



## **TRANSCEND SERVICES, INC. AUDIT COMMITTEE CHARTER**

### **PURPOSE**

The purpose of the Audit Committee (the “Committee”) is to assist the Board of Directors (the “Board”) of Transcend Services, Inc. (the “Corporation”) in its duty to oversee the Corporation’s accounting, financial reporting and internal control functions and the audit of the Corporation’s financial statements. The Committee will accomplish this purpose by performing the responsibilities enumerated in this charter, which include among others the direct responsibility for hiring, firing, overseeing the work of and determining the compensation for the Corporation’s independent auditors, which shall be an independent registered accounting firm that is registered with the Public Company Accounting Oversight Board (“PCAOB”).

### **ORGANIZATION**

The Committee shall be composed of at least three *independent* members of the Board, each of whom (i) is outside of the management of the Corporation; (ii) is free of any relationship that, in the opinion of the Board, would interfere with his or her exercise of independent judgment as an Audit Committee member; and (iii) meets the criteria for audit committee *independence* as defined in the rules of the NASDAQ Stock Market and the Securities and Exchange Commission (the “SEC”). In accordance with the requirements of NASDAQ and the SEC, each member of the Audit Committee must have a minimum level of financial literacy to be able to read and understand fundamental financial statements. In addition, at least one member of the Audit Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities, to qualify as a *financial expert*, as that term is defined by the SEC.

Members of the Committee shall be nominated by the Nominating and Corporate Governance Committee and elected by the Board, with interested members of the Board recusing themselves, and shall serve until the expiration of such member’s term or until such member’s earlier resignation, retirement or removal. The members of the Audit Committee may be removed at any time, with or without cause, by majority vote of the Board.

The Board shall elect the Chairperson of the Committee who will chair all regular sessions of the Committee and set the agendas for Committee meetings. The Chairperson shall serve until the expiration of his or her term or until his or her earlier resignation, retirement or removal. If the Chairperson is absent from a particular meeting, another member of the Committee may serve as chairperson for that meeting.

## **MEETINGS**

The Committee shall meet at least four times a year, and more often as its members shall deem appropriate to accomplish the Committee's responsibilities and duties. The Committee will meet periodically in executive session without Corporation management present.

A majority of Committee members shall constitute a quorum. A majority of the members present at any meeting at which a quorum is present may act on behalf of the Committee. The Committee may meet by telephone or videoconference and may take action by unanimous written consent to the fullest extent permitted by the applicable law.

## **STATEMENT OF POLICY**

The Committee shall provide assistance to the Board in fulfilling its responsibility to the shareholders, potential shareholders, and investment community relating to the Corporation's accounting and financial reporting practices; the quality and integrity of the Corporation's financial statements; and the adequacy of the Corporation's *disclosure controls and procedures* as those terms are defined by the SEC.

## **RESPONSIBILITIES**

In furtherance of the policy of the Committee, it will be the responsibility of the Committee to:

- Maintain free and open means of communication among Board members, the outside auditors, the internal auditors and the financial management of the Corporation.
- Appoint, determine funding for, retain and oversee the outside auditors, which firm is ultimately accountable to the Audit Committee and the Board.
- Evaluate the performance of the outside auditors and, if the Audit Committee deems it to be in the best interests of the Corporation, replace the outside auditors.
- Approve in advance the provision by the auditor of all permissible non-audit services.
- Confirm and assure the independence of the outside auditors, and in connection therewith, review the fees paid to the outside auditors for audit, non-audit, tax and all other services.
- Engage and determine funding for independent counsel and other advisors as required.
- Establish procedures for the receipt retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters. Additionally, ensure that such complaints are treated confidentially and anonymously.
- Obtain, annually, from the outside auditors the written disclosures and letters required by applicable requirements of the PCAOB regarding the independent auditors'

communications with the Committee concerning independence, actively engage in a dialogue with the independent auditors regarding any disclosed relationships or services that may impact objectivity and independence of the independent auditors, and take, or recommend that the Board take, appropriate action to oversee the independence of the independent auditors.

