

## Initiative overview: Audit committee networks

### Mission

Since 2003, Tapestry Networks, with the support of EY, has made an unprecedented contribution to corporate governance by developing and leading networks of audit committee chairs of hundreds of large public companies. Strong corporate governance enhances the investing public's trust in corporations, and trust in turn creates confidence – a prerequisite for a healthy economy.

Tapestry's work has been especially important in light of the events of the past decade. The public's trust was shaken in the early 2000s by a series of corporate accounting fraud scandals that destroyed hundreds of billions of dollars in shareholder value and called the role of the public company board and the board's audit committee into question.

In 2008, the global financial crisis called corporate governance into question once again. It became clear that the dynamic nature of business risk demands an informed and engaged board and audit committee, actively overseeing management.

In private, confidential settings, Tapestry's network members have shared best practices, improved corporate governance at their companies, and informed the thinking of influential standards setters, regulators, and policymakers, thereby taking significant steps toward rebuilding trust and confidence.

### Context: responding to the post-Sarbanes-Oxley era

Public company boards came under fire from Congress, regulators, shareholders, and the public for lax governance in the wake of the collapse of Enron and WorldCom. In 2002, Congress passed the Sarbanes-Oxley Act to make boards and audit committees more effective. In mandating that independent auditors report to the audit committee instead of the company's management, Sarbanes-Oxley increased the responsibilities of the board and fundamentally changed its relationship to the independent auditor. Under an intense public spotlight, directors and auditors sought better ways to understand their new relationship and the risks that leading companies were confronting. As one participant in Tapestry's audit committee networks put it, *"There was an urgent need to compare notes and chart a way forward."*

### Network evolution

Tapestry's audit committee networks have evolved from a single forum, in which North American audit chairs met to share best practices and improve the functioning of their audit committees, to a community of networks through which leading North American and European audit chairs gain a better understanding of the internal and external factors impacting boardroom dynamics and the overall business environment. The networks have also provided a platform from which audit chairs can add their unique voice to important public-policy debates.

### **2003–2008: building trust and enhancing audit committee effectiveness**

Tapestry organized the Audit Committee Leadership Network (ACLN) in 2003 with the support of EY as part of the latter’s continuing commitment to board effectiveness and good governance. The ACLN continues to thrive as an invitation-only group of audit committee chairs drawn from North America’s largest and most admired companies.

Initially, network members gathered to discuss their new roles and responsibilities, share best practices, and improve the functioning of their audit committees. One participant recalled, *“This was about helping audit committee chairs from the world’s best-run companies do their jobs better. The idea was that, as ‘a rising tide lifts all boats,’ the learnings would cascade through their boards and improve corporate governance.”* To encourage broader dialogue on these important issues, members share network content with their board colleagues and members of management.

Building on the momentum created by the ACLN, Tapestry and EY launched a pan-European equivalent (EACLN) in 2004, along with seven regional audit committee networks (regional ACNs) across the United States and a national-level network in Canada. Today, the ACN program includes an active membership of nearly 150 audit committee chairs who serve on more than 350 public company boards.

The networks have proved successful. One network member said, *“Having the same group meeting over time means there’s a higher level of trust and comfort. I feel more willing to share what I’m doing, and I’m more willing to try what others suggest because I know and trust them.”*

### **2008–present: understanding and responding to the economic, regulatory, and political environment in the wake of the financial crisis**

Just as network members’ Sarbanes-Oxley-mandated responsibilities were becoming routine, the global financial crisis and ensuing recession struck, and members found themselves facing a new set of challenges. By bringing audit chairs together with senior policymakers and standards setters, Tapestry’s audit networks helped audit committee chairs gain a better understanding of the new environment in which their companies were operating, especially with regard to two core issues:

- **Challenges to the global capital markets.** Network members have engaged in discussions with US Treasury and Federal Reserve officials about the health of the global financial markets and the governmental responses to the financial and euro zone crises.
- **Emerging regulation.** Network members have engaged in ongoing dialogues with senior staff of the US Securities and Exchange Commission, US Public Company Accounting Oversight Board, US Department of Justice, Canadian Public Accountability Board, UK Serious Fraud Office, French Autorité des marchés financiers, the European Commission, the European Parliament, and other bodies about major regulatory and legislative changes impacting the business environment. Recent discussion topics have included audit policy, financial reporting, and enhanced enforcement of the Foreign Corrupt Practices Act and the UK Bribery Act.

