



## The oversight of major transactions

### Introduction

On June 16–17, 2011, members of the Audit Committee Leadership Networks in North America (ACLN) and Europe (EACLN) met in Washington, DC, for their sixth annual summit meeting. Members discussed current challenges relating to board oversight of major transactions – the subject of this *ViewPoints*<sup>1</sup> – as well as bribery and corruption risk, and environmental risk and reporting.<sup>2</sup> For further information on the networks, see “About this document,” on page 10. For a full list of participants, see Appendix 1, on page 11.

### Executive summary

Studies suggest that well over half of all mergers and acquisitions (M&A) fail to deliver on their expected value. One study pegged the percentage of failed transactions at 83%.<sup>3</sup> In expectation of a potential uptick in M&A activity after the lull during the economic crisis, members asked themselves what the board can do to increase the success of M&A. The following themes emerged:

- **Boards play an increasingly important role in major transactions** (*Page 2*)

Members agreed that the complexity and the risks of M&A activity require close board supervision. In most cases, this supervision is carried out by the full board, because of the significant and even transformative impact of mergers and large acquisitions. In some cases, a special committee, such as a strategy or finance committee, takes the lead. The audit committee has certain attributes, such as expertise in accounting and finance, which can give it an important role, but it rarely spearheads the oversight effort.

- **Good strategic planning and due diligence help prevent poor transactions** (*Page 4*)

Before a deal is finalized, members noted, the board assesses the strategic rationale for the deal and ensures that rigorous due diligence is conducted. An important role for the board is to cool down the “deal heat” that can lead to bad decisions, a role that is easier if an overall strategic context for M&A has already been agreed on with management. Effective due diligence has many elements, such as investigating legal liabilities, assessing internal controls, and evaluating accounting policies. Members highlighted the importance of stress-testing management’s assumptions about the deal and scrutinizing the price of the deal to avoid paying too much.

---

<sup>1</sup> *ViewPoints* contains a summary of the key points raised during these discussions, along with background information and selected perspectives that members and experts shared before and after the meeting. *ViewPoints* reflects the networks’ 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. However, the guests have given permission for their remarks to be attributed. Comments by the guests and network members are shown in italics.

<sup>2</sup> *ViewPoints* for these discussions can be found at Audit Committee Leadership Summit, “[Sixth Audit Committee Leadership Network](#).” July 2011.

<sup>3</sup> “[Why 83 Percent of Company Mergers Fail](#),” *Business Wire*, April 14, 2005.



- **Effective integration requires attention to culture and people** (Page 8)

Members focused on two aspects of a successful integration: resolving cultural differences and retaining key staff. The cultural challenge might be to unify two distinct cultures, or, conversely, to preserve beneficial aspects of the acquired company's culture. If the board desires key staff to be retained, then careful attention must be paid to how the integration is handled, and compensation incentives may be necessary. The audit committee also reviews the integration of internal controls and the accounting for the transaction. Both the board and the audit committee may be involved in monitoring the ultimate success of the transaction and glean lessons learned for the next one.

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

## **Boards play an increasingly important role in major transactions**

Members believe that boards should play an integral role in ensuring that companies' major transactions are successful. In a pre-meeting conversation, one member said, *"If the board is not really engaged at the front end, you pay the price on the back end, and the amount of time spent is virtually endless."*

As M&A activity has become significantly more complex in recent years, it has demanded more board involvement. Bill Bates, co-head of King & Spalding's M&A practice, said, "Ten years ago, it was not that uncommon for a major acquisition to be presented and approved in the course of a single board meeting. That's almost unheard of today."<sup>4</sup> The increasing focus of companies and boards on risk management is also driving deeper engagement with the details of major transactions. European corporate governance may have features that further complicate matters, including two-tier boards separating supervision and management, boards with employee representation, and unitary boards that include substantial representation from management.

