

Audit Committee Leadership Network

March 2022

ACLN

SUMMARY of THEMES

Cybersecurity and corporate crime, audit committee leadership, Russia and Ukraine, and the Edelman Trust Barometer

On March 21–22, 2022, members of the Audit Committee Leadership Network (ACLN) met in New York to discuss federal government views on cybersecurity and corporate crime, audit committee leadership practices, Russia and Ukraine, and the Edelman Trust Barometer. This *Summary of Themes* provides an overview of those conversations.¹ Forthcoming *ViewPoints* will provide additional detail on cybersecurity and corporate crime and on audit committee leadership.

Government views on cybersecurity and corporate crime

Members met with John Carlin, principal associate deputy attorney general with the United States Department of Justice and Jeff Sallet, a forensics and integrity services partner with EY who recently served as associate deputy director of the Federal Bureau of Investigation (FBI). The conversation covered cybersecurity as well as sanctions and corporate crime. Mr. Carlin's comments were off the record; Mr. Sallet's comments were on the record.

Both guests pointed to an increase in “blended cyber threats,” where nation-states and criminal groups work together or where a hostile nation encourages criminal attacks on its rivals. Companies face increased risks due to sanctions and heightened geopolitical tensions. The following key themes emerged from the discussion:

- **Enforcing sanctions and export controls is a top federal priority.** The federal government views sanctions and export controls as critical tools in responding to the Russian invasion of Ukraine, and it is putting unprecedented levels of resources toward enforcement. Overdeterrence is an explicit goal.
- **Sanctions are a strict liability regime.** Even unintentional payments to sanctioned entities are considered a violation. Businesses are expected to conduct rigorous diligence, establishing comprehensive sanctions-compliance processes, assigning responsibility at the management level, and clearly defining the board's oversight role.
- **Ransomware continues to be a major threat.** Increased focus on sanctions and new cybersecurity disclosure proposals from the US Securities and Exchange Commission (SEC)² create heightened compliance issues. Governance policies around ransomware should clearly delineate decision-making authority and processes. It is critical to check

whether ransom payments could end up going to a sanctioned entity. Working with the government—the FBI, Justice Department, Homeland Security, and/or Secret Service—can help a company’s case if a payment is later deemed a violation of sanctions.

- **Establishing relationships with the FBI is essential.** The FBI is committed to working with companies and can provide significant assistance. After the session, a member remarked, *“One company I’m involved with had two ransomware attacks in the past 30 days. The FBI was tremendously useful to work with. They had a pretty good understanding of who was on the other end of the attack, and that really helped us.”* Mr. Sallet advised connecting with the local FBI field office well before a crisis occurs: *“As audit committee chairs, you should ask that question of your company. Do they have an established relationship with the FBI? Do they have a relationship with the Department of Homeland Security?”*

Insider threat remains a critical concern. Mr. Sallet, who oversaw insider threat at the FBI, advised members, *“Make sure you have good hiring policies and procedures in place and that you continue to monitor throughout careers.”*

Audit committee leadership practices

Audit chairs discussed how they tackle expanding responsibilities and shared good practices for running effective audit committee meetings:

- **Shorter committee meetings are often due to a narrower scope.** Some members said that even though regular audit committee meetings run four to five hours, they still struggle to cover the agenda. It became clear that meetings tend to be shorter in companies with separate committees for issues such as cybersecurity, risk, and regulatory compliance. One audit chair noted that maturity of organization and processes can also impact the length of meetings. Rapidly growing firms and newer topics may require greater investments of time.
- **Development opportunities for management should be balanced with the need for candid conversations.** Some members said that management participation at committee meetings is an opportunity to get to know executive talent. But one member, observing that his last audit committee meeting was attended by 28 members of management, noted, *“We all know that the effectiveness of a meeting goes up as the number of participants goes down.”*
- **Audit chairs experiment with time, length, participants, and content of executive sessions.** Most members end meetings with an executive session, others begin with one, and still others hold private sessions both before and after their meetings. One audit chair said that his committee spends 90 minutes—almost 40% of the total meeting time—in executive session; for another, that percentage was 25%–30%. Executive sessions serve many purposes: to ensure alignment with colleagues, to get a sense of colleagues’

interests on the agenda topics, to solicit informal feedback from committee members, and to hear from management and the external auditor in private.

