



IT Governance/Cyber Security Oversight





Agenda



1. The Board's Involvement in Cyber Security
2. Cyber Security State of Affairs
3. Key Cyber Risks
4. Role of C-Suite and Board



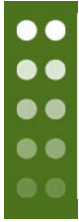


The Board's Involvement

- There is much more that boards can do at a practical level
 - Chair could require quarterly technology overview including attack prevention
 - Involvement of third-party cyber security experts
- Boards need to understand how the company is complying with cyber security at a strategic level, consequently underscoring the threats as part of a larger national security problem.

Source: Cunningham, Jeffrey M. "The Art of Cyber War" *NACD Directorship* May/June (2013): 26 -36. Print.





Cyber Security To-Dos for Boards*



1. Place information security on the board's agenda.
2. Assign information security to a key committee, and ensure adequate support for that committee.
3. Identify information security leaders; hold them accountable and ensure support for them.
4. Ensure the effectiveness of the corporation's policy through review and approval.
5. Communicate the board's commitment to information security clearly.
6. Ask management to give specific reports on information security risks, incidents, and activities.
7. Devote more audit committee time to addressing information security risks.

*Source: Cunningham, Jeffrey M. "The Art of Cyber War" *NACD Directorship* May/June (2013): 26 -36. Print.





State of Affairs

- **Your organization will be breached.** Be it from the outside or from the inside, the bad guys are motivated, well funded, and numerous. How your organization protects its critical information is proportional to how well it performs its mission.
- **Tools that assist the bad guys are easy to get,** easy to learn, and get more and more sophisticated by the day.
- **Attack vectors are expanding** as the role of mobile computing and EoIP (Everything over IP) migrates its way into our everyday life. No longer is just your computer connected. Televisions, appliances, automobiles, and more are connected in some way, creating unique entry opportunities for the creative hacker.

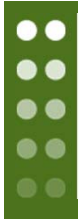




State of Affairs, cont.

- **Everything will be sensed.** Today, your hand held phone is a sensor platform. Tomorrow, your home and office will be sensor platforms. Everyday appliances such as refrigerators, televisions, and game consoles are being supplied with wireless connection capability, cameras, and microphones. These sensors have the ability to transmit your location, your picture, etc. Unprotected, this information gives the bad guys an unprecedented view into you and your organization.





Assess your organization's security posture...

- To measure an organization's risks it is first necessary to understand what the organization's assets are and their initial security posture.
- Some organizations do not have the internal expertise to do this and should immediately retain a reputable consulting firm or hire a security professional.
- All organizations should retain outside professionals to test their existing cyber security systems and to assist in identifying and mitigating cyber threats.





Key Cyber Risks

- Cyber risks can impact control and corporate systems. The consequences of these events vary depending on the type of information stored within the system, or the function performed by the system.
- Control systems manage sensitive business and operational functions. Compromises of these systems and assets can result in physical damage, loss of productivity, or operational disruption, the consequences of which can legal, financial, and reputational damage to a company.





Committee Discussion

Audit, Governance & Investment

Board of Directors Continuing Education – April 3-4, 2014
Agenda Item 8 – Committee Discussion





The Role of the Audit Committee

Board of Directors Continuing Education – April 3-4, 2014
Agenda Item 8 – Committee Discussion





Overview: The Audit Committee



Significant Audit Committee Responsibilities

- Direct responsibility for external auditor
- Oversight of internal controls, disclosure controls, and internal audit
- Oversight of financial reporting
- Oversight of risk management
- Oversight of legal and regulatory compliance





Overview: The Audit Committee



Keys to Audit Committee Effectiveness

1. Setting agendas and priorities; making the most of meetings
2. Setting clear expectations for each participant in the financial reporting process
3. Supporting the chief financial officer (CFO) and other financial reporting process participants
4. Coordinating and communicating with the full board and other committees
5. Ensuring continuous improvement (education and self-evaluation)
6. Having dialogues—not presentations





Overview: The Audit Committee



Blue Ribbon Commission on the Audit Committee

1. Focusing the agenda on what's important—financial reporting risk—and make the most of audit committee meetings
2. Insist on transparency (both internal and external) among the audit committee, management, and internal and external auditors
3. Question the continuing validity of key assumptions that underlie critical accounting judgments and estimates
4. Assess the audit committee's role in the oversight of risk management—with an eye towards clarifying the scope