At the same time, some members – European as well as American – mentioned the danger of the board becoming too involved. In describing a particular transaction, one member said, *"The board was very involved in the strategy decision. But you need to strike a balance: how can we be helpful without being intrusive?"* The need for balance can become a difficult dilemma if disagreements with management arise: *"We thought it was best to make an acquisition, and we began to doubt management, which did not want to do it. So what do you do? Go along with management? Or protect the shareholder and fire the CEO? It's a big risk to lose the CEO."*

Boards take different approaches to overseeing M&A:

- **Full board takes the lead.** Most American and European members said that major transactions are chiefly the responsibility of the full board: *"It is in general a focus for the board rather than the audit committee."* One member said of the due diligence involved in a particular transaction, *"It was done by the whole board – it was a big enough transaction that everyone wanted to take a look."* Another member echoed the point: *"If it were delegated to a committee that I'm not on, it would worry me."*

---

<sup>4</sup> Beverly Behan, "Effective Board Oversight of M&A," *Bloomberg Businessweek*, September 11, 2009.

# ViewPoints

FOR THE AUDIT COMMITTEE  
LEADERSHIP SUMMIT



- **Board committees take the lead.** Some boards have strategic planning, investment, or finance committees that take primary responsibility for overseeing the M&A effort. A member said, “*The finance committee is the committee that spearheads the M&A review effort. They are always looking at ideas, most of which don’t make it to the board.*” In some cases, boards may appoint a special committee to advise management, inform the board, and address important issues as they arise.<sup>5</sup> This tends to happen when deals are particularly large and complex, when speed is of the essence, or in the case of related-party transactions, which are more common in Europe than the United States.
- **In rare circumstances, the audit committee may take the lead.** A few members suggested that the audit committee has certain advantages over the full board in dealing with matters as sensitive as M&A. This is particularly the case in Europe, where supervisory boards may be large and may also include employee representatives. One member remarked, “[*Relying on*] the full board could mean leaks and loss of timeliness. A small group needs to be convened, and the audit committee is the right place. It’s hard for the full board to be involved in the numbers ... And audit committees are accustomed to the exchange of information on a confidential basis.”

Regardless of where the ultimate responsibility for major transactions lies, audit chairs agreed in the meeting that the full board, the audit committee, and, in some cases, other committees all play a part in overseeing major transactions, including the strategic planning, the due diligence, the integration, and the postmerger review. In each of these phases, there are aspects that could require more in-depth audit committee involvement. These phases and roles are explored in more detail in the following sections.

## Current M&A environment

In 2010, M&A activity rose 22.9% over the prior year,<sup>6</sup> and it is likely to be higher in 2011. According to Mergermarket, global M&A activity is up by 28% for the first half of 2011 as compared to the same period in 2010, though the second quarter was slower than the first.<sup>7</sup> Several factors are pushing companies to consider M&A:

- **Confidence in the recovery is slowly building.** Members expect the economy to “*muddle through*” without going into a double-dip recession. Ernst & Young’s most recent biannual survey of corporate confidence found that 60% of businesses see an end to the economic crisis within 12 months. Pip McCrostie, global vice-chair of Transaction Advisory Services at Ernst & Young, noted, “New found confidence is enabling businesses to shift their focus to growth and away from defensive measures.”<sup>8</sup>

*continued overleaf*

<sup>5</sup> Lead Director Network, “[The Lead Director’s Role in Major Transactions.](#)” *ViewPoints*, March 29, 2010, 6–7.

<sup>6</sup> Tom Taulli, “[3 Funds to Get into the 2011 M&A Action.](#)” *InvestorPlace*, February 1, 2011.

<sup>7</sup> Anousha Sakoui, “[Dealmaking Slides 17.5% on Outlook Concerns.](#)” *Financial Times*, June 29, 2011.

<sup>8</sup> Ernst & Young, “[Mixed M&A Messages as Confidence Surges.](#)” news release, April 13, 2011.

# ViewPoints

FOR THE AUDIT COMMITTEE  
LEADERSHIP SUMMIT



## Current M&A environment continued

- **Companies are flush with cash.** According to a *Wall Street Journal* article earlier this year, US and European companies have a combined total of \$2.3 trillion on their balance sheets, which would buy almost double the \$1.3 trillion US and European M&A deals done in 2009.<sup>9</sup> A member commented, “*The amount of liquidity sitting around is huge.*”
- **US tax treatment of foreign earnings makes it more desirable for companies to deploy that cash abroad.** Members of another audit committee network have suggested that US multinational companies looking to realize earnings in the most tax-efficient manner will likely contribute to an already growing number of cross-border transactions.<sup>10</sup>
- **Private equity groups are both buying and selling.** Activity by private equity groups jumped sharply in the first half of 2011 as compared to the same period in 2010. Private equity groups have been buying companies again after holding back during the crisis. They have also been offloading the companies they bought before the crisis.<sup>11</sup>

