

## AUDIT AND COMPLIANCE COMMITTEE REPORT

### General

As noted above, the Audit and Compliance Committee's general purpose is to assist the Board in fulfilling its oversight responsibilities with respect to (1) the integrity of the Company's financial statements and internal controls, (2) the qualifications and independence of the Company's independent auditor (including its engagement), (3) the performance of the Company's internal audit function and its independent auditor, and (4) the Company's compliance with legal and regulatory requirements relating to accounting and financial reporting and ethical obligations.

The Audit and Compliance Committee has reviewed and discussed with management the audited financial statements for the fiscal year ended March 31, 2005. In addition, the Audit and Compliance Committee has discussed with the independent registered public accountants the matters required to be discussed by Statement on Auditing Standards No. 61, "Communications With Audit Committees." The Audit and Compliance Committee has received from its independent registered public accountants the written disclosures and the letter required by the Independence Standards Board Standard No. 1 ("Independence Discussions with Audit and Compliance Committees") and has discussed with its independent registered public accountants its independence.

The Audit and Compliance Committee discusses with the Company's independent registered public accountants the overall scope and plans for its audit. The Audit and Compliance Committee meets with the independent registered public accountants, with and without management present, to discuss the results of its examinations, the evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit and Compliance Committee also meets with members of the Company's internal audit department as part of its regular meetings.

Based upon the Audit and Compliance Committee's discussions with management and the independent registered public accountants referred to above and the Audit and Compliance Committee's review of the representations of management and the written disclosures of the independent registered public accountants to the Audit and Compliance Committee, the Audit and Compliance Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended March 31, 2005.

### Status of the Company's Compliance with the Deferred Prosecution Agreement and Final Consent Judgment

On September 22, 2004, the Company reached agreements with the USAO and the SEC by entering into a Deferred Prosecution Agreement (the "DPA") with the USAO and consenting to the entry of a Final Consent Judgment in a parallel proceeding brought by the SEC (the "Consent Judgment", and together with the DPA, the "Agreements"). The Federal Court approved the DPA on September 22, 2004, and entered the Final Consent Judgment on September 28, 2004. The Agreements resolve the USAO and SEC investigations (that had commenced in 2002) into certain of the Company's past accounting practices, including its revenue recognition policies and procedures and obstruction of those investigations as outlined in the DPA.

Under the Agreements, the Company is required to include a report of the Audit and Compliance Committee in each of its annual proxy statements issued during the term of the DPA describing the Company's efforts to comply with the DPA and to implement recommendations of the Independent Examiner (described below) regarding best-in-class corporate compliance and ethics programs. The Independent Examiner was appointed on March 16, 2005. Under the terms of the DPA, his first report containing recommendations is due to be filed on or about September 16, 2005. Accordingly, this report of the Audit and Compliance Committee will outline the status of the Company's compliance with the Agreements. For a description of the Independent Examiner's activities since his appointment on March 16, 2005, see discussion below.

*Continuing Cooperation.* Under the Agreements, the Company is required to continue to cooperate fully and actively with the USAO, the Federal Bureau of Investigation and the SEC (the “Investigative Entities”) and any other designated governmental agency regarding any matter about which the Company has knowledge or information. The Company has continued its cooperation with the Investigative Entities by providing information, documents, analyses, and access to Company employees as requested by the Investigative Entities and at the Company’s own initiative. The Company believes it is currently in full compliance with this ongoing commitment, which, under the terms of the DPA, expires at the later of the expiration of the DPA or the completion or cessation of any investigation, criminal prosecution or civil proceeding by any of the Investigative Entities relating to the conduct referred to in the DPA.

