Improving Board Reporting and Training Effectiveness

Practices to Transform Board Communications and Education

Greater Houston Business Ethics Roundtable
The Woodlands, Texas
12 July 2012
Heather N. Yanak
William Hughes
A FRAMEWORK FOR MEMBER CONVERSATIONS

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Communications between executives and the Board often fail for a few identifiable reasons.

### WHY COMMUNICATIONS FAIL

Stresspoints in Communication with the Board

- **Executive Communications Do Not Enhance Board Effectiveness**

  - **Poorly Prioritized Information**
    - Too much raw data
    - Materials do not identify critical issues
    - Reports presented in inconsistent formats
    - **Opportunity 1**
      - Sharpen Board Reporting
  - **Outdated Approach to Meeting Structure**
    - Too much meeting time dedicated to low-value activities
    - Insufficient visibility into company as a whole, or other board committees
    - **Opportunity 2**
      - Drive Focused Director Interactions
  - **Reactive Follow-Up**
    - Emerging issues are not communicated between meetings
    - Directors feel out of the loop on key business developments
    - **Opportunity 3**
      - Re-Engineer Post-Meeting Follow Through

- **Before the Board Meeting**
- **During the Board Meeting**
- **After the Board Meeting**

Source: General Counsel Roundtable research.
## TRANSFORMING COMMUNICATIONS WITH THE BOARD

<table>
<thead>
<tr>
<th>How can I sharpen board reporting?</th>
<th>How can I drive focused director interactions?</th>
<th>How can I re-engineer follow through and education?</th>
</tr>
</thead>
<tbody>
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<td>PNM Resources</td>
<td>Breaking Down Board Silos</td>
<td>Alpha Action-Oriented Follow-Up Spreadsheet</td>
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<td>Creating (Consistently) Better Board Reports</td>
<td>Director Dinner</td>
<td>Keeping Ahead of the Curve</td>
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<tr>
<td>BMO Financial Group</td>
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<td>FEI COMPANY Expanding Education</td>
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<td>Principles-Based Reporting</td>
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<td>GANNETT</td>
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<td>BETA Orientation and Education</td>
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<td>Soliciting Commentary from Management</td>
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<tr>
<td>WELLS FARGO</td>
<td></td>
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<tr>
<td>Pull Forward Key Discussions</td>
<td></td>
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</tr>
</tbody>
</table>

1 Pseudonym.

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SAYING MORE WITH LESS

Transforming Communications Before the Board Meeting

How do I get the **right content** to our directors before the meeting?

How do I **frame the analysis** of issues coming before the board?

Creating (Consistently) Better Board Reports

Principles-Based Reporting

Pull Forward Key Discussions

Broadening Board's View on Litigation Risks

Soliciting Commentary from Management

Source: General Counsel Roundtable research.

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CASE STUDY: PNM RESOURCES

OVERVIEW

PNM Resources is an energy holding company whose wholly-owned subsidiary, Public Service Company of New Mexico, serves approximately 460,000 natural gas customers and 400,000 electricity customers in New Mexico.

COMPANY SNAPSHOT

<table>
<thead>
<tr>
<th>PNM Resources</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry:</td>
<td>Energy</td>
</tr>
<tr>
<td>2008 Sales:</td>
<td>US$1.9 B</td>
</tr>
<tr>
<td>2008 Employees:</td>
<td>3,100</td>
</tr>
<tr>
<td>Headquarters:</td>
<td>Albuquerque, NM, USA</td>
</tr>
</tbody>
</table>
CREATING (CONSISTENTLY) BETTER BOARD REPORTS

PNM Board Presentation Template
Excerpt

Presenters are encouraged to state the problem clearly, to provide a recommendation...

Statement of the problem/opportunity
Proposed course of action to be approved. State the risk and the

- History
- Facts bearing on the issue
- Precedence

- Status quo
- Others

Impact on PNM Resources, Inc.
1. Impact on state/federal regulatory issues:
   - Specific regulatory approvals, timeline, and potential opposition
   - Relation to other regulatory initiatives
2. Impact on customers (cost, perception, etc.)
3. Impact on shareholders
   - Impact on dividend or stock price
   - Perception of stockholders
4. Impact on other constituencies (community/political)

Timing Issues
- Short-term issues
- Long-term issues
- Recovery or “exit” plan

…and to summarize the impact of the problem on PNM and its stakeholders.

Source: General Counsel Roundtable research.

“Our litigation report grew out of our effort to ensure the board is getting the right information. We are consistently evaluating the content and format of what we send to the board. We try to strike a balance between giving the board the information it needs and not inundating it with too much information. We also frequently talk to the directors to find out whether the information provided was sufficient and whether there is anything we could have done better.”

Patrick Ortiz
General Counsel
PNM Resources

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CASE STUDY: BMO FINANCIAL GROUP

OVERVIEW

Bank of Montreal, also known as BMO Financial, is one of Canada’s oldest and largest banks. With more than 1,000 branches, BMO provides deposits, mortgages and loans, life insurance, credit cards, investments, and wealth management services for an array of clients.

COMPANY SNAPSHOT

BMO Financial Group

Industry: Banking
2008 Sales: US$21.8 B
2008 Employees: 36,000
In-House Attorneys: 27
Headquarters: Toronto, Canada
PRINCIPLES-BASED REPORTING

BMO Financial Group’s Principles for Reporting to the Audit Committee

Occasion
A quarterly report will focus on Corporate Audit’s findings and results during the quarter consistent with the division’s mandate.

Objective
The report will provide “triggers” for the Committee’s review which will enable members to question material rather than providing extensive detail that may obscure messages or issues (i.e., the report will be structured to convey “information” not “data”).

Messenger
The chief auditor will present the report’s key messages and provide interpretations and viewpoints to the Audit Committee.

Scope
The report will provide insight into the work undertaken encompassing audits of units and/or processes, strategic/critical initiatives, and major system developments.

Focus
The report will provide key messages of the Chief Auditor.

Summation
Detailed audit reports will be made available to members of the Audit Committee but will not be included in the presentation.

Clarity
The report will be clear and concise, supporting the Audit Committee’s execution of its mandate/responsibilities.

Relevance
The report will encompass an opinion on the state of controls, the “state” of Corporate Audit, and key issues for review. Key issues are current and emerging matters which are judged significant of which the Audit Committee should be aware. They will be reported on an “exception basis.”

Perspective
The report will identify results over time to indicate trends by relationship and risk and use graphs to support key messages.

Foreshadowing
The report will provide insight into major areas of focus in the following quarter.

Source: Audit Director Roundtable research; Audit Committee Leadership Forum research; General Counsel Roundtable research.
BMO’s Audit Committee report facilitates constructive dialogue and enhances the Audit Committee’s ability to provide direction.

CLEAR, COMPELLING, MEMORABLE

Select Audit Committee Report Pages
Illustrative

Corporate Audit is monitoring a number of potential issues. There have been no adverse findings to date.

Potential Issues

1. The potential for changing market expectations of the degree of functioning (e.g., working 100% of time) of controls in certain areas, such as privacy and information security.
2. The implications (process and reporting) on management and audit functions arising from implementing the certification and external audit requirements of Sarbanes-Oxley (404) and Ontario Securities Commission (52-109).
3. The potential for weakening of internal controls arising from cost management decisions.

Comments

Sensitive areas such as privacy and information security are receiving significant focus.
An assessment of implications has been initiated.
CAD has not seen any evidence of internal controls being eliminated or decommissioned for cost reasons.

Relevance: The report will encompass insight on emerging matters which the chief auditor judges to be significant.

The system of internal control for the management of risk continues to be rated as satisfactory. The trend is stable.

Credit Risk

Operational Risk

Market Risk

Fiduciary Risk

12-month rolling average.

Perspective: The report will identify results over time to indicate trends by relationship and risk and use graphs to support key messages.

Corporate Audit is on track to achieve its Audit Plan.

Risk-Rated Audit Coverage

<table>
<thead>
<tr>
<th>Area</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCCG</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PCG</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBG</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chicagoland Banking</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>T&amp;S</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Areas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Bank</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Information based on completed audits only (excluding in-process audits).

Focus: The report will provide key messages of the chief auditor.

Required improvements were noted in a number of areas. The matters do not indicate material weaknesses in the system of internal control.

Issue

Investment Banking Group

Commitment to a bought deal resulted in a breach, without prior approval, of the equity underwriting VAR limits in a contravention of corporate policy.

Implications

Risk of loss exceeding bank’s tolerance for risk

Management Action

To ensure that limits are always observed or preapproval for excesses attained where required, Market Risk Group will be invited to attend the meetings of the Equity Capital Commitments Committee where deals/characteristics are discussed and agreed upon. Market Risk and Equity Groups have agreed to implement this immediately.

Objective: The report will provide “triggers” enabling the Audit Committee to question material.

1 Graphs are for illustration purposes only and do not reflect BMO Financial Group’s actual data.
Source: Audit Director Roundtable research; Audit Committee Leadership Forum research; General Counsel Roundtable research.
# CASE STUDY: NEW YORK LIFE

## OVERVIEW

New York Life Insurance Company is the largest mutual life insurer in the United States.

