Facing change

AUDIT COMMITTEES IN EUROPE

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Foreword

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A key feature of effective corporate governance, audit committees play a pivotal role in overseeing the integrity and quality of financial reporting. As we found in 2017, in our joint ICAEW and Deloitte report looking at audit committees in Central and Eastern Europe, they are a natural source of insights into how businesses are approaching changing governance, reporting, audit and risk management requirements. As their remit continues to grow and while they remain under regulatory scrutiny, we felt the time was right to take another closer look at how audit committees are performing in practice across a diverse group of European countries.

Based on conversations with audit committee members in six countries – Belgium, Cyprus, Greece, Malta, The Netherlands and Portugal – this report seeks to provide a more granular appreciation of the changes that audit committees in Europe are currently grappling with, whether deriving from shifting regulatory responsibilities, internal business pressures, or broader economic, societal and technological trends.

In doing so, the report highlights both the differences and the commonalities facing audit committees operating across a range of sectors, in entities of varying size and structure – as well as in countries with different corporate governance traditions. Such diversity plays out in the roles, responsibilities and priorities of audit committees. Yet, from ways of working to areas of impact, our report sheds light on some key issues and challenges that are common to all.

Facing increasing demands on their time and greater attention to the skills, experiences and outlook that they bring to the table, audit committee members remain focused on driving improvements in core remit areas. Concrete examples of measures taken range from restructured financial reporting functions to enhanced internal control processes. They include steps to improve coordination with the external auditor while strengthening the challenge of management. Issues relating to risk and compliance are on the agenda of many.

At the same time, audit committees also have to deal with evolutions in corporate reporting and corporate governance frameworks as well as on far-reaching changes resulting from the accelerating technological transformation of business and society.

Notwithstanding such a full agenda, our exchanges with audit committee members also reveal a group of individuals often deeply engaged in thinking about the role that audit committees will need to fulfil in coming years – and how their set-up, way of working and focus may need to evolve in order to meet future challenges. Changing times are leading to changing priorities.

We take this opportunity to thank the audit committee members interviewed for this report, for their time and their candour in discussing some of the pressing practical issues and challenges that they are facing. With change unlikely to abate, we trust the insights captured in this second joint report are of keen interest to all those concerned in ensuring an effective corporate governance ecosystem in Europe, including shareholders, investors, regulators and the wider stakeholder community.

Introduction

Audit committees play a pivotal role in helping to ensure the effective stewardship of corporates, enhancing the transparency and integrity of financial reporting. This role is not a static one. Across Europe, audit committees have reacted to changes in their regulatory responsibilities while responding to shifting business needs and to broader economic, societal and technological evolutions. Understanding the challenges that audit committees are grappling with – whether practical or strategic, inward looking or outwards-focused – helps enhance awareness of the important, evolving role they play in the corporate governance ecosystem.

In 2017, ICAEW and Deloitte published a report looking at the evolving roles and changing perceptions of audit committees in Central and Eastern Europe (CEE). Based on conversations with audit committee members from CEE, our report *Making a difference: audit committees in Central and Eastern Europe* described an ongoing move towards more substantive and robust oversight roles, while also noting the need to tackle both persisting and new challenges.

This report expands our examination to audit committees in a further six EU countries, spread across the centre and south, with various corporate governance traditions and different sized capital markets – namely Belgium, Cyprus, Greece, Malta, The Netherlands and Portugal. In line with the approach taken in 2017, it is based on in-depth interviews with 27 audit committee members, including 23 chairs, active in public interest entities (PIEs) across several sectors, including energy, finance, manufacturing, real estate, retail, telecoms and transport.

To a large extent, we have let audit committee members speak for themselves, choosing to share their own words liberally throughout the report. To encourage additional reflection by audit committee members who may be reading this report, we have also included a series of questions related to the issues and challenges raised at the end of each main section.

This report explores several themes

THE WORKINGS OF AUDIT COMMITTEES

Audit committee members are under pressure; they face growing claims on their time and increasing scrutiny of their mix of skills and experiences. There is broad awareness of the importance of bringing together individuals with distinct and independent perspectives. The support given to audit committees continues to vary from entity to entity – as do attitudes towards evaluating performance.

AUDIT COMMITTEE INTERACTIONS

Audit committee engagement with management, supervisory boards, external auditors, shareholders and regulators is fluid. This may be down to the attitude of individual committees (or chairs), but it can also be strongly influenced by an entity's corporate structure, ownership and sector of activity. The level of interaction with management and the external auditor, in particular, raises questions about the appropriate balance between engagement and challenge. Exchanges between competent authorities and audit committees vary significantly but are obviously most intense in the financial services sector.

AREAS OF CORE RESPONSIBILITY: EXTERNAL AUDIT AND RISK MANAGEMENT

Questions about core responsibilities in relation to external audit and risk management reveal a very mixed picture. Audit quality is generally perceived as being satisfactory but there is no systemic assessment process in place to inform such judgements. Approaches and attitudes to risk management vary significantly – albeit on a corporate form rather than on a country basis.

IMPACT AND PERCEPTION

Most respondents believe that their audit committee is having an impact. Predictably, this is most evident in the core areas of financial reporting, internal control and internal audit – with risk management and the statutory audit process also repeatedly referenced. For some, there is still work to be done in these areas. Others see a different set of issues coming up. A positive impact, however, does not necessarily translate into a positive image. Internal and external perceptions of the role of an audit committee still vary widely.

RESPONDING TO CHANGE IN CORPORATE GOVERNANCE, REPORTING AND TECHNOLOGY

Irrespective of country, attitudes to corporate governance have changed – mostly for the better – in the last five years. The corporate reporting framework is also seen to be in evolution, bringing more disclosures, particularly in relation to non-financial information. This development is broadly welcomed, although concerns about complexity persist. Adoption of new technologies varies between audit committees as it does between entities, but is accompanied by a growing awareness that more risks are emerging in this area.

LOOKING AHEAD: FUTURE CHALLENGES

Reflecting on what lies ahead, several respondents share concerns about the future composition of audit committees – is the weight of demands making membership increasingly unappealing? Others query whether audit committees can play a more independent and strategic role, enhancing decision-making while being more firmly focused on the future. Finding the space and time to do so, while dealing with ongoing change – whether driven by business or regulatory needs, in response to broader economic, technological, societal and political trends – is not, and will not be, easy.

We trust the report will be of broad interest to audit committees, companies, external auditors, professional bodies and regulators in the six countries covered, as well as to the wider EU and international policy-making communities.

We welcome your comments on this report

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Audit committees: requiring more skills, more time, more support

At the crossroads between management, external auditors and independent boards, audit committees in Europe play a critical role in overseeing the integrity of financial reporting. Under increasing scrutiny, audit committees have had to respond to a growing list of requirements and recommendations set out at European and national level. This is in addition to the demands of complex and rapidly evolving economic and business environments. Change seems to be a constant factor facing audit committees.

As we noted in our 2017 report, audit committees in Europe reflect both diverse business worlds and differing corporate governance traditions. They may operate in single-tier or dual-tier board structures. EU legislation sets the broad parameters for audit committees of PIEs but also provides a certain flexibility. While there is no one-size-fits-all when it comes to form and function, there are important commonalities. These also relate to the changing skills and time requirements demanded of audit committee members.

AUDIT COMMITTEE MEMBERS: A CHANGING SKILLSET

EU hard and soft law makes clear that effective members of boards and associated committees need to have the right background and sufficient time for the role. In recognition of their important role, audit committees need to be composed of the right mix of people to ensure that there is specific technical knowledge and relevant sectoral expertise – as well as sufficient independence from the entity. Such requirements and recommendations apply to the majority of audit committees considered in this report.

Most of the audit committees in our sample are composed of three members. The slightly larger ones (normally with four or five members) tend to be audit committees of entities active in the financial services arena. Most individuals interviewed are also members of several audit committees or have other board roles, ranging from one to six additional mandates – and with one outlier in Malta declaring membership of 22 boards (albeit with no indication of the size or complexity of the underlying entities).

Feedback from our respondents suggests the requirements relating to competence in auditing and/or accounting are largely met – as is the demand for a collective understanding of the business and industry sector. Ten interviewees explicitly state that they have an audit and/or accounting background. On average, the audit committees in our sample have two members with relevant financial expertise. Other audit committee members come from a variety of different backgrounds, including legal, academic, economic or business experience. While we did not specifically ask about broader diversity on audit committees, there are only five women in our sample of audit committee members, suggesting that the process of achieving more inclusive audit committees has still some way to go.

> **'Our committee is composed of three members: two economists and one engineer with a strong financial background.'**
> PORTUGAL

> **'While all three members have financial experience, a fourth member with IT and cyber experience should be added.'**
> BELGIUM

It is evident that the mix of skills and experience demanded of audit committees is changing, with many respondents in the countries surveyed in 2019 echoing comments made by their CEE counterparts in our survey two years ago. A small minority consider that the role and requirements have remained constant: most feel differently. A number cite the need for greater understanding of financial reporting and risk. Others note the importance of being familiar with a growing range of compliance issues. Several underline the need for IT, digital and cyber expertise, whether by having members with the appropriate knowledge on the committee itself or by turning to external advisers. And, of course, awareness of the business and/or the industry sector is critical.

