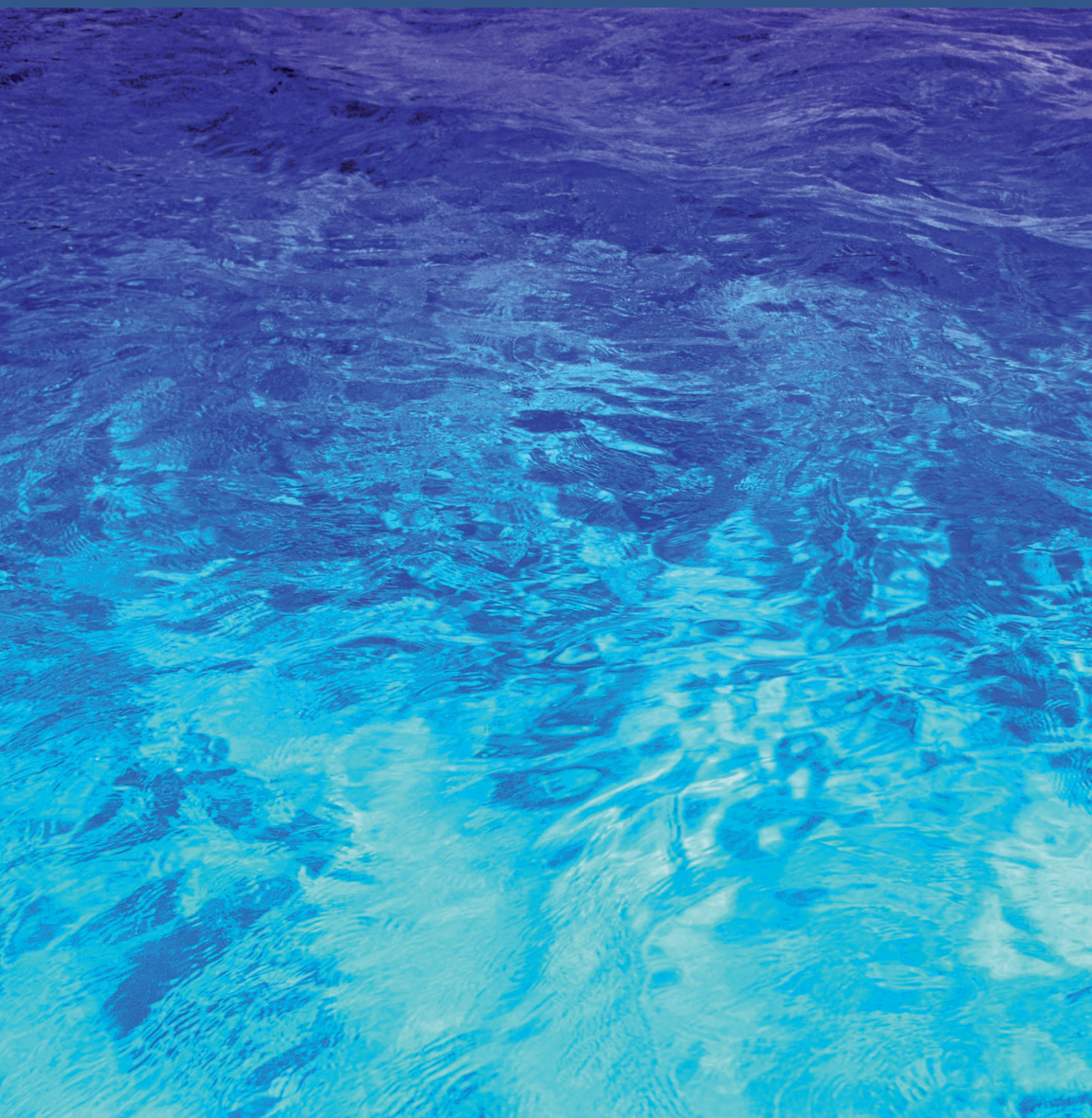


# Principles & Practices

Regarding Our Relationships  
With Client Audit Committees



May 2003

## To Members of Audit Committees of Our Clients

Unquestionably, the reach of corporate reforms has been extraordinary over the past several years—and essential to restoring investors' faith in our capital markets and to restoring trust in companies' financial reports. The enactment of the Sarbanes-Oxley Act of 2002 stands as the strong foundation upon which still other building blocks of enhanced public policy and market practices have been placed.

