EUROPEAN
AUDIT COMMITTEE LEADERSHIP NETWORK
ViewPoints

Issue 35: 1 August 2013
TAPESTRY NETWORKS, INC o WWW.TAPESTRYNETWORKS.COM o +1 781 290 2270

Ethics and compliance

On 28 June 2013, members of the European Audit Committee Leadership Network (EACLN) met in Paris to discuss ethics and compliance, among other topics.[1] This document summarizes the key points that members raised in the discussion, along with background information and perspectives that the members and subject matter experts shared before the meeting.[2] 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

EACLN discussed the state of ethics and compliance at their companies, including the challenges companies currently face and how they are responding. Members touched on three key themes:

- **Nurturing ethical behavior is more important than ever** *(page 1)*

  Governments around the world are enforcing existing laws more actively, and they are passing new laws and regulations. At the same time, the pressures imposed on managers and employees by difficult economic circumstances continue to tempt a minority to cross ethical lines, creating reputational issues for their companies. The will to resist is particularly hard to muster in cultures where prevailing norms conflict with the standards companies are trying to uphold.

- **Building an ethical culture is a journey** *(page 3)*

  Members discussed several elements of a successful ethics and compliance program. Strong leadership in the form of commitment by top executives and adequate authority granted to the compliance function are both fundamental. Companies also need a code of conduct reinforced by an effective training program. Careful monitoring can identify problem areas as well as specific violations, and a zero tolerance policy underscores the company's determination to enforce ethical behavior.

- **Boards are trying different approaches to overseeing ethics and compliance** *(page 7)*

  Members noted that boards want to see improvements in ethics and compliance, but they are taking different approaches to oversight. Some boards delegate oversight of ethics and compliance to the audit committee, while others have created a new board committee. The full board may also take the lead if ethics and compliance has become a critical issue for the company. Reporting by management to the board also varies somewhat in terms of frequency and content, and whistleblower systems are being adapted to abide by local laws and customs.

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

Nurturing ethical behavior is more important than ever

Responsible companies highlight ethical behavior as a value in itself, but in recent years, ethics and compliance have become an even more urgent priority as governments have passed new laws and regulations

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[1] In another session members discussed Executive remuneration. See European Audit Committee Leadership Network, "Executive remuneration," *ViewPoints*, 1 August 2013.

[2] *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.

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,[3] and the UK Anti-Bribery Act, which is even more restrictive than the FCPA, came into effect in 2011 (though some aspects of the Act are currently under review).[4] In other parts of the world, such as China and Brazil, governments are also cracking down on bribery.[5] Meanwhile, the European Commission has shown a strong willingness to investigate various types of price-fixing schemes, recently raiding the offices of three major oil companies and imposing steep fines on banks involved in the Libor scandal.[6] Scandals such as the sale of horse meat as beef could increase other types of regulation and enforcement as well.[7]

On top of the fines and legal costs imposed by regulators, ethics and compliance problems can entail significant reputational costs if the public begins to question the ethical integrity of a company. These costs can be amplified as information and misinformation propagate via social media. All these trends are taking place at a time when the probability of unethical behavior may be increasing due to such factors as the continuing tough economic environment and many companies' expansion into emerging markets.

The pressures on behavior

While effective compliance programs are one way to tackle ethical infractions, the problem of behavior – of ensuring that employees consistently demonstrate appropriate ethical judgment as opposed to narrowly following prescribed rules – is daunting. Especially in difficult economic times, the temptation to cross ethical lines and possibly violate laws can be strong.

EY's recent survey of fraud in Europe and several other regions found that a high number of executives and their teams are feeling intense pressures to perform, and this pressure may lead to unethical behavior.[8] EACLN members acknowledged that maintaining ethical conduct is a challenge. One member said, *"It's clearly difficult to convince commercial teams abroad that are engaged in international operations that [ethical conduct] is as important as to gain a new contract or new client. To implement good compliance and ethical behavior is a permanent fight."*

The influence of culture

The challenge is even greater when employees live in a culture with values and norms that may conflict with the rules that the company seeks to enforce. The norms regarding how one interacts with family members in a business context, for example, may have a powerful influence on how business is conducted. A member noted, *"Often, deals are not given to the lowest bidder. It is not seen as wrong – you're supposed to support your relatives."* Another member said, *"Allegiance to family may be greater than allegiance to the abstract concept of law."*

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[3] Shearman & Sterling, *FCPA Digest: Recent Trends and Patterns in the Enforcement of the Foreign Corrupt Practices Act* (New York: Shearman & Sterling, 2012).