'Financial expertise is no longer sufficient. Legal and regulatory interpretation have become increasingly important.'
PORTUGAL

'All aspects relating to risk are receiving more attention – we need more committee members skilled in this domain. We could then ensure that the right items are being added to the committee's agenda.'
BELGIUM

'On a collective scale, more skills are required to deal with IT and cyber security issues in order to deal with the digital revolution taking place.'
BELGIUM

'The issues addressed are of increasing complexity. A profound knowledge of the company's business and operating model is needed. Audit committee members must be able to be in the position to ask thorough questions.'
GREECE

The strong message coming from audit committee members, however, is that effectiveness is not based solely on technical experience. It demands an independent, flexible, holistic and challenging mindset. This depends on individual personalities as well as on the abilities of audit committee chairs to set and drive the agenda. The issue is at the forefront of some respondents' minds, with several noting the difficulties of achieving a balanced composition, while others stress the benefits of having members with different professional and business backgrounds. All this so that the audit committee can ask different and better questions.

'In a changing environment, members need to understand and embrace change.'
GREECE

'More out of the box thinking is required.'
BELGIUM

'Common sense is also an attribute that every audit committee member should have.'
PORTUGAL

The focus on ensuring a diverse representation of professional and business perspectives is not necessarily matched by attention to other forms of diversity or inclusiveness, with only one individual reflecting on the possible benefits of including young individuals on supervisory boards and committees.

INCREASING DEMANDS ON TIME

Changing skillsets and enhanced responsibilities are accompanied by significant increases in the time commitment demanded of audit committee members. The trend is not a new one and it shows no sign of abating. It is also an issue that clearly resonates with respondents in 2019, with 19 concurring that they are spending more time on audit committee matters than they were five years ago (five respondents are more recent appointees to audit committees and so declined to answer). The increase has been notable in relation to regulated entities, particularly in the financial services sector, where one respondent deems the role to now verge on a full time-one.

'The demands are particularly demanding and time consuming for audit committee chairs.'
MALTA

'For entities with regulated businesses, the time commitment has increased significantly – not so for other entities.'
BELGIUM

'The role, in the financial services sector, requires full-time dedication.'
PORTUGAL

On average, respondents are attending eight meetings per year, although nine audit committees are meeting even more frequently. This is slightly above the meeting rate described by audit committee members surveyed in CEE. Most describe attendance rates close to 100% with meetings generally lasting between two and four hours. On top of the formal meetings, there may be further ad hoc gatherings. Some responsibilities, such as approving non-audit service requests, are also being dealt with separately via electronic means.

'There are regular meetings on a monthly basis, plus further ad hoc meetings if required. All members attend either in person or via conference call.'
GREECE

'We meet around seven times per year, more frequently towards year end. Absences are rare. As chair, I've tried to restrict the duration to two – two-and-a-half hours per meeting.'
MALTA

Frequency of meeting is not a reliable indicator of audit committee performance. While it does suggest that audit committees are dedicating more formal time to satisfying their legal obligations, it does not capture the accompanying demands on time asked of audit committee members. For many respondents these demands are significant, with more time spent on preparation before meetings as well as increased contacts with management and/or the external auditor throughout the year. The amount of time required to read, absorb and question audit committee papers ahead of meetings can pose a practical challenge.

'I spend a week per quarter interacting with the external auditor. I take a day or more to prepare for meetings, speaking on a one-to-one basis with directors. I have an in-depth conversation with all key players to get a feeling for how the figures are established.'
THE NETHERLANDS

'Apart from the actual meetings (generally half a day), three to four days' preparation are required (reading, providing comments, reviewing the agenda). Over and above this, there is a substantial amount of material that needs to be considered to stay on top of changing regulatory requirements. All this requires a continuous effort.'
GREECE

Extra efforts are, in many ways, a natural result of growing responsibilities. Audit committees may have more tasks to fulfil or they may be focusing more on specific areas of concern, with internal control, risk management and the external audit process singled out by some respondents. Other committees are taking a forward-looking role, but one that also brings with it further demands on time. Dedicating significant time to audit committee matters is not necessarily a positive sign: it can indicate that processes need improving.

'The committee is spending more time on risk management and internal controls – and these need to be followed up more rigorously. They are also the topics that the regulator is looking into more closely. More time is also required for the planning of the audit.'
BELGIUM

'Time spent has decreased over the years reflecting also the fact that the committee has become more structured and efficient.'
GREECE

'We have become a lot more forward looking and spend more time thinking about how we help steer the business.'
THE NETHERLANDS

The time commitment demanded of audit committee members, particularly for regulated entities and especially where it relates to independent or non-executive directors, raises new challenges.

'The scope of audit committee tasks are so broad that it poses a practical challenge for audit committee members. How much can you expect and ask of a non-executive director in terms of preparation and meeting time?'
BELGIUM

IN NEED OF SUPPORT?

With growing responsibilities, demands on time and calls for a broader skillset, do audit committee members get enough help? Views are mixed; only 12 reply that they are getting the support they need, albeit from a variety of different sources. The level of support also differs across entities. Often it is provided by the entity, via internal audit or other functions. The external auditor is also mentioned as a source of guidance. A number of respondents refer to supportive boards and management, while others note that there is scope for enhancing the help provided.

> **'Limited support is provided. The committee relies on internal audit for information on regulatory changes and risk profile. The external auditor provides support on more global issues, such as IFRS.'**
> GREECE

> **'There is substantial support from the board and management but no specific training sessions are organised.'**
> PORTUGAL

> **'There is good support from the accounting and treasury departments as well as from the internal and external auditors. However, I would recommend additional training.'**
> BELGIUM

> **'There is certainly room for improvement, particularly with regards to gaining deeper understanding of the company's operations and operating model.'**
> GREECE

Some audit committees also have access to more structured training – internal and external – or are taking matters into their own hands to organise training. Two participants explicitly call on policymakers and regulators to step in to establish a more supportive framework for audit committees.

> **'Management provides for additional training. There are specific sessions and tutorials organised during committee meetings to build up members' knowledge.'**
> BELGIUM

> **'All members attend internal and external training on topics relevant to the committee's responsibilities.'**
> PORTUGAL

> **'No training is provided. The audit committee members follow training sessions on their own initiative.'**
> MALTA

> **'Policymakers could help establish a dedicated centre of excellence to support audit committees in their work, offering best practice advice, early notification of changes to the regulatory framework and targeted training.'**
> GREECE

ASSESSING PERFORMANCE

EU soft and hard laws have put into place several provisions encouraging better evaluation of audit committee performance. The specifics of how to do this remain undefined. The introduction of market monitoring rules in the 2014 EU Audit Regulation[1], with a requirement that competent authorities assess the performance of audit committees, has proven equally challenging given the differing approaches to supervision across member states (as evidenced in the Commission's first report on developments in the audit market[2] from September 2017).

It is unsurprising, therefore, that despite regulatory pressures, assessing audit committee performance remains work in progress. Among our respondents, 17 confirm that performance is evaluated; a higher proportion than in our CEE research in 2017. In a number of cases, this remains primarily an internal process – and is viewed by some respondents as being more of a box-ticking exercise. Others consider performance evaluation to be a vital way of ensuring a properly functioning board.

1 Regulation (EU) 537/2014 on specific requirements regarding statutory audit of public interest entities and repealing Commission Decision 2005/909/EC.

2 Report from the Commission on monitoring developments in the EU market for providing statutory audit services to public interest entities pursuant to Article 27 of Regulation (EU) 537/2014. COM(2017)464.

‘No, performance is not assessed.’
PORTUGAL

‘There is no formal process in place, although the committee is trying to implement a self-evaluation process.’
PORTUGAL

‘We undertake a qualitative self assessment. An annual report is submitted to the board, with reference to meetings held, key findings, recommendations made as well as the work plan for the following year.’
GREECE

‘There is a self assessment but it is more of a box-ticking exercise. There are more qualitative controls, including by the ECB [European Central Bank].’
BELGIUM

Some self-evaluation exercises also take place within the context of the broader review of supervisory board performance.

‘No, but there is an annual internal process for evaluating the individual performance of non-executive board members, including audit committee members.’
PORTUGAL

‘Performance of the board as a whole is assessed in the form of an internal self assessment.’
MALTA

‘The bank has an internal performance appraisal model in place for executive and non-executive board members, undertaken for the first time in 2018.’
PORTUGAL

A number of audit committees actively seek input from the board, internal audit and the executive team. Only six audit committees call on external input, not necessarily on an annual basis; this is still better than our 2017 findings when none of the audit committees surveyed were using or planning to use external expertise to facilitate the process.

‘We do this internally and every other year with external facilitation.’
THE NETHERLANDS

‘The committee’s operations are also followed by the group audit function.’
GREECE

Three respondents, all involved with financial services entities, note that quality assessments of the audit committee’s work can be demanded, undertaken or reviewed by bank supervisors.

‘The committee is assessed annually; the process is facilitated by the nominations committee. It looks at both the committee in its entirety and the capacities and capabilities of individual members. Every two to three years, an externally-facilitated assessment is undertaken on request of the Hellenic Financial Stability Fund.’
GREECE

‘We do this on a yearly basis, facilitated by an external party every other year. There is a very extensive questionnaire and last year the external facilitator brought some cases to discuss. Among other things, we discussed how we could clearly separate the audit committee from the supervisory board.’
THE NETHERLANDS

Several members stress the importance of evaluating performance: assessments (even self assessments) of how committees operate can help to identify shortcomings while pointing to ways of enhancing effectiveness in the future.

‘We undertook an internal assessment. The results were below expectations – with the main concerns relating to lack of attendance and lack of preparation.’
BELGIUM

‘These evaluations are key. Based on self assessment, the committee stipulates a work plan going forward to address the weakest points.’

MALTA

‘Audit committee performance is assessed via an externally-facilitated process. We discuss the results to identify areas for improvement.’

