

**Audit Committees at the heart of the Audit Reform**

21st June 2016

**REPORT**

On 21st June, PwC and ecoDa held a joint conference in Brussels on the theme of “**Audit Committees at the heart of the Audit Reform**.” The goal was to focus on the Corporate Governance implications of the EU Audit legislation, adopted in 2014, and to address boards and audit committees of public interest entities (PIE) in the EU.

There was a keynote speech from **Alain Deckers**, Head of Unit, Audit and Credit Rating Agencies, DG for Financial Stability, Financial Services, and Capital Markets Union (FISMA) from the European Commission.

This was followed by two panel discussions. The first of which was moderated by **Hans Nieuwlands,** CEO of the Institute of Internal Auditors (IIA) of Netherlands and discussed the “*Best practices on governance and reporting to Audit Committees*”. This panel included **Roger Olivieri**, Statutory Auditor, **Inge Boets,** Member of several audit committees, **Blanka Vezjak**, External Member of Audit Committees, **Philip Johnson**, Non-executive director and **Tjalling Tiemstra**, Chairman Audit Committee ABN Amro Bank and various other non-executive positions.

The second panel was moderated by **Marian Williams**, FRC Director of Audit and discussed “*How do Audit Committees ensure auditors are independent?”* This panel included **Thorsten Irblich**, Manger of Supervision of Special Contractual Relationships within the group accounting of Volkswagen AG, Wolfsburg/Germany, **Carolyn Dittmeier**, Chairwoman of different audit committees, Member of Nedcommunity and **Karin Bing Orgland**, an Independent Board Member.

**Béatrice Richez-Baum**, General Secretary of ecoDa, concluded the conference.

**Key themes of the debate:**

* Reinforcing the independence of the statutory auditor
* Contributing to a more dynamic audit market in the EU
* Reinforcing the role and competence of the audit committee

**Highlights**

**Keynote Speaker**

**Alain Deckers** - Head of Unit, Audit and Credit Rating Agencies, DG for Financial Stability, Financial Services, and Capital Markets Union (FISMA) from the European Commission:

* *Implementation* - Twelve countries have either completed or nearly completed the implementation of the new EU legislations. Eight countries should complete full implementation by the summer break. The rest should follow gradually over time. Non-audit services are posing many questions concerning the new legislations. European Audit Inspection Group (EAIG) to merge with new institution, COAB.
* *Next Steps* – Market monitoring will be a useful tool in order to assess the impact of the new rules and the newly founded COAB will follow developments closely. A large number of countries are submitting reports. The wording of Article 27 of the new European legislation has raised a lot of concerns as it looks to assess audit committees and not the board of directors. We need to look at the coherence between the International Standards on Auditing (ISAs) and the European Parliament. Potential for cross-border mobility of auditors and following closely the audit quality indicators. Potential for Technical Innovation in the profession that can lead to large long-term changes arriving in the not so distant future.
* *Engagement with Audit Committees* – There appears to be an unequal experience when it comes to engaging with audit committees. Better engagement can allow us to understand how processes are handled. Competition is not based on price alone. This is where the guidance documents can be useful for audit committees to overcome difficulties. Better engagement from the European Commission with audit committees would also help.

**First Panel – Best practices on governance and reporting to Audit Committees**

**Roger Olivieri** – Statutory Auditor, Italy

* Wants audits committee members to be independent, as in his particular case in Italy, the Audit Committee is not a part of the Board of Directors.
* Believes that independence is a state of mind and that at the same time, diversity amongst the Audit Committee has the potential to provide big opportunities.
* Adds that there is a lack of evaluation practices in Italian Audit Committees.

**Inge Boets** – Member of several Audit Committees, Belgium

* States that Audit Committees would find it preferable to have a majority of independent Audit Committee members.
* Attests that complementarity and diversity of experience, background and industry amongst Audit Committee members is required in order for Audit Committee to be truly successful.
* In terms of the evaluation process, she would like to see a continued improvements process introduced to Audit Committees and the Board of Directors.

