



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

### **ORGANIZATION**

The Audit Committee of Transcend Services, Inc. (the “Corporation”) shall be composed of at least three *independent* members of the Board of Directors of the Corporation (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 *independence* as defined by the National Association of Securities Dealers, Inc. (the “NASD”) and the Securities and Exchange Commission (the “SEC”). In accordance with the requirements of the NASD and 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 Audit Committee shall be nominated by the Nominating and Corporate Governance Committee and elected by the Board, with nominated 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 Audit Committee who will chair all regular sessions of the Audit Committee and set the agendas for Audit 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 Audit Committee may serve as chairperson for that meeting.

### **STATEMENT OF POLICY**

The Audit 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 Audit Committee, it will be the responsibility of the Audit 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 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, a formal written statement from the outside auditors consistent with Ethics and Independence Rule 3526, delineating relationships between the outside auditors and the Corporation, and actively engage in dialogue with the outside auditors regarding matters that might reasonably be expected to affect their independence.
- 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.
- Discuss with the outside auditors the matters required to be discussed by Statement on Auditing Standards No. 114 relating to the conduct of the audit.
- 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 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 Audit 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 Statement on Auditing Standards No. 100 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 Audit Committee required pursuant to the rules promulgated by the Securities and Exchange Commission to be included in the Corporation's annual proxy statement.
  - Ensure that the Chairman of the Audit 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 Audit Committee to, or discuss the matters discussed at each Audit Committee meeting with, the Board, and make such recommendations to the Board as the Audit Committee may deem appropriate.
  - Review and reassess the adequacy of this Audit Committee Charter on an annual basis and recommend any proposed changes to the Board for adoption.

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

While the Audit 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 the NASD.