However, it is unclear how enduring the surge in M&A activity will be in the face of such developments as the sovereign debt crisis, political instability in the Middle East, and other external shocks.<sup>12</sup>

## Good strategic planning and due diligence help prevent poor transactions

Members emphasized that prior to committing to a deal, companies and boards need to be sure that it fits into the company’s core strategy and that the due diligence conducted on it is robust.

### The strategic context

While members highlighted a number of important aspects of overseeing the strategy driving M&A activity, they noted that a major strategic mistake companies often make is succumbing to “deal heat.” Deal heat is “the fervour felt by management undertaking a large transaction that often blinds them to the downside of the deal.”<sup>13</sup> Management teams may be emotionally invested in growing the company and sometimes lose objectivity.

Members said that an important role for the board is to challenge management, acting as a check against overly aggressive moves and ensuring that a merger or an acquisition is really a strategic fit. One member said, “*The best strategy is for the audit committee to be a watchdog, asking, ‘What is the core business?’*”

<sup>9</sup> Mike Foster, William Hutchings, and Liam Vaughan, “Bankers, Investors Eye Companies’ Growing Cash Pile,” *Wall Street Journal*, January 4, 2011.

<sup>10</sup> Southeast Audit Committee Network, “Board and Audit Committee Oversight of M&A,” *VantagePoint*, April 5, 2011, 2.

<sup>11</sup> Daniel Schäfer, “Busy Year for Private Equity as Debt Markets Bounce Back,” *Financial Times*, June 29, 2011.

<sup>12</sup> See Ernst & Young, “Mixed M&A Messages as Confidence Surges” and Anousha Sakoui, “Dealmaking Slides 17.5% on Outlook Concerns.”

<sup>13</sup> Anthony Goodman, “How Directors Can Help Cool ‘Deal Heat,’” *Financial Times*, April 2, 2010.

# ViewPoints

FOR THE AUDIT COMMITTEE  
LEADERSHIP SUMMIT



Boards should look at management’s proposed deals with skepticism and probe deeply into assumptions that may seem overly optimistic. A member said, *“It can come to a point where you can’t let management do it – there could be a conflict between their interests and shareholders’ interests.”* Another member commented, *“If I were to find that a board is a rubber-stamp board, I would get off it – that’s very dangerous.”*

An adviser who contributed to *InSights* research said that deal heat is stronger when the board feels deeply loyal to the CEO: *“So much of M&A is the human dynamic. The board is in a tough position, because if they say no, the CEO is going to feel that the board doesn’t have confidence in his or her judgment. There is a subtle pressure on the board because of the relationship. At the end of the day, it is hard for them to turn down an energized CEO that is really excited about an idea.”*<sup>14</sup>

Several members said that the board can play the role of strategy watchdog more effectively if there is an ongoing discussion of the strategic objectives of M&A, rather than just ad hoc discussion when management comes to the board with a specific deal. A member described the approach at one board: *“We had quite a few discussions in our strategy sessions, for several years. Then we decided it was time to buy something, and we went through the process of identifying several candidates. When the CEO came to us [with a deal], everything had already been discussed, and it was just a matter of price.”*

On occasion, some members noted, the problem is the opposite of deal heat: as management underestimates the value of a deal or is simply too risk averse. A member explained: *“I’ve seen cases where we would have liked the [potential acquisition] to be brought to us earlier, because the company passed on something that proved to be advantageous for a competitor – that’s an issue that also comes up.”* To avoid this problem, boards should not only learn about the targets under consideration early in the process, but also understand management’s motivations in rejecting a deal. As one member put it, *“We looked at an acquisition which the company turned down because of size. It turned out to be a mistake. You have to look at what’s on management’s mind – are they retiring soon, for example?”*

