

## Ethics and compliance

On October 24 and 25, 2013, members of the North American Audit Committee Leadership Network (ACLN) met in New York for their 27<sup>th</sup> stand-alone meeting. One session was a members-only discussion of ethics and compliance.<sup>1</sup> This document summarizes the key points that members raised in the discussion, along with background information and perspectives that members shared before the meeting.<sup>2</sup> For further information about the network, see “About this document” on page 10. For a list of participants, see Appendix 1 on page 11.

### Executive summary

ACLN members touched on three main topics encompassing a range of issues associated with promoting a strong ethics and compliance culture at large global companies:

- **Ethics and compliance are a growing challenge** (*page 2*)

Members acknowledged an increasing focus on ethics and compliance at their companies. Regulators are ramping up enforcement in many areas, such as bribery and price fixing, even as employees may feel increasingly tempted to test ethical and legal boundaries in the face of greater pressures to perform. With companies expanding their operations in emerging markets, different cultural understandings of appropriate behavior are adding to the challenge of defending company-wide standards of behavior.

- **Companies are taking a variety of measures to promote ethical behavior** (*page 3*)

Members agreed on the critical importance of a commitment by senior management to enforcing ethics and compliance, though the compliance function itself might be either a separate organization or merged with internal audit. Training, monitoring, and consistent enforcement are key elements of an ethics and compliance program, and the program should leverage emerging technologies of communication and data analysis. Transparency inside the company regarding how violations are handled promotes an ethical culture, though audit chairs noted the importance of prudence in handling such disclosures.

- **Board oversight must be up close and personal** (*page 8*)

Boards and audit committees are spending more time on ethics and compliance. Members said that each board member receives the same training and take the same tests that employees take. Audit committee members often participate in town hall meetings on ethics and compliance, and they also visit employees out in the business to listen to their views and demonstrate the vigilance of the board. Outside consultants can provide expertise to help the board or audit committee gauge the effectiveness of the company’s compliance program.

For a list of discussion questions for audit committees, see Appendix 2 on page 12.

<sup>1</sup> In the other session, members engaged in a dialogue with Jeannette Franzel, member of the Public Company Accounting Oversight Board. See Audit Committee Leadership Network, “[Dialogue with PCAOB board member Jeannette Franzel.](#)” *ViewPoints*, December 4, 2013.

<sup>2</sup> *ViewPoints* reflects the network’s use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.

## Ethics and compliance are a growing challenge

In recent years, ethics and compliance have become an increasingly urgent priority as governments have passed new laws and regulations and ramped up enforcement of existing ones. Prosecutions and fines under the US Foreign Corrupt Practices Act (FCPA) have increased dramatically over the last decade,<sup>3</sup> and the UK Bribery Act, which is more restrictive than the FCPA, came into effect in 2011.

Meanwhile, the European Commission has vigorously investigated various accusations of price fixing, raiding the offices of three major oil companies earlier this year and imposing steep fines on banks involved in the Libor scandal.<sup>4</sup> Privacy protection is another ethics issue posing a major challenge on both sides of the Atlantic. A member described how the privacy issue affects the health care sector: *“There are severe fines if you allow access to private health care information. It’s a huge effort to secure data.”* Surveying the situation more generally, another member said, *“You need to be sensitive to the fact that the compliance bar is being raised.”*

On top of increasing regulatory fines and legal costs, ethics and compliance problems can entail significant reputational costs if the public begins to question a company’s ethics. These costs can be amplified as information and misinformation propagate through social media – and this increasing cost burden comes at a time when the probability of unethical behavior may be increasing because of factors such as the persistently tough economic environment and the expansion of many companies into unfamiliar markets.

## Pressures on employees to cross ethical boundaries

Although an effective compliance program includes a number of elements, such as tracking regulatory changes and developing policies, the challenge of ensuring that employees consistently demonstrate appropriate ethical judgment is among the most difficult. EY’s surveys of fraud across the globe have found that a high number of executives and their teams are feeling intense pressures to perform, and that this pressure is frequently leading to unethical behavior.<sup>5</sup> EY’s report on the 2012 global survey notes, *“One of the most troubling findings in the survey is the widespread acceptance of unethical business practices. It is particularly alarming that respondents are increasingly willing to make cash payments (15% versus 9% in our last survey) and misstate financial performance (5% versus 3% in our last survey) in order to survive an economic downturn.”*<sup>6</sup>

## The influence of local culture

When employees live in a culture with values and norms that conflict with the company’s ethics rules, it becomes even more difficult to establish a consistent set of behavioral expectations. In a pre-meeting conversation, one ACLN member saw problems as inevitable: *“FCPA is written from an American perspective, so we will have problems.”* Another member described the challenges of reconciling local

<sup>3</sup> See Shearman and Sterling, *FCPA Digest: Recent Trends and Patterns in the Enforcement of the Foreign Corrupt Practices Act* (New York: Shearman and Sterling, July 2012).