[4] Caroline Binham and Elizabeth Rigby, "Relaxation of UK Bribery Law on Government Agenda," *Financial Times,* 28 May 2013.

[5] Laurie Burkitt and Jeanne Whalen, "China Targets Big Pharma," *Wall Street Journal,* 16 July 2013; Jaclyn Jaeger, "Brazil Passes Landmark Anti-bribery Law," *Compliance Week,* 9 July 2013.

[6] "Oil and Gas Products: Pumped Prices?" *Financial Times,* 15 May 2013.

[7] Stephen Castle, "Europe Says Tests Show Horse Meat Scandal Is 'Food Fraud,'" *New York Times,* 16 April 2013.

[8] EY, *Navigating Today's Complex Business Risks: Europe, Middle East, India and Africa Fraud Survey 2013* (London: Ernst & Young Global Limited, 2013), page 2.

Other types of illegitimate activities may be seen to be in the best interests of the company as well. A member noted, *"In some countries, they really think they are doing the right thing for the company when they bribe someone."*

EY UK Partner John Smart explained in a pre-meeting conversation that, regardless of the culture promulgated by the company, employees live in the local culture as well: *"Locally, they say, 'The mountains are high, and the emperor is far away.' There are a number of cultures even within a company. The challenge for boards is to understand them and what the interventions should be."* He added that these considerations applied even more to business partners in distant locations: *"It's not just what your employees do, but what third parties do on your behalf."*

An ingrained company culture can also be difficult to change, even when incentives are changed. One member described a company's efforts to change a sales culture that had been in place for decades: *"It was a cultural shift of immense proportions – changing what they had been paid to do for a hundred years! We replaced it with a lot of non-financial goals for the sales reps. It was really an immense adjustment."*

Building an ethical culture is a journey

Companies are increasing their efforts to encourage employees to conform to ethical and legal rules and principles. The catalyst may be an incident at the company itself or at another company, such as the massive bribery scandal at Siemens that cost the company €2.5 billion and was a wake-up call for others.[9] A member said, *"It's not so easy to change behavior within the company and in a board – not easy and not natural. Generally, the starting point is a major event for other companies. For example, it might be an inquiry on bribery. This kind of situation is creating an opportunity to deliver and share with the commercial teams and lines of management a real attention and priority on these kinds of questions."* Another member described how a board meeting held in India became a catalyst for change.

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 company culture, which compliance officers note is a more constant and equally powerful influence on behavior.[10] A recent survey of 180 companies by the consultancy LRN found that the level of spending on compliance is less important than how effectively a compliance program nurtures an ethical culture.[11] Culture is influenced by incentives, but many other factors also come into play. Members highlighted a number of important elements of an ethics and compliance program:

- Leadership
- A code of conduct backed by training
- Monitoring
- Zero tolerance

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[9] David Gow, "Record US Fine Ends Siemens Bribery Scandal," *Guardian,* 15 December 2008.
[10] Jose Tabuena, "Can You Audit Corporate Culture?" *Compliance Week,* 29 May 2013.
[11] LRN, *2013 Ethics & Compliance Leadership Survey Report* (Los Angeles: LRN, 2013), page 15.

Leadership

Members often mention the importance of "tone at the top" of an organization: the company's leadership must be committed to ethics and compliance. In a pre-meeting conversation, one member elaborated: *"How do you implement ethics and compliance? It's highly difficult. The leadership will give the signal to all the company. It's linked to compensation. If the leader gives the signal that he's only interested in money, I'm not sure others will behave."* At the meeting, another member noted that the issue was a factor in selecting the CEO: *"We try to get a feel for the integrity of the individual – it's critical."*

A few members mentioned ways to strengthen the leadership of the compliance function itself. 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 vary 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 strictly 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.[12] One EACLN member said, *"We created a separate chief compliance officer who reports to the audit committee and the general counsel."* Another member worried about the authority of the ethics officer at their company: *"The VP of ethics does not have a lot of power, reporting to the corporate secretary, two levels down from the CEO."*