Members agreed that the board should be skeptical of management’s outside advisers. One member commented, *“I’ve never seen an investment bank come to a board and say the deal is not a fair value, or even that it’s too close.”* As part of the oversight of major transactions, the board may assess external advisers. One member said, *“Our board was very much involved in the selection of advisers.”* *InSights* research participants noted that the best support comes from advisers with whom the company has a long-term relationship.<sup>15</sup>

Boards may question the company’s advisers, but it is rare for boards to bring in their own advisers: *“[The board] has never used separate advisers from management.”* One member said that the board might hire their own advisers if circumstances require, but that the board generally *“relies on the bankers and the lawyers to act in the interest of the company.”*

---

<sup>14</sup> Ernst & Young and Tapestry Networks, *“Increased Oversight of M&A: An Expanded Role for Audit Committees,” InSights*, December 2010, 5.

<sup>15</sup> *Ibid.*, 6.



## The due diligence process

Members noted the importance of due diligence for reducing the risks of M&A. They identified a number of key roles that boards can play in the due diligence process, many of which the audit committee has specific expertise in and therefore may become more involved in:

- **Testing management’s assumptions.** The board should question management regarding assumptions about macroeconomic factors, revenue forecasts, and other key indicators. Assumptions about antitrust risks, integration issues, and expected synergies are also important to examine. What would be the effect if these assumptions do not prove correct? In describing two ill-fated acquisitions, a member remarked, *“The one thing the boards, in both cases, didn’t ask was, what happens if there’s a bust, if things really go wrong? There wasn’t as much challenge around alternative [scenarios], not enough stress-testing.”* Given its expertise, the audit committee may probe more deeply: *“The audit committee has a much deeper view into the figures. We meet the day before the board meeting, and we get into the details.”*
- **Analyzing the price and the financing approach.** A member noted that *“a large part of the focus of the audit committee and the board is that we don’t overpay.”* Another member described a very large acquisition with deep board involvement: *“The whole board was involved in the bidding strategy – at board meetings and in between, by phone and email. It was on every board agenda. The audit committee looked at the financing strategy in a broad sense.”*
- **Investigating legal liabilities.** The board needs to understand what legal issues the company would be taking on with the acquisition, and this information may not always be easy to come by. A member explained, *“One issue we had was a pending lawsuit – we had to evaluate the exposure. We brought in internal and external counsel. The target company only allowed some access. It turned out the situation was even worse than we thought, causing us to look a little harder.”*
- **Assessing internal controls.** Poor internal controls can have a variety of implications that will not necessarily go away when better controls are imposed. For example, there may be legal issues if inadequate controls have allowed corruption to flourish. One member noted, *“I saw a deal blow up because the acquisition candidate was found to be in violation of FCPA – that’s the value of good due diligence.”* Given that a good deal of M&A activity is expected to target emerging markets where corruption has been a problem, members believe the importance of assessing internal controls will rise.
- **Evaluating accounting policies and estimates.** A member said, *“The audit committee gets into the accounting rules and how [the deal] is going to be reported.”* Members noted that the audit committee can review the handling of various accounting issues, such as tax positions, revenue recognition, earnings quality, and other matters in which accounting estimates and practices could have serious ramifications. It should also consider how the company would account for the transaction itself, should the deal go through.
- **Scrutinizing the “soft” stuff.** Culture and staffing issues emerged as important in both the due diligence phase and the integration phase (see page 8). Audit chairs noted that the board should assess the culture and staff of the target company: *“If you acquire something, make sure the cultures mesh.”* They should also



determine which individuals among the target company's senior managers would actually come along with the deal.<sup>16</sup>

- **Assessing related-party transactions.** A major transaction involving a related party may require the audit committee to play a special role, as EACLN members noted when they discussed major transactions in 2007.<sup>17</sup> The European Commission's recent green paper on corporate governance raised the question of whether minority shareholders need certain protections against related-party transactions beyond those currently required. The green paper points to suggestions, for example, that "the board should appoint an independent expert to provide an impartial opinion on the terms and conditions of related party transactions to the minority shareholders."<sup>18</sup>

One member noted, however, that despite best efforts of the company and the board, due diligence has inherent limitations. A member provided an example of how these limitations can emerge in the area of legal liabilities: "Our company had done all they could on due diligence, but they didn't get access to all the information. So we had to make a judgment on contingent liabilities. We had to determine fair value. But the settlements were much worse than planned. So the audit committee did dig in to see if more could have been done. We determined that, no, the seller just didn't give us the information – we just couldn't tell until the litigation was further along."