<sup>4</sup> *“Oil and Gas Products: Pumped Prices?”* *Financial Times*, May 15, 2013.

<sup>5</sup> See Ernst & Young, *Growing Beyond: A Place for Integrity* (London: Ernst & Young 2012), 2, and Ernst & Young, *Navigating Today’s Complex Business Risks: Europe, Middle East, India and Africa Fraud Survey 2013* (London: Ernst & Young Global Limited, 2013), 2.

<sup>6</sup> Ernst & Young, *Growing Beyond: A Place for Integrity*, 2.

customs and global corporate policies: *“Issues arise when you have policies that are strict but are not interpreted the same way globally. What we consider inappropriate is not only not inappropriate, but acceptable, like gift giving. If you’re in a foreign country, is your willingness to support a charitable cause a bribe, or is it being a good corporate citizen of the community?”*

The norms regarding how one interacts with family members in a business context may have a particularly strong influence on how business is conducted in a particular country. A member elaborated on the challenge: *“In some environments, businesspeople are not independent from their business partners – they may even be related to them! They have all kinds of relationships that would be considered conflicts here.”*

At the meeting, one member noted that the challenge of doing business in other cultures was only going to expand: *“My company gets over 65% of its revenue from outside the US, and that will grow, and we have made acquisitions in challenging areas.”* Another member concurred and added that it was important to defend the company’s standards of behavior in the face of temptations to be more flexible: *“Growth will come from emerging markets, so this issue will continue to rear its head. But you have to say, this is how we do things.”*

### **Companies are taking a variety of approaches to promote ethical behavior**

Companies are trying harder to ensure that employees abide by ethical and legal rules and principles. The catalyst may be an incident at the company itself or at another company, such as the bribery allegations that have cost a major retailer enormous sums of money to investigate,<sup>7</sup> or the legal troubles at a global megabank, which have prompted the company to earmark billions of additional dollars for compliance and risk management programs.<sup>8</sup> To encourage ethical behavior and reduce compliance risks, companies use incentives, such as clear rewards or punishments for specific behaviors. But a key focus of ethics and compliance programs is also the company culture itself, which compliance experts note is a more constant and equally powerful influence on behavior.<sup>9</sup>

Some regulators are beginning to provide high-level guidance on how companies can implement ethics and compliance programs, and following this guidance can, in some cases, earn a company leniency in the event of prosecution. Chapter 8 of the US Federal Sentencing Guidelines outlines the basic features of an effective compliance program,<sup>10</sup> and the European Commission published a brochure in 2011 on complying with European Union (EU) competition rules.<sup>11</sup>

These recommendations by regulators touch on many of the same elements that ACLN members and other audit chairs identified when they discussed their companies’ compliance programs. In pre-meeting conversations and at the meeting, members highlighted important elements of an ethics and compliance program, each of which is discussed in more detail below:

<sup>7</sup> Bruce Carton, *“Wal-Mart’s \$604,000 per Day Legal Mess,”* *Compliance Week*, March 1, 2013.

<sup>8</sup> Jaclyn Jaeger, *“JPMorgan to Spend \$4 Billion on Compliance and Risk Efforts,”* *Compliance Week*, September 13, 2013.

<sup>9</sup> Jose Tabuena, *“Can You Audit Corporate Culture?”* *Compliance Week*, May 29, 2013.

<sup>10</sup> Jaclyn Jaeger, *“A Global Tour of Compliance Frameworks,”* *Compliance Week*, April 16, 2013.

<sup>11</sup> European Commission, *Compliance Matters* (Brussels: European Commission, 2011).

