
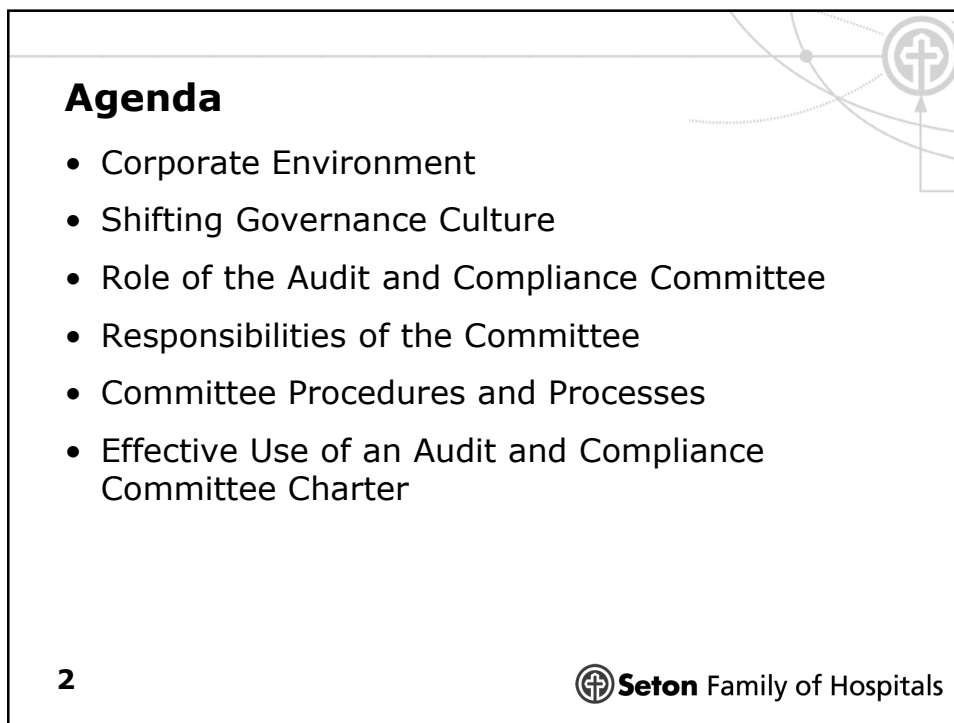


Committee Charter: The Role and Responsibility of the Audit and Compliance Committee

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Agenda

- Corporate Environment
- Shifting Governance Culture
- Role of the Audit and Compliance Committee
- Responsibilities of the Committee
- Committee Procedures and Processes
- Effective Use of an Audit and Compliance Committee Charter

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Environment/Governance Culture


Corporate Scandals
Financial and Accounting Irregularities

↓
Increased Government Scrutiny
Heightened Awareness of Stakeholders

↓
Governance Accountability




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The Shifting Governance Culture

- Less tolerant, more direct
- Increased Responsibilities
- More proactive, less reactive
- Evolving from a “ceremonial” role to a “progressive” role
- Coordinating responsibilities among Board Committees

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Governance

The cornerstones of effective governance are:

- The Board of Directors
- Executive Management
- Internal Auditors
- External Auditors




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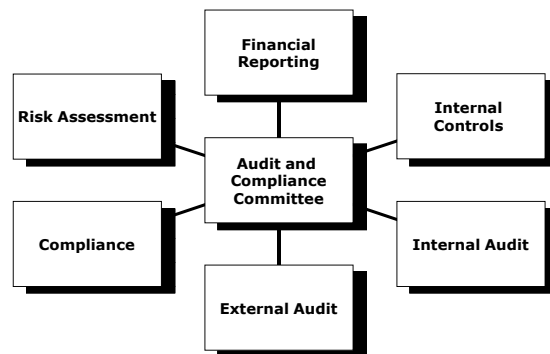
Role of the Audit and Compliance Committee

- Independent oversight subset of the Board of Directors
- Act as Advisor and Counselor to Management
- Fiduciary duties – the duties of care and loyalty
- Challenge Management as appropriate, but must not play the management role
- To be proactive, informed, investigative, and accountable

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Responsibilities of the Committee



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Financial Reporting Process


- Understand financial reporting process
- Review annual and interim financial statements including significant accounting and reporting issues
- Review significant accounting judgments and estimates
- Consider written representation from Management regarding conformity with GAAP

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Internal Controls

- Encourage a “Tone at the Top” that conveys ethical integrity as well as legal compliance and strong financial reporting
- Consider effectiveness of the company’s internal control system
- Understand the scope of the Internal Auditor’s and External Auditor’s review of internal controls over financial reporting