Some members said that responsibility for ethics and compliance should also be embraced by business unit managers. One member said, *"Direct reports to the CEO are personally responsible for compliance. It's the responsibility of business unit managers. If the manager has a problem, the CEO will fire not only him but his direct report."* Another member said, *"We have an ethics committee made up of the heads of the different business groups."*

Several members reported that using local managers in countries where the culture clashes with the company culture is risky, even if the local manager has spent time in the head office: *"We had one who was in the head office for 15 years, but relapsed after one year abroad!"* One member said, *"It's not just ethics – it's also making sure they are investing for the company and not the country."*

A code of conduct backed by training

In EY's survey, nearly 60% of respondents reported that their companies have an anti-bribery or anti-corruption policy and a code of conduct.[13] An EACLN member remarked on the importance of establishing and updating a code of conduct: *"You should have a code of conduct – that's fundamental. You need a guiding framework on ethics and honesty and corporate values. The code of conduct should be reformulated from time to time."* Another member said, *"We have a very detailed ethics code, and every employee has access to it."*

Members remarked that a code of conduct must be accompanied by training and observed that this is where companies often fall short. One reported, *"We do have an ethics VP, and we have a code of conduct, but*

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[12] John Soriano, "When the CCO Should Report to the General Counsel," *Compliance Week,* 29 June 2010; Ben W. Heineman, Jr., "Don't Divorce the GC and Compliance Officer," *Corporate Counsel,* January 2011.

[13] EY, *Navigating Today's Complex Business Risks: Europe, Middle East, India and Africa Fraud Survey 2013,* page 13.

no education program. I had to insist that our people be educated on the UK anti-bribery act – it was almost a struggle." Mr Smart brought up the special challenges of training employees on ethical behavior, 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?"*

One member described the impact of bringing in a former executive (from another company) who had gone to prison for participating in a price cartel: *"It was a sobering way of personalizing the dangers for our executives. Highly effective."* Other members pointed to the advantages of online training. One said, *"It's vital to have annual e-based training. The percentage of participation is a way to measure if people believe [in the program]."* Another added, *"With e-based training, it's difficult to cheat."*

Training can be supplemented with resources that employees can turn to on an ongoing basis if they need guidance. A member said that one company had implemented an ombudsman program: *"We have an éminence grise – someone people can ask for advice."*

Monitoring

Good information about how employees are behaving is important for identifying not only specific violations but also problem areas requiring more focus. Several members mentioned that their companies use surveys to gauge attitudes and perceptions. One member added, *"We recommend that companies organize face-to-face meetings locally with your managers. What are the risks these managers face? … It's a two-way process – clear commitment by the top and a good system for collecting information."*

Internal audit can play a critical role in monitoring compliance with ethical principles. Experts note several characteristics of the internal audit function (such as objectivity, access to senior management and regular reporting to the audit committee) that make internal audit a natural ally of the ethics program.[14] A member said, *"I check that in the internal audit program for the year, we integrate the compliance program. It is important that local managers know they will be checked on this aspect of their business."* Another member said, *"Forty percent of internal audit is devoted to compliance issues."* Mr Smart said that companies should be sure to monitor third parties as well, and he suggested *"rewriting contracts to include audit rights and make compliance explicit."*

Mr Smart 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 the culture."*

Another source of information is a whistleblower hotline, which will typically entail direct involvement by the board. Whistleblower systems are important tools, members noted, but it may be difficult to ensure that they work as intended. For more information on whistleblower hotlines, see page 9.

[14] Andrew W. Singer, "At Howmet Corporation, the Internal Auditor Wears the Ethics Hat," *Ethikos*, September–October 1999.

