



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

Summary of joint  
PwC and ecoDa  
conference

July 2016

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# *PwC and ecoDa joint conference: 21st June 2016*

EU Audit legislation, which came into force on 17 June, introduces more detailed requirements regarding the statutory audit of 'Public Interest Entities' (PIEs). According to the EC press release at the time of adoption, the legislation aims to improve audit quality and to restore investor confidence in financial information, by:

- 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

On 21st June, PwC and ecoDa held a joint conference in Brussels "Audit Committees at the heart of the Audit Reform" to discuss the implications of the new EU Audit legislation, for boards and audit committees of public interest entities (PIE) in the EU and to launch the a jointly written guidance document providing a description of aspects of the new legislation, focusing on the composition and governance of audit committees, selection and appointment of the audit firm, monitoring the auditor's independence, auditor reporting requirements and oversight. You can read the full guidance document [here](#).

In this report, we look in a little more detail at the key messages emerging from the conference.

***“Good governance is best served if the skills and experience of the entire board - supported but not replaced by the audit committee - are brought to bear on issues of financial oversight and audit***

*Daniel Lebegue*

Chair of the ecoDa/PwC Working Group on the Audit Reform

## **Introductory remarks: Daniel Lebegue (ecoDa) & Gilly Lord (PwC)**

**Daniel Lebègue** (Chair of the ecoDa/PwC Working Group on the Audit Reform) opened the conference, reiterating that ecoDa feels it is crucial that Audit Committees demonstrate that they are seriously considering their new duties, reminding audit committee members that ecoDa is here to help them with implementation of the new rules and to share best practices throughout Europe. Daniel explained that from ecoDa's perspective putting audit committees at the heart of audit quality acknowledges their value and conveys the important work that audit committees perform. It is important to note that while Audit Committees' members are appointed by the board and the board is appointed by the shareholders, it should not be the case that the audit committee is regarded as a body that is distinct (and distant) from the board as a whole. A separate, stand-alone audit committee would be detrimental to the overall standard of corporate governance in the EU.

**Gilly Lord** (Partner and Head of Regulatory Affairs, PwC UK) then talked about the recent experience of companies and auditors in the UK, implementing rules similar to the EU Audit Legislation. Mandatory tendering requirements have meant that audit committee members have been much more engaged in the auditor selection process and more interested in audit quality. This has driven auditors to focus on how they compete on audit quality. An increased focus on quality is reflected in the improving trend in inspections results published by the UK's regulator the FRC. The extended auditor report, has also lead to enhanced engagement between auditors and Audit Committees about the audit plan. Audit Committees are also required to provide their own report on the audit assessment. The cumulative impact of these changes has had a positive effect on the audit market.

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## Keynote speaker: Alain Deckers

**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) gave a key note address, covering the role of audit committees in the new European framework, the current status of implementation, challenges he expects to see in the future and the importance of engagement with audit committees. Some highlights of Alain's address include:

- Audit Committees are really at the heart of the new framework. The European Commission is looking forward to working with them to achieve these objectives.
- To date twelve countries have either completed or nearly completed the implementation of the new EU legislations and a further eight countries should have completed full implementation by the summer break. The rest are expected to follow gradually over time.
- The commission is planning to take a pragmatic approach to the market monitoring that will be an important and useful tool to assess the impact of the new rules. The commission is not looking for a 'tick the box' compliance exercise, and does not want to second guess the work of Audit Committees. The goal is to understand the challenges arising and to provide support.
- Although currently the commission are focusing on implementation, there is an awareness of potential future challenges. In particular, considering the potential for cross-border mobility of auditors (professional passport) and closely following the audit quality indicators debate. Other issues for the future include the potential for technological innovation in the profession which may lead to large long-term changes and the potential for big changes driven by new regulatory initiatives.
- Engagement with regulators and audit committees is important, especially as levels of engagement are currently inconsistent.
- The Commission plans to try to help to find out what is meant by audit quality and how audit committees can best use reports available to them. This is where guidance documents (like the ecoDa/PwC guide) can be useful for audit committees to overcome difficulties.

## Panel: Best practices on governance and reporting to Audit Committees

Moderated by **Hans Nieuwlands** (CEO of the Institute of Internal Auditors (IIA) of Netherlands) this panel was made up of: **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 discussion focused on the importance of diversity and knowledge amongst audit committee members and the direction of audit committee performance.

The panel acknowledged that the environment has changed significantly since 2007, and that finding appropriate independent members for boards can be difficult, particularly given the increasing complex regulations which apply. A key theme was the importance of both competence and independence in audit committee members, so that the benefits of relevant expert knowledge and an independent view can be gained. Ensuring the audit committee members are able to effectively challenge the CFO and board on sector issues and financial reporting technicalities was considered critical. Panel members felt that the performance of audit committees needed to be measured in the context of the performance of boards, and that the evaluation should include a variety of elements such as observation of process, self-assessment with the goal of continual improvement and evaluation by external organizations.

**Alain Deckers** contributed to the discussion of evaluation, and said that while the European Commission does not want to act as a supervisor of Audit Committees' performance, some national authorities may wish to go further.

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## Panel: How do audit committees ensure auditors are independent?

Moderated by **Marian Williams** (FRC Director of Audit ) this panel was made up of: **Thorsten Irblich** (Manger of Supervision of Special Contractual Relationships within the group accounting of Volkswagen AG), **Carolyn Dittmeier** (Chairwoman of different audit committees) and **Karin Bing Orgland** (Independent Board Member).

Members of the panel gave insights into their practical experience with implementing the new regulation. Challenges have included understanding how to apply the fee cap across PIE entities, confusion about enforcement and penalties in the event of breaches, and challenges in complying with rotation in some countries. However, some panel members were pleased with the 10 year rotation periods, feeling that as in some cases independent directors have term limits, the same rules should apply to the statutory auditors.

To ensure independence, a key theme was the importance of strong internal controls. The importance of the audit committee assessing and monitoring key independence risks was also discussed.

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

## *About the organisers*

### **About ecoDa**

The European Confederation of Directors Associations (ecoDa) is a not-for-profit association founded in December 2004 under the laws of Belgium. Through its national institutes of directors (the main national institutes existing in Europe), ecoDa represents approximately 55,000 board directors from across the EU. ecoDa's member organisations represent board directors from the largest public companies to the smallest private firms, both listed and unlisted.

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### **About PwC**

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