GREECE

‘For us it is important to assess whether we have taken on our role to challenge well enough. Are we asking the right questions? Are we paying attention to the important things?’

THE NETHERLANDS

‘We look at whether we have discussed the big items and whether we provide sufficient added value. We consider if we need to look for other people. Do we question the executive board sufficiently? The tone, the way we do this: these are important topics. If we don’t do this properly, we might not get the information we need.’

THE NETHERLANDS

QUESTIONS FOR FURTHER REFLECTION

What needs to be done to ensure the right balance between independence, soft skills, technical expertise and industry knowledge is reached among audit committee members?

Do concrete steps need to be taken to enhance overall inclusiveness, particularly gender representation?

Do members have enough time to ensure the effective functioning of the audit committee, particularly if they hold multiple board mandates?

Are there further measures that can be taken to ease pressure on time, for instance by tackling information overload or improving decision-making processes?

How does the audit committee ensure that it is up to date with the latest regulatory and reporting requirements? Is an effective support system in place? How are knowledge gaps and training needs identified and addressed?

What can be done to ensure that performance evaluation exercises bring value to the audit committee and the board?

Audit committee interactions: the corporate reporting ecosystem

Audit committees do not operate in isolation. They play a central role within the broader corporate governance ecosystem, helping to ensure the effective stewardship of entities. In order to do so, they interact with other actors, internally and externally. The quantity and quality of these interactions are coming under closer regulatory scrutiny, including as part of the Committee of European Audit Oversight Bodies (CEAOB) market monitoring exercise relating to audit committees. Specific recommendations to enhance regulatory oversight have also been made in some countries, notably the UK.

Our research finds that how and when audit committees engage with management, supervisory boards, external auditors, shareholders and regulators is still developing. Responding to regulatory change, audit committees have assumed more responsibilities to make recommendations to boards, albeit primarily to help boards make considered decisions in relation to the financial reporting process, the external audit and the effectiveness of internal quality control and risk management systems. However, audit committees' engagement with other key actors in the ecosystem, including shareholders and regulators, continues to vary widely and is still often driven primarily by the entity's corporate structure, ownership and sector of activity.

ENGAGING WITH MANAGEMENT

In line with our 2017 research, we wanted to understand how audit committees engage with management while maintaining their objectivity and independence. A key component of this interaction relates to participation: who attends audit committee meetings, when and how? According to best practice, audit committees are able to invite directors, other officers and experts to attend meetings. In reality, as we also found across our sample of CEE audit committees, practices vary.

Chairs, CEOs, CFOs, heads of internal audit and internal control remain frequent – if not permanent – participants in audit committee meetings. In some cases, it is clear that their presence is explicitly upon invitation and/or limited to specific agenda points. Not in other cases. Additional audit committee meeting attendees can include the external auditor, officers with responsibility for compliance, legal or risk management matters as well as other technical experts. Again, such individuals may be invited to join discussions only when relevant topics are on the agenda.

> **'The CEO and CFO attend. The chair of the board is present as an observer.'**
> BELGIUM

> **'The CEO is always present as is the external auditor. The CFO is normally present, unless there is a need to discuss specific topics in his absence. Heads of accounting, treasury and internal audit come to give presentations.'**
> BELGIUM

> **'Typically, the internal auditor attends part of the meeting – as does the CFO on a periodic basis.'**
> GREECE

> **'Members of the executive board are sometimes invited, if subjects relating to their areas of responsibility are being discussed.'**
> PORTUGAL

> **'We used to allow all other board members to attend. Now this only happens upon request and when required, including when recommended by our national competent authority.'**
> MALTA

As pointed out by two respondents, the constant presence of board members or other executive directors at meetings can be problematic. It hinders the possibility for audit committee members, particularly non-executives, to discuss matters in private – or meet the external auditor alone. It can lead to duplication of efforts. One respondent notes that this issue has been the subject of specific discussion with the competent authority.

'The CEO, CFO, head of internal audit and the external auditor are regularly invited. Nonetheless, there will be a part of the meeting where the independent, non-executive directors can deliberate alone.'
MALTA

'We need to change. It is difficult to perform as an audit committee if the CEO and chair of the board are always present. It would be good if, at least once a year, there were contact with the auditor without anyone from management present. This would enable the auditor to speak more freely.'
BELGIUM

'Our only interaction with the national competent authority was a meeting to discuss whether it was advisable to allow only audit committee members (and not all board members) to attend audit committee meetings.'
MALTA

'There is insufficient awareness by other board members of the exact role and responsibilities of the audit committee. This can lead to duplicative discussions – and sometimes dilute the effectiveness of the audit committee.'
MALTA

INTERACTING WITH THE ENTITY

Engagement with the corporate entity is not necessarily limited to formal audit committee meetings. Indeed audit committees are generally entitled to meet with any relevant person from within the entity, if necessary without other executive directors present. Indeed, 17 audit committee members indicate that they have regular interactions with the different parts of the entity. The frequency and nature of the contact, however, differs. This can be a consequence of the size, complexity or culture of the corporate entity. Hence, for instance, one respondent speaks to all staff while another seeks to respect reporting lines in the entity. Interactions can also reflect the level of proactivity of the audit committee (or, more specifically, the chair).

'I prepare for meetings with the external auditor each quarter by speaking to all directors one-to-one.'
THE NETHERLANDS

'We try to contact each part of the entity that is deemed relevant once a year.'
PORTUGAL

'Contacts are limited to the CEO, CFO and external auditor. It is important for the audit committee to respect the reporting lines within the company.'
BELGIUM

'We are a holding company with a small staff at HQ – I speak to all of them regularly.'
THE NETHERLANDS

'Communication with all departments is clear and open. There is significant cooperation from all departments.'
PORTUGAL

'The audit committee can see anybody, anytime necessary.'
BELGIUM

'As audit committee chair, I meet the chair of the board to discuss agenda items every fortnight. Twice a year I lunch with the CEO.'
BELGIUM

For understandable reasons, given audit committees' remit, interaction is more intense with internal audit, internal control and finance functions. Some audit committees or audit committee chairs also seek to meet with senior management from across the entity on a regular basis – be it weekly, monthly, quarterly or yearly. Others have far more limited contacts, primarily centred around participation in board or audit committee meetings.

'Contact with non-financial functions of the entity is very infrequent.'
GREECE

'We have quarterly meetings with the CFO and Head of Accounting. We meet other heads, usually on an annual basis, to talk through relevant audit issues.'
GREECE

'We interface more with different parts of the entity to understand risks better.'
BELGIUM

'Generally speaking, there is not much contact with internal departments other than through the individuals who regularly attend audit committee meetings. However, there are no barriers to interacting with internal departments on an ad hoc basis.'
MALTA

'Contact with other parts of the organisation is primarily through board meetings, when senior management give detailed presentations.'
MALTA

COMMUNICATING WITH SHAREHOLDERS

Communications between audit committees and shareholders vary widely. This is to be expected. The regulatory framework in a country may have an impact. The level of interaction is also bound to differ between publicly-traded entities with a large number of shareholders and entities that are part of groups or have a dominant single shareholder, including state-owned enterprises.

'There is no contact with shareholders. Many are abroad.'
MALTA

'There is no engagement with shareholders. It is a listed entity, most shares free float.'
GREECE

'There is insufficient alignment between audit committees at group and subsidiary level. Often they're not on the same page and there is insufficient communication between them.'
MALTA

Where there is a limited number of shareholders, these are more likely to be present on the board or indeed the audit committee directly. It is not unexpected, therefore, that 13 respondents consider that their main interaction takes place via the board and only three, generally members of audit committees of publicly-traded entities, point to engagement during the annual general meeting.

'We interact through the board of directors.'
MALTA

'Majority and minority shareholders are present in the board.'
GREECE

'A single shareholder holds more than 90% of the share capital.'
PORTUGAL

'The group CFO is a member of the (subsidiary's) audit committee.'
BELGIUM

'As the entity is listed, I prepare an update for the AGM and answer questions.'
THE NETHERLANDS

This is an area where there still seems to be scope for enhancing engagement. Yet only a small number of respondents explicitly identify this as an issue that could benefit from more attention. Most respondents appear to be satisfied with existing levels of communication with shareholders, and indeed may not deem it a matter for the committee. Two audit committee chairs highlight the importance of engaging with stakeholders rather than shareholders.

'Interaction with shareholders is a matter for the board chair and CEO. It is not appropriate for the audit committee to have direct involvement with shareholders.'
PORTUGAL

'Interaction with shareholders is the responsibility of the board chair and top management.'
BELGIUM

'The audit committee should not engage with shareholders. Only in case of specific reasons is engagement possible.'
THE NETHERLANDS

'To promote confidence, the audit committee could send an annual report to shareholders detailing its oversight of the auditor and audit process.'
CYPRUS

'Our stakeholders are the provinces, municipalities and the general public. We are under a magnifying glass. We regularly discuss our figures and what the external auditor has found with our stakeholders. But as an audit committee, we do not have much contact with shareholders – that is the task of the supervisory board as a whole.'
THE NETHERLANDS

'Audit committees should be more focused on relationships with their stakeholders, including counterparties, customers, investors and regulators.'
PORTUGAL

CONTACT WITH REGULATORS

We also asked respondents about contact with competent authorities and other regulators. While 11 confirm that they are in touch, the frequency and intensity of contact differs. Several respondents note that contact is primarily or solely through the board or management, particularly via the CFO, rather than the audit committee. Audit committees, however, may be involved in reviewing information requests.