Zero tolerance

Some members highlighted the importance of a zero-tolerance policy. In a pre-meeting conversation, a member said that when violations are discovered, *"it results in the person being disciplined or fired, often fired. We've made it clear we have a zero-tolerance policy."* Making the policy clear to employees is an important element. One member explained, *"We think prosecution is the best education you can have. It spreads like wildfire in the company that it is not just policy. We don't publish anything. But when employees are fired, people want to know why. We don't explain exactly what they did, but that they did do something and the company acted."* Another member said, *"When we fire someone, we tell the company, without naming the person: shame but not name."*

The final and most dramatic action – and a form of zero tolerance – that a company can take when faced with an environment in which corruption is difficult to control is to pull up stakes and leave that environment, forgoing the business opportunities there. A member brought up the example of a company that left a country because it was too difficult to conduct business there ethically: *"Some companies are ready to do that, to demonstrate good, ethical behavior. They have a common rule. They decided to leave some countries and some clients, including some operations that were considered to be in good condition."* On the other hand, members also noted that in some industries, the goal of operating ethically may actually require a company to stay in a challenging market: *"If you're a pharma company, you can't not provide people with medicine."*

External validation: Guidance from regulators and assurance by auditors

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. Auditors can also provide assistance. Consider the following examples:

- **Regulators.** Chapter 8 of the US Federal Sentencing Guidelines outlines the features of an effective compliance program,[15] and the European Commission published a brochure in 2011 on complying with European Union's competition rules.[16] These recommendations by regulators touch on many of the same elements EACLN members have discussed, such as commitment by senior management, communication and training, monitoring and board oversight. The guidance from the European Commission mentions the value of having "a clearly identified contact point where advice can be sought by staff in case of doubts about the compatibility of certain types of behavior or agreements with EU competition law."[17]

- **Standards setters.** Companies' interest in having their compliance programs externally validated has prompted the Institute of Public Auditors in Germany (the IDW) to issue a standard for auditing compliance programs, which may be the first of its kind and could be applied in other nations as well as Germany.[18]

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[15] Jaclyn Jaeger, "A Global Tour of Compliance Frameworks," *Compliance Week*, 16 April 2013.
[16] European Commission, *Compliance Matters* (Brussels: European Commission, 2011).
[17] Ibid., page 17.
[18] Neil Baker, "Germany Creates a Standard for Compliance Assurance," *Compliance Week*, 30 August 2011.

External validation: Guidance from regulators and assurance by auditors *(continued)*

- **Standards setters *(continued)*.** The standard mainly describes how such an audit engagement should take place, so it does not offer specifics about the compliance program itself, except to list the basic components of a program, such as the compliance culture, objectives, organization and policies and procedures that the auditor should consider.

- **Auditor firms.** An EY partner listed several areas in which the external auditor can provide support for ethics and compliance: review of internal control and fraud prevention programs, auditing compliance with anti-bribery and corruption regulations, application of analytics to detect fraud, and assessment of how tone at the top is communicated and implemented across the organization.

Boards are trying different approaches to overseeing ethics and compliance

Given the urgency around ethics and compliance, boards are very interested in what their companies are doing in this area, particularly with regard to shaping behavior. One member remarked, *"Boards are really looking to see fundamental cultural change."* Another member asked, *"How can companies motivate people to comply with principles and not just rules?"*

In earlier EACLN discussions touching on ethics training, members have mentioned that the board takes the same training as the rest of the company.[19] At the same time, some members offered caveats about encroaching too much on management: *"The board should only make sure that processes are in place and make sure that weaknesses are corrected – that processes are enforced. The board should not do what should be done by management. It should not act directly."*

Members brought up several aspects of the board's oversight of ethics and compliance:

- The committee in charge
- Reporting by management to the board
- Whistleblower hotlines

The committee in charge

Members discussed several options regarding who takes the lead on ethics and compliance:

- **The audit committee.** Several members said that ethics and compliance usually fall to the audit committee. The European Union's 8th Directive states that the audit committee must monitor the effectiveness of the company's internal control and that the statutory auditor must report to the audit committee on material weaknesses in internal control related to the financial reporting process.[20] The New York Stock Exchange listing requirements task the audit committee with assisting in board oversight of compliance with legal and regulatory requirements.[21] A member said, *"[Ethics and*

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[19] European Audit Committee Leadership Network, "Internal Controls over Financial Reporting," *ViewPoints,* 28 April 2011, page 2.

[20] European Union, "Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006," *Official Journal of the European Union,* 9 June 2006, page 103.