*Restitution Fund.* In addition to the payment of compensation to current and former Company stockholders in connection with the settlement of certain civil litigation in August 2003, the Company is required under the Agreements to pay an additional \$225 million for purposes of restitution to current and former Company stockholders who suffered losses because of the conduct of certain former Company officers and employees referred to in the Agreements and described more specifically in exhibits to the DPA, by depositing monies into a “Restitution Fund” to be administered by a Fund Administrator and distributed under a plan (the “Restitution Plan”) to be approved by the Federal Court. The Company created the Restitution Fund by depositing \$75,000,000 into an account with a financial institution. The Company is required to make a second deposit of \$75,000,000 into the Restitution Fund on or about September 16, 2005, and a third deposit of \$75,000,000 on or about March 16, 2006. Pursuant to the Agreements, the Company proposed and the USAO accepted, on or about November 4, 2004, the appointment of Kenneth R. Feinberg as Fund Administrator. Also pursuant to the Agreements, Mr. Feinberg submitted to the USAO on or about June 28, 2005, a “Plan of Allocation for the Restitution Fund” (the “Plan”). The Plan must be approved by the USAO and by the Federal Court.

*Independent Directors.* In addition to former SEC Commissioner Laura Unger, the Agreements require that by December 31, 2005, the Company add a minimum of two new independent directors to its Board of Directors so that no less than two-thirds of the members of the Company’s Board of Directors will be independent directors. The Company added two new independent directors, William McCracken on February 1, 2005 and Ron Zambonini on April 11, 2005, to its Board of Directors. The Company now has twelve directors of whom nine are independent (refer to the information under the heading “Nominees” with respect to the Company’s findings of independence with respect to its directors).

*Compliance Committee.* The DPA requires that by December 31, 2005, the Company establish a Compliance Committee of the Board of Directors either as a separate committee or as part of a reconstituted Audit and Compliance Committee, to examine the Company’s Internal Audit functions and the compliance functions within the Company’s Legal and Finance Departments, including compliance with the terms and conditions of the DPA. On February 1, 2005, the Company changed the name of the Audit Committee of the Board of Directors to the Audit and Compliance Committee of the Board of Directors and amended the Committee’s charter. The amended charter provides that the Audit and Compliance Committee shall have responsibility for the oversight of the Internal Audit Department as well as compliance oversight responsibilities including the monitoring and examining of the compliance function within the Company’s finance and legal departments including compliance with agreements between the Company and governmental agencies other than routine agreements entered into in the ordinary course of business. Additionally, pursuant to the amended charter, the Audit and Compliance Committee is responsible to include this report in the Company’s Proxy Statement and to post this report on its website.

*Executive Disclosure Committee.* The Agreements require that by December 31, 2005, the Company establish a new Disclosure Committee composed of the Company’s Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Compliance Officer, Chief Accounting Officer and General Counsel that will meet and confer, under the direction of a duly elected chairperson, prior to significant filings with the SEC and the issuance of significant press releases. In early 2005, the Company prepared plans to form a disclosure committee, and in May 2005, implemented such plans by forming and activating its Executive Disclosure, Risk Oversight and Compliance Committee (the “EDROCC”). Its membership consists of the Company’s Chief Executive Officer (who serves as the EDROCC’s Chairman), Chief Operating Officer,

Chief Financial Officer, General Counsel, Corporate Controller, Chief Accounting Officer, Chief Compliance Officer and the Treasurer. A member of the Company's Worldwide Law Department serves as EDROCC's coordinator. Other attendees of the EDROCC meetings have included the Company's Head of Internal Audit, Head of Corporate Communications, Head of Human Resources and the Deputy General Counsel as well as the engagement partner of the Company's independent auditors. Pursuant to its charter, the EDROCC is responsible, prior to filing, to meet to discuss and review the Company's draft Quarterly Reports on Form 10-Q, the Company's Annual Reports on Form 10-K, Proxy Statements, earnings press releases, and other significant press releases. As of the date of this Proxy Statement, the EDROCC had met to discuss and review the Company's earnings press release for the quarter and fiscal year ended March 31, 2005 and a related Form 8-K, the filing of a Form 12b-25, the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2005, this Proxy Statement and the earnings press release for the quarter ended June 30, 2005. A meeting to discuss and review the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 has been scheduled but has not yet taken place as of the filing of this Proxy Statement.