'I've had zero contact with the AFM [The Dutch Authority for Financial Markets]. I did hear that other companies are in contact.'
THE NETHERLANDS

'Contact is infrequent. If the audit committee feels it is necessary to contact the competent authority or other regulators, then action is taken to ensure the company is in compliance.'
PORTUGAL

'Contacts generally occur only in times of crisis or extraordinary circumstances – and not necessarily in an individual's capacity as an audit committee member but as a board member.'
MALTA

'The CFO is in contact with the regulator but the audit committee is copied in on all correspondence.'
GREECE

'The committee has no direct contact but does review information requested by regulators and oversight bodies.'
BELGIUM

'The AFM contacts the management board. The committee has been informed of correspondence between the entity and the AFM but the response was provided by management. If matters were to be escalated, the supervisory board would be contacted rather than the audit committee.'
THE NETHERLANDS

Of the audit committees surveyed, those in the financial services sector are far more likely to be communicating with regulators and supervisors. This is particularly the case in Portugal and Greece where several respondents describe being under close oversight by both national and European-level supervisors.

'Meetings with the banking supervisor are held frequently, at the supervisor's request.'
PORTUGAL

'Meetings with the ECB JST [joint supervisory team] are held twice per year. The JST has access to agendas and minutes of the audit committee meetings.'
PORTUGAL

'The committee meets the ECB JST once per year – and the Bank of Portugal when needed.'
PORTUGAL

'There may be specific requests from the SSM [Single Supervisory Mechanism] and the Central Bank for information. When the annual review of the SREP [Supervisory Review and Evaluation Process] is being performed, the audit committee might be involved in the process to demonstrate that it is aligned with the response of the board of directors.'
GREECE

'The Hellenic Financial Stability Fund is represented on the audit committee.'
GREECE

These findings remain in line with the broad observations drawn by the Commission in its 2017 report on developments in the external audit market. The report noted at the time that the level of audit committee supervision varied widely across member states, as did the level of other activity (dialogue, surveys, sharing of best practice etc.) between competent authorities and audit committees.

QUESTIONS FOR FURTHER REFLECTION

How does the audit committee strike the right balance between engaging and challenging management? Is there an appropriate and meaningful level of interaction with management as well as key teams and departments?

Is there a constructive and collaborative relationship between the board and the audit committee?

Is there a clear understanding of who are the audit committee's key stakeholders (including how they may differ from the board's)? Do stakeholders understand what the audit committee does – and how well it does it? Could transparency, for instance on audit matters, be enhanced?

Should the audit committee be in more direct communication with the regulator? Is it prepared for the potential of strengthened regulatory engagement and/or enforcement?

Looking at core responsibilities: external audit and risk management

Audit committees oversee the integrity, compliance and quality of the financial statements and disclosures prepared by management. They have a specific role in overseeing the external audit function, including assessing the effectiveness of the audit process for the benefit of shareholders and other stakeholders.

These responsibilities have been enhanced in recent years with the implementation of the 2014 EU audit package, with its emphasis on enhancing the independence of the audit process while improving audit quality. This focus on independence and quality remains today, at national, European and international level. Recent efforts, for instance, by the International Organisation of Securities Commissions (IOSCO) to share good practices for audit committees[3] are very much in this vein.

Although core functions have been increasingly codified, it is still possible for these responsibilities to be discharged in different ways. The situation is even more fluid where it concerns audit committees' risk management functions.

THOUGHTS ON AUDIT QUALITY

Questioned about their levels of satisfaction with audit quality, it may be reassuring that 11 respondents are content, three express mixed views and one is unhappy. Respondents falling into the first category range from those expressing full confidence to those who are more measured in their feedback. Some believe that audit quality has improved; others note that there is still space for further improvement.

> ***'I'm not satisfied with audit quality. There is no information on materiality and how relative this is compared with others in the same sector. There is no explanation on how key audit matters are dealt with. There is too much boilerplate reporting.'***
> BELGIUM

> **'Audit quality is fairly adequate for the status and needs of the company.'**
> GREECE

> **'I'm generally satisfied with the technical skills, availability and proactivity of the external auditor.'**
> PORTUGAL

> ***'There is a good relationship with the external auditor. The external auditor is very proactive and there is a good level of respect of independence with real challenge. The communication is open and transparent.'***
> BELGIUM

> **'Yes, but there is room for improvement with regards to meeting deadlines.'**
> PORTUGAL

There is no systematic way in which such judgements about audit quality are made. While 11 respondents state that their audit committee does appraise audit quality, six do not (and the remainder preferred not to answer). Where assessments are undertaken, the frequency and nature of such exercises varies widely.

Assessments may be quite informal or may be based on reports provided by the external auditor. Two respondents reference the use of reputable firms as a way of safeguarding audit quality. One member notes the potential for improvement – while another laments the lack of any formal criteria by which to judge audit quality.

3 IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality FR01/2019 (January 2019).

‘There is no formal process for evaluating the external auditor.’
PORTUGAL

‘Audit quality – which is satisfactory – is mostly measured through the results and reports received by the audit committee.’
MALTA

‘There is no measure of audit quality, but we obtain sufficient information on the quality of the service provided through presentations and reports as well as formal and informal dialogue with management and the external auditor. Certain tools such as surveys or more formalised assessment meetings could allow audit quality to be measured.’
CYPRUS

‘I wish there was a more scientific way to measure audit quality.’
MALTA

Other audit committees take a more structured approach to reviewing quality, including using questionnaires, grading certain interactions and, in one case, reviewing reports from the competent authority.

‘We measure audit quality annually. A questionnaire goes to the various departments that interact most frequently with the external auditor. Results are shared with the board of directors.’
PORTUGAL

‘Audit quality is measured through interaction with group auditors, regular updates and, from time to time, other reports from external auditors. External auditor reporting is also reviewed by the relevant quality assessments of ELTE [the Hellenic Accounting and Auditing Standards Oversight Board].’
GREECE

‘The external auditor used to be more involved in the evaluations. We now do this in an objective way. We grade quality by looking at the teams that do country visits. After grading we discuss results in an audit committee meeting with the external auditor present.’
THE NETHERLANDS

Several respondents from The Netherlands, and one from Malta, provide additional insight into how audit committee members look at less tangible (and therefore, arguably, more elusive and less transparent) indicators of audit quality, while also expressing thoughts on what can be realistically expected of the audit process.

‘As chair, I hold informal meetings with the external auditor to gauge relevant aspects of quality. We gain insight into the quality of work by looking at the reports and findings submitted as well as the detail accompanying any recommendations. We pay close attention to ensuring that the external auditor cannot be ‘bullied’ by powerful individuals within the entity.’
MALTA

‘We assess quality, continuity, tone of voice. We look at the overall relationship to ensure it is strengthened and maintained, enabling both sides to speak to each other honestly and openly if something does not seem to be quite right. That is critical in my opinion. For me it is important that the external auditor also places importance on the relationship, to see their professional pride and passion.’
THE NETHERLANDS

‘Finding a balance between soft and hard controls is important; you don’t want people to hold things back, that they’re too anxious if sharing things. I think it is important to have an audit team with continuity and good management to ensure quality. If there is too much turnover, you can’t go into depth to see what the company is doing and how it is tuned.’
THE NETHERLANDS

'We look at culture and behaviour. We think it is always about the people that work at the external auditor. We expect more from the external auditor on fraud, short-term and long-term risks, strategic direction. We talk once or twice a year with the external auditor about what we expect from them but also what they see when they look at the entity and us.'
THE NETHERLANDS

'There is a mismatch in expectations and the work that the external auditor can actually perform. The expectation is that external auditors should be able to find every issue when all other lines of defence have failed to find such issues. This is unrealistic.'
THE NETHERLANDS

SELECTING THE EXTERNAL AUDITOR

A core responsibility of the audit committee revolves around the selection of the external auditor, including ensuring compliance with the legislative requirements brought in by the 2014 EU audit package particularly around tendering and rotation for PIE audits.

Of the audit committees surveyed, only six have recently made changes to the way in which they select and appoint the external auditor. In a number of cases, the lack of change reflects satisfaction with existing selection procedures.

'The process complies with European legislation. At least two firms are presented for the final choice of the audit committee. The process is seen as being robust.'
PORTUGAL

'The existing process is satisfactory; it ensures broad participation.'
GREECE

'Generally speaking, the pool of external auditors is known to the board. The selection process is strongly based on the reputation of the external auditor alongside feedback from other firms that have used the same firm.'
MALTA

'A formal process has been defined recently and will be applied for the first time this year.'
PORTUGAL

'There are some improvement opportunities relating to the formalisation of rules and governance around the process.'
PORTUGAL

'The last selection process was largely led by management. Next time, the lead really needs to be with the audit committee.'
BELGIUM

Several respondents acknowledge the need for further enhancements. Others underline limits to the freedom of choice that audit committees may have when searching for an external auditor.

'There is a five-year mandatory rotation for systemic banks. This has inherent limitations, relating to the existence of conflicts of interest with several audit firms including those providing non-audit services.'
GREECE

'There isn't much choice left between external auditors. Furthermore, the group level in Paris decides on the selection of the external auditor.'
BELGIUM

APPROACHES TO RISK MANAGEMENT

Echoing our findings in 2017, responsibilities for risk management vary across our sample of audit committees in 2019, suggesting that this remains an area that continues to merit attention. Differences in attitudes and approaches may be a sensitive reflection of the nature of the underlying business. But they can also point to a somewhat indiscriminate allocation of responsibilities between supervisory boards.

Nine respondents indicate that audit and risk responsibilities are split between different board committees. Where this is the case, the audit committee – as would generally be expected – tends to have more of an oversight role.

