

## **HEARTLAND GROUP, INC. AUDIT COMMITTEE CHARTER**

### **Purposes**

The purposes of the Audit Committee (the “Committee”) are:

1. to oversee Heartland Group, Inc.’s (the “Funds”) accounting and financial reporting policies and practices, its internal controls and, as deemed appropriate by the Committee, the internal controls of the Funds’ service providers;
2. to oversee the quality, objectivity, and integrity of the Funds’ financial statements and the independent audit thereof; and
3. to monitor the independent auditor’s qualifications, independence, and performance.

The function of the Committee is oversight; it is not responsible for maintaining appropriate systems for accounting and internal control or planning or carrying out a proper audit.

### **Committee Membership**

The Committee will be composed entirely of directors who (1) are not “interested persons” of the Funds within the meaning of the Investment Company Act of 1940, as amended (“Independent Directors”), and (2) are “independent” within the meaning of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).<sup>1</sup> Each Committee member will complete a director and officer questionnaire on an annual basis. The Committee, with the assistance of legal counsel, will review the questionnaires to confirm that each Committee member continues to be an Independent Director. Unless at least one member of the Committee is a financial expert as defined by the Securities and Exchange Commission (“SEC”), the Funds shall, in the manner required by the SEC, disclose such fact and explain why not.<sup>2</sup>

### **Committee Meetings**

The Committee will meet as often as it determines, but not less frequently than semi-annually. The Committee may request any officer or employee of Heartland Advisors, Inc. (the "Advisor") or the Funds’ outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

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<sup>1</sup> Section 10A(m)(3) of the Exchange Act (added by Section 301 of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”).

<sup>2</sup> As required by Section 407 of Sarbanes-Oxley, the SEC has adopted rules requiring companies to disclose whether or not (and if not, the reasons therefor) at least one member of the Committee is a “financial expert” as defined by the SEC. The Funds will be required to disclose this in the Annual Report for the year ended December 31, 2003.

Committee members may appoint a Chair of the Committee. If so appointed, the Chair will preside at all Committee meetings at which he or she is present and have such other duties and powers as may be determined by the Committee members. The Chair will serve until removed by the Committee, or replaced by a duly appointed successor.

At any Committee meeting, 50% of the Committee members then in office constitutes a quorum. Any action of the Committee requires the vote of a majority of the Committee members then in attendance at any Committee meeting provided a quorum is present (or by such other means as authorized by the Funds' Articles of Incorporation or Bylaws).

### **Committee Authority and Responsibilities**

The Committee will pre-approve all auditing services to be performed for the Funds. The Committee will be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.<sup>3</sup> The independent auditor will report directly to the Committee.<sup>4</sup>

The Committee will pre-approve all permitted non-audit services (including the fees and terms thereof) to be performed for the Funds or the Advisor (or any entity controlling, controlled by, or under common control with the Advisor that provides services to the Funds) by the Funds' independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act that are approved by the Committee prior to the completion of the audit.<sup>5</sup> The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals will be presented to the full Committee at its next scheduled meeting.<sup>6</sup>

The Committee will have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors.<sup>7</sup> The Funds (or the appropriate portfolio(s) thereof) will provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.<sup>8</sup>

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<sup>3</sup> Section 10A(m)(2) of the Exchange Act (added by Section 301 of Sarbanes-Oxley).

<sup>4</sup> Section 10A(m)(2) of the Exchange Act (added by Section 301 of Sarbanes-Oxley).

<sup>5</sup> Sections 10A(h) and (i) of the Exchange Act (added by Sections 201 and 202 of Sarbanes-Oxley) require such preapproval with respect to services provided by the registered public accounting firms to its audit clients. De minimus is considered not more than 5% of all fees paid to the auditor in the preceding year.

<sup>6</sup> Section 10A(i)(3) of the Exchange Act (added by Section 202 of Sarbanes-Oxley).

<sup>7</sup> Section 10A(m)(5) of the Exchange Act (added by Section 301 of Sarbanes-Oxley).

<sup>8</sup> Section 10A(m)(6) of the Exchange Act (added by Section 301 of Sarbanes-Oxley).

The Committee will make regular reports to the Board. The Committee will review and reassess the adequacy of this charter periodically and recommend any proposed changes to the Board for approval. Any material amendments to this charter must be approved by both a majority of the Funds' directors then in office and a majority of the Independent Directors then in office.

The Committee, to the extent it deems necessary or appropriate, will:

#### Financial Statement and Disclosure Matters

1. Meet with the Funds' independent auditors to (a) review the arrangements for and scope of the annual audit and any special audits; (b) discuss any matters of concern relating to the Funds' financial statements, including any adjustments to such statements recommended by the auditors and the results of the audit(s); (c) consider the auditors' comments with respect to the Funds' financial policies, procedures and internal accounting controls; and (d) review the form of opinion the auditors propose to render to the Board of Directors and shareholders.
2. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Funds' financial statements, including any significant changes in the Funds' selection or application of accounting principles, any major issues as to the adequacy of the Funds' internal controls and any special steps adopted in light of material control deficiencies.
3. Review and discuss timely reports (reports received prior to the filing of an audit report) from the independent auditors on:
  - (a) Critical accounting policies and practices to be used.
  - (b) Alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.<sup>9</sup>
  - (c) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences;<sup>10</sup> management representation letter; reports on observations and recommendations on internal controls; schedule of material adjustments and reclassifications proposed, and a listing of adjustments and reclassifications not recorded; engagement letter; and independence letter.<sup>11</sup>

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<sup>9</sup> For investment companies, the SEC's implementing rules required this report to be within 90 days prior to filing of the audit report.

<sup>10</sup> Section 10A(k) of the Exchange Act (added by Section 204 of Sarbanes-Oxley) requires registered public accounting firms to provide such reports on a timely basis.

<sup>11</sup> The Sarbanes-Oxley Act specifically cites the management letter and schedules of unadjusted differences as examples of material written communications to be provided to audit committees. The SEC, in its adopting regulations, has listed other examples.

4. Review disclosures made to the Committee by the Funds' CEO and CFO (Treasurer and Principal Accounting Officer) during their certification process for the Form N-CSR and other SEC filings as to which such certifications are required about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees of the Funds who have a significant role in the Funds' internal controls.<sup>12</sup>

#### Oversight of the Fund's Relationship with the Independent Auditor

1. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management.
2. Discuss with the independent auditor matters relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

#### Compliance Oversight Responsibilities

1. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.<sup>13</sup>
2. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Funds' financial statements or accounting policies.<sup>14</sup>
3. Discuss with the Funds' legal counsel any legal matters that may have a material impact on the financial statements.
4. As deemed necessary or appropriate by the Committee, the Committee will meet with the Funds' treasurer.
5. Investigate any improprieties brought to the Committee's attention in writing or otherwise actually known by the Committee or suspected improprieties (based on information provided to the Committee) in the Funds' operations.

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<sup>12</sup> Rules adopted by the SEC pursuant to Section 302 of Sarbanes-Oxley require that the CEO and CFO certify in each Form N-CSR that they have disclosed such information to the Funds' independent auditors and the Committee.

<sup>13</sup> Section 10A(b) of the Exchange Act requires the independent auditor, if it detects or becomes aware of any illegal act, to assure that the Committee is adequately informed and to provide a report if the independent auditor has reached specified conclusions with respect to such illegal acts.

<sup>14</sup> This relates to one of the Committee's purposes to assist Board oversight of the integrity of the Funds' financial statements.