[21] New York Stock Exchange, "Audit Committee Additional Requirements," in *Listed Company Manual* (New York: NYSE Euronext, 2011), 303A.07.

compliance are] primarily a topic for the audit committee, and the audit committee reports back to the full board." Another member said that the committee in charge consists of members of management, but this committee reports to the audit committee, explaining its activities and any difficulties it has encountered.

- **An ethics and compliance committee.** Other members said that their boards had established specialized ethics and compliance committees. A member explained, *"It was under the audit committee before, but we wanted to give the signal that we were giving special attention to ethics. The audit committee looks at audit and budget and finance. Ethics was one mandate, but we didn't have time to deal with it properly."* The member went on to note, however, that getting the new committee up and running was posing challenges: *"We still don't have a mandate for the committee."*
- **The full board.** Some members explained that the full board may take the lead under certain circumstances: *"It depends on the phase a company is in. In financial services, compliance is so important, it's a board issue. They are going through a major change process, so compliance is very important."* The full board may also need to get involved if its involvement is necessary to engage the CEO. One member pointed to a problem with leaving the issue to a committee: *"The discussion should include the CEO, and for that reason, I hate to say it's just the audit committee. I invited the CEO to the audit committee meeting, but I was told the CEO would never attend."*

Even if another committee or the full board takes the lead, a member pointed out, the audit committee is still involved: *"When it's a special committee, the audit committee is not on the front line, but it is still an issue for the audit committee, regarding financial information and the accounts of the company."* Other committees may also play a role; a risk committee, for example, may look at compliance risks.

The committee in charge needs expertise, and a member mentioned a concern involving board director expertise: *"One issue is that we don't have in the board a lot of people with experience with compliance issues – it's one dimension that is lacking."* The member elaborated: *"You need to identify the qualities you're missing in the board. You may need more financial or more international experience because growth strategy is international. You probably need people sensitive to compliance issues."* In a forthcoming *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."[22]

Reporting by management to the board

Members said that the committee in charge of compliance receives regular reports from the member of management responsible for compliance. The frequency of reporting varies somewhat, however:

- **Annual.** A member said, *"I ask for a formal report once a year."*
- **Biannual.** A member said, *"Twice a year, we have a presentation by the compliance director to the ethics and governance committee. Where are we? What are we doing on communication, training and internal controls?"*

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[22] Tapestry Networks and EY, "Greater Business Challenges, Stronger Audit Committees," *InSights,* August 2013, page 8.

- **Every committee meeting.** Several members mentioned more frequent reporting. One said, *"The general counsel is at every meeting to do a deep dive."* Another said, *"In my company, we get a report at every audit committee meeting on compliance issues. We also get a whistleblower report."*

Informal reporting and relationships may also come into play. Members touched on the element of trust and intimacy that should exist between the board and management, especially the CEO. One member said, *"It's probably expected from directors, executive or non-executive, that they establish a relation of transparency and confidence with the CEO and evaluate what are only words and what is real commitment. In fact, it's not so complicated to evaluate if your CEO is sincere when you know him."*

There may be greater distance between management and the supervisory board on boards with a two-tier structure, and the supervisory board may be less involved in details. A member with experience on supervisory boards said, *"Management is in charge, but if major things happen, we will look at it."*

Whistleblower hotlines

Several members mentioned the whistleblower hotline and its importance. Such hotlines are a direct channel of information from any level in the organization to the board, typically the audit committee. One member said, *"We have a whistleblower program, and we measure progress by an increasing number of calls."*

Whistleblower systems can be difficult to implement in jurisdictions with strong privacy or labor laws, though progress is being made in many jurisdictions. Companies subject to the Sarbanes-Oxley Act's whistleblower requirements encountered obstacles when they tried to implement whistleblower systems in Europe. Wal-Mart's system, for example, was found to violate German law.[23]

In response to these issues, several European countries and the European Union (EU) issued guidelines on how to implement whistleblower systems without violating local laws and EU data privacy laws.[24] These guidelines are improving acceptance of whistleblower systems in Europe, but legal experts have argued that there are still challenges, such as restrictions on anonymous denunciations, limits on who can use a whistleblower hotline, restrictions on outsourcing hotlines and others.[25] Companies should carefully consider the laws in each jurisdiction.

