- Assessing the Effectiveness of the Board as a Whole 30
- Liability and Indemnification 31
- Key Points in Chapter 2 31

3 Personal Characteristics of Effective Boards and Members 33

- Introduction 33
- Role and Authority of Independent Directors 34
- Characteristics of an Effective Board Member 35
- Core Competencies of an Effective Board 37

Summary of the Director's Role	38
Key Points in Chapter 3	38
4 Duties of Audit Committees Prescribed by Law, Regulation, or Rule	40
Introduction	40
Historical Development of Mandated Audit Committee Duties	42
Source of Current Legally Required Duties of Audit Committees	43
<i>Report and Recommendations of the 1999 Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees</i>	44
Summary of Recommendations	45
Overview of Currently Prescribed Duties and Responsibilities	47
Formal Written Charter	47
Principal Relationship with External Audit Firm	47
Receipt of Confidential and Other Information	48
Oversight of Financial and Other Disclosures	49
Oversight of Internal Controls	50
Oversight of Required Annual Assessment of Internal Control over Financial Reporting	51
Oversight of Risk Management and Compliance Processes	52
Additional Duties for Public Company Audit Committees	53
Duty to Maintain Competence	53
Legislative/Regulatory Sources of Selected Audit Committee Responsibilities	53
Audit Committee Responsibilities Included in Sarbanes-Oxley Sections 301	54
Selected Responsibilities Set Forth by the New York Stock Exchange	55
Selected Responsibilities Set Forth by Nasdaq	57
Key Points in Chapter 4	59
Appendix 4A FEI Corporate Governance Checklist	60
5 Overview of Additional Duties of Audit Committees Considered to Be Best Practices	62
Recommendations of the Business Roundtable	62
Recommendations of the Conference Board	64
Guiding Principles of the Blue Ribbon Committee	65
Eight Habits of Highly Effective Audit Committees	65
Best Practices Related to Auditing and Internal Control	66
Best Practices Related to Public Disclosure of Financial Information	68
Audit Committee Oversight of Ethics and Compliance Programs	69
Sarbanes-Oxley Requires Disclosure of Code of Ethics	70
Stock Exchange Implementation of Code Requirement	71
Requirements of the U.S. Sentencing Commission	71
Guidance from the Open Compliance and Ethics Group	71

Additional Audit Committee Best Practices	72
Key Points in Chapter 5	73

6 Necessary Characteristics of Audit Committees and Their Members 75

Introduction	75
Important Personal Attributes of Members	76
Importance of Total Independence	76
Portion of Section 301 of Sarbanes-Oxley Concerning Audit Committee Independence	77
New York Stock Exchange Rule on Independence	77
Nasdaq Rule on Independence	78
Financial Knowledge Necessary	79
Criteria for Assessing Audit Committee Effectiveness	80
Key Points in Chapter 6	81
Appendix 6A Audit Committee Performance Evaluation Questionnaire	83

7 The Audit Committee and Its Charter 89

Purpose and Contents of an Audit Committee Charter	89
Key Points in Chapter 7	90
Appendix 7A Sample or Model Audit Committee Charter (Statutory and Regulatory Perspective)	92
Appendix 7B Sample Audit Committee Charter from the Institute of Internal Auditors Research Foundation	98
Appendix 7C Excerpts from Selected Actual Audit Committee Charters	102

8 Audit Committee Oversight of Financial Statements and Financial Disclosures 103

Audit Committee Duties to Oversee Financial Statement Preparation	108
Audit Committee Duties Regarding Financial Disclosures	110
Audit Committee Disclosure Duties Considered Best Practices	111
External Auditor Requirements for Communication with the Audit Committee	112
Summary of Audit Committee Responsibilities for Oversight of Financial Statements and Financial Reporting	114
Key Points in Chapter 8	115

9 The Audit Committee and Internal Auditing 117

Introduction	117
Internal Auditing Responsibilities	118
Guidance for Audit Committees in Internal Auditing Professional Standards	119

Guidance Provided by Credit Agencies	121
Assessment of Internal Auditing Quality	122
Importance of Resource Allocation Based on Approved Risk-Based Audit Plan	123
Key Points in Chapter 9	125
10 The Audit Committee and Risk Management	126
Introduction	126
Legally Required Duties Involving Risk Management	126
Best Practices in Risk Oversight	127
Process of Risk Management	128
Enterprise Risk Management	129
COSO ERM Integrated Framework	130
Other Risk Management Frameworks	134
Role of Internal Auditing in Risk Management	135
Key Points in Chapter 10	136
11 The Audit Committee and Internal Control	137
Audit Committee Duties Concerning Internal Control	137
Concepts of Control	137
Sarbanes-Oxley Requirements for Management Assessment of Internal and Disclosure Controls	139
Sarbanes-Oxley Requirements for Assessment and Reporting on Internal Controls and External Audit Attestation	140
SEC Interpretive Guidance to Management on Its Evaluation of Internal Control	141
PCAOB Audit Standard No. 5	143
AICPA Internal Control Guidance for Audit Committees	145
Key Points in Chapter 11	146
Appendix 11A Internal Control—A Tool for the Audit Committee	147
12 The Audit Committee and Ethics-Related Initiatives	153
Sarbanes-Oxley and NYSE Code of Conduct and Ethics Guidance	153
U.S. Sentencing Guidelines Requirements	156
Preventing and Detecting Fraud	156
Examples of Codes of Conduct	157
OCEG Ethics and Compliance Evaluation Tool	160
Ethisphere Council Evaluation Criteria	161
Key Points in Chapter 12	162
Appendix 12A Seven Minimum Components of an Effective Compliance and Ethics Program under U.S. Sentencing Guidelines	163
Appendix 12B UPS Code of Business Conduct	165
Appendix 12C Google, Inc. Code of Conduct	185

13 The Audit Committee and Information Technology 200

- Introduction 200
- IT Governance Concepts 201
- Objectives of IT Governance 202
- Audit Committee Involvement with IT Matters 204
- 20 Questions to Ask about IT 205
- ITCi Controls for IT Governance 208
- Key Points in Chapter 13 208
- Appendix 13A IT Governance Controls Checklist 209

14 Audit Committee Issues in Not-for-Profit Entities 213

- Introduction 213
- State Statutes Embrace Sarbanes-Oxley Requirements 214
- Federal Volunteer Protection Act of 1997 and Similar State Statutes 214
- IRS Reporting by Not-for-Profit Entities 216
- Entities Receiving Federal Funding 216
- Not-for-Profit Board Evaluation 217
- Key Points in Chapter 14 218
- Appendix 14A Board Self-Evaluation Scorecard 219
- Appendix 14B Checklist for Directors of Nonprofits 221

15 Audit Committee Resources 223

- American Institute of Certified Public Accountants 223
- Association of Audit Committee Members 223
- BoardSource 223
- Conference Board 224
- Corporate Board Member* 224
- COSO 224
- Deloitte Center for Corporate Governance 224
- Ernst & Young 224
- Financial Executives International 225
- Grant Thornton 225
- Huron Consulting Group 225
- Institute of Internal Auditors, Inc. 225
- ISACA 225
- KPMG Audit Committee Institute 226
- National Association of Corporate Directors 226
- OCEG 226
- PricewaterhouseCoopers 226
- Protiviti 227
- Society of Corporate Secretaries and Governance Professionals 227
- Universities 227

Glossary 228**Index 234**

<http://www.pbookshop.com>