Many of the legislative, regulatory and marketplace responses to the corporate scandals and disappointing performance by auditors in some instances have a common element: Recognition of the importance of a strong and effective relationship between a company's audit committee and its independent auditors. Certainly, there are new standards that explicitly define our reporting relationship and prescribe the duties each of us must fulfill as part of the relationship. These requirements—largely structural and procedural in nature—are welcomed and necessary. Yet, in our view, it is often an organization's own principles and practices, consistently implemented and faithfully followed by its people, which provide the most direct path to achieving a distinctive level of performance. Speaking for PricewaterhouseCoopers, we seek that level of excellence in our relationships with audit committees of our clients.

With that in mind, we are pleased to share this monograph, Principles & Practices Regarding Our Relationships With Client Audit Committees. It provides a foundation for our relationship with you—setting forth understandings that will guide our engagement teams as they conduct audits of financial statements of companies for which you have important oversight responsibilities. As expressed in the monograph, these principles and practices are intended to support you in discharging those responsibilities.

We expect these principles and practices will promote important discussions between audit committee members and our engagement teams. I would point out that we developed them, fully understanding that one size does not fit all. As policies, practices, protocols, needs and, importantly, expectations vary among audit committees, the principles and practices are intended to accommodate these differences.

Similarly, these principles and practices will necessarily continue to evolve as new corporate governance and audit standards are established, and we will constructively push at those standards when they are not responsive to reasonable expectations. For those reasons, when desirable, we encourage our clients' audit committees and our engagement teams to supplement these principles and practices with additional and more specific understandings that are responsive to particular circumstances.

We hope you find this information helpful and that it serves as a constructive basis for strengthening our important relationship and improving its effectiveness--for the ultimate benefit of your company's shareholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis M. Nally". The signature is fluid and cursive, with the first name "Dennis" being the most prominent part.

Dennis M. Nally  
Chairman and Senior Partner

# Principles & Practices

## Regarding Our Relationships With Client Audit Committees

PricewaterhouseCoopers LLP accepts and reaffirms its responsibility to the public. We fulfill our responsibility, when auditing the company's financial statements, by performing our audit in accordance with generally accepted auditing standards—exercising integrity, objectivity, independence and professional care. We seek to serve clients whose businesses embody a spirit of transparency, a culture of accountability, and people of integrity, and who value our services. We also believe that effective relationships and communication with the company's audit committee are important elements in serving the public interest.

## Principles

### **The Relationship Must Be Open and Mutually Supportive**

Three parties comprising critical links in the corporate reporting process—the board of directors (including its audit committee), company management, and independent auditors—have significant and unique responsibilities with respect to reporting and disclosure practices. The relationship between the audit committee and our firm is a particularly vital one—and it must be, in principle and practice, open and mutually supportive. Our support of the audit committee is intended to enable it to effectively represent the interests of the company's shareholders. In turn, the audit committee's support of us enhances our effectiveness and helps preserve our independence from management.

## The Relationship Must Reflect Clear Responsibilities and Expectations

We report directly to the company's audit committee in connection with our audit, review and attest services. We fully support any arrangement that vests in the company's audit committee the direct responsibility for overseeing our services, as well as appointing, retaining, compensating, or terminating our firm as the company's independent auditors (subject, if applicable, to any other prevailing or controlling authority or shareholder ratification). A constructive element of this framework is a mutual understanding between the company's audit committee and our engagement team of pertinent engagement objectives and evaluative criteria used to measure the achievement of those objectives.

## The Relationship Must Be Based on Effective Communication

We believe the quality of our communications—written and oral—sets the tone for our relationship with the company's audit committee. Quality is achieved through comprehensive and timely communications conveyed with candor, consistency and clarity—communications that include and go beyond professional and regulatory requirements. Our communications extend to and encompass our service approach; our independent point of view about the company's business risks (including susceptibility to fraud) and controls used to manage those risks; our observations regarding the company's financial reporting practices and their degree of transparency; and discussions with the audit committee about respective roles and responsibilities among it, management, and our engagement team.

# Practices

## Meeting Expectations

An important component of our relationship with the company's audit committee is establishing an understanding of our respective responsibilities, needs and expectations—and promptly notifying each other if they change. In that regard, we meet with the audit committee, company management and, when appropriate, corporate or directors' counsel to identify, in addition to prescribed information and communications, other appropriate subjects for discussion. We work with the audit committee and company management to establish a schedule of meetings, agendas and other procedural protocols that are aligned, as desirable, with the timing of corresponding public announcements or filings, and that are intended to provide ample time to discuss planned topics and any other unforeseen matters. We value feedback from the company's audit committee as a means to continuously improve our performance—wanting to be judged against a high bar of expected performance. Conversely, we seek to enhance the company's audit committee effectiveness by providing our viewpoints on its established responsibilities (as codified in the charter) and practices.