- Leadership
- Organization
- An up-to-date code of conduct
- Training and communication
- Monitoring
- Consistent enforcement
- Transparency

### **Leadership**

Members often mentioned the importance of an organization’s “tone at the top” – that is, the company’s leadership must demonstrate a commitment to ethics and compliance. Regulators and compliance experts have also stressed the importance of top-tier commitment. In a pre-meeting conversation, one ACLN member said, *“It’s the role of the CEO to create the right tone at the top, by what’s written and said, but most importantly, by how they behave and how they emphasize values in their interactions.”* At the meeting, a member added: *“It’s not only the CEO, but other members of senior management.”*

Members noted that the senior leadership must meet with employees to convey the message. A member said, *“Are your senior people doing enough to get out in the field? There’s no substitute for knowing that senior executives are planning to visit. Tone at the top is, “Are you physically visible?” It’s easy to cut travel, but you have to [get out in the field].”* Another member reflected on the approach they took in a previous role as a senior executive: *“It is important to be visible and have relationships at multiple levels of the company ... I made it a practice that every time I spoke to an employee, I started with the values of the company.”*

### **Organization**

Because compliance involves a variety of tasks – tracking regulations, developing codes of conduct, training employees, monitoring behavior, and investigating violations – the responsibility for compliance and the associated reporting lines varies from company to company. Companies may have a combined ethics and compliance officer, for example, or they may have a separate ethics officer focused on nurturing an ethical culture, while a compliance officer, who may be the chief legal officer, handles the legal issues.

Experts highlight the need for authority and independence on the part of ethics and compliance executives. Both can be supported by establishing reporting lines to the board, and/or the CEO, though there has been debate over the years about the optimal reporting lines.<sup>12</sup> The US Sentencing Commission Guidelines were amended in 2010 to encourage reporting to the board.

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<sup>12</sup> John Soriano, [“When the CCO Should Report to the General Counsel.”](#) *Compliance Week*, June 29, 2010; Ben W. Heineman, Jr., [“Don’t Divorce the GC and Compliance Officer.”](#) *Corporate Counsel*, January 2011.

Another organizational issue is the relationship between compliance and other functions, such as internal audit and risk management. In a pre-meeting conversation, a member said, *“It would be helpful to work out how to marry compliance and risk, sorting through redundancies. And as you build a bigger compliance department, how should it work with internal audit? It’s a serious challenge for audit committees to avoid duplication.”*

At the meeting, members described the differing approaches their companies recently adopted:

- **Merging functions.** One member said, *“At my company, we put internal audit under the general counsel and merged it with compliance, which has worked out well. It just got too confusing [to keep them separate]. Now we have an accountable person for all of this.”*
- **Separating functions.** Another member said, *“We did the opposite, taking [internal audit and compliance] apart. When internal audit finds a problem, they pass it to compliance. It got so big that it wasn’t manageable to have compliance in internal audit.”* However, as one member noted, if compliance and internal audit are separate, visits to business units should be coordinated so as to be less burdensome.

In a pre-meeting conversation, a member mentioned the importance of integrating compliance into the business units themselves: *“We have a compliance officer in every business unit, generally lawyers. They are part of the business team ... the compliance function has grown, but it’s also about having people in each unit, to make it part of the daily conversation.”* At the meeting, members reflected on the advantages and disadvantages of decentralization. One member said, *“There’s a tension between centralized compliance and what you put out into the business. Is compliance a cop or it is just how you do business?”* Another member remarked, *“With decentralization, you can also get bias.”*

### **An up-to-date code of conduct**

In pre-meeting conversations, members discussed the importance of establishing and promulgating an effective code of conduct. A member said: *“We had good tone at the top, but we realized we needed to build tone in the middle. It required good written policies, training, and the concept of due care.”* In developing its code of conduct, compliance executives and experts note, a company will need to consider aspects such as length and readability, as well as the balance between specific rules and broader principles.<sup>13</sup>

Keeping the conduct code up-to-date is critical. A member said, *“We had a triggering event that made the company look at its compliance policy. It hadn’t been looked at in 15 years. If it’s out of sight, it’s out of mind. You need to test your policy against current practices to see if your policies are out of date.”* One member mentioned the importance of constantly reassessing compliance programs, including codes of conduct: *“Your program won’t be the gold standard in a year. Any program has to be reevaluated continuously.”* Another mentioned how regulators can rapidly change their views on what was once acceptable behavior: *“If there’s a new sheriff in town, you better catch up fast.”* At the Audit Committee Leadership Summit in 2011, an official from the US Department of Justice said, “We ask companies to

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<sup>13</sup> Karen Kroll, *“Cracking the Code: Codes of Conduct That Actually Work,”* *Compliance Week*, May 7, 2013.

continue to improve. What was best practice in compliance two to three years ago is no longer best practice.”<sup>14</sup>

### **Training and communication**

Members highlighted important elements of training. One member mentioned frequency: *“It’s about continual communication of the standards you have.”* Another said, *“We have internal audit and compliance out in the field, holding sessions, being a face that [employees] become comfortable with.”* In overseas locations, a member noted, *“You have to communicate in a way that is appropriate to their culture.”* It also helps to bring overseas executives on rotation to headquarters for a number of years, so that they can learn the corporate culture in the headquarters location and then translate those values into the local cultural context upon their return.