## COMPANY SNAPSHOT

<table>
<thead>
<tr>
<th>New York Life Insurance Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry:</strong></td>
</tr>
<tr>
<td><strong>2008 Sales:</strong></td>
</tr>
<tr>
<td><strong>2008 Employees:</strong></td>
</tr>
<tr>
<td><strong>Headquarters:</strong></td>
</tr>
</tbody>
</table>
Legal reports the potential impact of current matters in terms of liability, public relations, regulatory, and business practice risks.

FOUR TYPES OF LITIGATION RISK

New York Life Litigation Report Risk Key

<table>
<thead>
<tr>
<th>Type of Litigation Risk</th>
<th>Level of Litigation Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liability</strong></td>
<td><strong>No Significant Risk</strong></td>
</tr>
<tr>
<td></td>
<td>Little Merit to Claims</td>
</tr>
<tr>
<td><strong>Public Relations</strong></td>
<td><strong>Some Significant Risk</strong></td>
</tr>
<tr>
<td></td>
<td>One-Day Story, Little Impact, Local News Coverage</td>
</tr>
<tr>
<td><strong>Regulatory</strong></td>
<td><strong>Significant Risk</strong></td>
</tr>
<tr>
<td></td>
<td>No Indication of Regulatory Interest</td>
</tr>
<tr>
<td><strong>Business Practice</strong></td>
<td><strong>Very Significant Risk</strong></td>
</tr>
<tr>
<td></td>
<td>No Likely Impact</td>
</tr>
</tbody>
</table>

- **Legal** identifies litigation risks relevant to the board, such as public relations risk...

- ...and associates different degrees of risk with different symbols.

<table>
<thead>
<tr>
<th><strong>Level of Litigation Risk</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Significant Risk</strong></td>
</tr>
<tr>
<td><strong>Some Significant Risk</strong></td>
</tr>
<tr>
<td><strong>Significant Risk</strong></td>
</tr>
<tr>
<td><strong>Very Significant Risk</strong></td>
</tr>
</tbody>
</table>

- Close Questions of Law and Fact Suggest Adverse Outcome Possible
- Adverse Outcome Very Possible Due to Either Legal Issues or Facts/Venue
- Adverse Outcome Probable Due to Legal Issues and Facts/Venue
- Sustained Coverage by Multi-Media Outlets, Involving a Significant Consumer or Business Issue
- Occasional Coverage Keeping the Story Alive in National, Business, and Consumer Outlets
- Intermittent Coverage Expected in Local and National Outlets
- Regulatory Inquiry Made to NYL
- Other Companies, but not NYL, Contacted About the Issue
- NYL is Subject to Investigation or Enforcement Proceeding Has Begun
- May Require Adopting New Practices and Procedures
- Some Adjustments to Practices and Procedures Likely
- No Likely Impact

**Additional Benefit**

Distilling legal information to the bare essentials needed to engage senior executive attention allows attorneys to develop a stronger sense of business priorities and understand how litigation affects the company’s strategic goals.

Source: General Counsel Roundtable research.
A single view shows the board all pending matters in a consistent format.

“...very pleased with our risk report, as it incorporates a broader range of risk than is usually found in a litigation report. Moreover, the graphic representation provides for quick, intuitive understanding of the degree of risk. Some of our directors have been so pleased that they are asking their other companies’ general counsel to adopt similar risk assessment templates.”

Sheila Davidson
General Counsel
New York Life Insurance Company

Source: General Counsel Roundtable research.
APPLYING THE LESSON TO COMPLIANCE

Question: How often does your Chief Compliance Officer report to the Board? What does a standard agenda look like?

$20 Billion+ Chemical Company

Our Chief Compliance Officer and Compliance Counsel meet semi-annually with the Compliance Oversight Committee (a committee of our Board). The Committee is presented with the following information:

- Chairman’s Report
- Hotline Report
- Report on Core Risk Areas (Antitrust, Regulatory & Environmental, Consumer Fraud & Related Litigation & Employment & Benefits)
- Program Developments (e.g., New Policies, Code Revisions)
- Compliance Training Report
- Compliance Reviews (e.g., CER’s and Post-Closing Due Diligence)

$10 - $20 Billion Banking and Financial Services Company

Our Chief Compliance Officer reports to the Audit Committee of the Board every quarter. Our report includes the following sections:

- Risk Profile
- Objectives Of The Report
- Legislative Compliance Management Assessment
- Operating Group Risk Assessments
- Significant Current Issue
- Significant Emerging Issues
- Recent Regulatory Activity
- Analysis Of Key Metrics & Themes
- Operating Group & Corporate Area Assessment
- Status Update On Regulatory Examinations
- Compliance Issues Identified From Internal Audits
- Privacy Report
- Ethics Office Report
- Enterprise Complaint Management Report
CASE STUDY: GANNETT CO.

OVERVIEW

Gannett is the top newspaper publisher in the United States, with approximately 85 daily papers and a circulation of 6.9 million. With a circulation of 2.3 million, the company’s flagship USA Today is the nation’s largest newspaper. Gannet also holds about 900 non-daily publications, about 300 papers in the UK, and 23 television stations in 20 markets.

COMPANY SNAPSHOT

Gannett Company, Inc.
Industry: Publishing
2008 Sales: US$7.4 Billion
2008 Employees: 46,100
Headquarters: McLean, Virginia
SOLICITING COMMENTARY FROM MANAGEMENT

Quarterly Financial Report to the Audit Committee—Excerpted from Public Sources
Balance Sheet and Statement of Income

Illustrative

“The value of management’s interpretation of the numbers provides me and the Audit Committee with the ability to focus committee discussion on the changes and allows us to discuss the changes in the appropriate context.”

Karen Hastie Williams
Audit Committee Chair
Gannett Company, Inc.

Management’s narrative insights can provide meaning to faceless numbers.

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Source: Audit Committee Leadership Forum research; General Counsel Roundtable research.
AT A GLANCE: WELLS FARGO AND COMPANY

OVERVIEW

Wells Fargo and Company owns Wells Fargo Bank, which is one of the largest banks in the US with about 6,200 bank branches in some 40 states. Community banking represents Well’s Fargo’s largest segment. Its wholesale banking arm handles corporate banking across the US and around the world; activities include investment banking and capital markets, securities investment, commercial real estate, and capital finance. Its wealth, brokerage, and retirement segment provides financial advisory services. The company also runs Wells Fargo Home Mortgage and Wells Fargo Insurance Services.

COMPANY SNAPSHOT

Wells Fargo and Company
Industry: Financial Services
2011 Sales: US$8.76 B
Employees: 264,200
WElls faRgo’s stREamlinED auDit committEE REPoRting

Characteristics of Old Reporting

**Messages Obscured**
Report format hides key messages and issues of urgency

“Build Your Own Conclusions”
Audit committee, presented with heavy detail, was forced to abstract key themes and priorities on their own

**Detailed Conversations**
Distracted by lack of prioritization of information, Audit Committee conversation often sidetracked by less valuable tangents

**Length Over Substance**
More than 80 pages of data often too difficult to review in time allotted

“Our new report structure succinctly provided the ‘big picture’ to the Audit Committee and quickly highlighted the truly need-to-know items. By creating the snapshot, we were able to immediately put the issues on the table, establish a baseline for the meeting, and help drive conversation to the highest value items early.”
Kevin McCabe
Executive Vice President, Chief Auditor, Wells Fargo and Company

Characteristics of Enhanced Conversation Management

**Clear and Concise**
Key messages and Audit Committee priorities pulled forward to beginning of report

“Dots Already Connected”
Audit Director draws out key trends and themes for Audit Committee, allowing conversation shift to implications and response

**Tight, Focused Conversations**
High relevance information prioritized for immediate discussion moved to appendices or outside conversation

**Snapshot Summary**
Presentation abbreviated to extend discussion of key issues

Source: Audit Director Roundtable research.

<table>
<thead>
<tr>
<th>Table of Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical Issues and Events</td>
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<tr>
<td>Key Issues</td>
</tr>
<tr>
<td>Audit Ratings Matrix</td>
</tr>
<tr>
<td>Audit Reporting: Less Than Satisfactory Ratings</td>
</tr>
<tr>
<td>Investigation Activities</td>
</tr>
<tr>
<td>Security Activities</td>
</tr>
<tr>
<td>Compliance Management</td>
</tr>
<tr>
<td>Quality Assurance Summary</td>
</tr>
<tr>
<td>Staffing Discussion</td>
</tr>
<tr>
<td>Other Issues of Note</td>
</tr>
<tr>
<td>Appendix 1: Audit Plan Completion Graph</td>
</tr>
<tr>
<td>Appendix 2: Listing of Assurance Audits and Project Audits Completed</td>
</tr>
<tr>
<td>Appendix 3: Financial Summaries</td>
</tr>
<tr>
<td>Appendix 4: Fiduciary Report on Corporate Trust Operations</td>
</tr>
</tbody>
</table>

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# THE ELEVATOR SPEECH

**Well Fargo’s Audit Services “Snapshot”**

Illustrative

Audit Committee conversations driven off of a quick overview of key issues the Committee must discuss.