The EDROCC is supported by the Company's Disclosure Operating Committee ("DOC"), formed simultaneously with the EDROCC and consisting of the Corporate Controller, Chief Accounting Officer, Treasurer and several key U.S. and international members of the Finance Department. The committee is co-chaired by the Corporate Controller and Deputy General Counsel. As part of its efforts to enhance its disclosure processes the Company has also created a network of sub-certifiers, whose assignments are to review and comment on disclosure items contained in the portions of certain key disclosure documents that are relevant to their work at the Company, and to certify in writing as to the document's accuracy and completeness to the best of the sub-certifiers' knowledge. The DOC has reviewed each of the matters referred to above which were reviewed by the EDROCC.

*Compliance and Ethics Inquiries.* In addition to the requirement to include a report of the Audit and Compliance Committee in each annual proxy statement issued during the term of the DPA describing the Company's efforts to comply with the Agreements, the Agreements require that by December 31, 2005, the Company establish enhanced procedures providing for improved shareholder, community and governmental communications with the Company and its Board of Directors including procedures to ensure that all inquiries raised by government entities, or by the Company's shareholders, customers, suppliers and employees, regarding compliance and ethics matters receive prompt review, including reporting of such matters, as appropriate, to the Audit and Compliance Committee and, where appropriate, the full Board of Directors.

The Company's Board of Directors has established a process to receive communications from stockholders and other interested parties, which would include customers, suppliers and employees. Such parties may contact any member or members of the Board or any committee, the non-employee directors as a group, or the Chair of any committee, by mail or electronically. Any such correspondence should be addressed to the appropriate person or persons (either by name or by title) and sent by regular mail to the Company's Corporate Secretary at One Computer Associates Plaza, Islandia, New York 11749, or by e-mail to **directors@ca.com**. The charter of the Audit and Compliance Committee also gives the Committee responsibility for: (1) the oversight of the adoption and maintenance of procedures to ensure that all inquiries raised by government entities, or by stockholders, customers, suppliers and employees, regarding compliance and ethics matters receive prompt review by or under the authority of the Chief Compliance Officer, including, as appropriate, the reporting of such matters to the Committee and the Board; and (2) oversight of the establishment and maintenance of a written plan designed to ensure the improvement and ongoing effectiveness of communications with all governmental agencies engaged in inquiries or investigations of the Company. The Company is currently in the process of drafting and finalizing a policy for communications with governmental agencies. Additionally, for employees, in March 2005, the Company established enhanced procedures for the operation of the Company's Compliance and Ethics Helpline and posted instructions for its use on its website in the same location as the link for the Company's Code of Ethics. In April 2005, a Company-wide announcement of this Helpline as well as the availability of frequently asked questions regarding its usage and other contact information for questions was circulated to every employee in the Company. The Company's Chief Compliance Officer maintains a log of complaints or inquires that come to

the Company's attention for matters arising through the Helpline and for matters arising through the [directors@ca.com](mailto:directors@ca.com) website and other means, including anonymous correspondence. The Chief Compliance Officer reviews the issues raised through these methods and the status of any related investigative or remedial actions by the Company with the Audit and Compliance Committee on a regular basis.

*Records Management.* The Agreements require that by December 31, 2005, the Company establish new comprehensive records management policies and procedures, as well as testing programs to ensure compliance with such policies and procedures. In November 2004, the Company hired a Director, Records & Information Management, reporting directly to the Chief Compliance Officer. Comprehensive records management policies and procedures are in the drafting stage and are expected to be finalized before December 31, 2005.