In a pre-meeting conversation, an EY partner brought up the special challenges of training employees on ethical behavior and not simply describing the rules: *“[Ethics] training doesn’t always address day-to-day dilemmas. You need to use dilemma-based or case-study training and reinforce it regularly. For example, how do you react when a buyer asks for support for his family? Is the customer always right? Or do we say certain lines can’t be crossed?”* Some members reported that their companies had implemented this kind of training. One said, *“Every employee has to go through an education process. They spend a lot of time on online training, which gives them real-life scenarios and asks them what they would do.”* Another highlighted the importance of illustrative stories: *“We use vignettes on how people made bad decisions, showing how they wandered into those decisions.”*

### **Monitoring**

Good information about how employees are behaving is important for identifying not only specific violations but also problem areas requiring more focus. Some members mentioned that their companies use surveys to gauge attitudes and perceptions. A member noted that, as an audit chair, they found the data from the ethics survey to be a key source of information: *“It’s a reflection of what is going on, as opposed to what people say is going on.”* One said of his time as a senior executive, *“We did an employee survey every year. When you do it every year, and you act on it, they believe that you care about these issues.”* Another member said: *“A key question in our survey is: Do you feel comfortable bringing issue to management?”*

Internal audit can play a critical role in monitoring compliance with ethical principles. Experts note several characteristics of the internal audit function (such as independence, access to senior management, and regular reporting to the audit committee) that make internal audit a natural ally of the ethics program.<sup>15</sup>

The EY partner also noted that “advances in big data mean that you can predict issues in advance.” He highlighted the importance of analytical approaches that do more than identify violations: “Does management have a dashboard of information that tells them root causes, so that they are reacting to root causes rather than symptoms? [They should be] not just sacking an individual, for example, but addressing

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<sup>14</sup> Audit Committee Leadership Summit, *“Bribery and Corruption Risk,” ViewPoints*, July 14, 2011, 9.

<sup>15</sup> Andrew W. Singer, *“At Howmet Corporation, the Internal Auditor Wears the Ethics Hat,” Ethikos*, September–October 1999.

the culture.” At the meeting, a member elaborated on data analysis: *“There are new tools for internal audit to diagram the organization and have the alarm sound more quickly. You get the early signal so you can begin to investigate earlier. We see real-time data on what is actually happening. You can see if management is trustworthy, because they see the same data!”*

Another source of information is a whistleblower hotline, which typically entails direct involvement by the board. In pre-meeting conversations, members noted that whistleblower systems are important tools, but it may be difficult to ensure that they work as intended. A member reflected on how employees can be sure that they will be protected if they report something: *“The only way they know is by seeing it happen. They have to see examples of it.”*

### **Consistent enforcement**

Some members highlighted the importance of a zero-tolerance policy. In a pre-meeting conversation, a member explained, *“If I had to point to one thing, it would be consistent education and consistent enforcement. Things might be different in your country, but when you signed up with our company, you signed up for our rules ... We have a zero-tolerance approach. It’s the kiss of death to tolerate something because of the local culture. Paying bribes is against company policy, which you signed up for when you joined.”* At the meeting, another member said, *“In instances where there are violations, the remedy needs to be quick and visible – cut the serpent’s head off immediately. This does have consequences, but it’s a cost of doing business to avoid even greater costs.”* Other members also mentioned forceful actions: *“We fired an entire group – over 200 people.”*

One member described a zero-tolerance policy toward business partners: *“We scrubbed third-party intermediaries – we now have the bare minimum. There are often distributors that we don’t have to use, so we pare them down. We make things clear to third parties, and we make them sign on it. We cut off those that aren’t willing to go through the written process.”*

Some members also noted the importance of positive reinforcement for upholding company values: *“It’s most effective when done in a meeting, as in, ‘Let’s give Mary a round of applause for bringing up this difficult issue.’ You have to pause and create an environment that says it’s okay to bring up ethical issues.”*

### **Transparency**

As one member explained in advance of the meeting, ongoing transparency can be a powerful complement to periodic training and strong enforcement: *“You make things known to the organization. That’s a powerful reinforcement: what happened, why it happened, why it was a problem, what was done, what were the disciplinary actions. You can do it without naming names and still have a pretty good effect.”* At the meeting, a member noted, *“Companies struggle with public disclosure, yet this element is key.”*