### Triggers for deeper audit committee involvement in due diligence<sup>19</sup>

A variety of additional issues might require deeper audit committee involvement in due diligence:

- Cross-border transactions, in which the ability of the target company to comply with disclosure laws may be unclear
- Transactions involving private companies, where access to information might be limited
- Any transaction using unusual financial instruments or instruments with non-traditional terms
- Any transaction that brings in new directors with significant ownership positions who have different ideas about running the business
- Any adverse environmental liabilities
- Specific labor issues, such as long-term contracts or past labor difficulties

<sup>16</sup> Southeast Audit Committee Network, "Board and Audit Committee Oversight of M&A," 7.

<sup>17</sup> European Audit Committee Network, "The Audit Committee's Role in Major Transactions," *ViewPoints*, July 13, 2007.

<sup>18</sup> European Commission, *The EU Corporate Governance Framework* (Brussels: European Commission, 2011), 17.

<sup>19</sup> Excerpted from Audit Committee Leadership Network, "Transaction Risk: A Role for the Audit Committee," *ViewPoints*, March 5, 2004, 5.



## Effective integration requires attention to culture and people

Members noted that the board and the audit committee also have roles to play after the deal is closed and the company begins to integrate the acquired company, a task with many dimensions and challenges. Further down the road, boards and audit committees may help assess the ultimate success of the acquisition.

### Overseeing the integration

Members highlighted cultural and staffing issues as major challenges to successful integration, though boards and audit committees may be involved in overseeing several other aspects of the integration process as well:

- **Internal controls.** Since oversight of internal controls is an audit committee responsibility, the audit committee often takes the lead in overseeing this process: *“The integration comes through the audit committee – making sure the internal controls aspects are done properly.”* One member noted that a merger can offer the opportunity to improve controls at both companies: *“Given the equal size of the companies, we looked at who had the best practices, in order to take those and create a new company. Where the scale of the acquired entity is not transformative, you put your imprint on the acquired company. With equals, it’s more complex, but it’s an opportunity to bring everything to the current state of the art.”*
- **Retention of key staff in critical functions.** An acquiring company should be careful not to lose key people as it streamlines the combined enterprise. A member highlighted a mistake he had witnessed: *“They let the wrong people go in order to meet the synergy numbers. It is the audit committee’s responsibility to ask whether making the numbers has created risk.”*

A company may be intent on holding onto key people in the acquired company, but retaining them may present challenges. For the audit committee, the focus may be on the senior members of the finance function. A member described the difficulties encountered in a recent acquisition: *“Senior people in the financial function of the acquired firm are hard to retain – it’s not as good to be an officer in a subsidiary as it is to be a chief in the head office, and there were a lot of places to jump. We could have helped them feel more important, brought them over to brief the audit committee. Special attention needs to be paid to those who have lost prestige.”* The member noted, *“We ended up increasing the compensation of all senior people – a bigger cost than expected.”*

- **Corporate culture.** Members mentioned several challenges around resolving cultural differences when two enterprises combine. The issue might be one of achieving a strong, unified culture, in some cases by forging a new culture: *“It was an opportunity to recraft the culture.”* Conversely, it might be one of preserving the cultural strengths of the acquired company: *“When buying entrepreneurial companies, poor execution and integration can lead to opportunity costs if you miss leveraging an ecommerce opportunity. You have to make clear it’s a separate type of entity. Sometimes, it’s best not to fully integrate.”*
- **Accounting for the transaction.** The Financial Accounting Standards Board and the International Accounting Standards Board issued revised and converged standards for business combinations (FAS 141R and IFRS 3) just before the economic crisis took hold. With M&A now on the upswing again after a quiet period, some US companies are reportedly struggling with the new rules, especially the new

# ViewPoints

FOR THE AUDIT COMMITTEE  
LEADERSHIP SUMMIT



accounting for restructuring costs and contingent considerations.<sup>20</sup> In the UK, the Financial Reporting Council found that many companies have had difficulty applying IFRS 3, and the agency is studying whether revised guidance issued in 2009 is helping.<sup>21</sup>

As the board works to assure an effective integration, it may in some cases be struggling with an integration of its own. Members have noted that, in a merger of equals, the two boards may be combined, raising a variety of issues, such as contrasting styles of dealing with management and communicating among board members.