'The audit committee is responsible for ensuring the effectiveness of the internal control system and for monitoring, with the risk committee, the management of some risks, especially compliance risks. The audit committee does not make decisions regarding risk management.'
PORTUGAL

'There is a separate risk committee at board level. Audit committee responsibility is aligned with regulatory requirements and focuses on monitoring the internal control framework and the assessment of the risk management process.'
GREECE

Several respondents highlight the role of the board, rather than other board committees, in managing risk. A few others draw attention to the fact that responsibilities lie with different functions in the entity. In one case, some risk management and internal control functions are outsourced. The separation of responsibilities may also be more in principle than in practice; different board committees may be established but their membership overlaps.

'Internal audit and risk are jointly responsible for the oversight of the risk assessment of the company. Ultimately, responsibility for the company's risk appetite lies with the board of directors.'
GREECE

'Risk function is overseen by the board but the audit committee is aware of significant risks through ORSA [Own Risk and Solvency Assessment] reporting. The committee has oversight of the internal audit function.'
GREECE

'Risk is generally managed by the chief risk officer and risk department. There isn't much oversight at committee level.'
MALTA

'Risk management and internal control are outsourced. The external adviser informs the audit committee on how the risk framework needs to be adapted and updated. The main challenges are external rather than internal risks. Responsibilities for risk management and internal control are not shared with another committee.'
BELGIUM

'The audit committee is responsible for the risks of the organisation as a whole and so members need to be aware of all risks. However, financial risks are directly monitored by the risk committee. Two members of the audit committee are also members of the risk committee. There is the objective of fully separating the two committees.'
PORTUGAL

It is evident that a greater separation of risk responsibilities between board committees is often a reflection of the size of the individual entity and/or the sector in which the entity is active. Larger corporate structures tend to have more specialised board committees. In financial services entities there may be additional legal requirements.

'Risk management is monitored in a specific committee of the bank. The responsibilities of the audit committee include the issuance of an annual opinion on the effectiveness of internal control systems, including risk management systems.'
PORTUGAL

'Separation is important in the financial and insurance sector. Risk and compliance play an important role there and specific requirements need to be adhered to. Additional oversight is required and best executed by a separate specialised committee.'
MALTA

While accepting that for some entities it may make sense to split – or share – responsibilities, many audit committee members take the view that such a division does not always make sense. For some, this view reflects the size or complexity of the underlying entity. Others believe that the risk management responsibilities are connected and therefore better dealt with together.

'Splitting responsibilities would be overkill given the entity's size.'
MALTA

'For non-regulated entities, it does not make sense to split committees.'
BELGIUM

'If the company grows larger, then a split in responsibilities would be advisable.'
MALTA

'For banks it might be necessary, but not for other entities. It is valuable to keep these responsibilities together.'
THE NETHERLANDS

'If we are talking about financial risk, I believe that responsibilities cannot be split.'
CYPRUS

'Splitting audit and risk would be counterproductive. The tasks are complex enough. In any case, more time on these issues is necessary and will be required from both the board and the committee.'
BELGIUM

'I think these are connected responsibilities. Although I do see that technology is developing so quickly that you'd need to increase your knowledge to be able to keep up. If you look at it from that angle, I could see a split in the future. But right now we are not ready for that.'
THE NETHERLANDS

Some respondents share further reflections on the risks that their audit committee is considering as well as giving examples of where the committee has identified shortcomings or has overseen improvements, particularly around internal control.

'IT and operational risks, although monitored, are seldom discussed.'
GREECE

'It is good to also look at other risks (ie, reputational), not just financial.'
BELGIUM

'As a general deficiency, a lack of a system that enables the continuous monitoring of risk has been identified in the form of permanent control.'
GREECE

'The committee has undertaken a lighter, non-systemic approach to risk management since the situation was relatively primitive in the past, with many inadequacies in internal control. Much work is being done to upgrade procedures and control safeguards. This is an area where the committee will have increased responsibility in the future.'
GREECE

Finally, three respondents from Belgium and The Netherlands share some reflections on the broader role that the audit committee can play in helping entities understand and manage risk.

'I think that in smaller companies, the audit committee can really help the organisation understand risk. For many people risk is an abstract concept. We find that people find it difficult to understand controls and how to use them. It is very important to find a language that people understand. You often see that risk is understood at top level but not at a lower level. Therefore, you cannot just say 'define your top 10 risks'. If you can send people along who can take up the conversation this can really help to improve risk management. It is not that people do not want to do it. I find the negativity around incidents and issues very annoying. You need to be careful that there is still room to have a meaningful conversation.'
THE NETHERLANDS

'The level of awareness in terms of dealing with non-financial risks and how to flag uncertainties needs to improve further. The biggest nightmare scenario would be that there are not sufficient internal controls to cover the risks. And what happens if you think you have foreseen everything and a major unknown risk materialises? The committee is trying to respond by undertaking a large risk-mapping exercise that includes more qualitative information and identifying clear and understandable risk indicators.'

BELGIUM

'I do see that the risk paragraph is slowly getting more connected to the strategy. Almost a quarter of the annual report is on risk nowadays. It describes what is most important and is mainly descriptive. Those risks change a lot. I wonder – can you express a risk appetite in figures? How do you describe that? If you have a zero tolerance policy then you have to accept that you'll need very detailed controls. This might not be a workable solution. Having this discussion in the audit committee is very relevant, I think.'

THE NETHERLANDS

QUESTIONS FOR FURTHER REFLECTION

Does the audit committee have an effective assessment process in place to review audit quality? Is there a mechanism in place to ensure that any issues identified during such appraisals are effectively addressed?

Should the board provide more transparent communications about the reasons behind the selection of the external auditor? Do selection procedures need to be kept under review?

Is there clarity on the risk management roles of the audit committee, the board and other supervisory committees as well as specific functions within the entity?

Where there is not a separate risk committee, what risks are being considered by the audit committee – those related to the financial process or broader risks to the corporate entity?

Where an entity has a separate audit committee and risk committee, what is the level of interaction between them?

What role can the audit committee play to help ensure that risk management is better connected to strategy?

Making a difference: impact and profile

Audit committees are in place to have an impact on how businesses function. They encourage a culture of improvement, enhance understanding within entities of the importance of corporate reporting, and challenge management and the external auditor. It is not surprising that audit committees are in the regulatory spotlight.

Yet as we noted in 2017, it can be hard to evaluate if and how audit committees are having an impact in practice. How audit committees discharge their functions differ. The issues prioritised vary from one audit committee to another. This reflects the nature of audit committees, with conversations often taking place in private.

Nevertheless, the audit committee members that we surveyed across the EU in both 2017 and 2019 overwhelmingly consider that their work is having an impact, especially in core competence areas. Whether this translates into a more positive profile of audit committees, however, is less clear.

AUDIT COMMITTEES: SATISFIED WITH THEIR IMPACT

The majority of respondents indicate, perhaps predictably, that they are satisfied with the impact that their audit committee is having, especially when it comes to core responsibilities relating to financial reporting, internal control and internal audit. Audit committee members also feel that they are having a positive effect on risk management and the external audit process. The areas of major impact that are identified by respondents closely match soft and hard law requirements. They are also in line with the feedback received from audit committee members in CEE in 2017.

'We have most impact in the area of financial reporting – getting the financial statements out correctly and on time.'
MALTA

'Our main impact is to create, across all departments, the awareness of and compliance with all laws, regulations, policies and procedures in force in the organisation.'
PORTUGAL

'I am satisfied with the impact we have as an audit committee. What I see is that when we, as an audit committee, have an opinion about something this is taken seriously.'
THE NETHERLANDS

Additional reflections shared by respondents provide more granular examples of areas where audit committees have had a specific impact. Financial functions have been restructured, staff replaced, internal control processes reviewed and enhanced. Cooperation has improved with the external auditor. Audit committees themselves have changed, becoming more effective and prepared to challenge executive decision-making.

'We've had an impact when it comes to risk management, press releases, earning analyses, IFRS questions, dividend computations, management judgements and internal audit.'
BELGIUM

'We've restructured financial organisation procedures and segregation of duties. We're setting up regulations on corporate governance, enhancing compliance procedures with regulators and increasing cooperation with the external auditor.'
GREECE

'I have the feeling that operational departments are more engaged in finding solutions for internal control deficiencies thanks to the involvement of the committee.'
PORTUGAL

'We've been transforming the audit committee from a superficial, non-effective body to a real functioning entity overseeing all key areas and providing comfort to the board on the company's compliance, financial reporting and general operations. We've had a major impact in improving internal controls in all operational areas over the last two years in collaboration with a new internal auditor.'
GREECE

'In the past, the company was generous in entering into emerging businesses. There were innovative things started with public money. We received too little information about these kinds of initiatives. As an audit committee, we said that this was not sufficiently based on a business case and that too little came out. We have had strong discussions about the use of public money. One initiative was too big for the company. We sold it. That was a risk.'
THE NETHERLANDS

'Sometimes the role of the audit committee is to set a firm deadline and then stick to it. We see that the CFO likes this; when someone else creates the pressure for change. With GDPR, for instance, we saw that this was necessary.'
THE NETHERLANDS

Levels of satisfaction do vary. While no respondents declare themselves to be completely dissatisfied, a few observe that their impact could be enhanced further. Others suggest that the work of an audit committee is always in progress – and that perhaps it is not up to them to judge how impactful they have been. Two audit committee members are particularly restrained, qualifying their satisfaction as being 'limited'.