However, some members argued that information about incidents does not have to be broadcast publicly or even to everyone in the company. One remarked, *“Internal communication is better. If you go further, there are unintended consequences.”* Another member said, *“Inside the company, people know, because*

*there is usually an investigation and people are let go. We don't have a newsletter. People in the US don't care about what happens in Thailand, but people there do."*

### **Board oversight must be up close and personal**

Given the urgency surrounding ethics and compliance, boards are very interested in what their companies are doing in this area, particularly with regard to shaping behavior. Some ACLN members mentioned that the board took the same training and testing as the rest of the company. A member explained, *"On my two boards, the directors were required to take an annual ethics examination similar to the one that employees and officers take at the company – an online test – to make sure that we as directors understood the code of conduct. We were held to the same standards as the rest of the organization."* At the same time, some members offered caveats about encroaching too much on management: *"But as the board, you don't get into too much detail – you have to have faith in management."*

Several members said that ethics and compliance usually fall to the audit committee. The New York Stock Exchange listing requirements task the audit committee with assisting in board oversight of compliance with legal and regulatory requirements.<sup>16</sup> In recent years, some companies have established specialized ethics and compliance committees, particularly in heavily regulated industries such as pharmaceuticals.<sup>17</sup> At least one member said that compliance was now the responsibility of the nominating and governance committee.

A member described the additional burden for the audit committee that assumes responsibility for compliance: *"We had a separate compliance committee, but then we folded it into the audit committee. It was a lot. We started extending our meetings, trying to get the regular audit committee work done while squeezing in compliance as well."* One member estimated spending 40% of their time on the oversight of management's single global approach for ethics across different markets. Other members agreed that the burden is heavy and increasing. As one said, *"We're spending a lot more time on compliance – at least 45 minutes at every audit committee meeting."*

The committee in charge also needs specific expertise. In a recent European *InSights* report on audit committee composition, some audit chairs flagged legal expertise as important: *"There's an increased focus on regulatory compliance. As a result, there is a need on the committee for an attorney with regulatory expertise and knowledge of cutting-edge compliance trends."*<sup>18</sup> The division of labor on the committee could also come down to who has the accounting expertise and therefore has to focus on accounting issues. As a member explained at the meeting, *"I spend time on compliance because I'm not an accountant and others are."*

Members said that the committee in charge of compliance receives regular reports from the members of management who are responsible for compliance. However the frequency of reporting ranges from once a year (which is the minimum recommended in the US Sentencing Commission Guidelines) to every

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<sup>16</sup> New York Stock Exchange, ["Audit Committee Additional Requirements,"](#) in *Listed Company Manual* (New York: NYSE Euronext, 2011), 303A.07.

<sup>17</sup> Melissa Klein Aguilar, ["Pfizer Board Settles on Compliance Committee,"](#) *Compliance Week*, December 14, 2010.

<sup>18</sup> Tapestry Networks and EY, ["Greater Business Challenges Call for Stronger Audit Committees,"](#) *InSights*, August 2013, 8.

committee meeting. Informal reporting and relationships may also come into play. A member of another network touched on the element of trust and intimacy that should exist between the board and management, especially between the board and CEO.

### Emerging best practices

In pre-meeting conversations and at the meeting, ACLN members discussed the oversight practices they have used to encourage ethical behavior and effective compliance programs. They highlighted several practices:

- **Send audit committee members to meet and speak with employees.** One ACLN member said, *“We have the audit committee go out to visit the staff, giving them the message about the board’s role and letting them know that we’re watching.”* Another member elaborated on the interpersonal dynamics of visiting staff: *“One thing audit chairs might want to do is make on-site visits periodically. Your presence reinforces the importance of the work that they are doing. You provide them with a face, so that they will realize there are humans there who are concerned. It’s good for them to see an audit committee member who [cares].”* Several members mentioned participating in town hall meetings with employees to discuss the company’s approach to ethics and compliance.
- **Give compliance staff a prominent role.** A member said, *“In meetings with senior management, my boards also include compliance [staff] in a prominent role. We invite board members to talk to them and say we’re holding them accountable, to underscore our seriousness.”*
- **Bring in outside experts.** Some members mentioned the advantages of bringing in outside expertise. A member explained, *“We decided to benchmark our compliance program, and we brought in a company that had seven hallmarks of efficient compliance programs linked to the US Sentencing Guidelines. On those seven hallmarks, they give you a grade, and then you talk about what’s going well, what could be improved. It’s helpful from an audit committee perspective because it’s not relying on management.”*

An auditing firm can also provide support for ethics and compliance by reviewing internal control and fraud prevention programs, auditing compliance with antibribery and corruption regulations, applying analytics to detect fraud, and assessing how tone at the top is communicated and implemented across the organization.

