European Audit Committee Leadership Network

May 2022

EACLN

VIEWPOINTS

Dialogue with the European Commission

The European Union (EU) is devoting considerable attention to corporate reporting. In the fall of 2021, the European Commission (EC) launched a consultation on the processes that underpin reporting, including governance, auditing, and regulatory supervision. Recent corporate scandals, such as the Wirecard fraud in Germany and the Carillion and Patisserie Valerie scandals in the United Kingdom, and reports from the European Securities and Markets Authority (ESMA) suggesting that a high percentage of financial reports had material misstatements have helped propel this consultation.[1] The EC is seeking to improve reporting so as to shore up confidence in both capital markets and the economy more generally. The consultation closed on 18 February 2022; its results could lead to significant changes to the EU framework for corporate reporting.

Meanwhile, the EC, the European Parliament, and the Council of the EU are negotiating the final version of a Corporate Sustainability Reporting Directive (CSRD), proposed by the EC in April 2021. Among its more significant proposals are the introduction of stronger sustainability reporting requirements and sustainability standards, plus a new requirement for third-party assurance of sustainability reporting.

Spearheading the EC's efforts on both initiatives is the Directorate-General for Financial Stability, Financial Services, and Capital Markets Union (DG FISMA). On 31 March 2022, members of the European Audit Committee Leadership Network (EACLN) met virtually with several officials from FISMA: Ugo Bassi, director of financial markets; Ward Möhlmann, deputy head of the unit responsible for corporate reporting and audit; and Delia Mehedintu, policy officer. *For biographies of the guests, see Appendix 1 (page 12), and for a list of network members participating in the meeting, see Appendix 2 (page 13).*

The EC officials spoke off the record, but EACLN members offered substantial commentary on the topics discussed. Members also provided extensive comments in premeeting conversations. This *ViewPoints* aggregates and summarizes audit chairs' perspectives both before and during the meeting with the EC officials.

Executive summary

Audit chairs offered observations and asked questions about both the corporate reporting consultation and the CSRD, as well as the higher-level issue of how much reform of corporate reporting is necessary.

- **The consultation on corporate reporting** *(page 2)*

  Members had mixed views on actions that the EC is proposing to improve oversight of reporting. While they were wary of increasing the burden and liability of independent directors, several saw the value of Sarbanes Oxley-like elements in enhancing the accountability and focus of both management and the board on internal controls. Members also had mixed views on actions to improve audit. Most were skeptical of joint audits and supervision of audit committees, for example, but they saw opportunities to improve the auditor's report and information flows from the auditor to the audit committee. They also stressed the value of encouraging the use of new technologies in the audit. Meanwhile, members noted that in addition to improving processes around reporting, the EC should consider issues of content and format. Reports are too long and difficult to understand, and the accounting standards underpinning financial statements often lead to content that is not helpful.

- **The proposed directive on sustainability reporting** *(page 8)*

  Members strongly supported the EC's push to develop uniform standards for sustainability reporting but acknowledged challenges in doing so. They welcomed the new requirement for assurance on sustainability reporting, agreeing with the EC that over time, the limited assurance initially mandated could evolve into reasonable assurance. However, members pushed back on a proposal to prohibit the same firm from auditing both financial and sustainability reports, citing concerns about inefficiencies and further constraints on their already limited choice of auditors.

- **The extent to which corporate reporting needs reform** *(page 9)*

  Members fully endorsed the EC's goal of better corporate reporting, and they saw opportunities for all the players involved to contribute. However, they were keen to dig deeper into ESMA's findings about the frequency of misstatements in financial reports, which did not correspond to their own experiences. Moreover, fraud and bankruptcy cannot be eliminated completely, members argued, and they can be difficult to prevent or detect. Media coverage may have created the perception that these issues are more of a concern to key stakeholders than they really are. To avoid overregulation, members urged caution in mandating major changes.

For a list of discussion questions for audit committees, see Appendix 5, on page 16.

The consultation on corporate reporting

The EU framework for corporate reporting has been modified over the years by several regulations and directives on accounting, reporting, and audit. The recent consultation on reporting will contribute to an assessment of how well the framework is serving investors and capital markets in Europe. It was driven partly by the wave of recent scandals involving corporate reporting, but also by ESMA reports on actions taken by national supervisory bodies against issuers because of departures from International Financial Reporting Standards (IFRS).[2]

The consultation set out three pillars that support high-quality and reliable corporate reporting: corporate governance, statutory audit, and supervision by regulators. The EC wants to understand where and how each could be improved. The consultation first asked about the overall impact of the framework and then focused more closely on each element. In premeeting conversations and in discussion with EC officials, EACLN members had a variety of observations and questions about the three pillars.