## Standing Firm on Quality

Our core values of Excellence, Teamwork, and Leadership guide the actions of our people. They focus our efforts and give us stability and direction when we face difficult auditing, accounting and reporting judgments. Excellence is about delivering what we promise and adding value beyond what is expected. Teamwork enables us to meet challenges on a local and global scale. Leadership is demonstrated through speaking up, when necessary, to ensure the accounting profession is meeting its responsibilities to the public; addressing difficult issues with integrity; and having the foresight to anticipate opportunities and problems not yet visible to our clients.

## Communicating Forthrightly

We also understand the importance to the company's audit committee that we communicate clearly and present information in a transparent manner. If the subject matter is technical or complex, we discuss it in as straightforward a way as possible. We inform the audit committee of our planned scope and the degree to which we expect to test the company's internal controls for key operations, as well as our related findings and recommendations. We also advise the audit committee of all matters required to be communicated pursuant to professional and regulatory standards—and still others about which, in our judgment, the audit committee needs to know. These include, but are not limited to, our viewpoints about the quality—not just the acceptability—of the company's significant accounting policies; methods used to account for significant unusual transactions; audit adjustments identified, if any, that could have a significant effect on the company's financial reporting process; and our conclusions regarding the reasonableness of particularly sensitive accounting estimates in the company's financial statements.

## Acting With Objectivity

Our viewpoints are impartially and objectively formed—though necessarily, under generally accepted auditing standards, we take account of the perspectives of the company's management. The company's audit committee can expect us to contact it directly and timely if we have a concern about an important financial reporting or disclosure matter that has not been addressed satisfactorily by company management. We also strongly encourage separate meetings between the company's audit committee and our engagement team to provide additional opportunities for frank and straightforward discussions about, among other possible matters, the company's financial reporting policies and practices, as well as its related internal controls.

## Exercising Professional Judgment

We undertake our responsibilities understanding the critical interplay of technical knowledge and professional judgment—judgment to do the right thing at the right time. We draw upon instilled ethical standards and courage to speak up when necessary. Ultimately, we look to our integrity when testing our decisions.

## Respecting the Importance of Auditor Independence

Auditor independence—in fact and in appearance—is essential to investors’ and other stakeholders’ confidence in audited financial information. We take seriously any real or perceived threats to our independence. Information and disclosures required in this regard—including any relationships between our firm and the company that, in our professional judgment, may reasonably be thought to bear on our independence—are provided to the company’s audit committee. Similarly, our viewpoints about auditor independence are provided to the audit committee for its use in establishing effective policies and pre-approval protocols pertaining to our firm’s provision of professional services—audit and non-audit in nature—that, in its view, best serve the company’s and its shareholders’ interests. In establishing those policies and pre-approval protocols, the company’s audit committee can expect our firm to faithfully maintain a quality control system consistent with regulatory and professional standards.

Further, the audit committee can be confident that our audit partners are compensated appropriately for audit quality and performance. Our firm’s core values are Leadership, Teamwork and Excellence. Trust, Quality and Pride are three specific attributes we expect of our partners as they deliver services to the company. These values and attributes, together with responsibility and performance, play a significant role in our audit partner compensation model. We focus significant and ongoing attention to the model so that it promotes appropriate behaviours and complies with any applicable regulatory standards.

## Providing Information About Our Organization and Practices

We enhance the audit committee's trust in us by providing information about our own organization and practices. We produce an Annual Review for our global organization—separately presenting information regarding our US firm's activities—and make it available to our company's audit committee. Through the annual report and other supplemental means, the audit committee is provided information about, among other areas, our Global Ethics and Business Conduct program and our audit practice's system of internal control.

## Selecting Appropriate Audit Personnel

We select the (lead) audit partner for the company using a number of considerations—including the company's industry or sector, size, complexity, geographic reach, organization competencies, requirements and culture. Our practice is to periodically review relevant engagement circumstances to confirm that (i) the assignment continues to be appropriate; and (ii) a suitable succession plan, in anticipation of the partner nearing the end of his/her allowable term of service, is in place. In addition, we provide the company's audit committee with information about our senior engagement team's individual and collective business competencies and experiences. In that regard, we provide resumes of key partner and manager personnel upon their assignment to the audit engagement, although we believe that a resume alone is not the best indicator of competence or quality of performance. The audit committee's direct experience with its (lead) audit partner—as well as its and our firm's confidence in the partner's judgment and integrity—may be the most reliable basis for evaluating the partner's suitability.

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