- **Off-cycle deep dives grant time for focused conversations.** A few members use off-cycle deep dives to allow for more time on topics of interest or unresolved issues; some use them for education. One member said, *“We don’t force closure on issues. If it’s a tough issue and if you can tell there is a lot of concern about it, I will call a time-out and say, ‘We will come back to this issue on a call next week.’”* Members had lingering questions: Should these off-cycle meetings be officially minuted and part of attendance records? Should they be optional or required for committee members?

The Russian invasion of Ukraine

Members discussed the Russian invasion of Ukraine with Thomas Graham, distinguished fellow at the Council on Foreign Relations, who shared the following insights:

- **Additional sanctions are likely.** Mr. Graham expects further sanctions, including oil and gas restrictions, and these could spur higher oil prices and inflation.
- **There is increased stress on European neighbors.** Some seven to 10 million Ukrainian refugees will migrate within Europe, leading to social tensions and economic stress. Both factors put European economies at greater risk for recessions.
- **The conflict has potential to spread.** Mr. Graham does not believe that Russia will attempt to invade another country, but he warned that it could attack Ukrainian resistance fighters in NATO countries, triggering NATO allies to respond.
- **Companies should remain on alert for cyberattacks.** Mr. Graham found it *“curious”* that devastating cyberattacks have not occurred but thinks they will be used as a diversion or to warn countries helping Ukraine.

Questioned about how the conflict could end, Mr. Graham offered a few conditions for a potential negotiated agreement:

- **Ukrainian neutrality, with security assurances.** This would involve Ukraine committing to not join NATO, and it would need to be linked to security cooperation with the US and other NATO countries to help Ukraine defend itself in the future.
- **Weapons and foreign bases.** Russia has indicated concern about the placement of certain types of weapons and foreign bases within Ukraine. Agreement to address Russia’s concerns in this area would need to be paired with a similar commitment from Russia to withdraw weapons and military forces near the Ukrainian border.
- **Payment for the reconstruction of Ukraine.** Mr. Graham thought that Russia would need to bear some of the cost. He noted there is potential for the conflict to end with President

Putin no longer in power: *“Military and security services and the business community may reach the decision that no matter how the conflict in Ukraine ends, it was a misadventure that has cost Russia dearly and it is time for someone else to be head of the Russian state. This is what happened after the missile crisis in 1962.”*

The group discussed the Chinese involvement in the conflict as well as future implications for China. Mr. Graham highlighted the contradiction between Russian and Chinese goals for Europe: *“The Chinese are interested in trade and technology connections, and that requires stability, whereas Russia seems intent on fueling instability to advance its power ambitions.”* Mr. Graham believes that China would prefer to stay neutral, particularly as it weighs the possibility of being subject to sanctions itself. He said President Xi Jinping must be noting Russia’s inability to produce a quick victory and pondering what could happen in a Chinese scenario with Taiwan.

Edelman Trust Barometer and implications for businesses

Members were joined by Lex Suvanto, managing partner and CEO of financial communications and capital markets at Edelman, to discuss the firm’s annual trust and credibility survey, the Edelman Trust Barometer.³

The conversation explored key findings relevant to global companies and boards. Distrust is now the default emotion in society, the survey found. Businesses are more trusted than government, NGOs, and media, but employees, consumers, and investors all think businesses are not doing enough to solve societal challenges and expect companies to take a public stand on issues.