## Monitoring long-term success

After the integration has been completed, companies and boards continue to monitor the acquisition, partly to rectify lingering problems but partly also to assess whether the acquisition has achieved the desired outcomes. A member commented, *“There has to be at least an annual post-transaction review. The actual outcome is often not what was promised.”* Over time, members noted, it becomes harder to separate out the impact of an acquisition, though some members reported tracking the effects for many years.

The goal of the monitoring might also be to identify important lessons that can be applied to future acquisitions. As a member noted, *“The biggest benefit of the post-implementation review is the plan for the next acquisition.”* A few members noted that this review does not appear to be very robust at some companies, and *InSights* research participants agreed, recommending “much more discipline in monitoring success against agreed goals and milestones.”<sup>22</sup>

Several members commented on the audit committee’s role in the review. One said, *“The audit committee reviews at every meeting what’s been done in the last three years,”* and another reported, *“We do a postmortem after a couple of years – what went well, what went wrong. The audit committee takes the lead.”* A third noted, *“Whenever there is an impairment, we always ask why this happened.”*

## Overseeing divestitures

In pre-meeting conversations, members said that overseeing divestitures is similar in some respects to overseeing acquisitions, but different in others. Again, the strategic context is important: *“The role of the board is to understand strategically why we are doing them.”* Internal control and other infrastructural issues are also significant considerations because removing an entity could disrupt systems: *“We looked at staffing levels, infrastructure, IT, and stuff like that, and it got some attention at the board and more attention at the audit committee.”* Boards may need to understand what liabilities associated with the divested unit are retained, because not all of them can always be sold.

*continued overleaf*

<sup>20</sup> Tammy Whitehouse, *“Companies Return to M&A to Find the Rules Have Changed.”* *Compliance Week*, April 5, 2011.

<sup>21</sup> Rachel Sanderson, *“Accounting Rules over M&A Spread Confusion.”* *Financial Times*, January 6, 2010.

<sup>22</sup> Ernst & Young and Tapestry Networks, *“Increased Oversight of M&A: An Expanded Role for Audit Committees.”* 10.

# ViewPoints

FOR THE AUDIT COMMITTEE  
LEADERSHIP SUMMIT



## Overseeing divestitures *continued*

One European member noted that certain aspects of divestitures can make them even more challenging than acquisitions. For example, in Europe, certain features of some European boards, such as the inclusion of managers other than the CEO, can cause complications: *“Disposals are the most difficult. There are people in the room you don’t want to talk to – the person running the division [that might be sold] could be on the board, which is very awkward. So the discussion happens in smaller groups, and some members don’t really know what’s going on.”*

Another member said that a divestiture that entails a retreat from a new business or geography can be psychologically trying: *“It’s tough because there’s a hesitancy to say we screwed up. You finally decide, we screwed up, and what can we learn from this?”*

## Conclusion

Boards are deeply involved in major transactions, and the full board typically takes the lead, though the audit committee and other committees may play important roles in their specific areas of expertise, such as finance or accounting. Before a deal is finalized, members noted, the board should examine the strategic rationale for the deal and oversee the due diligence, ensuring that key assumptions have been stress-tested and the price is fair. Once the deal is finalized, the board plays a role in the integration of the acquired entity, and members were particularly concerned about resolving cultural differences and retaining key staff. Longer term, the board monitors the ultimate success of the transaction against expectations and attempts to glean lessons for future transactions.

# ViewPoints

FOR THE AUDIT COMMITTEE  
LEADERSHIP SUMMIT



## About this document

The European Audit Committee Leadership Network (EACLN) and Audit Committee Leadership Network (ACLN) are groups of audit committee chairs drawn from leading European and North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The networks are convened by Ernst & Young and orchestrated by Tapestry Networks to access emerging best practices and share insights into issues that dominate the new audit committee environment.

