

ecoDa

Audit Committees: Experiences from a practitioner

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Origins of Audit Committees:

Not all created because of 8th Directive

- Transformation of audit review committee into full-fledged AC. Some A-to-Z spontaneous moves
- Compliance with listed companies code of conducts adopted within the frame of the EC Corporate Governance Bolkenstein Plan [see national code of governance]
- Percolation of listed head companies AC practices down to major affiliates, especially if public interest companies [listed companies, banks, insurance and investment companies].
- Anticipated or effective impact of 8th Directive, but with several exclusions [SME: staff; sales; own funds]
Key issue: at least one independent director.

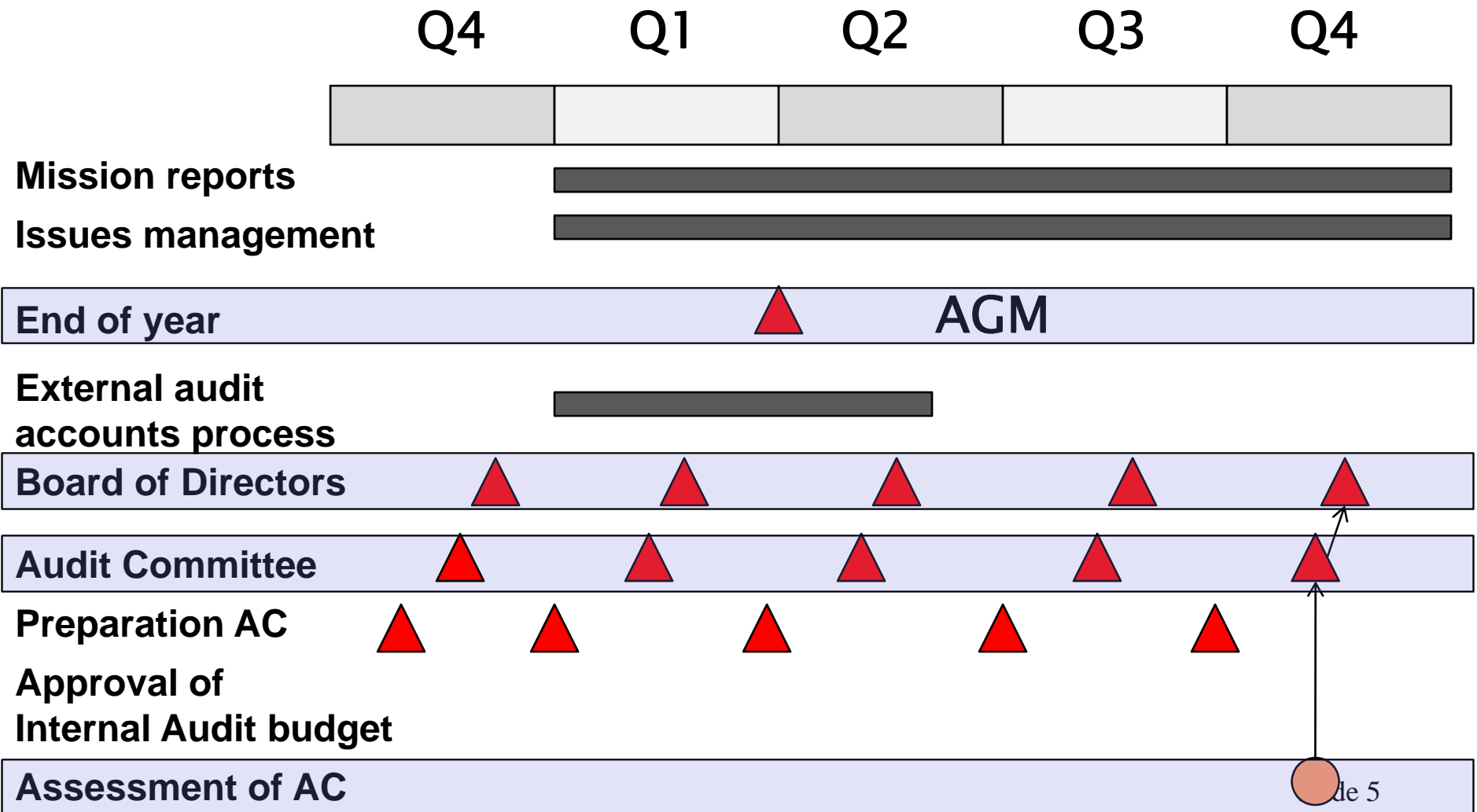
Principles of setting up Audit Committees Part I

