



**Federation of European Accountants
Fédération des Experts comptables Européens**

How to improve the functioning of audit committees further?

Brussels, 5 February 2013

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Deputy Chair**

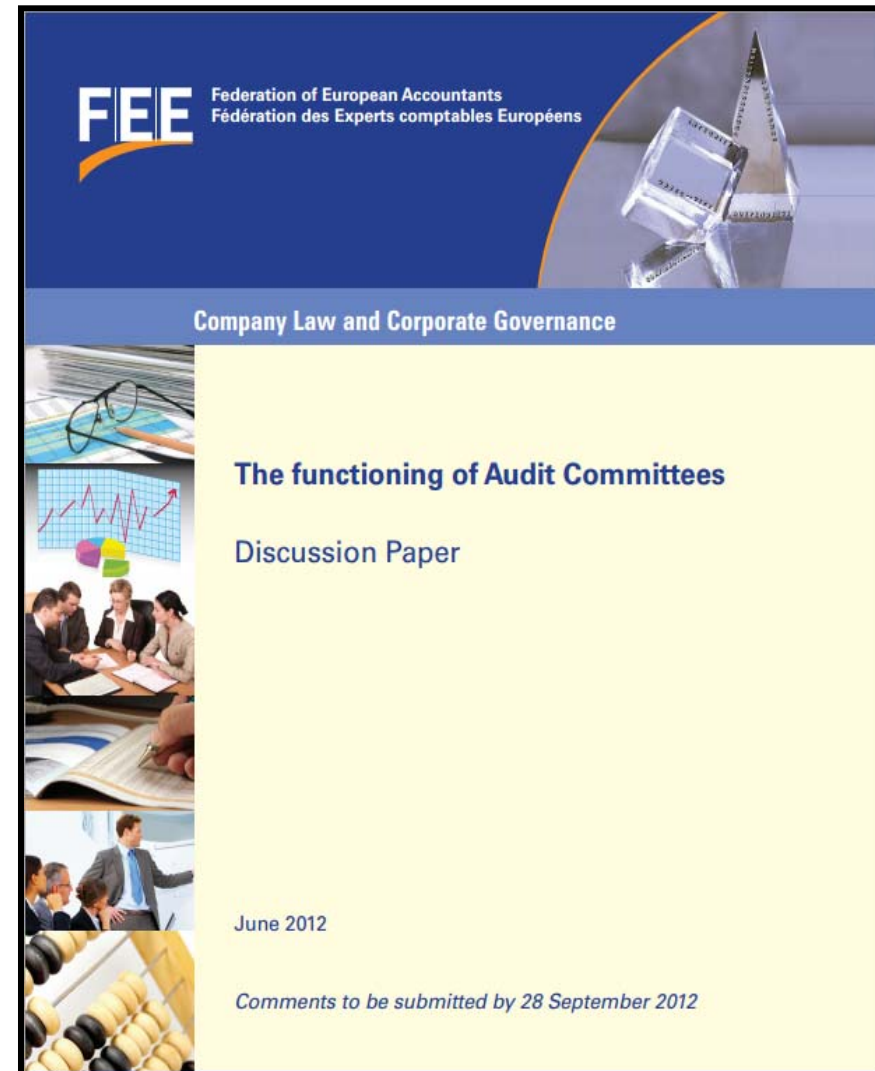
FEE Company Law & Corporate Governance Working Party



Discussion Paper published in June 2012

Includes:

- A survey on the functioning of audit committees in EU Member States
- FEE recommendations





Differences across Europe

- Exceptions to an audit committee requirement
- Minimum membership, specified or not
- Number of independent members
- Can chair of the board also chair the audit committee, or belong to it?
- Remuneration for committee members
- Attendance at meetings by others

1	FEE analysis on the establishment of audit committees
2	The composition of the audit committee, including independence and compensation
3	Responsibilities and tasks of audit committee members
4	Reporting from and to the audit committee

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Establishment of Audit Committees



Establishment of audit committees

- Significance of being a sub-committee of the board
- Members may be appointed by the board or by the shareholders
- Needs to have adequate resources
 - ↳ Including secretariat

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Composition of the Audit Committees



Composition

- All members and chairman to be NEDs.
- Majority of members to be independent.
 - ↳ Committee chair to be independent.