<table>
<thead>
<tr>
<th>Critical Issues and Events</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Quarter Snapshot</strong></td>
</tr>
<tr>
<td>Wells Fargo Audit Services completed a range of assurance audits, special reviews, and investigations during the quarter.</td>
</tr>
<tr>
<td>The results of our work indicate that management controls over the business activities of Wells Fargo remain effective.</td>
</tr>
<tr>
<td>This report provides an overview of activities for the quarter and notes a number of areas for potential improvement in business controls. A summary of investigation and security activities conducted during the quarter is also included.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Summary of Audit Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 22 Audits Completed; 1 Rated Unacceptable, 21 Rated Acceptable</td>
</tr>
<tr>
<td>- Special reviews were conducted in the following areas: Area 1, Area 2, and Area 3</td>
</tr>
<tr>
<td>- Internal Audit involvement in the following enterprise-wide projects: Project 1, Project 2, and Project 3</td>
</tr>
<tr>
<td>- Annual audit plan was completed and is included here</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Critical New Issues</td>
</tr>
<tr>
<td>- Issue 1</td>
</tr>
<tr>
<td>- Issue 2</td>
</tr>
<tr>
<td>- Issue 3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External Developments with Control Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>- SEC Mutual Fund Inquiry</td>
</tr>
<tr>
<td>- Basel II Amendments</td>
</tr>
<tr>
<td>- Sarbanes-Oxley Regulation—Draft</td>
</tr>
<tr>
<td>- PCAOB Rules Released</td>
</tr>
<tr>
<td>- Microsoft Security Patches/Upgrades Released</td>
</tr>
</tbody>
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SPENDING SOME QUALITY TIME

Issue Summary
The Chief Auditor reviews individual audit reports to identify key trends and themes for the Audit Committee’s attention. Summary includes:

- High-level description of the issues and its root cause(s)
- Recent audits in which the issues manifested, and the detail of each issue
- Magnitude/Impact of the issue
- Management’s response, resultant action plan and timing, and Internal Audit’s assessment of the appropriateness and reasonableness of action plans
- Relevant company policies and procedures impacted
- Legal and regulatory implications

Issue 2 Summary

Vendor Management
Audits of several third-party vendors resulted in findings of concern to Internal Audit. While each individual audit requires immediate actions, a review of the findings has determined that changes to the broader vendor management policy are also warranted.

Internal Audit has reviewed these findings and determined the root causes of the issues. These findings and root causes have been reviewed with management, and action plans for resolution have been prepared. These action plans will be implemented over the next six months. Implementation will be monitored by Internal Audit and reported on during subsequent Audit Committee meetings.

Audit 1: Vendor A Findings
One vendor had no business continuity plan in place, which could subject Wells Fargo to disruption in the event of a disaster.

Audit 2: Vendor B Findings
Vendor B was found to have information security weaknesses, exposing Wells Fargo and many other large financial services institutions to risk.

Source: Audit Director Roundtable research.
## COMPLIANCE PROGRAM METRICS

Metrics Tracked and Reported to the Board

<table>
<thead>
<tr>
<th></th>
<th>Percent Tracking</th>
<th>Percent Reporting to Board</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Compliance Training</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of Employees Completing Mandatory Training</td>
<td>95%</td>
<td>76%</td>
</tr>
<tr>
<td>Employee Feedback on Training Content Quality</td>
<td>50%</td>
<td>17%</td>
</tr>
<tr>
<td>Hours of Compliance Training per Employee per Year</td>
<td>42%</td>
<td>21%</td>
</tr>
<tr>
<td>Percentage of Key Compliance Risks Covered by Training</td>
<td>29%</td>
<td>20%</td>
</tr>
<tr>
<td>Average Employee Score on Post-Training Tests</td>
<td>28%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Culture/Behavior</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume and Trend of Observed Misconduct</td>
<td>80%</td>
<td>74%</td>
</tr>
<tr>
<td>Improvements in Behavior (as Measured by Employee Culture Survey)</td>
<td>52%</td>
<td>43%</td>
</tr>
<tr>
<td>Percentage of Employees Fearing Retaliation in Response to Reported Allegations</td>
<td>43%</td>
<td>34%</td>
</tr>
<tr>
<td><strong>Helpline</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Types of Violations Reported to the Hotline</td>
<td>92%</td>
<td>79%</td>
</tr>
<tr>
<td>Volume and Trend of Employee Helpline Calls</td>
<td>90%</td>
<td>76%</td>
</tr>
<tr>
<td>Percentage of Anonymous Versus Non-Anonymous Callers</td>
<td>77%</td>
<td>54%</td>
</tr>
<tr>
<td>Satisfaction of Helpline Users</td>
<td>17%</td>
<td>6%</td>
</tr>
</tbody>
</table>

n = varies by metric from 133 to 151.
For full details on the number of respondents for each metric above, please see the full 2010 State of the Function Survey Results available on the CELC Web site, [www.celc.executiveboard.com](http://www.celc.executiveboard.com).
<table>
<thead>
<tr>
<th>Metric</th>
<th>Percent Tracking</th>
<th>Percent Reporting to Board</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investigations/Case Volume</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Cases Opened/Closed During Specific Time Period</td>
<td>90%</td>
<td>72%</td>
</tr>
<tr>
<td>Volume and Trend of Employee Allegations</td>
<td>79%</td>
<td>69%</td>
</tr>
<tr>
<td>Percentage of Substantiated Compliance Cases</td>
<td>78%</td>
<td>67%</td>
</tr>
<tr>
<td>Volume and Trend of Employee Inquiries</td>
<td>64%</td>
<td>52%</td>
</tr>
<tr>
<td>Compliance Case Cycle Time</td>
<td>57%</td>
<td>25%</td>
</tr>
<tr>
<td>Dollar Loss Averted Because of Misconduct Detection</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td><strong>Risk Assessment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Risk Assessment Results</td>
<td>79%</td>
<td>75%</td>
</tr>
<tr>
<td>Changes of Identified Material Risks</td>
<td>70%</td>
<td>63%</td>
</tr>
<tr>
<td>Business Unit Risk Assessment Results</td>
<td>57%</td>
<td>44%</td>
</tr>
<tr>
<td><strong>Compliance Violations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number and Type of Customer Complaints</td>
<td>53%</td>
<td>29%</td>
</tr>
<tr>
<td>Year-Over-Year Volume and Costs of Legal Settlements</td>
<td>51%</td>
<td>39%</td>
</tr>
<tr>
<td>Annual Damages/ Settlements/ Fines (from Compliance or Ethics Violations)</td>
<td>48%</td>
<td>37%</td>
</tr>
<tr>
<td>Number of Regulatory Violations and Fines Compared to Industry Average</td>
<td>26%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Internal Stakeholders</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business/Functional Perceptions of Program Effectiveness</td>
<td>26%</td>
<td>20%</td>
</tr>
</tbody>
</table>

n = varies by metric from 133 to 151.
For full details on the number of respondents for each metric above, please see the full 2010 State of the Function Survey Results available on the CELC Web site, www.celc.executiveboard.com.
SHARPENING BOARD REPORTING

Key Takeaways

Codify and Enforce Sound Principles for Board Reporting—By establishing clear reporting standards ahead of the board meeting, the general counsel ensures that reports from management have a consistent format and address the relevant considerations for making sound board-level decisions.

Provide Short and Simple Interpretations of Data Presented—Management’s interpretation can provide directors key insights on the factors that drive financial data, risk data, and other “raw” sources of information. Directors will critically assess these interpretations, but without them, directors may never fully understand the data to begin with.
TRANSFORMING COMMUNICATIONS WITH THE BOARD

How can I sharpen board reporting?

- PNM Resources
  Creating (Consistently) Better Board Reports

- BMO Financial Group
  Principles-Based Reporting

- New York Life
  Broadening the Board's View on Litigation Risks

- Gannett
  Soliciting Commentary from Management

- Wells Fargo
  Pull Forward Key Discussions

How can I drive focused director interactions?

- Breaking Down Board Silos

- Director Dinner

How can I re-engineer follow through and education?

- Alpha
  Action-Oriented Follow-Up Spreadsheet

- GM
  Keeping Ahead of the Curve

- FEI Company
  Expanding Education

- Beta
  Orientation and Education

1 Pseudonym.
DRIVING FOCUSED DIRECTOR INTERACTIONS

Transforming Communications Before the Board Meeting

How can I structure director interactions to minimize information gaps?

Breaking Down Board Silos

Source: General Counsel Roundtable research.
Boards have various ways to improve committee communication and coordination.

EFFECTIVE COMMUNICATION BETWEEN COMMITTEE

Committee Rotation

Description: Each new independent director begins his or her tenure on the committee and rotates to other committees after two years.