'Yes, so far – and taking into account the nearly non-existing state of internal auditing previously. But a step-up is required. Risk management is also still not adequate.'
GREECE

'There is never enough impact. You have to make sure that the company continues to function. A good balance is necessary.'
BELGIUM

'I think the audit committee has overseen all the key areas. I do not recall any fundamental disagreements. It is thus difficult to say if we have an impact, but I think we are not the best-placed people to tell.'
PORTUGAL

'I'm satisfied with the impact, but it requires a large involvement from all members of the committee.'
BELGIUM

'We need more respect for the authority and responsibility of audit committees. Rather than adding more responsibilities on paper, more focus is needed on how audit committees are managed. More heart rather than more box ticking.'
MALTA

Several audit committee members, again from The Netherlands and Belgium, also shared their reflections on the evolving role of the audit committee. In doing so, they note the need to balance competing demands, to navigate the border between executive and supervisory roles and query whether there is a need to move towards fulfilling a more strategic advisory function.

'The role of the committee has deepened. The committee drives change more and gets into risk analysis more. It has become a performing committee, providing true support for the board of directors.'
BELGIUM

'Fellow board members place a value on the committee's work. Our reporting to the board has changed drastically compared to the past. The struggle is to know how much more time should be placed on different topics and to ensure discussion is efficient and practical. We're struggling to find the right answer here.'
BELGIUM

'The audit committee has a supervisory role. Having too much impact could imply that the committee has too many executive responsibilities.'
THE NETHERLANDS

'The primary role of the audit committee is to help an organisation to be(come) in control – this shows how much impact the committee has. The trend is towards more and more emphasis on the regulatory role of the audit committee; however, the bigger impact can be had when audit committees focus on helping organisations make the right decisions.'
THE NETHERLANDS

ON THE AGENDA TODAY AND TOMORROW

In line with core responsibilities, the audit committees surveyed are overwhelmingly spending time on financial reporting, internal controls, risk management, internal and external audit. These broad headings cover a long list of more specific issues, including monitoring related party transactions, cash flow management, debt management, dividend computation, non-audit services, appointment of the external auditor, fraud cases, communications with shareholders and stakeholders. Most expect to be continuing to address similar matters in the foreseeable future.

'The committee closely monitors and approves the transactions with related parties and/or companies that are owned by the shareholders of the entity.'
PORTUGAL

'We're spending time on new high-risk audit issues and monitoring progress made on past audit issues.'
GREECE

'Top focus areas include approval of NAS [non-audit services] and monitoring of the NAS cap – as well as monitoring implementation by the company of recommendations from internal and external auditors.'
PORTUGAL

'Most time is spent on quarterly financial reporting and on work related to the control environment given that the company prepares Sarbanes-Oxley Act reports.'
GREECE

Looking to the future, the list of items on the agenda does not end there. Many respondents flag the growing time spent on broader compliance and regulatory requirements, including tax and legal issues as well as covering whistleblowing, complaint procedures, IFRS and pensions. Others are dealing with industry- or entity-specific issues, with examples given of the audit committee's involvement in restructuring situations or in implementing large projects, dealing with non-performing loans and impairments, addressing macro-economic shifts. Audit committees in some countries covered in the research have had to confront jurisdiction-specific issues, not least the imposition of capital controls during the sovereign debt crisis in Greece.

'Compliance issues are becoming more and more significant.'
GREECE

'Anti-money laundering and terrorism financing prevention are one of our top focus areas.'
PORTUGAL

'Cyber, the IT environment and related controls are on our priority list.'
THE NETHERLANDS

'Liaison with the group is becoming more important due to the scale of digitalisation issues. Big investments are required within the group.'
BELGIUM

'A major of area concern is the level of NPL. The audit committee will need to get comfort that the assessment of potential new debtors is appropriate and assurance that credit control is aligned to decisions taken related to risk appetite, budget and business plan.'
GREECE

'Dealing with the transition to clean energy and the impact on long-term financing, investments, etc.'
THE NETHERLANDS

Some audit committee members particularly flag issues related to talent and skills – notably in internal audit.

'The committee has established an objective that all members of the internal audit department must be CISA [Certified Information Systems Auditor] certified (only one is at the moment).'
PORTUGAL

'Internal audit processes can be further enhanced, but standards are largely met. However, internal audit is currently understaffed. This issue needs to be solved.'
BELGIUM

And, of course, audit committees' agendas are also driven by the nature of the underlying entity – a point driven home by one respondent.

'Focus areas need to be driven by the risk profile of an entity. There are company-specific issues and general issues (financial reporting, internal controls, tone at the top, tax and compliance) – these areas can still vary widely across organisations, depending on an organisation's background, maturity level and risk profile. The current entity has a strong balance sheet and thus the audit committee does not spend too much time on financing and liquidity policies but spends more time on IT strategy. At companies with high-risk balance sheets, more time is likely to be spent on financial matters.'
THE NETHERLANDS

ENHANCING THE PROFILE OF AUDIT COMMITTEES

Does having an impact translate into a greater profile (or a more positive image) of audit committees? Many audit committee members prefer to remain neutral on this point. Indeed, asked whether audit committees have sufficient profile, only 10 respondents agree, in line with their counterparts surveyed in CEE. However, slightly fewer respondents in 2019 express negative views compared to the findings of our 2017 research.

'Yes. The existence of the audit committee dates back many years and it is well organised.'
GREECE

'Profile is not sufficient but it is evolving; audit committees are gaining more profile over time.'
MALTA

'No, for the audit committee's role to be further enhanced, further time should be invested by audit committee members.'
CYPRUS

'Probably not. However, it is increasing. Though audit committees carry a large amount of responsibility, which regulators put pressure on at times, the right structures are not always in place to allow for them to have the expected impact.'
MALTA

'The audit committee has the right authority but the real question is the willingness of the audit committee to play its role – and the ability of its members to do so.'
BELGIUM

Many respondents qualify their comments, noting the differences between audit committees in different sized entities and in diverse sectors, with the financial services industry particularly singled out. Others comment on the overall maturity of the market. As in 2017, a number refer to the journey that audit committees have been, and are, on.

'Profile depends on the size of the entity. The larger the entity, the higher the profile. Many smaller entities would not have an audit committee if it was not for regulatory requirements.'

MALTA

'Our profile is considered better than that of other committees. In the banking industry, audit committees have a high profile that is increasing year on year.'

GREECE

'The entity (an SEC registrant) has a level of maturity that is not necessarily aligned with the jurisdiction at large.'

GREECE

'It is growing significantly. I remember a time when some of the largest financial institutions in the country did not have audit committees. There has been a lot of development and there is a lot of respect.'

MALTA

'The committee does not have sufficient visibility. Its importance is increasing but there is still room for improvement in the acknowledgement of that importance by all relevant stakeholders. Pressure from the regulators and supervisors has been, and will continue to be, important to reinforce the status and position of the audit committee.'

PORTUGAL

QUESTIONS FOR FURTHER REFLECTION

Can the audit committee communicate more openly about the areas of focus and where the committee is having an impact? If so how, could this be done?

Does the committee have a clear idea of how core responsibilities and current focus areas are likely to evolve in the mid to long term? Is there a process in place to enable a regular review of priorities?

Are there opportunities for audit committee members to exchange experiences and share best practice in addressing core competence areas?

Responding to changes in corporate governance, reporting and technology

Audit committees have not stood still in the two years since we conducted our research in CEE. Across Europe, they have continued to respond to evolving corporate governance norms, including widespread calls for stronger independent voices on boards as well as more checks and balances on the power of executives. In the corporate reporting area, audit committees are dealing with a growing focus on non-financial information and a concurrent increase in disclosures.

With the digital revolution continuing to speed up, audit committees are also grappling with the consequences of technological change on the financial reporting and audit process as well as broader impact on businesses. Given the pace of change, we took the opportunity in 2019 to probe audit committee members more deeply on how they are responding.

CHANGING ATTITUDES TO CORPORATE GOVERNANCE

Audit committees, at the centre of interaction between management, boards and external auditors, are a natural focal point to understand how the corporate governance environment continues to change. As well as exploring the role and impact of audit committees themselves, in 2019 we specifically asked respondents for their thoughts on the broader corporate governance changes that they see, the drivers for such changes – and whether change is positive or not.

Irrespective of country, there is broad agreement among the audit committees surveyed that attitudes to corporate governance have changed in the last five years. While some entities are considered to already be best in class, many more members refer to a greater awareness of evolving corporate governance norms. Others underline the work-in-progress dimension – and a small number remark that changes have been primarily formal rather than substantive in nature.

'Attitudes have improved tremendously.'

MALTA

'The financial sector has changed enormously. There are still changes in process. Still, the improvement has been really significant.'

GREECE

'Corporate governance is becoming more and more important, including for large non-regulated entities.'

MALTA

'We are already working in accordance with the code. The company is a front-runner, especially in the semi-public environment. The only thing that has changed is that we are more explicit about it now.'

THE NETHERLANDS

'A more positive attitude towards corporate governance is probably needed.'

BELGIUM

'Not really. Company attitudes are already up to high standards. The CEO sets the tone at the top and this has created a culture that fosters corporate governance.'

GREECE

'Not a lot. A lot of formal changes.'

BELGIUM

Reflecting on change, respondents often single out moves to strengthen the role of non-executive board members alongside greater segregation of duties and enhanced checks on executives. Others comment on the need to provide greater disclosures. While we did not specifically ask about diversity, it is perhaps surprising that no respondents brought this up despite growing societal, regulatory and corporate focus on gender equality and on broader inclusivity. There are also only minimal references to issues surrounding remuneration.