Overview: The Audit Committee



Blue Ribbon Commission on the Audit Committee

6. Set and manage clear expectations for the external and internal auditors
7. Make sure the CFO and the entire finance organization have the resources needed to succeed
8. Assess the tone at the top and throughout the organization, including the effectiveness of compliance and anti-fraud programs
9. Help link change and risk management—and monitor critical alignments (controls, risks, etc.)
10. Look at audit committee's effectiveness—including its composition and leadership—and continuously improve





Overview: The Audit Committee



Top Concerns from 2013

- Whistleblower bounty program
- Revisit existing hotline to ensure working order
 - Remind employees of existing whistleblower process
 - Consider use of consultants
 - Compliance matters
- Key financial risks
 - Liquidity, access to capital, cash flow
- Exposure to third parties
- Foreign Corrupt Practices Act (FCPA)
- Tone at the top and “tone at the middle”





Overview: The Audit Committee



Environmental Issues That May Challenge Effectiveness

- Complex business environment and part-time directors
- Inadequate support resources
- Asymmetrical information
- Looking at all the “right” stuff
- Compliance-oriented agendas
- Insufficient discussion time
- Inadequate time/support
- Information architecture





How Can the Audit Committees Support the CFO?

- Develop a strong healthy relationship — spend time (informally) with the CFO
- Maintain focus on long-term financial performance
- Inject objectivity into financial disclosures
- Ensure adequacy of CFO's resources/staff
- Reinforce culture of compliance — the tone





Five Questions the Audit Committee Should Consider

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Questions for the Committee



1. What are the company's trends over the past few years?
2. What are the other sources and uses of cash besides operations?
 - Are they recurring?
3. Does the committee understand the basis for key revenue and expense estimates by management?
4. What is the amount, and ratio, of working capital?
 - How does this compare to peers?
5. Does the company have sufficient cash and near-term liquidity to pay:
 - Employees and associates?
 - Short-term creditors?





The Role of the Governance Committee

Board Composition

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Objectives



Questions to Ask:

- Have we identified and secured necessary skill sets for the board?
- Do we maximize communication, starting with “tone at the top”?
 - With management?
 - With directors?
 - With shareholders?
 - With associates?





Board Evaluations



Use of independent third party to conduct evaluations:

- Promotes candor
- Confidential
- No individual attribution of comments





Responsibilities of the Governance Committee



Director Independence:

- Do board members have relationships that impact independence?
- Does the board act with sufficient independence to serve the best interests of the company?





Responsibilities of the Governance Committee



- Understand all relationships that constitute, or could reasonably be expected to contribute to, a conflict of interest – consider requiring disclosure by each director
- If uncertain, the director must disclose pertinent information to the chairman
 - The chairman will determine if a conflict exists
- When a director's circumstances change, that should be disclosed to the corporate governance committee





The Role of the Investment Committee

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Overview: The Investment Committee



-
- **Provides focused oversight of investment policy, investment objectives, investment activity**
 - **Assures that board-established risk tolerances are observed**
 - **Assesses competence and performance of investment decision makers**





Next Steps



Possible Next Board Development Steps:

1. Board and CEO Evaluations
 - Facilitated board discussion of the evaluation analysis
 - Succession planning, action plans
2. Benchmark your board against your peers and like sized entities
3. Committee specific education





Educational Resources

1. **Additional NACD Board Advisory Services** - In-Boardroom Programs and Evaluations - <http://www.nacdonline.org/services>
2. **NACD Education** - *Director Professionalism®* Course, Committee Seminars, & Annual Governance Conference - <http://www.nacdonline.org>
3. **NACD Chapters** - *there are 22 in major metropolitan areas* - https://secure.nacdonline.org/source/meetings/chapter_Page.cfm
4. **NACD Publications** - Blue Ribbon Commission Reports, Surveys, and Handbooks - <http://www.nacdonline.org/publications>
5. **NACD Directors Registry™** - Qualified Candidates for Effective Boards - <http://www.nacdonline.org/registry/default.asp>





Q&A and Program Evaluations