Benefits
- Better Visibility: Rotations allow directors to gain insight into all areas of company operation.
- Cross-Pollination of Ideas: Rotations spread ideas and innovation across committee lines.

Overlapping Committee Membership

Description: Committee membership is arranged to ensure overlap where information sharing is important.

Benefits
- Informal Communication: Overlapping committee membership allows directors to get to know one another better and encourages information exchange.
- Clarify Responsibilities: Reduces the likelihood of duplicative activities by increasing visibility into other committees’ work.

Consecutive Committee Meetings

Description: The board schedules committee meetings so that nonvoting directors are free to attend each committee meeting.

Benefits
- Open Dialogue: Directors in small boards have the opportunity to understand how other committees are approaching specific issues.

“Corporate governance is a team sport, and the more effectively directors work together, the less likely they are to be embarrassed by some important issue that intersects the responsibility of two committees and is ignored by both.”

James E. Copeland, Jr.
Director
ConocoPhillips, Inc. and Equifax, Inc.

From the COMPLIANCE AND ETHICS LEADERSHIP COUNCIL of the LEGAL, RISK & COMPLIANCE PRACTICE
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Source: Audit Committee Leadership Forum research; General Counsel Roundtable research.
FOOD FOR THOUGHT: THE DIRECTOR DINNER

Traditional Meal
Directors-Only Dinner

Bringing Management to the Table
Senior Management Invited to Dinner

Sending Directors Out with Management
Each Director Attends Dinner with Different Managers

Considerations

- Fosters personal and collegial interactions among directors
- Limits interactions between directors and senior management

Considerations

- Provides directors the opportunity to ask seniormost management about high-level company issues
- Limits director visibility into core problems senior management may be causing

Characteristics and Considerations

- Groups each independent director with 2-3 second-tier managers
- Builds relationships with next-generation leaders across various functions
- Targets director involvement in talent development
- Expands independent director knowledge by engaging them in discussions about emerging company issues

“We’ve created a private forum to speak to managers beyond the ‘top five’ and show them we are not in an ivory tower. We also think this helps our executive team with career development.”

Board Director
Services Company

Source: Audit Committee Leadership Forum research; General Counsel Roundtable research.

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Key Takeaways

Structure Committee Meetings and Membership to Maximize Board Coordination—Committee meeting times and membership should be structured so as to maximize the sharing of information between committees with related work (e.g., the Compensation and Audit Committee). This approach recognizes that, at the board level, the directors themselves are the best tool for effective knowledge management.

Use the Board Dinner for Talent Development and Succession Planning—By inviting second-tier managers to the board dinner, the board will have better visibility into the company’s talent pipeline and may also gain better information about the company’s opportunities and risks.

Source: General Counsel Roundtable research.
# TRANSFORMING COMMUNICATIONS WITH THE BOARD

<table>
<thead>
<tr>
<th>How can I sharpen board reporting?</th>
<th>How can I drive focused director interactions?</th>
<th>How can I re-engineer follow through and education?</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNM Resources [Creating (Consistently) Better Board Reports]</td>
<td>Breaking Down Board Silos [Director Dinner]</td>
<td>Action-Oriented Follow-Up Spreadsheet [Alpha]</td>
</tr>
<tr>
<td>BMO Financial Group [Principles-Based Reporting]</td>
<td>Keeping Ahead of the Curve [GM]</td>
<td>Keeping Ahead of the Curve [GM]</td>
</tr>
<tr>
<td>NEW YORK LIFE [Broadening the Board’s View on Litigation Risks]</td>
<td>Expanding Education [FEI COMPANY]</td>
<td>Expanding Education [FEI COMPANY]</td>
</tr>
<tr>
<td>GANNETT [Soliciting Commentary from Management]</td>
<td>Orientation and Education [BETA]</td>
<td>Orientation and Education [BETA]</td>
</tr>
<tr>
<td>WELLS FARGO [Pull Forward Key Discussions]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Pseudonym.

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CONSISTENT FOLLOW UP AND ENGAGEMENT

Transforming Communications Outside of the Board Meetings

How do I effectively communicate action items and follow-through?

Action-Oriented Follow-Up Spreadsheet

How do I get the most value out of director education?

Keeping Ahead of the Curve

Expanding Education

Orientation and Continuing Education

1 Pseudonym.

Source: General Counsel Roundtable research.

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Acknowledging that meeting follow-up policies were often inconsistent, Alpha Company develops a simple tracking spreadsheet to ensure management accountability and director involvement.

**ACTION-ORIENTED FOLLOW-UP SPREADSHEET**

**Standard Board Meeting Follow-Up Process**

<table>
<thead>
<tr>
<th>Board Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior management team executes on board decisions in an ad-hoc style.</td>
</tr>
<tr>
<td>Directors receive updates on action items piecemeal or when they request it.</td>
</tr>
<tr>
<td>Time spent during next board meeting to review the status of decisions made during previous meeting.</td>
</tr>
</tbody>
</table>

**Alpha Company’s Action-Oriented Follow-Up Process**

<table>
<thead>
<tr>
<th>Board Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tracking Spreadsheet</td>
</tr>
<tr>
<td>Alpha Company’s general counsel and corporate secretary catalogs all meeting decisions into a spreadsheet to assign an owner and track the progress of each action item to formalize senior management accountability and ensure that directors are apprised of updates accordingly.</td>
</tr>
</tbody>
</table>

1 Pseudonym.

Source: General Counsel Roundtable research.
### CALL TO ACTION

**Alpha Company’s Action-Oriented Spreadsheet**

The spreadsheet is organized by individual meetings for ease of tracking.

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Meeting Date</td>
<td>Meeting Date</td>
<td>Owner</td>
<td>Required Steps</td>
<td>Status</td>
</tr>
<tr>
<td>2</td>
<td>16 September 2008</td>
<td>Revisions to Company Code of Conduct</td>
<td>General Counsel</td>
<td>• Draft changes discussed in board meeting</td>
<td>Draft changes in progress</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Circulate to board for feedback</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>16 September 2008</td>
<td>Strategic Plan</td>
<td>Chief Financial Officer</td>
<td>Complete for director approval</td>
<td>Plan ready for review at next meeting</td>
</tr>
<tr>
<td>4</td>
<td>16 September 2008</td>
<td>Project X</td>
<td>Chief Executive Officer</td>
<td>Gathering bids</td>
<td>Bids for review at next meeting</td>
</tr>
</tbody>
</table>

### Notes on Spreadsheet Distribution:

- Alpha Company’s general counsel manages and records information into the spreadsheet, following up directly with action-item owners regarding next steps.
- The general counsel limits distribution of the spreadsheet to a need-to-know basis, and does so using a PDF screenshot of the spreadsheet, rather than circulating the entire document.

---

1 Pseudonym.

Source: General Counsel Roundtable research.
CASE STUDY: GENERAL MOTORS CORPORATION

OVERVIEW

General Motors Corporation is a leading automobile manufacturer, with brands such as Cadillac, Chevrolet, Saab, and Saturn.

COMPANY SNAPSHOT

General Mothers Corporation

<table>
<thead>
<tr>
<th>Headquarters</th>
<th>Detroit, MI, USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>US$181.1 B</td>
</tr>
<tr>
<td>Employees</td>
<td>266,000</td>
</tr>
</tbody>
</table>
**Data Privacy Trend Analysis**

**Q1 Board Meeting**

**Issue Summary:** Two conflicting data privacy trends potentially affect several aspects of our business, including marketing and outsourcing:

**Increased Regulations Protecting Data Privacy**—The proliferation of data protection legislation—e.g., the Gramm-Leach-Bliley Act, the European Union Data Protection Directive, the Health Insurance Portability and Accountability Act—impose strict privacy requirements and liability for breaches on entities transmitting personal data.

**Increased Regulation on Transparency of Financial Information**—Terrorism and corporate governance pressures have simultaneously spurred several legislative or administrative changes—e.g., the USA Patriot Act and the Sarbanes-Oxley Act—forcing financial disclosures, which in some cases may conflict with data privacy laws.

**Implications by Region**
- Prohibition on transfer of European employee data to North American operations
- 
- 

**Implications by Product Group**
- Mandatory compliance with stated policy of observing customer preferences regarding use of personal data
- 
- 

Periodic trend reports ensure:
- Directors receive a broader and more forward-looking perspective on legal risks and their management.
- Information and analysis do not overwhelm directors (as is often the case with longer annual legal briefings).
- Legal issues remain fresh in directors’ minds.

The general counsel spends the bulk of the discussion focusing on the practical implications for the company.

Source: General Counsel Roundtable research.
CASE STUDY: FEI COMPANY

OVERVIEW

FEI Company produces systems and microscopes using electron optics, focused ion beam, and dual beam technologies to analyze integrated circuits, semiconductors, data storage components, and industrial and biological materials at the nanoscale level. FEI has operations in more than 50 countries and its customers include research and academic institutions and industrial organizations.