*Revenue Recognition.* The Agreements require that by December 31, 2005, the Company take steps to implement best practices with respect to the recognition of software license revenue, including enhanced quarter-end contract cut-off procedures. The Company utilizes a subscription based software licensing and revenue recognition model that recognizes revenue on a pro rata basis over the term of the software contract. The Company considers this business model and the revenue recognition method it accommodates to be "best practice" in the software industry which in large part has as standard practice an up-front perpetual licensing and revenue recognition model with optional maintenance for subsequent years. The Company also has established improved contract cut off policies and procedures, and is working to further enhance these policies and procedures, to ensure that all contracts are received, reviewed and countersigned and that applicable revenue recognition criteria are met prior to any recognition of revenue. Firm administrative cut off times are posted and followed for each month end and systems have been, and are being, implemented to provide tight control and documentation of contract receipt as well as evidence of product shipment.

*Ethics and Compliance.* The Agreements require that by December 31, 2005, the Company (a) establish a comprehensive ethics and compliance training program for all employees designed to minimize the possibility of future violations of the Federal securities and other laws; (b) appoint an independent, senior level Chief Compliance Officer, after consultation with the USAO, who will report directly to both the Audit and Compliance Committee and the General Counsel; and (c) amend the Company's senior executive compensation plans to add an enhanced component to the Company's performance-based programs tied to the establishment and maintenance of high ethical and compliance standards throughout the Company.

In January 2005, after consultation with the USAO, the Company hired Patrick J. Gnazzo as its Chief Compliance Officer. Mr. Gnazzo reports to both the General Counsel and the Audit and Compliance Committee. The charter for the Company's Audit and Compliance Committee specifies that the Committee is responsible for oversight of the establishment and maintenance of a comprehensive compliance and ethics program, including an ethics and compliance training program for all employees, designed to minimize the possibility of violations of the federal securities and other laws by the Company. The Company requires that all employees complete ethics training courses within one year of their hire date. Also, Mr. Gnazzo has presented to the Audit and Compliance Committee proposed changes to these training courses.

With respect to the Company's senior executive compensation plans, for awards relating to fiscal 2005, the Compensation and Human Resource Committee had discretion to reduce executive annual and long-term performance bonuses, without limitation, for any reason. With respect to fiscal 2006, the Compensation and Human Resource Committee continues to have discretion to reduce annual and long-term performance bonuses for any reason. The executive awards expressly provide that in exercising their discretion the Compensation and Human Resource Committee will consider, among other things, the executive's contribution to the establishment and maintenance of high ethical and compliance standards throughout the executive's organization and, in general, throughout the Company. For example, the Compensation and Human Resource Committee considers whether the executive has taken any proactive measures to promote ethical and compliance standards within his or her organization during the performance period. In addition, a mandatory 10% reduction of an executive's target annual performance bonus will be applied if such executive fails to complete Company-wide ethics training by the deadline imposed by the Company.

*Finance Department.* The Agreements require that by December 31, 2005, the Company reorganize its Finance Department, including, but not limited to, the appointment of a Corporate Controller, a Chief Accounting Officer, and a Financial Controller for each of the Company's primary business functions — Direct Sales, Indirect Sales, Development and Services, or their successors. Under the DPA, the Corporate Controller and Chief Accounting Officer are to report to the Chief Financial Officer, but are also to communicate directly, as appropriate, with the Board of Directors and the Company's Independent Auditors. In March 2004, the Company appointed Douglas Robinson Corporate Controller, and in July 2004 the Company appointed Robert Cirabisi Chief Accounting Officer. Mr. Robinson and Mr. Cirabisi communicate directly with the Audit and Compliance Committee of the Board and the independent auditors. In April 2004, the Company hired a new Chief Financial Officer, Jeff Clarke. Mr. Clarke was subsequently promoted to Chief Operating Officer but retained the Chief Financial Officer title until February 2005, at which time the Company hired Robert Davis as Chief Financial Officer. The Company has also created financial positions reporting directly to the Company's Chief Financial Officer within the business functions to provide additional financial controls and guidance including: a Business Unit Controller for Worldwide Sales; a Business Unit Controller for Indirect Sales; and a Business Unit Controller for Development. Additionally, a Business Unit Controller for Professional Services has been hired; a new Business Unit Controller for North American Sales has been appointed; a new head of Sarbanes-Oxley Section 404 compliance regarding the Company's internal controls was hired; a Senior Vice President Finance Processes position was created and staffed; and a Senior Manager for Financial Policies, Procedures and Training was hired.

