

May 24, 1977

To Our Clients

Audit Committees

The increasing attention being focused on audit committees occasions note of an SEC consent order in SEC v. Killearn Properties, Inc. (N.D. Fla. Civ. No. TCA-75-67) entered earlier this month which sets forth the SEC conception of the functions of an audit committee. The order provides for an audit committee of three outside directors having the following duties:

1. It should review the engagement of the independent accountants, including the scope and general extent of their review, the audit procedures which will be utilized, and the compensation to be paid.

2. It should review with the independent accountants, and with the company's chief financial officer (as well as with other appropriate company personnel) the general policies and procedures utilized by the company with respect to internal auditing, accounting and financial controls. The members of the committee should have at least a general familiarity with the accounting and reporting principles and practices applied by the company in preparing its financial statements.

3. It should review with the independent accountants, upon completion of their audit, (a) any report or opinion proposed to be rendered in connection therewith; (b) the independent accountants' perceptions of the company's financial and accounting personnel; (c) the cooperation which the independent accountants received during the course of their review; (d) the extent to which the resources of the company were and should be utilized to minimize time spent by the outside auditors; (e) any significant transactions which are not a normal part of the company's business; (f) any change in accounting principles; (g) all significant adjustments proposed by the auditor; (h) any recommendations which the independent accountants may have with respect to improving internal financial controls, choice of accounting principles, or management reporting systems.

4. It should inquire of the appropriate company personnel and the independent auditors as to any instances of deviations from established codes of conduct of the company and periodically review such policies.

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5. It should meet with the company's financial staff at least twice a year to review and discuss with them the scope of internal accounting and auditing procedures then in effect; and the extent to which recommendations made by the internal staff or by the independent accountants have been implemented.

6. It should prepare and present to the company's board of directors a report summarizing its recommendation with respect to the retention (or discharge) of the independent accountants for the ensuing year.

7. It should have the power to direct and supervise an investigation into any matter brought to its attention within the scope of its duties (including the power to retain outside counsel in connection with any such investigation).

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