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Selecting the Auditor – Updated

Under Section 301 of the Sarbanes-Oxley Act and Rule 10A-3 promulgated by the SEC, the national securities exchanges and associations must adopt listing standards that will require the audit committees of most public companies to be directly responsible for the appointment, compensation, retention and oversight of the work of the company's auditor. In reviewing and hiring an auditor, it would be appropriate for the audit committee to consider the following:

Qualifications and Resources:

- The auditor's expertise in the company's industry.
- The education and experience of the key partners on the audit and any partners who are expected to replace them in the near future under the partner rotation requirements.
- If the company has significant operations outside the United States, information with respect to the auditor's offices or affiliates in the relevant countries.
- Scope, plan and staffing of the audit and attestation services, including whether the proposed staffing and fees are adequate and appropriate relative to the scope of the work contemplated.
- The auditor's Application for Registration, annual reports and other recent materials filed with the Public Company Accounting Oversight Board (PCAOB).

Quality Controls:

- The auditor's system of internal controls for the purpose of assuring the quality of the audit and compliance with the auditor independence requirements, including (a) the prohibition on compensation of audit partners based on marketing products or services other than audit, review or attest services, (b) procedures for resolution of technical issues, including the roles of the reviewing partner and the national office and (c) results of the most recent peer review and inspection by the PCAOB.
- The auditor's recent record with respect to restatements, changes in previously issued audit reports, legal settlements and disciplinary or enforcement proceedings before the SEC or PCAOB.
- Any complaints regarding accounting, internal accounting controls or auditing matters received by the company, and the actions taken by the auditor in response thereto.

Leadership:

- The quality of leadership and integrity exhibited by the audit partners.

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- The ability of the audit team to work effectively with and challenge management.
- The auditor's management of the partner rotation requirements and the possible impact of such rotation on the auditor's services.

Independence:

- Any relationships that might affect independence, whether or not such relationships would violate the new auditor independence rules, such as the presence of alumni of the auditor on the company's Audit Committee or in its senior financial staff.
- An evaluation of all non-audit services to be provided by the auditor to the company, members of the Audit Committee or the company's senior executives.

If a new auditor is being considered, the audit committee should also engage in a critical review of the following matters:

- Any disagreements within the past three years between the company's senior financial management and the personnel of the current auditor responsible for rendering its report on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.
- Any consultations within the past three years by the company with the proposed new auditor regarding the application of accounting principles to a specified transaction (either completed or proposed), the type of audit opinion that might be rendered, or any matter that was the subject of a disagreement.
- Whether in seeking the engagement the auditor has proposed a change in accounting principles, or the manner in which the company has been doing business, which would result in a material increase in reported revenues or earnings or in a material change in assets or liabilities.

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