*Enterprise Resource Planning System.* The Agreements require that by December 31, 2005, the Company begin the process of implementing an improved worldwide financial and enterprise resource planning ("ERP") information technology system to improve controls, eliminate errors caused by existing manual processes and enhance the Company's ability to audit its own systems. In December 2004, the Company announced the transformation of its enterprise resource planning systems globally. As part of the transformation, the Company has selected mySAP™ ERP, SAP's ERP software. The Company is working with Accenture to assist in the implementation, which will provide in the end state an end-to-end ERP transformation. Releases 1 and 2, which incorporated some test conference room pilots and certain procurement tools, have been rolled out. Release 3, which is a major release of core SAP functionality for North America, is in the build phase and is currently scheduled for implementation during the quarter ended December 31, 2005. Additional releases for the future have been planned which include functionality for Professional Services, Human Resources, Customer Support and Indirect Sales. A rollout for international areas is also in the planning stage.

*Internal Audit Department.* The Agreements require that by December 31, 2005, the Company reorganize and enhance its Internal Audit Department, including hiring at least five additional internal auditors. The Company's Internal Audit Department reports to both the Audit and Compliance Committee and the General Counsel. The Company has significantly increased its budget for Internal Audit for Fiscal Year 2006. In July 2005, the Company hired a new Head of the Internal Audit Department, Mark Loupe, who will commence his employment on August 1, 2005. As has his predecessor, Mr. Loupe will report to the General Counsel and the Audit and Compliance Committee. Also like his predecessor, Mr. Loupe will regularly have the opportunity to meet with the Audit and Compliance Committee outside the presence of Company management. The Company expects that before December 31, 2005, it will have hired at least five additional internal auditors. The Internal Audit Department has recently undertaken a new risk assessment plan with the assistance of Deloitte & Touche.

*Communications with Government Agencies.* The Agreements require that by December 31, 2005, the Company establish a written plan designed to ensure the improvement and ongoing effectiveness of communications with all governmental agencies engaged in inquiries or investigations relating to the Company, its subsidiaries or affiliates. In such plan, the Company is required to address, consider and include: (a) regular reporting by the Company's management and outside and internal counsel to the Audit and Compliance Committee and, as appropriate, the full Board of Directors regarding communications with government agencies engaged in inquiries or investigations relating to the Company; (b) complete and prompt access for government agencies to all Company staff and management; (c) meeting with the Board of

Directors or committees thereof upon the request of such governmental agencies engaged in inquiries and investigations of the Company; and (d) training for Company personnel designed to improve communication and cooperation with such governmental agencies engaged in inquiries and investigations of the Company.

The Company and its internal and external counsel regularly report to the Audit and Compliance Committee regarding matters subject to governmental investigation including continued investigation of past misconduct at the Company related to the DPA. Such matters have been further reported to the Board as necessary. Governmental agencies have been given full and prompt access to the Company's current staff and management at all times such agencies have made any such requests. To date, no meetings with the Board or its Committees have been requested by any governmental agency, but upon such request, the Company will arrange such meetings. The Company is currently in the process of drafting a policy to meet this requirement of the Agreements.