Composition

- Appropriate collective competence
 - ↳ Relates to duties
 - ↳ Relates to company complexity
 - ↳ Impacts requisite size
 - ↳ More guidance on 'competence'
- Gender, background, age, ethnicity etc

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Responsibilities and tasks of the Audit Committee



Responsibilities

- Clarify responsibility *vis-à-vis* ...
 - ↳ The board
 - ↳ Other board committees
- *Not* the Board's Finance Committee
- Authority to obtain additional external advice ...
 - ↳ From external auditors
 - ↳ From others



Responsibilities

- Published financial statements
 - ↳ Including judgements of key accounting policies and estimates
- External audit
 - ↳ Quality, independence, tendering etc
- Risk management and internal control
- Internal audit (and others?)

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Reporting from and to the Audit Committee



Reporting *to* the committee

- Timely, concise, quality reporting from management and internal audit
 - ↳ Open, sufficient discussion
- Additional internal report to the committee from external audit



Reporting *from the committee to the board*

- To the Board

- ↪ Regular

- ↪ Including self-assessment of its work



Reporting *from* the committee to *stakeholders*

- Where not confidential ...
 - ↳ Committee work done, and planned
 - ↳ How significant audit issues were addressed
 - ↳ Non-audit services by external auditor
 - ↳ External auditor appointment process
 - ↳ Internal control, internal audit, risk management



Conclusions

- Building well-functioning audit committees is **work in progress** in many EU Member States
- **Significant potential** for key role for audit committees in effective corporate governance and in enhanced financial reporting/auditing of companies
- **Further developments** needed, for instance related to reporting by audit committees to third parties and linkage between responsibilities/liability/compensation of audit committee members
- **EU should focus** on audit committees in the wider sense, not just from the statutory audit perspective



Postscripts



Great Western Railway – Board Minute 1872

‘Report of the Audit Committee

‘The auditors and Mr. Deloitte attended the Committee and explained the various matters connected with the Finances and other departments of the railway, which explanations were highly satisfactory.

‘The Committee consider the Auditors have performed their arduous duties with great care and intelligence and therefore confidently recommend that they be continued in office.’

Benjamin Lancaster
Chairman
Paddington Station
22nd February, 1872



Frequency of meetings - BP

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Board	8	8	7	9	12	9	12	25	15
Gulf of Mexico Committee								9 *	16
Audit Committee	9	13	12	12	14	13	13	15	11 **

* The event occurred on 20 April 2010

** Includes one joint meeting SEEAC at the start of each year to review BP's risk management and internal control systems of the previous year and to review the coming year's forward programme of audit work. The general auditor (head of internal audit) reviews his team's findings and management's actions to remedy significant issues identified in that work. His report includes information on the results of audit work undertaken by the safety and operational risk audit team and reviews by the group's finance control team.



Frequency of meetings etc - BP

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Board	8	8	7	9	12	9	12	25	15
Audit Committee	9	13	12	12	14	13	13	15	11
					Remco	6	8	6	7
Safety, Ethics & Environment Assurance Ctte (SEEAC)						?	7	9	9
					Nomination	6	15	8	5
					Chairman's	4	5	8	9
					Number of directors -Chairman	1	1	1	1
					Number of directors-NEDs	9	9	11	11
					Number of directors-EDs	4	5	3	4
					Number of directors - Total	14	15	15	16
					* Allocation of audit committee agenda time - Financial reporting	34%	31%	?	?
					* Excludes site visits				
					-Monitoring business risk	36%	28%	?	?
					-Internal controls and audit	26%	36%	?	?
					-Other	4%	5%	?	>

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