- Adopting the AC chart / inspiration from CG principles.
- Main variables:
 - **Committee** of the board: principles of equality of duties of all board members and collectivity of responsibilities
 - **Duties**: examine the effectiveness of financial reporting, internal control and risk management. Approve the audit plan/budget. Monitor its execution.
 - **Composition**: Independent / non-executive only. accounting background / Skills map.
 - **Chairman**: independent only / accounting competence
 - **Secretariat**: usually provided by the Corporate Secretariat

Principles of setting up Audit Committees Part II

- Other main variables of AC Chart
 - **Attendance**
 - **Frequency** [See below]
 - **Agenda** [see below]
 - **Evaluation:** Frequency: usually yearly. Methodology: forms vs substance / external vs self-assessment
 - **Hierarchy:**
Reporting to the board / Disclosure in annual report [CG section]
 - **Relationship** management with:
 - Group audit [if applicable]
 - External auditors
 - Internal audit
 - Legal and compliance
 - Risk Management

Process of Audit Committee: the annual time line



Role of the Chairman:

Preparation of AC meetings

- Physical **meeting** 2-3 weeks in advance of AC meeting.
- **Attendance:** internal audit head, plus external audit senior partner, plus corporate secretary, plus on demand experts.
- **Scope:** verify minutes of previous AC meetings, verify action points of previous AC meetings, review the AC meeting agenda, overview existing tabled documents, convene experts in attendance and specify other required documentation. Plus logistics.
- **Time required:** 1-2 hours

Process of Audit Committees:

Holding AC meetings Part I

| Agenda item | Company Secretary & Chairman | CFO | External Audit | Internal Audit | Chief Risk Officer | Chief Compliance |
|---|------------------------------|-----|----------------|----------------|--------------------|------------------|
| Approval of minutes Action points [plus special reports for follow up] | X | X | X | X | X | X |
| Financials including B/S and accounts, MIS reporting, solvency situation and capital adequacy | | X | | | | |
| Quarterly management report [mains issues, results, accounts, audits, internal control, RM, compliance, litigations, miscellenaous] | | | X | | | |

Process of Audit Committees:

Holding AC meetings Part II

| Agenda item | C.Secr. & Chair | CFO | External Audit | Internal Audit | Chief Risk Officer | Chief Compliance |
|---|-----------------|-----|----------------|----------------|--------------------|------------------|
| Internal audit report including management letter, review of latest audit missions, status of unsatisfactory rated missions, review of current audit plan, adequacy of audit resources, approval of next year audit plan, etc. | | | | X | | |
| Compliance quarterly report including follow up of previous period, incident reports, relations with authorities and regulators; regulatory news. | | | | | | X |

Process of Audit Committees: Holding AC meetings Part III

| Agenda item | C.Secr. & Chair | CFO | External Audit | Internal Audit | Chief Risk Officer | Chief Compliance |
|--|-----------------|----------|----------------|----------------|--------------------|------------------|
| <p>Global Risk Management reports including evolutions in RM organization and structure, review of RM charter as well as specific reports on financial risks committees [ALM; counterparty; pricing and valuation of assets] and as reports and statistics on operational risks [including Basel II dimension].</p> | | As wella | | | <p>X</p> | |

Process of Audit Committees: Holding AC meetings Part IV

| Agenda item | Chairman | CFO | External Audit | Internal Audit | Chief Risk Officer | Chief Compliance |
|--|----------|-----|----------------|----------------|--------------------|------------------|
| Report on self-assessment of AC members; proposals for review of the principles/chart of AC | X | | | | | |
| Any other business | X | | | | | |

Audit Committee in practices

Practical lessons that have been learned

On the « Plus » side

- Bring to management expert views and judgment.
- **Independent review: « checks and balances »**
- **Delegation:** take load from the board shoulders
- Create corporate **self-discipline**
- Facilitate **communication** and authority between all experts
- Contribute to **harmonize** audit processes within a group

On the « Minus » side

- AC did **not prevent** occurrence of significant financial, counterparty and fraud risks.
- Board delegation to AC may create **loss of ownership** on accounting , audit and risk issues at level of board.
- **Expensive** process better tailored for larger industrial and financial groups. Models for SME to be developed.
- Audit competence gap among board members. Continuing **education need** in most countries.

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