*Employee Ethics Hotline.* The Agreements require that by December 31, 2005, the Company: (a) enhance its current telephone hotline to provide a means for employees to anonymously report any potential violations of law or other misconduct; (b) publicize within the Company the existence and purpose of the hotline and (c) ensure all employees that no negative action will be taken against any employee for making a report through the hotline. In March 2005, the Company established enhanced procedures for calling the Company's Compliance and Ethics Helpline and posted these instructions on its website in the same location as the link for the Company's Code of Ethics. In April 2005, a Company-wide announcement of this Helpline as well as the availability of frequently asked questions regarding its usage and other contact information for questions was circulated to every employee in the Company. Retaliation against anyone who reports a matter in good faith is expressly prohibited by Company policy and the availability of using the Helpline anonymously also provides reassurance to any employee fearing retaliation.

*Appointment of the Independent Examiner.* The Agreements require that the Company retain and compensate an independent individual or entity (the "Independent Examiner") to examine the Company's compliance with the DPA and to examine: (a) the Company's practices for the recognition of software license revenue; (b) the Company's internal accounting controls; (c) the Company's implementation of an improved ERP information technology system; (d) the Company's Internal Audit Department; (e) the Company's ethics and compliance policies; and (f) the Company's records management policies and procedures. The DPA requires that within six months of appointment, the Independent Examiner issue a written report to the USAO, the SEC and the Company's Board of Directors making recommendations regarding best practices for the areas specified in (a) through (f) above. The Independent Examiner is to issue written quarterly reports to the USAO, the SEC and the Company's Board of Directors on the Company's compliance with the DPA during the remaining term of the Independent Examiner's appointment. The Independent Examiner shall have reasonable access to all of the Company's books and records and the ability to meet privately with Company employees.

Pursuant to the procedure outlined in the DPA, the Company submitted to the USAO and the SEC a proposal setting forth the identity, qualifications and proposed terms of retention of five candidates to act as Independent Examiner. The USAO and the SEC jointly approved three of the candidates and the three approved candidates were jointly submitted to the United States District Court for the Eastern District of New York by the Company, the USAO and the SEC. As a result of this process, on March 16, 2005, Lee S. Richards, III, Esq., of Richards Spears Kibbe & Orbe LLP, was appointed Independent Examiner by the Court. Mr. Richards will serve for a term of 18 months after appointment, unless his term of appointment is extended under conditions specified in the DPA. The March 16, 2005 Order of Appointment provides that neither the Independent Examiner nor the USAO nor the SEC may publicly disclose the Independent Examiner's reports without prior approval by the Court. The Order also provides that the Company may publicly disclose information contained in the Independent Examiner's reports to the degree that the reports contain material non-public information that the Company is obligated to disclose.

The Company has provided Mr. Richards and his team unfettered access to the Company's employees and records. As of the date of this proxy statement, Mr. Richards and members of his team have met with the Company's Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Compliance Officer, the

Head of Internal Audit as well as a number of employees from the Company's Finance Department (including Sales Accounting employees) and Sales Department, as well as with the Chairman of the Audit and Compliance Committee. Mr. Richards and his team have also been invited to attend and have attended (either in person or by telephonic conference) meetings of the Company's Board of Directors, the Audit and Compliance Committee, the Compensation and Human Resources Committee, the Executive Disclosure, Risk Oversight and Compliance Committee, the Disclosure Operating Committee as well as other meetings of the Company's senior management.

*Availability of the Audit and Compliance Committee Report on the Company's Website.* In addition to the inclusion of this Audit and Compliance Committee Report in this Proxy Statement, this Report will also be available on the Company's website at **[ca.com/governance/audit/report.pdf](http://ca.com/governance/audit/report.pdf)**.

The Company continues to cooperate fully with the Department of Justice, SEC, and Independent Examiner in accordance with the DPA and the Final Consent Judgment.

**SUBMITTED BY THE AUDIT AND  
COMPLIANCE COMMITTEE**

Walter P. Schuetze, Chairman

Alfonse M. D'Amato

Robert E. LaBlanc

Laura S. Unger