Meanwhile, in a recent paper written for a meeting at the US Center for Audit Quality, Frederick Lipman, president of the Association of Audit Committee Members, argues that while whistleblowers should be an important source of information for audit committees, whistleblower systems often suffer from a variety of problems, including lack of meaningful rewards or recognition for legitimate whistleblowers and the use of employee administrators and investigators who are not independent or who lack forensic skills.[26] Mr Lipman recommends that boards take the necessary steps to correct these problems.[27]

Whistleblower systems can generate a large volume of alerts, and handling that volume can pose its own difficulties. A member noted, *"The company does screen them – not every case is brought to us."* Mr

[23] Melissa Klein Aguilar, "Finally: German Whistleblower Guidelines Released," *Compliance Week,* 1 May 2007.
[24] Ibid.
[25] Donald C. Dowling, Jr., "Launching a Whistleblower Hotline across Europe," *Global HR Hot Topic,* December 2011.
[26] Frederick D. Lipman, "Improving the Flow of Information to the Audit Committee," Association of Audit Committee Members Blog, 10 May 2013.
[27] Ibid.

Smart pointed to the potential dangers of screening, however: *"One question has to do with the audit committee getting filtered information: how can management assure them they are getting unfiltered data and that executives haven't intervened?"*

Conclusion

Despite the pressures on management and employees, members were cautiously optimistic about the efforts of companies to promote ethics and satisfy increasingly vigilant regulators. One member said, *"Large but also medium-sized companies, at the management level and the board level, are giving greater attention to compliance and fighting fraud and corruption. We are improving in terms of practices and culture."* Another member reflected, *"You have to see it as a journey. In the 90s, cartels and bribery were common. At the end of the 90s, there was the OECD [anti-corruption initiative],[28] and European companies began adjusting. It took five or six years before management got it."* Companies are still fine-tuning their ethics and compliance programs, in terms of organization, training and monitoring. Boards, too, are testing different models of oversight, including delegation of ethics and compliance to specialized committees. As a member noted in the meeting, *"Any company not actively embracing ethics and compliance is a company running enormous risks."*

About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organised 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 advisors as they endeavour to fulfil 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, management and advisors who become systematically engaged in this dialogue, the more value will be created for all.

EYG no. AU1843

[28] See the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which was adopted in 1997. OECD stands for Organisation for Economic Co-operation and Development. It is an international organization headquartered in Paris.

Appendix 1: Participants

The members of the network participating in the meeting sit on the boards of nearly 30 large-, mid- and small-capitalization public companies. Network members participating in all or part of the meeting included:

- Mr Aldo Cardoso, Audit Committee Chair, GDF SUEZ
- Mr Ángel Durández Audit Committee Chair, Repsol
- Mr Lou Hughes, Audit Committee Chair, ABB
- Mr Daniel Lebègue, Former Audit Committee Chair, Technip and SCOR
- Ms Blythe McGarvie, Audit Committee Chair, Viacom*
- Mr Pierre Rodocanachi, Audit Committee Member, Vivendi
- Ms Guylaine Saucier, Audit Committee Chair, AREVA
- Mr Tom de Swaan, Audit Committee Chair, Royal Ahold
- Dr Bernd Voss, Audit Committee Chair, Continental AG
- Mr Lars Westerberg, Audit Committee Chair, Volvo

* *Member of the Audit Committee Leadership Network of North America*

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

- Mr Christian Mouillon, Global Risk Management Leader
- Mr Mark Otty, Area Managing Partner, EMEIA

Appendix 2: Discussion questions for audit committees

- What kind of pressures do you believe executives and other employees are currently experiencing? What are the most dangerous temptations they face to engage in unethical or illegal conduct?
- Are there locations or sectors that are more vulnerable to ethical misconduct? Has the situation improved or worsened in these areas over the last few years?
- What kind of outside cultural pressures to violate company principles of ethical conduct are employees experiencing?
- 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?
- What kind of ethics and compliance training works best? What kind of training does not work well?
- 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 external audit?
- Which committee of the board takes the lead on ethics and compliance? Do you have 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 kind of information does the board need to oversee ethics and compliance? Does the board see the results of relevant employee surveys?
- Does the board undertake ethics and compliance training?
- How does you company's whistleblower process work? Is it effective? What would make it more effective? Did you face obstacles in implementing it? How much information does the board see? How filtered is the information?