- **Test the function frequently.** Outside experts can be helpful for testing the compliance function. A member said, *“Be creative about testing whatever you have in place. Set up a test incident – how quickly are things reported through the system? No one is smart enough to design a plan that will stand up 100% of the time. Recognize that and find ways to test it constantly.”*

How does the board know that the ethics and compliance program is really working? A member highlighted a difficult dilemma: *“Your ability to perform as an audit committee chair and an audit committee will only be as good as the information you get back when you ask questions.”*

Another member suggested that attitudes and outcomes can be a strong indicator: *“Is there a willingness to elevate things quickly, and is there an ability and willingness to get to the bottom of them? Is there a willingness to self-report even when it’s very painful to do it? Seeing that in my company has told me we have a pretty good culture.”*

## Conclusion

ACLN members see the problem of promoting ethical behavior as a major challenge for their companies, and they discussed a number of strategies and tactics being used by their companies. Commitment to ethical behavior by senior management is critical, as is an appropriate organizational structure for compliance, though some companies integrate compliance and internal audit while others keep them separate. Effective training and monitoring are key elements, and technology can enhance both these functions. Members also highlighted the importance of consistent enforcement and transparency as a way to promulgate an ethical culture, though some expressed concerns about unhelpful disclosures of violations and enforcement actions.

Board and audit committee oversight of compliance needs to be vigilant and intimate. Members said that audit committee members should go out to visit employees, both to learn what they are thinking and to remind them that someone cares and is watching. Third-party consultants can play a helpful role in benchmarking and testing compliance programs.

## About this document

The Audit Committee Leadership Network is a group of audit committee chairs drawn from leading North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

*ViewPoints* is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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## Appendix 1: Participants

ACLN members participating in all or part of the meeting sit on the boards of over 25 public companies:

- Ralph Babb, Audit Committee Chair, Texas Instruments
- Denny Beresford, Former Audit Committee Chair, Legg Mason
- Les Brun, Audit Committee Chair, Merck
- Michele Hooper, Audit Committee Chair, PPG Industries
- Judy Richards Hope, Former Audit Committee Chair, General Mills and Union Pacific
- Mike Losh, Audit Committee Chair, Aon and TRW Automotive
- Blythe McGarvie, Audit Committee Chair, Viacom
- Oscar Munoz, Audit Committee Chair, United Continental Holdings
- Tom O'Neill, Former Audit Committee Chair, Archer Daniels Midland
- Bill Osborn, Audit Committee Chair, Caterpillar
- Steve West, Audit Committee Chair, Cisco Systems

EY was represented in all or part of the meeting by:

- Tom Hough, Americas Vice Chair of Assurance Services
- Steve Howe, Americas Managing Partner

## Appendix 2: Discussion questions for audit committees

- ? What kinds of pressures do you believe executives and other employees are currently experiencing? What are the most dangerous temptations they face regarding unethical or illegal conduct?
- ? Are there locations or sectors that are more vulnerable than others to ethical misconduct? Has the situation improved or worsened in these areas over the last few years?
- ? How does your company resolve the tensions between global corporate policy and local business customs and practices?
- ? How should the CEO and other senior executives lead and support the ethics and compliance program? Should there be a dedicated chief compliance officer? To whom should that person report?
- ? What kind of code of conduct does your company have, and how is it promulgated throughout the company? How often is it updated?
- ? What kind of ethics and compliance training works best?
- ? How does your company monitor ethics and compliance? What tools are useful? Do you conduct a regular survey of the company culture?
- ? What is the role of internal audit? Is there a role for the external auditor?
- ? What kind of enforcement policies work best?
- ? Which committee of the board takes the lead on ethics and compliance? Have you considered a separate ethics and compliance committee?
- ? How does the board or board committee receive reports about ethics and compliance? How often and in what form?
- ? What best practices would you most recommend to boards and audit committees as they seek to promote ethical behavior?
- ? How does your company's whistleblower process work? Is it effective? What would make it more effective? Did you face obstacles in implementing it? How does management filter the information it sends to the board? How much information does the board see?