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Internal Audit

- Review/approve the Internal Audit Charter
- Evaluate the objectivity of Internal Audit
- Review the staffing and organizational structure of the internal audit function
- Review/concur with the appointment, retention or replacement of the Chief Audit Executive
- Provide input to and approval of the Annual Plan
- Review results of internal audit plan
- Evaluate effectiveness of the internal audit function including compliance with IIA Standards

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External Audit

- Recommend selection, retention, dismissal of the external auditors
- Review the proposed scope and the results of the external audit
- Ensure External Auditor is not providing any prohibited non-audit services
- Obtain report from the External Auditor describing its independence policies and procedures
- Review rotation of partners

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Compliance

- Review the organization's Compliance Program and the effectiveness of the system for monitoring compliance with laws and regulations
- Review the results of management's investigation of allegations of non-compliance
- Provide oversight of any Corporate Integrity Agreements (CIAs)
- Monitor adherence to the Standards of Conduct and Conflict of Interest policies
- Receive findings of examinations by regulatory agencies
- Receive updates from legal regarding compliance matters


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Risk Assessment

- Understand management's process to identify major risk exposures and the steps taken to mitigate them
- Discuss with the internal auditors and external auditors their processes to assess risk in the planning of their audit activities
- Understand management's plan relative to Enterprise Risk Management (ERM)

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Enterprise Risk Management


"ERM is a process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Committee of Sponsoring Organizations of the Treadway Commission

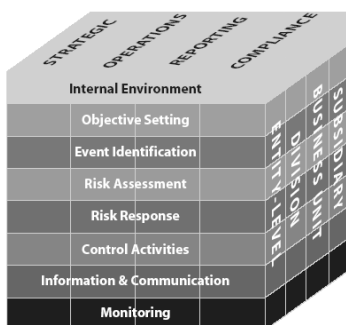
SPONSORING ORGANIZATIONS



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Enterprise Risk Management



COSO ERM Framework:

There is a direct relationship between **objectives**, which are what an entity strives to achieve, and ERM **components**, which represent what is needed to achieve them.


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Committee Procedures and Processes

- Qualifications of Members and Chair
- Committee Structure
- Administrative Items
- Open Communication
- Education / Resources


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Qualifications of Members

- Independent of Management
- Financially literate
- Financial expert
- High integrity, accountability and informed judgment
- Consider the collective experience of Committee members
- Members are appointed/re-appointed by the Board


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Qualifications of Chair

- Proactive leader
- Strong financial literacy skills
- Skeptical eyes/ears
- Communication skills that facilitate dialogue with management, the auditors and the Board

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Committee Structure

- Generally, at least three members, but no more than six
 - Key is to facilitate good discussion and inquiry by the Committee and to have enough members to provide a variety of skills and experiences
- Terms should be specified in Charter
- Meet as frequently as needed (generally 3-4 times per year) and time allotted is reasonably free of constraints
- Members should be required to attend at least half of the meetings per year
- In-person attendance is recommended

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Administrative Items

- Specify who will serve as staff to the Committee
- Set expectations regarding preparation of agenda and minutes
- Establish ground rules regarding advance mailing (USPS or email) of Committee materials
- Committee should obtain Board approval of Charter and review the Charter annually
- Complete periodic evaluation of effectiveness of Committee, Committee members and Chair


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Open Communication

- Executive sessions with internal and external auditors, and Compliance Officer
- Communications Checklist:
 - Is Management easily accessible?
 - Does Management reach out to the Committee/Chair?
 - Are your questions answered fully and promptly?
 - Is factual information provided to support responses?
 - Are you advised of significant issues in a timely manner?
 - Does Management seek your input in advance of key decisions?
 - Does Management admit not knowing an answer?
 - Are you supported by additional resources and specialists?

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Education / Resources

- Continuing education in emerging healthcare, regulatory and accounting topics
- Education should be woven into annual agenda calendar
- Access to the right information at the right time
- Access to experts as needed



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Internet Resources

Audit Organizations:

- The Institute of Internal Auditors – www.theiia.org
- American Institute of Certified Public Accountants – www.aicpa.org
- Information Systems Audit and Control Association – www.isaca.org


Governance Related Organizations:

- Committee of Sponsoring Organizations – www.coso.org
- National Association of Corporate Directors – www.nacdonline.org
- Trustee Magazine – www.trusteemag.com

Government / Health Care Related:

- Securities and Exchange Commission – www.sec.gov
- Public Company Accounting Oversight Board – www.pcaobus.org
- American Hospital Association – www.aha.org
- Centers for Medicare and Medicaid Services – www.cms.gov

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Effective Use of Charter

- Adopt Charter to communicate responsibilities, describe structure and outline processes
- Use Charter as the “road map” to manage agendas for the upcoming year
- Complete an annual side-by-side assessment to ensure Committee accomplishes expectations outlined in Charter
- Review annual self-assessment results with the Board
- Review and update Charter on an annual basis

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Discussion

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