Much of the discussion focused on challenges stemming from these heightened expectations. Members noted that determining when to speak out, and on which issues, can be very complex. *“You increasingly see situations where you get hit either way. You’ll be criticized no matter what,”* stated one. The survey revealed that trust is built by *“aligning what you do with what you say,”* said. Mr. Suvanto, and he offered several suggestions:

- **Make decisions from the company’s mission, values, and purpose.** These must be well defined, substantive, easy to articulate and understand, and incorporated into day-to-day actions, not just called upon during a crisis.
- **Speak out on social issues that matter to the company.** These should align with a company’s values and purpose or be fundamental to a healthy operating environment. For example, immigration could be a vital issue for technology companies because of its impact on talent recruitment and retention.
- **Inform change, but do not become political.** One member who holds an executive position emphasized how challenging it can be to have a message that resonates with everyone,

especially when topics get politicized by the media. *“I go out of my way to say it’s not political—it’s about doing the right thing.”* Another member added, *“Explaining your rationale is important.”*

- **Seek to understand culture.** The group discussed the role of the audit committee in overseeing culture. Members voiced an array of views; one said that the audit committee has little role, whereas others thought audit committees should lead or share responsibility with another committee (e.g., risk). Some said that the full board should oversee culture.
- **Review CEO skill sets.** Mr. Suvanto encouraged boards to think about what skills are necessary to lead with purpose and speak out on difficult issues. One member agreed: *“Our current CEO possesses the ability to speak from the heart, and we are discussing the need for this skill in our next CEO. It’s not just about delivering results but doing so with judgement and intention.”*

Mr. Suvanto noted that the board has a direct role to play in building trust. *“Culture is the top expectation from institutional investors of boards among ESG [environmental, social, and governance] topics. Climate is also rising... Investors are clearly saying that trust in the board is critical to investing.”* ACLN members discussed new SEC climate disclosure proposals released on the day of their meeting.⁴ Many said that complying with disclosures for Scope 1 and Scope 2 emissions targets will be easier to achieve than for Scope 3. One member expressed concerns about the long-term nature of climate disclosures: *“The challenge as an audit committee is the time horizon. It is not what we typically deal with for measurement.”*

The group discussed practices such as requesting that management revisit overly ambitious goals or asking for interim targets. A member recommended telling a balanced story by acknowledging both progress made and challenges faced. Mr. Suvanto offered guidance for boards: *“Deliver on your promises and be careful what you promise. You do this for financial reporting. The same framework applies to nonfinancial reporting, especially regarding trust.”*

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Appendix: Participants

The following ACLN members participated in all or part of the meeting:

- Eva Boratto, UPS
- Judy Bruner, Applied Materials and Seagate Technology
- Janet Clark, Texas Instruments
- Sam Di Piazza, AT&T
- Bill Easter, Delta Airlines
- Lynn Elsenhans, Saudi Aramco
- Tom Freyman, AbbVie
- Fritz Henderson, Marriott
- David Herzog, MetLife & DXC Technology
- Charles Holley, Amgen
- Suzanne Nora Johnson, Pfizer
- Akhil Johri, Boeing and Cardinal Health
- Lori Lee, Emerson Electric
- Brad Martin, FedEx Corporation
- Leeny Oberg, Adobe
- Ann Marie Petach, Jones Lang LaSalle
- Paula Price, Accenture
- Kimberly Ross, Cigna
- Tom Schoewe, General Motors
- Leslie Seidman, GE
- Gerald Smith, Eaton Corporation
- Fred Terrell, Bank of New York Mellon
- Tracey Travis, Meta
- Jim Turley, Citigroup
- John Veihmeyer, Ford Motor Company
- Robin Washington, Salesforce.com
- David Weinberg, Coca-Cola Company

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

- Kelly Grier, US Chair and Managing Partner and Americas Managing Partner
- John King, EY Americas Vice Chair - Assurance
- Pat Niemann, Americas Leader, EY Audit Committee Forum

Endnotes

¹ *Summary of Themes* 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. Quotations in italics are drawn directly from conversations with network members in connection with the meeting.

² US Securities and Exchange Commission, "[SEC Proposed Rules on Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure by Public Companies](#)," news release, March 9, 2022.

³ Edelman, *Edelman Trust Barometer 2022* (Chicago: Edelman, 2022).

⁴ US Securities and Exchange Commission, "[Enhancement and Standardization of Climate-Related Disclosures](#)" (SEC, March 2022).