COMPANY SNAPSHOT

General Mothers Corporation
Headquarters: Hillsboro, OR, USA
Revenue: US$59 M
Employees: 1,900
To maximize benefits of external education opportunities, FEI’s general counsel has directors share seminar takeaways with the rest of the board.

To capture the value of director education:

1. Communicate Seminar Information
2. Show Directors Attending
3. Provide a Feedback Loop to Full Board

**Upcoming ISS-Accredited Education Seminars**
- 19 Oct 2012: Scrutinizing Financial Statements
- 19 Oct 2012: Executive and Director Compensation Seminar
- 3 Dec 2012: Director Professionalism

**Previous Seminars Attended**
- May 2011: Corporate Governance Primer
- July 2011: CD&A Requirements

**FEI Director(s) Attending**
- Joe Director
- Jane Director
- Robert Director
- Bill Director

**Director Presents Course Findings to the Board**
Following a director’s attendance at a seminar, the board will schedule 20 minutes at its next meeting for the director to provide an overview of the key teachings and feedback from the course that he/she attended.

**Increasing Impact**
Through its process, FEI is able to extract the following benefits:
- Added encouragement for participation in external education opportunities
- Full board exposure to the key teachings of the course
- Opportunity to contextualize seminar teachings with specific company strategy and operations

Source: General Counsel Roundtable research.
NEW BOARD MEMBERS ORIENTATION

Q&A

1. When do you start working on new director orientation?
2. How do you decide on what you train?
3. What materials do you provide to your new directors? When?
4. How do you use your director education policy?
5. What is your onsite orientation meeting day?
NEW BOARD MEMBER ORIENTATION: BETA CO’S™ APPROACH

1. Work begins internally with the Corporate Secretary Team prior to official checkpoint of a new dictator.

2. Onsite orientation meeting day scheduled immediately following new director’s appointment.

3. Materials are provided to new director prior to onsite orientation.

4. Materials include: Board Handbook, Director Education Program spreadsheet, recent SEC filings, and industry primer (see Board Handbook and Director Education spreadsheet in Appendix).

5. Director Education policy reviewed during orientation (see Director Education Policy in Appendix).

Holistic overview of the Company includes strategic vision, management and key issues, and industry context.
NEW DIRECTOR ON-BOARDING PROGRAM

- New Director On-Boarding Program consists of an Orientation Day at one of the corporate offices, plan visits, and ongoing director education.
- Orientation Day would cover a board overview and administrative processes and then 3 to 4 of the following suggested topics:

<table>
<thead>
<tr>
<th>COO Organization Overview</th>
<th>Discussion regarding the Company’s operations.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Operations, Trading, Risk Management</td>
<td>Discussion would include Capital Allocation Program and CSF Structure.</td>
</tr>
<tr>
<td>Finance and Accounting/Capital Structure</td>
<td>Discussion would include Capital Allocation Program and CSF Structure.</td>
</tr>
<tr>
<td>Strategy and Growth Initiatives Overview</td>
<td>Discussion regarding stand-alone growth plan, asset optimization plan and renewables program.</td>
</tr>
<tr>
<td>Regulatory/Government Affairs</td>
<td>Discussion would include an overview of the markets, operates in, and regulatory strategy.</td>
</tr>
<tr>
<td>Compensation and HR Matters</td>
<td>Discussion would include current executive compensation methodology, director compensation, plans and trends on the horizon.</td>
</tr>
<tr>
<td>Overview of Global Giving Initiatives</td>
<td>Discussion of giving programs and accomplishments to date.</td>
</tr>
<tr>
<td>Investor Relations</td>
<td>Overview of investor relations program and strategy.</td>
</tr>
<tr>
<td>Compliance Programs (Regulatory, Ethics)</td>
<td>Discussion of current compliance programs.</td>
</tr>
<tr>
<td>Regional Presentations</td>
<td>Discussion of each region’s strategy; can be done in conjunction with applicable plant visit.</td>
</tr>
</tbody>
</table>
EDUCATION FOR NEW AND EXISTING BOARD MEMBERS

Q&A

1 New Directors: What occurs during a new director’s initial HQ visit? With whom does he/she meet? What do they discuss? How are the visits personalized?

2 Existing Directors: How are their on-site visits structured? Where and when do the visits occur? How are the visits personalized?

3 Do your directors visit your plants and facilities? When? What is the value?

4 How are your directors involved in external programs as a) participants, and b) panelists?
EDUCATION FOR NEW AND EXISTING BOARD MEMBERS: BETA CO’S\(^1\) APPROACH

1 New Directors: Initial HQ visit is required and includes:

   a. Meetings with CEO, COO, CFO to learn Beta Co’s strategy and vision
   b. Meeting with Corporate Secretary team to learn about governance (see General Governance Outline in Appendix)
   c. Meetings with Key Regional and Functional heads
   d. Meetings on various substantive topics as selected by director (see Menu of Topics in the Appendix)

2 Existing Directors: On-site visits scheduled at various location covering topics of their choice with key personnel and at their convenience.

3 Plant and Facility Visits: Scheduled at their convenience and around their travel schedule.

4 External Programs: Promoted through:

   a. Attendance at outside programs (see Director Education Spreadsheet in Appendix)
   b. Assistance with finding speaking in their areas of expertise, if interested
   c. Tracking of participation in outside programs with annual results reported to the Governance and Nominating Committee
RE-ENGINEERING FOLLOW THROUGH AND EDUCATION

Key Takeaways

Structure Post-Meeting Communications Around Follow-Through—Most board communications revolve more around decisions to be made than the follow-through on those decisions. Structure minutes and pose-meeting communications around follow-through on decisions taken by the board.

Structure Board Education to Capture Maximum Value for the Company—Board education should be consistent and connected to the company’s emerging issues and strategies. Where possible, bring the lessons from director education sessions back into the board room at subsequent meeting by encouraging directors to share what they learned.
# Hallmarks of Strong Board Engagement

|-----------------------------|----------------------------|------------------------|-----------------------|
| Risk Assessment             | Quarterly                   | ▪ List of key risks and associated mitigations plans  
▪ Update on major incidents | ▪ Reporting of future risks  
▪ Changes in policies, procedures, and controls in response to risks  
▪ Overview of risk-assessment method and process  
▪ Periodic review of mitigation plans |
| Training                    | Quarterly                   | ▪ Percentage of employee base that has completed specific training modules | ▪ Percentage of target audiences in high-risk functions that has completed specific modules (subanalysis of managerial and nonmanagerial staff)  
▪ Outline of planned training initiatives |
| Allegations and Investigations | Quarterly             | ▪ Trends in volume and types of allegations  
▪ Data on case cycle time | ▪ Breakdown of issues by category, business unit, geography, and severity (legal and financial)  
▪ Focus on status of complaints and open investigations |
| Regulatory Developments    | Quarterly                   | ▪ Update on key regulatory events that affect industry  
▪ Update on ongoing regulatory investigations and legal cases | ▪ Focus on regulatory developments that pose highest risk and impact company strategy  
▪ Focus on business changes that affect compliance obligations |
| Program Effectiveness       | Annually/Quarterly          | ▪ Discussion of key program elements and important implementation milestones  
▪ Review of periodic audit results | ▪ Present overview of framework that drives program improvement  
▪ Benchmark program elements against external standards  
▪ Report key trends (compare data over time to identify systemic problems in the company)  
▪ Provide powerful examples of tone at the top and positive behaviors (specifically management) |
| Resources and Personnel     | Annually                    | ▪ Annual budget allocation  
▪ Relevant staff developments | ▪ Benchmark of budget against industry peers  
▪ Analysis of available resources against program needs (gap analysis) |
| Annual Plan                 | Annually                    | ▪ Overview of next year’s compliance and ethics departmental plan | ▪ Plan links departmental initiatives and key risk areas  
▪ Plan clearly delineations of interim milestones and owners across the company |
| Ethics Awareness            | Annually                    | ▪ Presentation of ethics survey results  
▪ Update on ethics communication initiatives | ▪ Analysis of survey results by business unit and managerial versus nonmanagerial responses  
▪ Benchmarking of responses against other companies  
▪ Demonstration/visuals of communication tools and compliance intranet |

[^1] The Council recommends that standard reporting information is augmented by elements highlighted in the right-hand column to fully satisfy Board oversight obligations.
# Sample Board and Committee Presentation Guidelines

