



ndi REIMAGINED

FOLEY
FOLEY & LARDNER LLP

Thursday, November 12th, 2020

12:00 p.m. – 1:00 p.m. CST

NATIONAL DIRECTORS INSTITUTE

Webinar Housekeeping

- Questions can be entered via the Q&A widget open on the left-hand side of your screen. We will address questions at the end of the program, time permitting
- The recorded version of this presentation will be available on Foley.com in the next few days and you can find a copy of the slides in the Resource List widget on the left-hand side of your screen.
- Foley will apply for CLE credit after the program. To be eligible for CLE, you will need to answer a polling question during the program.
- If you did not supply your CLE information upon registration, please e-mail it to NDInfo@foley.com. Certificates of attendance will be distributed via email to eligible participants approximately 8 weeks after the web conference.
- NOTE: Those seeking Kansas, New York & New Jersey CLE credit are required to complete the Attorney Affirmation Form in addition to answering the polling question. Please email the form in the Resource List to NDInfo@foley.com immediately following the program.

BREAKOUT SESSION

Audit Committee Hot Topics

PANELISTS



Ellen Richstone

Director, eMagin Corporation,
Orion Energy Systems, Inc.,
and Superior Industries
International, Inc.



William Hall

Director at 13 public corporations
(most recently Grainger, Great
Plains Energy and Stericycle) and
member of 10 public company
audit committees



Jennifer Cavanaugh

Audit Partner and the National
Professional Practice Director
(NPPD) serving the Midwest
region for Grant Thornton

PANELISTS



Bryan House

Partner, Foley & Lardner LLP
bhouse@foley.com
414.297.5554



Megan Odronic

Partner, Foley & Lardner LLP
modronic@foley.com
813.225.4117



Jason Hille

Partner, Foley & Lardner LLP
jhille@foley.com
414.319.7336

Audit Committees and COVID

- Does the Audit Committee have new responsibilities in light of COVID? Or are the risks that are in the purview of the Audit Committee merely heightened?
- What are the internal controls issues raised by COVID and a work-from-home environment?
- Are heightened cybersecurity concerns under the purview of the Audit Committee?
- How has COVID impacted the Audit Committee's review of financial statements and forecasts?
- How has COVID changed audits and evidence gathered in audits?

Discussion Hypothetical (based on real facts)

▪ Background – Bullard Corporation

- Bullard is a midcap public company (\$2B in revenue) producing industrial products manufactured in the US, Mexico, Thailand, and Spain. Bullard's products are deemed critical to certain military, construction, electrical and other core infrastructure industries. There is a large aftermarket for the Company's products in Europe, and the Company is considering whether it should be expanding into other aftermarkets. Bullard is the leading US manufacturer of these products, and its only competition is from China.
- In 2019, Bullard's revenue grew 60%, and revenue continued to grow at this rate during Q1 2020. However, while demand (orders) for Bullard's products continued to grow in 2020, revenue declined on a year-over-year basis for the first 9 months of 2020 vs. 2019 due to customer shutdowns from March through June due to COVID-19. In June 2020, Bullard's customers began to reopen and demanded immediate delivery of Bullard's products.
- Since June 2020, customers have demanded that their original orders be expedited and placed additional orders, seeking shipments to cover their originally planned 2020 needs. Bullard's employees, including the financial team continue to work remotely where possible, with the exception of manufacturing plants. Enhanced safety/work-from-home/health protocols were implemented in March, and Bullard's manufacturing sites have had few COVID-19 cases. Operating cash flow has been "choppy" due to the shutdown and restarts and higher operating costs from additional safety/health measures.

Discussion Hypothetical

- **Background – Bullard Corporation**

- Bullard has a strong CFO, finance staff and director of IT, and the Company has a well-developed ERM system that was implemented in the early 2000's. The Company adopted the COSO/Treadway internal controls framework in the mid 1990's and conducts a rigorous review/update of these controls annually. Internal audit consists of a small in-house team and outside resources. There have been no internal controls issues identified by the external auditors in recent years. Bullard follows the ISO 27001 framework for cybersecurity.

- **Latest Developments:**

- In September, a cybersecurity breach occurred. IT discovered the breach quickly (within hours) and conducted an internal investigation preliminarily indicating that no critical data had been accessed (either Company or personnel related). The Audit Committee and Bullard's external audit partner are aware.
- Last month, Country X fraud prevention agents conducted an unannounced visit at one of Bullard's foreign plants and impounded the onsite purchasing manager, along with all of his documentation and computer. Bullard's CFO and corporate purchasing director immediately launched an internal investigation and have been unable to find any evidence of wrongdoing. The Company expects to hear shortly from the fraud prevention agents in Country X about this issue. Again, the Audit Committee and Bullard's external audit partner are aware.
- The "choppy" cash flow and higher operating costs are causing concern as the pandemic drags on. Concerns about forecasting are growing with further shutdowns a possibility.

Discussion Hypothetical

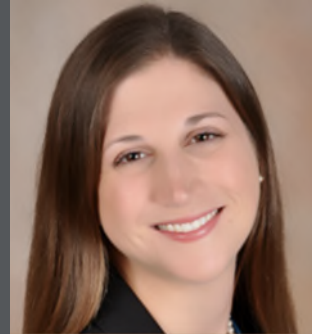
- **Your Task:** Assume that you are the Chair of the Bullard Audit Committee. How should the Committee prioritize and allocate time during its November meeting to the following agenda items?
- **Poll Question:** What do you think is the most significant of the following agenda items?
 - Review Q3 financial results
 - Review internal controls generally
 - Review cybersecurity controls and investigation
 - Review internal investigation in Country X
 - Review financial forecasts for Q4 and 2021

Thank You



Bryan House

Partner, Foley & Lardner LLP
bhouse@foley.com
414.297.5554



Megan Odronic

Partner, Foley & Lardner LLP
modronic@foley.com
813.225.4117



Jason Hille

Partner, Foley & Lardner LLP
jhille@foley.com
414.319.7336

ATTORNEY ADVERTISEMENT. The contents of this document, current at the date of publication, are for reference purposes only and do not constitute legal advice. Where previous cases are included, prior results do not guarantee a similar outcome. Images of people may not be Foley personnel. | © 2020 Foley & Lardner LLP