'Corporate governance has improved in the last years, through the implementation of more checks and balances on the power of the executive board.'
PORTUGAL

'Yes. The most important step has been the inclusion of independent and non-executive members in the board of directors.'
GREECE

'The bank has changed to an Anglo-Saxon model.'
PORTUGAL

'More and more reporting needs to be done. The current CEO gives more emphasis to providing guidance with corporate governance disclosures. This pushes the board to look back and see if the organisation has performed according to the guidance. There is a fine line between what you have to report and what you should report.'
BELGIUM

'Today the entire executive management team is also on the board. This creates a fault line within the board between executive and non-executive directors. The execs always express the same point of view as a block. It would be good to hear more individual voices and perspectives.'
BELGIUM

'More awareness is needed. Not everyone is completely aware of their full responsibilities yet. Change is also necessary to align directors' remuneration to the responsibilities they are taking on.'
MALTA

While evolving corporate governance codes and new regulatory requirements are deemed by 15 respondents to be important drivers for change, six also stress the need to react to business needs. Only two audit committee members specifically reference the impact of investors in driving change.

'Regulatory requirements and corporate governance codes have evolved. More and more reporting needs to be done.'
BELGIUM

'Regulation has been an important driver. But the possibility or prospect of obtaining financing from the market at some point also entices companies to ensure that they have the appropriate governance frameworks in place. Banks are also making recommendations.'
MALTA

'There have been significant changes in the last two years, including reinforcing the role of non-executive board members. The change has been driven by the board, the regulators and supervisors but also reflects the national context. Bank issues have had significant public visibility and all this has promoted reinforced governance structures.'
PORTUGAL

'Even private companies not necessarily subject to extensive governance requirements are looking for ways to improve their corporate governance. Succession planning and exit of family shareholders are driving smaller companies to consider corporate governance. The requirements for entities wishing to issue bonds, not only IPOs, is also driving change.'
MALTA

Asked about the likelihood of more change ahead, views are mixed. Some respondents expect – and are open to – more change. Others call for moderation and stress the importance of effectively implementing existing corporate governance requirements. A handful think it is time to pause.

> **'I expect to see more change, particularly requirements around independent directors.'**
> MALTA

> **'Regulatory needs and the business environment are changing: more changes in corporate governance are necessary and to be expected.'**
> GREECE

> **'It is important to evaluate if current changes in laws and regulations have been properly implemented and consolidated before undergoing more change.'**
> PORTUGAL

> **'Change should be directed towards incorporating corporate governance in the culture rather than taking a box-ticking approach. Moderation is critical. Ensuring that the most important requirements are being effectively implemented. Moral suasion is more important than regulation.'**
> MALTA

> **'The pendulum has gone too far. Too much information is given: who reads it all?'**
> BELGIUM

> **'It seems that more changes will come, but I am worried that we are reaching a point where it will be too much.'**
> CYPRUS

> **'I cannot imagine what more could be done.'**
> MALTA

CORPORATE REPORTING: A GROWING FOCUS ON NON-FINANCIAL INFORMATION

Similar sentiments are expressed by audit committee members when questioned about any noticeable changes to the broad corporate reporting framework in recent years. Although one third decline to respond one way or another, 18 agree that there has been change. Where respondents provide additional commentary, the changes described often relate to the need to disclose more information and to keep pace with evolving requirements, be they internally driven, a result of regulatory demands, or a consequence of changes to financial reporting standards. The increase in complexity – and associated risks of taking a tick-box approach – are also referred to by several respondents.

> ***'Directors' reports are more extensive. More information needs to be made public.'***
> MALTA

> **'Internal reporting requirements are continuously changing. New needs arise that are mostly related to monitoring profitability and efficiencies.'**
> GREECE

> **'Corporate reporting has increased substantially in the past years for public companies, both in frequency and volume. This is due to government regulations but also because of requests for more transparency by minority shareholders.'**
> GREECE

> **'Financial reporting has strongly evolved, including focus on IFRS. Management reporting has been more synthesised and the reading framework of the accounts has been adjusted.'**
> BELGIUM

> **'It is becoming more and more important but once again we have to make sure we're not just ticking boxes.'**
> MALTA

> **'It is important to discuss the risks associated with these changes. It is really challenging for companies, the velocity of change does not give companies the time to implement measures properly.'**
> PORTUGAL

> **'A major issue is to make the financial statements less boilerplate.'**
> BELGIUM

Questioned about the growing attention being paid to non-financial information, 15 audit committee members think this is a positive development. Seven preferred not to answer, while five individuals considered the picture to be mixed. Those that view the evolution towards further disclosures as positive also tend to believe that non-financial information feeds into improved decision-making.

'There is more attention to CSR issues and more interest in also reporting on these matters.'
MALTA

'We are very familiar with integrated reporting – we really think about how we can make things measurable.'
THE NETHERLANDS

'It is good to not only focus on the numbers but to also see what is behind the numbers.'
BELGIUM

'It encourages companies to develop a responsible approach to business, so this is positive.'
CYPRUS

'Users of information might need more disclosures to understand the increased complexity of the business environment – this supports informed decision-making.'
GREECE

'I think disclosure of non-financial information is important and useful in highlighting to stakeholders the social responsibility initiatives taken by the company.'
PORTUGAL

Several audit committee members call for further measures in this area, for instance to look at intellectual capital, technology and tax. One respondent suggests the inclusion of more forward-looking indicators in the annual report. Another provides insight into the role audit committees can play in setting up the reporting processes around non-financial information.

'There will be enhanced and more accessible financial and non-financial reporting. Reports could also include some more forward-looking indicators to improve the value of the annual report.'
CYPRUS

'More is needed. There is also the growing importance of intellectual capital. And to show how companies are fulfilling their tax obligations as part of their societal roles.'
PORTUGAL

'Disclosures can incorporate emerging areas including technology and human capital.'
MALTA

'There is a new person in charge of non-financial risks. Together with the audit committee, they are establishing the perimeter to non-financial risks. There is a lot of internal awareness but a lot more progress needs to be made. They are looking at it more from an internal controls point of view than a disclosures point of view.'
BELGIUM

A number respondents are more circumspect, often agreeing with the overall push towards greater reporting of non-financial information yet questioning whether too much information – or, indeed, the right information – is being disclosed.

'Reporting on NFI has become heavier and heavier. This is not necessarily bad. You are forced not just to look at the numbers but also at what they mean and what is behind them. All of this has to be insightful and meaningful.'
BELGIUM

'Disclosure is useful, although information must be validated to distinguish information that actually corresponds to the reality in the companies.'
PORTUGAL

'The usefulness of the information depends on whether directors and shareholders are the same individuals. Where they are not, more information is required.'
MALTA

'More transparency and reporting on non-financial topics is good in principle. But the pendulum has gone too far. Too much information is given and who reads it all?'
BELGIUM

'I think the burden placed on companies to produce information is already too high and I doubt there is a balanced effort/result appraisal.'
PORTUGAL

'I notice that companies really want to handle this well, more so than a few years ago. Organisations have a low risk appetite for compliance. But if we do nothing we will end up with a surplus of rules. I hope that there will also be people who will speak up and say, 'yes, compliance is important but let's also analyse where things go wrong at base'.'
THE NETHERLANDS

TECHNOLOGY: OPPORTUNITIES AND CHALLENGES FOR AUDIT COMMITTEES

While audit committee members are generally not IT specialists, they should, collectively, be able to raise questions and indicate whether appropriate policies and procedures are in place. Our 2017 research found that only a remarkably small number of audit committees in CEE were paying attention to IT, data and cyber security risks despite the potential impact on core business operations and on corporate reputations.

In order to assess whether the same continues to hold true two years later – albeit in different jurisdictions – we specifically questioned audit committee members about the use of technology in the financial reporting and audit processes. The responses are mixed.

About half of those surveyed suggest that new technologies are only gradually being adopted either by the audit committee itself or by the entity when it comes to the corporate reporting process. Many expect this to change – and are, on occasion, leading the call for action.

'I haven't experienced a direct impact. However, the audit committee has called for internal audit to be strengthened with staff that are more knowledgeable about technology, allowing them to adequately perform audits on technologies and systems in place.'
MALTA

'The company is quite conservative in its culture; new technologies are not easily introduced. External audit has played an important role in the introduction of new technologies and there are a lot of opportunities the company can benefit from. The committee is pushing internal audit (quite conservative) to look at new technologies.'
BELGIUM

'The committee is raising awareness within the company about the training required for employees to deal with new technologies. Adequate external expertise may also need to be found.'
PORTUGAL

'The use of technology is improving though there are budgetary constraints. The audit committee has asked for information to be produced through use of data analytics to support assumptions and assessments of deviations.'
GREECE

'The audit committee has increasingly engaged experts to assess technology, security and data privacy matters. These experts ensure that all systems are up to date and identify the vulnerabilities from a technological/data point of view.'
MALTA

Other respondents note that particular functions within the entity are making use of new technological solutions, be it data analytics, robotisation, AI or cloud-based solutions. Technology is also being used for different purposes in different entities: from improving data flows and identifying deviations, to dealing with cyber threats and benchmarking against industry standards.

'More data is being made available to the committee. The external auditors are also making use of more and more advanced technologies.'
MALTA

'New tools are being used by management rather than the audit committee.'
GREECE

'New technologies are having a significant impact in corporate reporting and internal audit. Data analytics, for instance, enables internal audit to analyse mass data rather than sample data.'
PORTUGAL

'The entity is trying to automate financial reporting as much as possible. Ideally, they would like to move to real-time reporting and dashboards.'
MALTA

'It is in the planning – robotisation for internal audit for risk-mapping purposes. Big data has been used a little but not to distil information.'
BELGIUM

'We expect to use new cloud-based technologies to deal with cyber threats.'
GREECE

'The entity uses transaction monitoring tools for AML and cyber risk purposes.'
MALTA

Several respondents also reference the use of digital workflow or specific board packages, including *SharePoint*, *Digital Board* and *Smart Governance,* to help manage the volume of information – indirectly pointing to efforts by some audit committees to tackle information overload.