<table>
<thead>
<tr>
<th>Written Report</th>
<th>In-Person Presentation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Clear</strong></td>
<td><strong>Easy to Follow</strong></td>
</tr>
<tr>
<td>■ Use (Company) Board power point template</td>
<td>■ If you page turn, note the change of pages to eliminate confusion</td>
</tr>
<tr>
<td>■ Use tables, graphs, and charts strategically (use (company) template found on the intranet for colors and formats)</td>
<td>■ If appropriate, do not turn pages—summarize and ask for questions</td>
</tr>
<tr>
<td>■ Clearly identify the problem or issue</td>
<td>■ Avoid the use of lingo and acronyms without explanation</td>
</tr>
<tr>
<td>■ Define acronyms</td>
<td>■ Know your audience’s level of understanding of the issue</td>
</tr>
<tr>
<td>■ Know your audience’s level of understanding of the issue</td>
<td>■ If applicable, make it clear what action is needed (approval, resolution)</td>
</tr>
<tr>
<td>■ If applicable, make it clear what action is needed (approval, resolution)</td>
<td>■ If you page turn, note the change of pages to eliminate confusion</td>
</tr>
<tr>
<td><strong>Concise</strong></td>
<td><strong>Make Good Use of Time Alotted</strong></td>
</tr>
<tr>
<td>■ Understand goals of the presentation and prepare an outline of key points to be covered before preparing presentation</td>
<td>■ Assume directors have read all the materials</td>
</tr>
<tr>
<td>■ Include an executive summary/overview/challenges and opportunities page as applicable</td>
<td>■ Leave time for questions/discussions</td>
</tr>
<tr>
<td>■ Don’t crowd pages—use white space</td>
<td>■ Keep up the pace—do not wait for “permission” to continue after questions/ comments</td>
</tr>
<tr>
<td>■ Move supporting or content-heavy materials to an appendix</td>
<td>■ Be aware of the amount of time left and edit your presentation on the fly accordingly</td>
</tr>
<tr>
<td>■ Avoid the use of lingo and acronyms without explanation</td>
<td>■ Do not note the brief time allotted or that you are rushing through your presentation</td>
</tr>
<tr>
<td><strong>Relevant</strong></td>
<td><strong>Prepared and Focused</strong></td>
</tr>
<tr>
<td>■ Understand the reason for the presentation and draft accordingly: (1) express an opinion; (2) provide an overview of the “state” of the applicable subject; (3) communicate significant issues with solutions; or (4) request board or committee action</td>
<td>■ Prepare a speaker’s copy before presenting</td>
</tr>
<tr>
<td>■ Focus on communicating information/analysis, not just data</td>
<td>■ Rehearse</td>
</tr>
<tr>
<td>■ Provide evaluation and analysis of data presented, including benchmarking data if applicable</td>
<td>■ Identify potential director questions and clarify items you do not understand before presenting</td>
</tr>
<tr>
<td>■ Focus on communicating information/analysis, not just data</td>
<td>■ If applicable, focus only on the information necessary for directors to make a decision</td>
</tr>
<tr>
<td><strong>Perspective</strong></td>
<td><strong>Interesting</strong></td>
</tr>
<tr>
<td>■ Identify results over time to indicate trends</td>
<td>■ DO NOT READ YOUR SLIDES</td>
</tr>
<tr>
<td>■ Where applicable, note challenges and opportunities</td>
<td>■ Comment on upcoming issues and trends</td>
</tr>
<tr>
<td>■ Where applicable, note challenges and opportunities</td>
<td>■ Make observations; discuss insights and opinions</td>
</tr>
<tr>
<td>■ Appear interested in your topic</td>
<td>■ Appear interested in your topic</td>
</tr>
</tbody>
</table>

From the Compliance and Ethics Leadership Council of the Legal, Risk & Compliance Practice

www.celc.executiveboard.com

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INTRODUCTION

This deck is a compendium of Audit Committee Reporting Templates, derived from quarterly audit reports to the Audit Committee. Each section contains practitioner-developed frameworks that you can reference for building your own presentation to the Audit Committee. This deck is not a representation of a complete Audit Committee presentation, but elements of quarterly reports. All numbers and scenarios are illustrative. The ADR will continue to add to this collection as other insightful examples are shared. If you would like to contribute to this compendium, please contact the ADR at tgebrett@executiveboard.com.

Quick Facts Regarding Audit Committee Reporting:

Length of Audit Committee Report:
The ideal length of an audit report (excluding the Appendix) should be no longer than 15 pages. The typical report length is 20 – 25 pages (excluding the Appendix). Determine if your Audit Committee would like to see executive summaries or full audit reports in the Appendix.

Length of the Audit Committee Meetings:
The length of Audit Committee meetings varies between 1-5 hours. The typical duration is 2-3 hours. These meetings are always in person.

Frequency of Audit Committee Communication:
In addition to the quarterly Audit Committee meetings, some of your peers also:
• Schedule teleconference sessions (around 4-5) with Audit Committee members throughout the year.
• Schedule hour-long meetings, via phone, to review earnings before quarterly filings.
• Speak regularly with the Audit Committee Chair on an as needed basis.

Distribution of Material to the Audit Committee:
Most IA departments prefer sending standard communications to the Audit Committee a week in advance of the meeting.

Simple Dos and Don’ts for Compiling an Effective Presentation:

Do:
• Have a clear message
• Emphasize your key messages throughout the presentation
• Ensure each slide reinforces your message
• Include an Executive Summary
• Understand your Audit Committee’s communication preferences
• Use graphics to help make sense of the data
• Show trend analysis to draw attention to systemic failures or control improvements
• Include more detail in the Appendix for those who want it
• Include a resolution
• Make comments that are business focused

Don’t:
• Underestimate the power of the Executive Summary
• Shy away from asserting your professional judgment
• Shy away from making definitive statements
• Assume the Audit Committee knows what the data means
• Include issues without stating when or how they will be resolved, or why they are important
• Fail to prepare the Audit Committee in advance
1. Executive Summary

2. Review Audit’s Performance
   a) Summary of Significant Audit Findings
   b) Status of Remediation Plans and/or Management Action Plans
   c) Quarterly New High-Risk Audit Finding Trends
   d) Risk Changes and Impact on Internal Audit Plan

3. Other Important Updates*
   a) Fraud Risk/Investigations Update
   b) SOX Updates

4. Appendix
   a) Audit Plan Status Update
   b) Q1 Audit Staffing and Operations Update
   c) Details on Audit Reports with Significant Findings and Management Action Plans*
   d) Details on Outstanding Open Issues
   e) Definitions of Audit Ratings if Needed*

* Other important updates may be included in the body of your presentation depending on your business requirements and the scope of Internal Audit’s role in your organization (i.e. ERM, investigations, SOX, KPIs, etc). Although not included in this presentation, details on audit reports with significant findings should be listed in the Appendix. Definitions of Audit Ratings may also be included in the Appendix, if needed.
**EXECUTIVE SUMMARY (VERSION 1)**

Sample Text: This report is a synopsis of audit activities and includes important observations on the status of the organization's overall risk and control environment. This report provides assurance that, at the end of the first quarter, there were no audit observations that would impact financial results as presented.

<table>
<thead>
<tr>
<th>Status</th>
<th>Audit Operations</th>
<th>Summary</th>
<th>Prior Quarter Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assessment of Risk and Control Environment</td>
<td>Include 6-8 Audit Operations in the Executive Summary. The goal is to keep the summary to one page.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quality of Governance Framework</td>
<td>Keep summary statements concise and link them to the summary statement at the top of each slide/page in the presentation.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Audit Plan Progress and Summary of Audit Results</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Control Deficiency Resolution</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investigations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Managing the Group Audit Function</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

= Critical items requiring Audit Committee attention

= Important issues that warrant discussion

= Operating as expected

Focus Audit Committee attention on the most critical items that need to be discussed at the meeting. Use color-coded dials to make this very clear.
Company A Audit Services “Snapshot”

Adopted from Wells Fargo Practice

**FIRST QUARTER SNAPSHOT**

Company A Audit Services completed a range of assurance audits, special reviews, and investigations during the quarter.

The results of our work indicate that management controls over the business activities of Company A remain *effective*.

This report provides an overview of activities for the quarter and notes a number of areas for potential improvement in business controls. A summary of investigation and security activities conducted during the quarter is also included.

**SUMMARY OF AUDIT ACTIVITIES**

- x Audits Completed; x Rated Unacceptable, x Rated Acceptable
- Special reviews were conducted in the following areas: Area 1, Area 2, and Area 3
- Internal Audit involvement in the following enterprise-wide projects: Project 1, Project 2, Project 3
- Annual audit plan was completed and is included herein

**KEY ISSUES RAISED BY AUDIT**

As a whole, management has improved their timeliness in resolving previous critical issues.

Critical New Issues
- Issue 1
- Issue 2
- Issue 3

De-Escalated Since Previous Audit Committee Meeting
- Issue 1
- Issue 2
- Issue 3

**EXTERNAL & OTHER DEVELOPMENTS WITH CONTROL IMPLICATIONS**

- Basel II Amendments
- Sarbanes-Oxley Regulation—Draft PCAOB Rules Released
- Whistleblower allegations
- External inspection by ‘x’ regulatory body

Include an overall opinion on control environment to assuage directors’ fears immediately.

Present trends and issues of concern to the Audit Committee.

Update your Audit Committee on the status of previous issues to ensure continuous coverage.

Start your Audit Committee conversations with a quick overview of key issues that the Committee must discuss.

Highlight audit activities in summary form and leave details to the Appendix section.

