

Law Offices of Michael L. Corrigan

10 Audit Committee Best Practices for Small Business Issuers

A key element in the corporate governance process of any organization is its audit committee. Several bodies have established best practices and requirements for audit committees for a range of companies from small business issuers to seasoned large-cap issuers. To be sure, there is a broad range of recommendations and requirements set forth by the NYSE, Nasdaq and COSO, to name a few. Based on our review, and with the small business issuer in mind, we have extracted a list of 10 Best Practices that we believe are fundamental to the successful implementation of an audit committee for any small business issuer.

Our guidance is intended to emphasize best practices for Audit Committees at a practical level for small business issuers, from those that are on the cusp of accelerated filer status to those that have only a handful of employees.

1. Establish, maintain and annually review Audit Committee Charter
2. Oversee Financial Reporting Process
 - a. Review financial statements with management
 - b. Review MD&A
 - c. Review earnings press releases and
 - d. Establish earnings guidance policies
3. Monitor choice of accounting policies and principles.
 - a. The audit committee should receive a report from the auditor about the principles used and the effects of alternative choices on the financial statements.
4. Monitor internal control process. The audit committee's role is to ensure that management has developed and followed an adequate system of internal control.
 - a. Monitoring compliance with legal and regulatory requirements
 - b. Risk assessment and risk management. Corporate boards and their audit committees must understand the business and financial risks that may be threats to their company. It is imperative that audit committees determine not just what management has done to identify the risks, but also what they have done to monitor and control the risks.
 - c. Adopt and maintain a Code of Ethics for officers and employees. An ethical code of conduct cannot succeed without a monitoring and enforcement mechanism. It is the board of directors' responsibility to ensure that a mechanism exists and functions as intended.
5. Coordinate and monitor internal audit processes. It is essential for the internal auditor to be able to approach the audit committee in private, confident of receiving the necessary support and guidance.
6. Establish and oversee "Whistleblower" program.

7. The audit committee, or a comparable body, should review and approve related-party transactions.
8. Ensure open communication among management, internal auditors, external auditors, and the audit committee. The audit committee should meet separately with management, internal auditors, and external auditors.
9. Oversee hiring and performance of the external auditors. The audit committee will be responsible for selecting and replacing auditors and pre-approving audit and non-audit fees and services, as well as overseeing the external auditor's performance.
10. All audit committee members be independent and at least one member should have accounting or financial management expertise.

For more information about or questions about best practices for Audit Committees and SOX 404 compliance for small business issuers, contact:

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