**Blanka Vezjak** - External Member of Audit Committees, Slovenia

* All Audit Committee members in Slovenia need to be independent. Can foresee issues arising in the state-owned companies whereby independent members are hard to find. Can anticipate transitional issues developing as a result.
* Also is of the opinion that complementarity and diversity is needed in order for an Audit Committee to be effective
* Continued self assessment is already common practice in Slovenia and, more recently, extended assessments occur every few years by an external party

**Philip Johnson** – Non-executive director, UK

* Believes that the role of the Audit Committee and the governance is to make sure that the rules are implemented properly. Is an advocate of the FRC in the UK, as it instills a sense of common purpose amongst the Audit Committee around the country and therefore makes for a more efficient Audit Committee.
* Believes that independence of the Audit Committee members is not much of an issue as it too much independence will come at the price of less competency.
* Finding independent members can prove to be difficult as a result of over-regulation. Is of the opinion that effectiveness should be prioritised over independence.

**Tjalling Tiemstra** - Chairman Audit Committee ABN Amro Bank and various other non-executive positions, Nehtherlands

* Netherlands has similar independence to requirements in the Audit Committee to other EU member nations.
* Highlights that it is important that Audit Committee members are on a similar level of competency as the CFO.
* Feels that there is a lack of recognition of the importance of competency, as the Audit Committee requires a character that challenges the management.
* Feels that ‘Article 27’ can lead to competition issues and that formulating a distinctive framework for an Audit Committee can prove to be very difficult.
* Notes that it is also challenging to interpret the certain guidelines that are vague and unclear. This can lead to deterioration of relationships between supervisors and Audit Committee and therefore cause unnecessary friction.
* 3 most important aspects of evaluation process are the content, the process and the communication

**Enhanced Audit Report**

* Enhanced Audit Report has lead to improvements in transparency, information, engagement and audit quality in the UK
* Risk profile could be changing in a business
* EAR is an additional report to the Audit Committee which helps and is appropriate
* The huge amounts of data can often distract from the key information and issues
* In the Netherlands, they are told to focus on 3 to 5 key risks, which can improve overall audit quality, as it requires more focus on key aspects.

**Second Panel – How do Audit Committees ensure auditors are independent?**

**Thorsten Irblich** - Manger of Supervision of Special Contractual Relationships within the group accounting of Volkswagen AG, Wolfsburg/Germany

Volkswagen have a system in order to ensure independence:

* Volkswagen Milestones
  + Organisation and Processes
    - Establish team to control contractual and sales relationships
    - Draft Proposal for Audit Committee
  + IT Support
    - Implementation of new technological programme ‘WIPS’ to control the audit process
  + Audit Committees Guidelines
    - Encourages competition
* Volkswagen’s Problem
  + FEE Cap
    - Problem of inclusion of Parent companies
    - Bureaucratic burden of controlling 61 PIEs

**Carolyn Dittmeier** - Chairwoman of different audit committees, Member of Nedcommunity, Italy

* If internal control is fully functional, then there is a fairly good chance that independence can be ensured.

**Karen Bing Orgland** – Independent Board Member, Norway

* Competence is key for high quality audit as it is necessary to be a good challenger.
* Compliance with the rotation programme proves to be difficult in Norway
* Achieving relevant competition is important for high quality audit
* Pinpointing key risks raises the bar of the Audit Committee and facilitates a better process. These key risks need to be conveyed to the market in a sensible manner.

**Marian Williams** – FRC Director of Audit, UK & Ireland

* Confidence in audit
  + Our Vision
    - Audit will become trusted, which will promote good governance and facilitate the effective allocation of capital
    - 90% of FTSE 350 uses auditing by 2019
* Audit Committee
  + Possesses a Key Role
    - Changes to rules on constitution
    - Accountability for application of retendering and rotation
    - Approval of NAS
    - Extended Audit Committee reporting including independence of the auditor and AQR (CRR) reviews
* UK Standards
  + Ethical
    - Principles based
    - 3rd party test
    - Not turning back the clock
  + Group audits –Proportionate
    - PIEs or FRC standard
    - Non-PIE or IESBA code
* COAB
  + Will be important and ideally will need a quick establishment

**Audit**

* If an auditing firm reaches a 15% level of income from one client, questions will be raised about the legitimacy of their independence
* This may lead to diversification of clients and a possible move away from the ‘Big 4’ to smaller firms
* Monitoring Independence Requirements –
  + Will neither act as a positive or a negative for firms and will treated similarly to quarterly reports. The focus on NA fee expenses can raise questions regarding competence
  + In order for this to be a success, the procedure must be robust and companies must be given time to implement.

ABOUT THE ORGANISERS:

ecoDa: European Confederation of Directors’ Associations <http://www.ecoda.org>

PwC: PricewaterhouseCoopers <http://www.pwc.com>