Continuously monitor and report on events that have a potential to impact the company.
### Sample Text:
Company A's Audit Department completed ‘x’ number of audits as planned, and issued ‘x’ number of audit reports during this quarter. Of 12 audits completed, 5 had significant issues and are included herein. To review more details on audits with significant findings, please see the Executive Summaries of these reports on ‘x’ page of the appendix.*

<table>
<thead>
<tr>
<th>Audits with Significant Findings</th>
<th>Process/Entity</th>
<th>Scope</th>
<th>Nature of the Finding</th>
<th>Details</th>
<th>Owner</th>
<th>Anticipated Resolution Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Continuity Audit</td>
<td>HR</td>
<td>New hire training and global corporate communication policy</td>
<td>New</td>
<td>Employees are unaware of Company A’s internal communication strategy in the event of a natural disaster. HR is developing a way to successfully communicate response and escalation processes to all employees globally.</td>
<td>Jane Doe</td>
<td>August 2011</td>
</tr>
<tr>
<td>Audit 2</td>
<td></td>
<td>New/Existing/Past Due</td>
<td></td>
<td>For ease, lift the concise “opinion” or “issue” statement from the Audit Report into the Details section.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit 3</td>
<td></td>
<td>New/Existing/Past Due</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit 4</td>
<td></td>
<td>New/Existing/Past Due</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit 5</td>
<td></td>
<td>New/Existing/Past Due</td>
<td></td>
<td>Include Executive Summaries of Audit Reports with significant findings in the Appendix.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* To see more details on additional audits completed, please see page x of appendix.
Sample Text: Company A’s Audit Department completed ‘x’ number of audits as planned, and issued ‘x’ number of audit reports during this quarter. Of audits completed, five had significant issues and are included herein.*

<table>
<thead>
<tr>
<th>Audits with Significant Findings</th>
<th>Process /Entity</th>
<th>Details</th>
<th>ERM Risk Category</th>
<th>Control Deficiency Category</th>
<th>Owner/Anticipated Resolution Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit 1</td>
<td></td>
<td>Nature of the Finding: New/Existing/Past Due Details: People and culture</td>
<td>Application controls</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit 2</td>
<td></td>
<td>Strategy</td>
<td>Asset verification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit 3</td>
<td></td>
<td>Ethics Authorization</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit 4</td>
<td></td>
<td>Legal regulation</td>
<td>Business resumption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit 5</td>
<td></td>
<td>Develop a system to categorize all audit findings for the purpose of trend analysis. Over time, the purpose is to draw conclusions about where systemic issues might exist.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* To see more details on additional audits completed, please see page x of appendix.
Sample Text: As a whole, management has improved their timeliness in completing remediation plans. The 7 open issues are the result of Company A’s IT implementation effort. Management is working to resolve the 3 critical open issues by Q3 2011. There is 1 critical issue past due. Management’s remediation plan is on track.

### Outstanding Open Issues at Quarter End

<table>
<thead>
<tr>
<th>Issue</th>
<th>Rating</th>
<th>Entity</th>
<th>Owner</th>
<th>Plan</th>
<th>Anticipated Completion Date</th>
<th>Management’s Reported % to Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue# 1</td>
<td>Critical</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue# 2</td>
<td>H/M/L</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For environments with few audit issues, detail the open issues with owners for Audit Committee attention.

Issues could also be classified by region.

### Outstanding Open Issues: Q1 FY 2010 – Q1 FY 2011

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Open Issues</th>
<th>Critical Open Issues</th>
<th>Critical Issues Past Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 FY 10</td>
<td>25</td>
<td>15</td>
<td>3</td>
</tr>
<tr>
<td>Q2 FY 10</td>
<td>15</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Q3 FY 10</td>
<td>7</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Q4 FY 10</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Q1 FY 11</td>
<td>7</td>
<td>7</td>
<td>1</td>
</tr>
</tbody>
</table>

### Open Issues per Process in 2011

- Hiring: 15%
- Procurement: 8%
- Compliance and Ethics: 17%
- Information Technology: 14%
- Shared Services: 46%

N= Number of Open Issues YTD
Sample Text: As a whole, management has improved their timeliness in completing remediation plans. Of the 9 initial outstanding open issues, 6 have been resolved. Most remaining open and new open issues are the result of Company A’s IT implementation effort. 3 are on track to be remediated by Q3 2011. 2 are on pause due to xyz; Internal Audit is aware of this delay and is working with the business to develop an adjusted plan.

New Issues /Resolved Issues for Q1

<table>
<thead>
<tr>
<th>Level</th>
<th>Outstanding Open Issues – Q1 Beginning</th>
<th>New Issues</th>
<th>Resolved</th>
<th>Outstanding Open Issues – Q1 End</th>
<th>Anticipated Completion Date</th>
<th>Management's Reported % to Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>2</td>
<td>6</td>
<td>5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For more complex environments with more open issues, summarize the number of issues in a graph with further details in the Appendix.

Open Issues per Process in 2011

- Hiring: 15%
- Procurement: 17%
- Compliance and Ethics: 8%
- Information Technology: 46%
- Shared Services: 14%

*Note: see page 20 in the appendix for a detailed outline of open issues
Sample Text: The majority of Q1 2011 audit findings are due to the recent integration of the new entity X with the business. These findings have been categorized as strategic. Management has agreed to remediate ‘x’ open strategic issues by ‘x’ date. Also, due to an extensive focus on integrating the new IT systems, the number of operational findings have decreased this quarter, as compared to last. Management has agreed to remediate ‘x’ remaining open IT issues by ‘x’ date.

Detail an analysis of the trends in a concrete statement.

Compare data over time to identify systemic issues in the company.

Trending can also show the type of audits that are yielding the most significant results.

New High-Risk Audit Findings per Audit Category

<table>
<thead>
<tr>
<th>Audit Category</th>
<th>Q1, 2010</th>
<th>Q2, 2010</th>
<th>Q3, 2010</th>
<th>Q4, 2010</th>
<th>Q1, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strategic</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Operational</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Compliance</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Special Projects</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
<td><strong>3</strong></td>
<td><strong>1</strong></td>
</tr>
</tbody>
</table>
### Sample Text:
The original audit plan was adjusted for risk changes. **These changes are provided here for audit committee information or approval.** Changes include:
- seven projects added
- three projects deferred

**The changes do not require resource adjustment.** Overall, the number of audits in the revised plan has increased to 122 from the initial figure of 118.

<table>
<thead>
<tr>
<th>Externally Driven Risk Change</th>
<th>Impact on Audit Plan</th>
<th>Strategic / Internally Driven Risk Change</th>
<th>Impact on Audit Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Nuclear Disaster</td>
<td>No change at this time—we will monitor nuclear requirements etc to determine need for coverage.</td>
<td>Restructuring of Management for Division X</td>
<td>No change at this time—we will monitor employee response and impact on control environment</td>
</tr>
<tr>
<td>Change 2</td>
<td>Impact</td>
<td>Change 3</td>
<td>Impact</td>
</tr>
<tr>
<td>Change 3</td>
<td>Impact</td>
<td>Change 4</td>
<td>Impact</td>
</tr>
<tr>
<td>Change 4</td>
<td>Impact</td>
<td>Change 5</td>
<td>Impact</td>
</tr>
<tr>
<td>Change 5</td>
<td>Impact</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Sample Text: The original audit plan was adjusted for risk changes, with six projects added and two deferred. These changes are provided here for audit committee information or approval. The changes do not require resource adjustment.

If these changes have been approved, use this page for information sharing. If not, use this as an opportunity to get Audit Committee approval.

For more static environments, graphically show how changing risks are impacting the Audit Plan.

Simply highlight the 1 or 2 risks that are driving the change.
**Sample Text:** Company A's Audit Department completed ‘x’ number of fraud investigations in Q1 and ‘x’ number of investigations are ongoing. No material violations were found during these investigations. To prevent further instances of fraud, training materials are currently under development and training will be disseminated globally in Q3.

**Summary of Investigations**

<table>
<thead>
<tr>
<th>Investigations</th>
<th>Rating</th>
<th>Entity</th>
<th>Date</th>
<th>Details</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue # 1</td>
<td>H/M/L</td>
<td></td>
<td></td>
<td></td>
<td>Completed</td>
</tr>
<tr>
<td>Issue # 2</td>
<td>H/M/L</td>
<td></td>
<td></td>
<td></td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

**Fraud/Theft Investigations (Q1 FY 10 - Q1 FY 11)**

- Business Conduct
- Treasury Cheques
- Money
- Other

Summarize only the high risk/critical investigations that were either concluded in that Quarter, or are still ongoing.
Sample Text: SOX testing has been completed for this quarter. At quarter end, there were 2 control deficiencies; however both of these control exceptions have compensating or mitigating controls in place. None of these control deficiencies were noted as a material weakness. There were a total of 190 key controls tested in the first quarter.