These dialogues have provided directors with unique insight into the thinking of leading regulators and standards setters while offering policymakers an opportunity to hear candid feedback from the director community. One regulator said, *“The experience was a real eye opener. The audit committee chairs were incredibly engaged and offered very helpful insights.”* For their part, audit chairs gained a greater appreciation both of the challenges regulators and policymakers face and of their desire to restore confidence in the capital markets.

The ACLN, EACLN, and regional ACNs also broadened their focus, moving from enhancing audit committee effectiveness to improving board performance and raising the bar in corporate governance. The networks have met with representatives of company management, including internal audit executives and chief information officers, and with a variety of stakeholder groups to discuss critical issues affecting members’ companies and boards:

- **Enterprise risk management (ERM).** As the concept of ERM frameworks came into focus, the networks met with chief risk officers to discuss the best ways to identify, mitigate, and manage enterprise-wide risks. One member said, *“My company has implemented some of the risk management processes that I was [previously] unsatisfied with. I prodded the team based on what I heard at network meetings. The network has added real value to the company.”*
- **Cybersecurity.** As data theft by country-sponsored hackers rose to the forefront of corporate risks, regional ACN members talked with chief information officers from their companies about how they could improve their working relationship.
- **Financial and non-financial communication.** Network members have held discussions with senior equity and credit analysts to understand how analysts and investors are using companies’ financial and non-financial communications and how their companies could better communicate their stories to the market.
- **Emerging market risks.** The recession has slowed growth in the United States and Europe, leading companies to expand their presence in emerging markets. Members have sought a better understanding of how to expand into and operate in emerging markets by holding a number of meetings and education sessions with subject matter experts and regulators. For example, the ACLN and EACN met in 2011 with representatives from the US Department of Justice and the UK’s Serious Fraud Office to discuss global anti-bribery legislation.

## Sustainable impact and outcomes

Today, about 200 board directors are active members of Tapestry’s audit committee networks. Members have lent their unique voices, at times with real courage, to important dialogues with leaders representing other constituencies. For example:

- **Audit policy.** As the accounting profession comes under scrutiny from policymakers in the United States and abroad due to the perception that auditors are not sufficiently independent of management, Tapestry network members have engaged in a dialogue with these policymakers to ensure they take into account the impact of their choices on boards of directors.



- **Board-shareholder engagement.** Inspired by the failures of the financial crisis and armed with new powers such as the annual “say-on-pay” vote, shareholders have been demanding greater engagement with board directors. Members of Tapestry’s networks have met with institutional investors who are calling for more systematic, proactive engagement between boards and shareholders. They have provided investors with their perspectives on how both constituencies could improve the current paradigm of board-shareholder engagement.
- **Changes to financial reporting standards.** ACLN and EACLN members have met with board members or staff from the Securities and Exchange Commission, the Financial Accounting Standards Board, and the International Accounting Standards Board in an ongoing discussion on the possible convergence of US Generally Accepted Accounting Principles with International Financial Reporting Standards. Members have shared their thoughts on the ways in which changes to financial reporting standards would affect their companies, thereby ensuring that the board director perspective is taken into consideration.
- **Corporate governance policy in Europe.** Significant EU corporate governance policy initiatives have emerged from the financial crisis, and EACLN members have met with senior leaders from the European Commission to ensure the leaders consider the implications their decisions have for companies and to offer the leaders new ways of thinking about these issues.

Since 2003, Tapestry network members have used relationships and insights from the networks to improve corporate governance at their companies. One participant said, *“Board oversight of financial statements is much better, as is their integrity. The audit committee has played an important role in that. Including current members and alumni, Tapestry has educated hundreds of directors over the last nine years. That’s a sizeable impact. The networks have changed [the issues] that audit committee chairs think about, and the way they think about them.”*

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## **About Tapestry Networks**

Tapestry's mission is to advance society's ability to govern and lead across the borders of sector, geography, and constituency. We form working partnerships that embrace the public and private sector with the aim of improving civil society as a whole. The participants in our initiatives are leaders drawn from key stakeholder organizations who realize the status quo is neither desirable nor sustainable. Tapestry Networks is built on the premise that relatively small groups of well-positioned leaders, seeking a goal that transcends their own parochial interests and which benefits everyone, can make progress toward that goal through the collaborative network-based approaches that Tapestry designs and leads. Tapestry has used this network approach to address critical and complex challenges in corporate governance, financial services, and healthcare – areas in which private and public interests clearly intersect and interact.

Please contact us if you would like to get involved in this important initiative.

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