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

*The views expressed in this document represent those of the European or North American Audit Committee Leadership Networks. They do not reflect the views nor constitute the advice of network members, their companies, any Ernst & Young member firm, or Tapestry Networks. Please consult your counselors for specific advice. Ernst & Young refers to the global organization of member firms of Ernst & Young Global Ltd., each of which is a separate legal entity. Ernst & Young LLP is a client-serving member firm in the U.S.*

*This material is copyrighted to Ernst & Young LLP and prepared by Tapestry Networks. It may be reproduced and redistributed, but only in its entirety, including all copyright and trademark legends.*

© 2011 Ernst & Young LLP.

All Rights Reserved.

SCORE no. CJ0183

# ViewPoints

FOR THE AUDIT COMMITTEE  
LEADERSHIP SUMMIT



## Appendix 1: Participants at the Audit Committee Leadership Summit

European and North American Audit Committee Leadership Network members participating in the summit, who sit on the boards of over 40 large, mid- and small-cap public companies between them, included:

- Denny Beresford, Audit Committee Chair, Fannie Mae and Legg Mason
- Werner Brandt, Audit Committee Member, Lufthansa
- Les Brun, Audit Committee Chair, Merck
- Phil Hodgkinson, Audit Committee Chair, BT
- Judy Richards Hope, Audit Committee Chair, General Mills and Union Pacific
- DeAnne Julius, Audit Committee Chair, Roche Holding
- Ewald Kist, Audit Committee Chair, Royal Philips Electronics
- Marie Knowles, Audit Committee Chair, McKesson
- Mike Losh, Audit Committee Chair, Aon and TRW Automotive
- George Muñoz, Audit Committee Chair, Altria and Marriott International
- Chuck Noski, Audit Committee Chair, Microsoft
- Ian Prosser, Alumnus, Sara Lee
- Guylaine Saucier, Audit Committee Chair, Areva and Danone
- Tom de Swaan, Audit Committee Chair, GlaxoSmithKline and Royal Ahold
- Bernd Voss, Audit Committee Chair, Continental AG
- Chris Williams, Audit Committee Chair, Wal-Mart
- Mario Zibetti, Audit Committee Chair, Fiat Group

Members who participated in debriefings after the summit included:

- Aldo Cardoso, Audit Committee Chair, GDF Suez
- Labe Jackson, Audit Committee Chair, JPMorgan Chase
- Oscar Munoz, Audit Committee Chair, United Continental Holdings
- Bill Osborn, Audit Committee Chair, Caterpillar
- Peter Ueberroth, Audit Committee Chair, The Coca-Cola Company
- Sandy Warner, Audit Committee Chair, General Electric Company
- Lars Westerberg, Volvo Group

Ernst & Young professionals participating in the meeting included:

- Tom Hough, Americas Vice Chair of Assurance Services
- Steve Howe, Americas Area Managing Partner
- Christian Mouillon, Global Vice Chair Assurance Services



## Appendix 2: Discussion questions for audit committees

- ? What is your assessment of the current M&A environment? What signals and indicators are you monitoring?
- ? How are your company and board responding to the current M&A environment?
- ? What M&A pressures and challenges have you encountered, and how have your board and committee responded?
- ? How has the oversight of major transactions evolved in your companies? Where are improvements still needed? How should the committees involved and the full board allocate tasks and coordinate their efforts?
- ? How does your board determine the proper oversight approach to major transactions? How does the background of specific board members play into this decision? Does a dual-board structure or employee representation on the board change the nature of the discussion at board level?
- ? How does the CEO's style or management's track record impact the oversight approach of the board?
- ? How does the board ensure that the strategic context for acquisitions is sound? What kind of process should be in place for selecting acquisition targets?
- ? How does the board or the audit committee oversee the due diligence process? What elements of the process are most important? What kind of external advisers does the board require?
- ? How does the board deliberate on the merits of a particular acquisition? What red flags or triggers may require deeper audit committee involvement in due diligence?
- ? How do you assess the effectiveness of the integration plan? What aspects of the integration are the board and the audit committee most involved in?
- ? In what ways do the company and the board evaluate the long-term success of a transaction? How are lessons learned and applied?
- ? What are the challenges of divestitures? What are the most important considerations for boards and audit committees?