

**THE WILLIAM AND FLORA HEWLETT FOUNDATION
AUDIT COMMITTEE CHARTER**

I. Membership. The Audit Committee shall be appointed by the Board of Directors and shall consist of at least two members of the Board, and may include non-Board members. No member of the Audit Committee shall be an employee of the Foundation, or receive any consulting or other compensatory fee from the Foundation (other than for service as member of the Board), or have a material financial interest in any entity doing business with the Foundation. Members should be able to read and understand relevant financial statements.

II. Purposes.

1. To assist the Board in its oversight responsibility relating to:
 - a. the accounting and financial reporting (including Form 990 PF tax filing) of the Foundation, including the integrity of the Foundation's financial statements;
 - b. the Foundation's financial controls and the Foundation's compliance with legal and regulatory requirements; and
 - c. the outside auditor's qualifications, independence, and performance.
2. To be directly responsible for the appointment, compensation, oversight of the work, and termination of the Foundation's independent auditor. The auditor will report to the Audit Committee, which will receive and consider all required communications from the auditors and will act as liaison with the Board.

III. Duties and Responsibilities. The duties and responsibilities of the Audit Committee, in addition to the general tasks and responsibilities that, in its judgment, will contribute most effectively to the purposes of the Committee, include:

1. With regard to auditor independence,
 - a. to consider at least annually the independence of the outside auditor, taking into account the auditor's performance of any non-audit services, and obtain and review a report from the auditor describing any relationships between the auditor and the Foundation, the provision of non-audit services, or any other relationships that may adversely affect the independence of the auditor;
 - b. non-audit services should not be provided to the Foundation by the auditor without Committee approval;

- c. if the Foundation's Chief Investment Officer, Treasurer, or Controller worked for the audit firm on the Foundation's audit in the previous two years, the auditor will not be considered independent; and
 - d. without regard to performance of the auditor, to review every seven years the desirability of changing audit firms, and require, in any event, that the lead engagement partner be changed at least every seven years.
 2. With regard to the Foundation's financial statements,
 - a. to review and discuss with management and the auditor the audited financial statements of the Foundation including, among other things,
 - the auditor's judgment as to the quality of the Foundation's accounting principles and underlying estimates, including significant financial reporting issues or adjustments and judgments made in connection with the preparation of the financial statements,
 - all critical accounting policies and practices used within the Foundation and any discussions with management about such policies and practices,
 - any schedules of unadjusted differences from the audit,
 - the timeliness and quality of initial drafts of financial statements,
 - the continued appropriateness of accounting principles or practices and their consistency with nonprofit and foundation norms, and
 - management representation letters and other substantive correspondence between management and the auditor;
 - b. to receive a certification of the President, the Chief Investment Officer, and the Treasurer representing that they have reviewed the financial statements, that to their knowledge the financial statements do not contain any untrue statements or omit any material facts, and that the financial statements fairly represent the Foundation's financial condition for the period covered; and
 - c. to report to the Board the completion of the review of the annual financial statements and any related significant discussion.
 3. With regard to internal controls, to review periodically with the auditor and management the adequacy and effectiveness of the Foundation's internal controls,

including any significant deficiencies in internal controls and significant changes in such controls reported to the Committee by the auditor or management.

4. To receive and consider communications from the auditors as to
 - a. any serious difficulties encountered in dealing with management affecting the performance of the audit; and
 - b. any instance of fraud or illegal acts of which the independent auditors are aware.
 5. With regard to regulatory matters,
 - a. to review procedures to assure compliance with tax law pertaining to the Foundation's tax status, including payout requirements;
 - b. to receive a statement by the President, the Chief Investment Officer, and the Treasurer to the effect that the officers have reviewed the 990 PF tax filing, that to their knowledge it does not contain any untrue statements or omit any material facts, that the financial information presented fairly represents the Foundation's financial condition for the period covered, that it was filed in a timely manner, and that they are maintaining internal controls designed to ensure that material information related to the Foundation's tax filing be made known to them;
 - c. to receive a statement by the President, the Chief Investment Officer, and the Treasurer to the effect that to their knowledge the Foundation has complied in all material respects with the requirements and prohibitions in its governing documents and articles of incorporation.
 6. To review annually the Foundation's conflict-of-interest policies and make recommendations to the Board for change, if appropriate, and to review procedures to assure compliance with the Foundation's conflict-of-interest policies as well as any violations or exceptions.
 7. To review and approve a formal confidential process that allows employees to report any inappropriateness within the Foundation's financial management, and that prevents retaliation against employees or others for any such reports.
- IV. Outside Advisors.** The Audit Committee shall have the authority to retain separate legal counsel or other advisors at the Foundation's expense as appropriate to assist it in the performance of its functions.
- V. Meetings.** The Audit Committee shall meet at least twice a year at such times and places as the Committee shall determine. The Committee shall meet separately in executive session periodically with management and with the independent auditor.