'Information for the audit committee is now digital – this is a major improvement given the previous volume of paper.'
GREECE

'We use *Diligent Board*, a board package and portal that allows for a better use of documentation by board members.'
BELGIUM

Technology can help compliance but can also throw up new risks. Audit committee members interviewed in The Netherlands seem to be particularly grappling with such challenges. These may be in relation to corporate reporting, risk management processes or talent requirements. Digitalisation is also having a strategic impact on business models.

'Another very important challenge is keeping up with digitalisation. How can you help your organisation stay up to date, if you are not on top of things yourself?'
THE NETHERLANDS

'Big data and AI will help the audit committee with the analysis of data. Risk assessments will be based more on datasets – but where do you put the cursor? At what level, what anomalies do you filter out?'
THE NETHERLANDS

'The question is if the audit committee is truly able to understand how technology can enable the organisation to be in control and what the impact of technology is on various organisational processes.'

THE NETHERLANDS

'We do discuss cyber security in the committee. And when you hear what can happen in cyber, I do get nervous.'

THE NETHERLANDS

'You can digitise by putting a lot of money into your company but at a certain moment, resource management can no longer keep up. Your middle management forms a 'clay layer' that is hard to penetrate. To get through you have to do something about your talent recruitment. You actually have to bring in a few young people who are used to those new technologies and ways of interacting.'

THE NETHERLANDS

'New technologies open up the possibility for other companies to enter the market. We already see this now – there is a lot of movement. The changes can affect the core of the business, impact the business model.'

THE NETHERLANDS

QUESTIONS FOR FURTHER REFLECTION

Is the audit committee prepared to deal with further change be it in the corporate governance, corporate reporting or technological arena?

Does the audit committee have access to the specialist skills and resources required to ensure effective oversight of changing corporate governance and corporate reporting frameworks?

What is the role of the audit committee in helping entities meet non-financial information reporting demands? Is the information being used to improve decision-making? Are there associated issues with the volume and complexity of disclosures or with boilerplate approaches?

Is there a clear understanding of the technology used and/or required in relation to corporate reporting, internal audit and external audit processes? Where should the priorities be?

Is there a clear definition of the audit committee's scope of responsibilities, particularly in relation to IT and digital developments? Are related risks, whether current or emerging, regularly assessed?

Is appropriate expertise in place, whether at board, committee or entity level, to deal with technological change? Is more support, including training, required?

A full agenda ahead: some concluding reflections

To conclude, we asked audit committee members what was on their mind as they looked ahead. The list of issues raised was both long and broad. It covered matters directly relevant to audit committees' ability to perform and add value. But many also voiced broader concerns relating to regulatory requirements and the need to keep up with a rapidly-changing business environment.

WHAT FUTURE FOR AUDIT COMMITTEES?

A number of respondents return to points previously raised about the growing demands on audit committees. Some connect this to growing difficulties in recruiting new audit committee members. Others consider that it may be time to think more creatively about audit committee composition.

> **'Financial/audit- and industry-specific expertise will be required by all members of the committee and more work will be needed to address all the relevant issues in adequate depth – half a day monthly meetings may become the norm.'**
> GREECE

> **'If regulatory requirements continue to grow, additional committee members will need to be recruited.'**
> MALTA

> ***'The risks linked to being an audit committee member are increasing. Looking for audit committee members is not that easy, it is a job no one wants.'***
> BELGIUM

> **'Audit committees can no longer fly on autopilot; they just have to do more to keep up. We need to consider creating a mix of seniors and juniors on our board. We need to bring young people in – they have flexibility and insight into technological developments.'**
> THE NETHERLANDS

Again, audit committee members in The Netherlands as well as in Belgium, took the opportunity to reflect further on how audit committees can add value, including helping to shift perspectives to the long term.

> **'As a CEO, it is very hard to focus on the long-term success of the company. Having quarterly reporting tends to make you focus on the short term. Focusing on the long term is counter-intuitive. How can the audit committee help in this dilemma? I don't know. I wonder whether concepts such as sustainability and long-term value creation aren't a bit too academic to be used in daily practice.'**
> THE NETHERLANDS

> **'In the past, there was a little more distance between the supervisory board and the management board. Nowadays, I see that the need to understand what is going on has increased. There is an increase in the sense of liability and in the complexity of risks. As a supervisory board it is increasingly difficult to be able to say, 'I know what is going on'. You do not want to take over the role of the executive, but at the same time you want to get comfortable about what is going on.'**
> THE NETHERLANDS

> **'The function of audit committees is evolving. We need to get our heads together on what the committee's objectives are. Its importance is growing and it needs to better support the board of directors. The board is also asking more 'colour' and 'nuance' of the committee to support decision-making.'**
> BELGIUM

> **'At listed companies, I see a lot more awareness of what is needed in terms of compiling the figures. You do not have to spend time on finding missing numbers. But it takes trust to talk about process, controls, risk. There must be a certain confidence that people will honestly share their challenges with us. When I'm in doubt, I look to the external auditor to ask whether their perceptions match my own.'**
> THE NETHERLANDS

'We want to change the interaction with the supervisory board to move into a more strategic partnership model. We are going to be more challenging towards the executive board. I believe this is the next stage for us. The big questions are not about getting exact answers but about gaining insights. We must focus on how we can ensure that all the insights of all members of the supervisory board are considered and taken into account. To be able to talk about the real dilemmas at hand with the management board, you need to trust each other. You need to feel that you can add value and that you will not be held accountable for any uncertainties you bring to the table.'

THE NETHERLANDS

TOO MUCH REGULATION OR MORE REGULATION NEEDED?

As in 2017, we also asked respondents if they wished to flag any issues to policymakers. Several have specific requests, including pleas for the provision of better support and guidance for audit committees. Most raise broader points relating to the regulatory and oversight framework. In doing so, they highlight concerns about proportionality and effectiveness, with some specifically referencing a growing regulatory burden. Others point to the risk that oversight bodies could influence what should be management decisions. Finally, two respondents stress the need for 'more Europe', calling for a level playing field for European businesses in relation to their global competitors.

'To me the effectiveness of an audit committee is not only dependent on legislation, but on the behaviour of individual members. Legislation tends to pay attention to the formation and function of the committee but the problem is that on many topics the audit committee has an advisory role to the rest of the board. Legislation needs to pay attention to the composition of the rest of the board and the interdependence between the audit committee and the board. It is the dynamics between the audit committee and the rest of the board that determine its effectiveness, especially for less visible accounting failures such as accounting conservatism or earnings management within GAAP.'

BELGIUM

'Supervisory/regulatory intervention should be more balanced, in the relation between risks, controls and business. More attention needs to be paid to proportionality in the application of best practice.'

PORTUGAL

'There are so many regulatory controls at national and European level that you have to wonder how effective they really are.'

BELGIUM

'Regulation needs to be implemented in moderation to enable entities to keep up.'

MALTA

'There is a point at which regulation asphyxiates companies and economic growth.'

PORTUGAL

'Supervisors should be more concerned with the entities' overall objectives and risk profile and less with management and business processes. In some cases, they have a significant impact on business decisions that should be the responsibility of management.'

PORTUGAL

'We need more Europe and a level playing field.'

BELGIUM

Audit committees continue to respond to significant change, whether driven by changing business models, investor needs, regulatory requirements or broader economic, technological, environmental, societal and political dynamics. Calls for more moderation in regulatory approaches are an understandable reaction to the challenges that audit committees continue to face and an implicit acknowledgement that momentum for change is unlikely to ease in the coming years. As the collective insights from audit committee members across a number of European countries suggest, audit committees in turn are grappling with difficult questions as to how they can be most effective, not just in fulfilling their regulatory remit, but also in helping to best make a difference in ensuring the sound stewardship of corporate entities.

About the research

A total of 27 respondents, including 23 audit committee chairs, participated in the research, drawn from six EU member states (Belgium, Cyprus, Greece, Malta, The Netherlands and Portugal) providing a different sample of middle-sized countries with varying corporate governance traditions to the Central and Eastern European member states included in our 2017 research. Twenty-two respondents were male; five were female.

As such, this report is not designed to provide a detailed analysis of audit committees in these jurisdictions. Rather, our research seeks to draw out insights to help understand the practical ways in which audit committees are having an impact and what is their agenda – as well as sharing informed opinions on specific trends, including those relating to corporate governance, corporate reporting and technological change.

All respondents are members of one or more audit committees, across a range of different sectors, including financial services, risk advisory, energy, real estate, telecoms, retail, consumer products, paper and packaging, shipping and the food industry. The corporate structures of the entities also varied, from listed entities to privately owned ones, to entities that are part of multinational groups or where the state is a majority shareholder.

Interviews were carried out by local Deloitte partners in person or by telephone. A number of respondents provided input online. All the interviews were based on a questionnaire and discussion guide agreed by ICAEW and Deloitte. Fieldwork was undertaken between December 2018 and March 2019 on a confidential basis. Most interviews lasted between 35 and 45 minutes and were conducted in the local language, with translations provided by Deloitte.

ICAEW and Deloitte jointly analysed the responses. To protect respondents' anonymity, we have deliberately not identified individuals or entities throughout the report.

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