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# AUDIT COMMITTEES:

**A Guide for Directors,  
Management, and Consultants**

*Sixth Edition*

By

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and

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## HOW TO USE THIS BOOK

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*Audit Committees: A Guide for Directors, Management, and Consultants (Guide)* is designed as a reference book. Ordinarily, most users will probably not read the *Guide* from cover to cover. However, a new audit committee member, a first-time chairperson of an audit committee, or a consultant (including, for example, an internal or external auditor) who is developing his or her knowledge and skill set about audit committees, should consider a cover-to-cover review of the *Guide*. That review will facilitate use of the *Guide* as a primary reference source.

The authors, anticipating that most readers will use the *Guide* as a reference source, have designed the *Guide* with this in mind. Therefore, the *Guide* contains a detailed **table of contents** (with page numbers shown for sections within each chapter). Each chapter also has a **chapter summary** that highlights the significant points made in the chapter. The busy reader may look at the table of contents for a chapter that addresses a subject of interest and then proceed directly to the chapter summary to determine if the information he or she needs is presented in that chapter.

Also included is a list of the **appendices** in the *Guide*. The authors have designed each appendix to be practical and easy to use. The appendices, many of which are included on the enclosed CD-ROM, can be easily modified to fit a unique audit committee need or situation.

The *Guide* also contains a comprehensive **glossary**. The glossary is designed to enable a user to quickly look up a term that he or she may have heard but is not sure of its meaning. For example, the terms “SAS 100 Review,” “COSO Report,” “Material Weakness in Internal Control,” and “Business Judgment Rule,” are all defined in the glossary. The *Guide* also includes a section on **Where to Find More Information** that contains addresses, phone numbers, and web sites of key organizations, and a **List of Acronyms** for the user’s quick reference. Finally, the *Guide* contains a detailed traditional **index** to enable a user to quickly locate all of the significant discussions of a defined term.

## ABOUT THE AUTHORS

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Professor Tatum is an active member of the AICPA and the American Accounting Association. She was a member of the AICPA's Task Force that developed SAS 84 on communications between auditors and a member of the AICPA's International Auditing Standards Subcommittee from 1998 to 2003. She served as Secretary of the Auditing Section of the American Accounting Association from 2004 to 2006. She was a member of the Public Company Accounting Oversight Board's Standing Advisory Group from 2004 to 2005. Professor Tatum currently serves on the board of directors of a public company, chairing its audit committee.

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## PREFACE

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*Audit Committees: A Guide for Directors, Management, and Consultants (Guide)* presents the history, responsibilities, and operation of audit committees. Though the *Guide* focuses primarily on publicly held companies, a short chapter on audit committees for not-for-profit and public sector entities is included. The *Guide* is written in a non-technical, active-voice, easy-to-read format.

We bring a unique combination of experience and skills to the *Guide*. One author has served as a director of a number of public, private, and not-for-profit entities, having organized, chaired, and participated as a member of a number of audit committees. In addition, he has more than 30 years' experience as a partner in, industry head of, and consultant to, international accounting firms and has dealt with audit committees from that perspective on many occasions. The second author served an 18-year tour of duty with the American Institute of Certified Public Accountants, where he was Vice President having responsibility for audit and attest matters. He participated in the debates and preparation of many of the documents and materials discussed in this book. The third author has 30 years' experience as an accounting professor who specializes in teaching and researching auditing standards. In addition, she has participated in various auditing standard setting activities, including serving a two-year term as a member of the Public Company Accounting Oversight Board's Standing Advisory Group. She currently serves as a director of a public company, chairing its audit committee.

The *Guide* is synergistic in that it combines real-world audit committee experience with expert knowledge of materiality, internal control, fraud and illegal acts, and the independence requirements for external and internal auditors. The *Guide* is unique in that it presents technical topics in a manner that is understandable for the reader who is not an attorney or a certified public accountant. The *Guide* also is unique in that it covers subjects that are rarely discussed, such as the process for terminating an external auditor. Another significant feature of the *Guide* is the emphasis on the importance of regular evaluations of audit committee performance, not only as a means of possibly reducing legal liability of the board of directors but also enhancing the credibility of the company in the eyes of third parties.

As indicated above, the *Guide* fills a "gap" in the existing literature in that it blends observations based on real-world experience serving on audit

committees, expert knowledge of the standards of external and internal auditors, and knowledge of the latest requirements from the New York Stock Exchange, Nasdaq, the NYSE Amex, and the SEC, including the Sarbanes-Oxley Act of 2002.

Please help us improve the *Guide*. We welcome your comments, questions, and suggestions. Please direct your correspondence to:

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