- Meet with the outside auditors and financial management of the Corporation during the fourth quarter of the fiscal year to review the scope of the proposed annual audit and the audit procedures to be utilized.
- Require the independent auditors to report to the Committee at least annually regarding (i) the independent auditors' internal quality control procedures; (ii) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm; and (iii) any steps taken to deal with such issues.
- Discuss with the independent auditors the matters required to be discussed by AU Section 380 "The Auditor's Communication with those Charged with Governance," or such successor standard that may be promulgated by the PCAOB, including the quality and acceptability of the accounting principles applied in the financial statements and changes in accounting policies, and any other matters required to be discussed with the independent auditors related to the audit or under generally accepted auditing standards.
- Review, with the outside auditors and the Corporation's financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Corporation, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis should be given to the adequacy of such internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.
- Review management's analysis of any significant accounting issues, changes, estimates, judgments or unusual items relating to the financial statements and the selection, application and effects of critical accounting policies applied by the Corporation (including an analysis of the effect of alternative GAAP methods) and review with the independent auditors the reports on such subjects delivered pursuant to Section 10A(k) of the Exchange Act.
- Review with management and the Corporation's outside counsel on at least a quarterly basis all pending or threatened litigation involving the Corporation, including any legal matters that may have a material impact on the financial statements and any material reports or inquiries received from regulators or governmental agencies.
- Review with management and the outside auditors:

- the Corporation's annual financial statements and related footnotes, prior to filing by the Corporation of the Form 10-K with the Securities and Exchange Commission;
  - the outside auditors' annual audit of the financial statements and their report thereon prior to the issuance of such report;
  - any problems or difficulties the outside auditors may have encountered and any management letter provided by the outside auditors and the Corporation's response to any such letter;
  - any significant changes to the Corporation's auditing and accounting principles and practices suggested by the Corporation's outside auditors or by management; and
  - at periodic meetings with management, the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- Provide sufficient opportunity for the outside auditors to meet with the members of the Committee without members of management present. Among the items to be discussed in these meetings are the outside auditors' evaluation of the Corporation's financial, accounting, and auditing personnel, and the cooperation that the outside auditors received during the course of the audit.
  - Ensure that the outside auditors conduct a review in accordance with AU Section 722 and 722A "Interim Financial Information," or such successor standard promulgated by the AICPA, prior to each filing of the Corporation's Form 10-Q with the Securities and Exchange Commission.
  - Review the Corporation's Form 10-Q before each such quarterly report is filed with the Securities and Exchange Commission.
  - Prepare the report of the Committee required pursuant to the rules promulgated by the Securities and Exchange Commission to be included in the Corporation's annual proxy statement.
  - Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
  - Ensure that the Chairman of the Committee, and other members of the Committee if considered necessary, reviews with the Chief Financial Officer and other members of management any proposed release of significant financial information by the Corporation to the public.

- Submit the minutes of all meetings of the Committee to, or discuss the matters discussed at each Committee meeting with, the Board, and make such recommendations to the Board as the Committee may deem appropriate.
- Review and reassess the adequacy of this Committee Charter on an annual basis and recommend any proposed changes to the Board for adoption.
- Conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities under this charter, including but not limited to claims of fraud, or as may be assigned to it by the Board from time to time.

In addition, the Committee will perform such other functions as assigned by law, such as the Sarbanes-Oxley Act of 2002, NASDAQ rules, the Corporation's charter or bylaws, or the Board.

The Committee shall have the right to use reasonable amounts of time of the Corporation's independent auditors, internal audit personnel and other internal staff and legal counsel, and also shall have the right to hire and fire independent accounting experts, outside legal counsel and other advisors to assist and advise the Committee in connection with its responsibilities and authority. The Committee shall have the authority to approve fees and retention terms related to the foregoing.

While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to specifically plan or conduct audits or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the outside auditors. Nor is it the duty of the Committee to conduct investigations, to resolve disagreements, if any, between management and the outside auditors, or to assure compliance with laws and regulations or rules of NASDAQ.