Q1 SOX Testing Update

<table>
<thead>
<tr>
<th>Control Category</th>
<th>Number of Key Controls Tested</th>
<th>Controls Effective</th>
<th>Deficiency Noted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entity Level Controls</td>
<td>28</td>
<td>28</td>
<td>0</td>
</tr>
<tr>
<td>Financial Statement Close Process Controls</td>
<td>56</td>
<td>56</td>
<td>0</td>
</tr>
<tr>
<td>Process Level Controls</td>
<td>44</td>
<td>43</td>
<td>1(A)</td>
</tr>
<tr>
<td>General Computer Controls</td>
<td>62</td>
<td>61</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>190</td>
<td>188</td>
<td>2</td>
</tr>
</tbody>
</table>

Note (A): One issue, related to Tax Reporting, was determined to be a Significant Deficiency. A remediation plan has been put in place.

SOX Performance (Quarterly)

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Significant Deficiencies</th>
<th>Material Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1, 2011</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Q4, 2010</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Q3, 2010</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Q2, 2010</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Q1, 2011</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

Include a summary of any other area where IA has substantial ownership and time investment for the quarter, such as SOX, Investigations, ERM.
APPENDIX
AUDIT PLAN STATUS UPDATE

Audit Status (By Category)
Number of Audits in Q1
- Completed - Well Controlled: 14
- Completed - Needs Control Improvement: 5
- In Process: 10
- Not Started: 35

Audit Hours (By Category)
% of audit hours spent on each category in Q1
- Strategic: 25%
- Compliance: 20%
- Financial: 30%
- Operational: 15%
- Special Projects: 10%

N= Total Audit Hours in Q1 = 1240

Include data on the status of the overall Audit Plan in the Appendix.
# AUDIT PLAN STATUS UPDATE

<table>
<thead>
<tr>
<th>Key Audits</th>
<th>Key Risks</th>
<th>Risk Ranking</th>
<th>Status</th>
<th>Timing</th>
<th>Audit Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Risks - Key Audits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit # 1</td>
<td>Risk # 1</td>
<td>High/Medium/Low</td>
<td>Completed</td>
<td>Q1</td>
<td>=</td>
</tr>
<tr>
<td>Audit # 2</td>
<td>Risk # 2</td>
<td>Completed</td>
<td>Q1</td>
<td></td>
<td>=</td>
</tr>
<tr>
<td>Audit # 3</td>
<td>Risk # 3</td>
<td>In-progress</td>
<td>Q2</td>
<td></td>
<td>=</td>
</tr>
<tr>
<td>Audit # 4</td>
<td>Risk # 4</td>
<td>Planned</td>
<td>Q3</td>
<td></td>
<td>=</td>
</tr>
<tr>
<td>Audit # 5</td>
<td>Risk # 5</td>
<td></td>
<td></td>
<td></td>
<td>=</td>
</tr>
<tr>
<td>Audit # 6</td>
<td>Risk # 6</td>
<td></td>
<td></td>
<td></td>
<td>=</td>
</tr>
<tr>
<td>Audit # 7</td>
<td>Risk # 7</td>
<td></td>
<td></td>
<td></td>
<td>=</td>
</tr>
<tr>
<td><strong>Operational Risks - Key Audits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit # 1</td>
<td>Risk # 1</td>
<td>High/Medium/Low</td>
<td>Completed</td>
<td>Q1</td>
<td>=</td>
</tr>
<tr>
<td>Audit # 2</td>
<td>Risk # 2</td>
<td>Completed</td>
<td>Q1</td>
<td></td>
<td>=</td>
</tr>
<tr>
<td>Audit # 3</td>
<td>Risk # 3</td>
<td>In-progress</td>
<td>Q2</td>
<td></td>
<td>=</td>
</tr>
<tr>
<td>Audit # 4</td>
<td>Risk # 4</td>
<td>Planned</td>
<td>Q3</td>
<td></td>
<td>=</td>
</tr>
<tr>
<td>Audit # 5</td>
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<td><strong>Financial Risks - Key Audits</strong></td>
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<tr>
<td>Audit # 1</td>
<td>Risk # 1</td>
<td>High/Medium/Low</td>
<td>Completed</td>
<td>Q1</td>
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<tr>
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<td>Risk # 2</td>
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<td>Q1</td>
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<tr>
<td>Audit # 3</td>
<td>Risk # 3</td>
<td>In-progress</td>
<td>Q2</td>
<td></td>
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<tr>
<td>Audit # 4</td>
<td>Risk # 4</td>
<td>Planned</td>
<td>Q3</td>
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<tr>
<td>Audit # 5</td>
<td>Risk # 5</td>
<td></td>
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</table>

To provide more detail on completed audit work, graphically present the audit results and ratings.

If needed, include definitions of the rating criteria for Audit Committee reference.
## Key Audits

<table>
<thead>
<tr>
<th>Key Audits</th>
<th>Key Risks</th>
<th>Risk Ranking</th>
<th>Status</th>
<th>Timing</th>
<th>Audit Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance Risks - Key Audits</td>
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<td>Audit # 1</td>
<td>Risk # 1</td>
<td>High/Medium/Low</td>
<td>Completed</td>
<td>Q1</td>
<td></td>
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<td>Risk # 2</td>
<td>Completed</td>
<td>Q1</td>
<td></td>
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<tr>
<td>Audit # 3</td>
<td>Risk # 3</td>
<td>In-progress</td>
<td>Q2</td>
<td></td>
<td></td>
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<tr>
<td>Audit # 4</td>
<td>Risk # 4</td>
<td>Planned</td>
<td>Q3</td>
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</table>

### Special Projects

<table>
<thead>
<tr>
<th>Key Audits</th>
<th>Key Risks</th>
<th>Risk Ranking</th>
<th>Status</th>
<th>Timing</th>
<th>Audit Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit # 1</td>
<td>Risk # 1</td>
<td>High/Medium/Low</td>
<td>Completed</td>
<td>Q1</td>
<td></td>
</tr>
<tr>
<td>Audit # 2</td>
<td>Risk # 2</td>
<td>Completed</td>
<td>Q1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit # 3</td>
<td>Risk # 3</td>
<td>In-progress</td>
<td>Q2</td>
<td></td>
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<tr>
<td>Audit # 4</td>
<td>Risk # 4</td>
<td>Planned</td>
<td>Q3</td>
<td></td>
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</tbody>
</table>

## Distribution of Overall Audit Ratings (Trend Analysis)

- **Not Rated**
- **Unsatisfied**
- **Requires Improvement**
- **Satisfied**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Not Rated</th>
<th>Unsatisfied</th>
<th>Requires Improvement</th>
<th>Satisfied</th>
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<tbody>
<tr>
<td>Q1 FY 10</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>13</td>
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<td>Q2 FY 10</td>
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<td>Q3 FY 10</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>11</td>
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<td>Q4 FY 10</td>
<td>4</td>
<td>4</td>
<td>3</td>
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<tr>
<td>Q1 FY 11</td>
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<td>2</td>
<td>2</td>
<td>10</td>
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</table>
Q1 AUDIT STAFFING & OPERATIONS UPDATE

Sample Text: Our current resources are adequate to carry out current Audit and SOX Plans. In the next quarter, we will be allocating additional resource for co-sourcing to complete a construction audit.

Some Important Updates:
• 10% external attrition, due to the tight labor market in APAC
• Actively recruiting for the 3 positions in APAC region with a focus on core audit skills
• Plan to co-source with XYZ for construction audit next quarter
• Training week scheduled for January 8, XXXX with a focus on data analytics and audit report writing

Audit Budget/Allocation (By Category)

<table>
<thead>
<tr>
<th>Process/Entity/Category</th>
<th>Budgeted Allocation for Next Quarter</th>
<th>Available Audit Resources Hours</th>
<th>Variance</th>
<th>Cause for Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hiring</td>
<td>800</td>
<td>800</td>
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<tr>
<td>Procurement</td>
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<td>300</td>
<td>100</td>
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<tr>
<td>Global Franchises</td>
<td>200</td>
<td>200</td>
<td>-</td>
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<tr>
<td>Compliance and Ethics</td>
<td>800</td>
<td>500</td>
<td>300</td>
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</tr>
<tr>
<td>Information Technology</td>
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<td>-</td>
<td></td>
</tr>
<tr>
<td>Tax</td>
<td>1000</td>
<td>1000</td>
<td>-</td>
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<tr>
<td>TOTAL</td>
<td>4400</td>
<td>3950</td>
<td>400</td>
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</table>

For the purposes of the quarterly update, only report on significant changes in staffing, departmental competency gaps, and changes in resourcing requirements.

Reserve an overview of all staffing details for the annual report.

Current Staffing (By Region)

% of staff

- 60% Headquarters
- 30% U.S.
- 10% Region 1
- 10% Region 2

Current headcount = XXX FTE

Many Audit Directors informally discuss staffing with the Chair on an as-needed basis.
### OPEN AUDIT ISSUES – INDIVIDUAL STATUS

<table>
<thead>
<tr>
<th>Issue</th>
<th>Entity</th>
<th>Owner</th>
<th>Plan</th>
<th>Anticipated Completion Date</th>
<th>Current % to Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue #1</td>
<td></td>
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</table>
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