Corporate governance

The corporate governance pillar focuses on "the relationships between company boards, shareholders and other stakeholders, and therefore, on the way a company is managed and controlled."[3] The consultation asked first about the effectiveness and efficiency of current governance requirements related to corporate reporting and then about the value of potential actions to improve their quality and reliability. These actions would address the roles and responsibilities of boards and audit committees, as well as executive management, including the CEO and CFO. *See Appendix 3 (page 14) for possible actions to improve corporate governance.*

EACLN members had mixed views on the EC's proposed actions. They supported some, were skeptical of others, and thought that many had already been implemented by most large, listed companies. Members also had their own ideas about how to improve reporting.

Increasing the responsibility of the board

Regarding proposals to increase the responsibility and liability of the board and audit committee for incorrect reporting, members were concerned about the heightened demands of an expanded role, the potential exposure to lawsuits, and the impact on the independence of the board. Primary responsibility for sound reporting lies with executive management rather than the board, a member said: *"I think there's a very clear oversight role, but the job of the board is to make sure you've got the right people in the right place doing the right things, not trying to double guess or rework. I think it is unrealistic to put an audit committee leader in a role as a shadow executive. They're not equipped to do it. They can't do it as well as management."* Expanded liability would not be limited to regulatory sanctions and fines but could also lead to shareholder lawsuits, another member said, noting that such lawsuits are becoming more common in Europe.

Reduced independence of non-executive directors is another risk. A member said, *"Board members' responsibilities have already increased a great deal in recent years. We can always increase them further, but then we become executives and we lose our independence. So it's a choice between more responsibilities and less independence or equal responsibilities but complete independence; you can't have your cake and eat it too."*

On increasing board and audit committee responsibility specifically for internal controls, some members were equally skeptical: *"We already have so many controls, and the time we spend around those controls is just so great already. It's probably highest up on the agendas of the audit committee, the risk committee, and board meetings. It's incredibly demanding already, and I don't think we can really improve on it."* However, a few members saw the value of increasing responsibilities, noting the benefits of the Sarbanes-Oxley Act (SOX) requirements in the United States: *"I think the audit committee should provide assurance on internal control systems in a SOX-like way."*

A European SOX?

Indeed, some members have suggested that instituting a leaner version of SOX in Europe—applying some of its elements but not the same level of documentation—might drive both boards and management to take a more rigorous approach to controls and reporting. In discussions on fighting fraud, EACLN members have noted elsewhere "that attestation by management has added accountability, consistency, and focus in implementing and maintaining the controls framework."[4] One member suggested that the EC could make effective corporate governance systems mandatory, maybe even requiring audits of these systems. While such systems are currently addressed on a comply-or-explain basis in national corporate governance codes, action by the EC could add the *"force behind the legislation"* that another member noted was a key benefit of SOX.

EACLN members acknowledged the importance of rigor and thoroughness by the audit committee in scrutinizing reporting and questioning management. One member said, *"I think the audit committee needs to be extremely robust in asking, How did we get to those assumptions? What is the level of probability? What's the uncertainty? What are other scenarios considered? What could go wrong? Have you stress tested what it would take for this to go completely belly-up?"*

In the meeting with the EC officials, several members reiterated their support for expanding SOX-like elements that would add more rigor to the oversight of internal controls. *"SOX compliance does help as a basis for internal controls assessment,"* a member said, and another noted that finance functions that operate under SOX show greater ownership and accountability for controls than those that do not.

At the same time, members said that care should be taken to minimize complexity and confusion in implementing SOX-like measures. *"I was around when they started with SOX,"* one member recalled. *"It was too complex, too detailed, too confusing. Make it more aligned with the business processes. Start from a level that makes sense."* Members returned to the observation that there are limits on how much responsibility and accountability can be imposed on audit committees. *"We rely on management information, though we can double-check with the external auditor and the internal auditor,"* a member said.

Board composition

EACLN members acknowledged the importance of another issue raised in the consultation: having the right expertise and capabilities on the board. *"Board composition is very important. You need to have the right people on the board; you need to have diversity and vivid discussion,"* a member noted. But members mentioned the potential drawbacks of specialists. *"Does this person also contribute to the overall work of the board? I'm struggling with this notion of having very focused expertise, because we can hire this expertise,"* a member said, adding that expanding the size of the board was not the solution: *"I don't agree with having a board of 20, so that means that you have to prioritize the diversity that is most useful for you."*

Members were wary of regulatory attempts to enhance board composition. One was concerned about qualifications for audit committee members being set too high: *"It depends on how the EU defines expertise in accounting and auditing. If you're saying that someone has to have spent time with a Big Four audit firm or something equivalent, then that seems to be over the top."*

Statutory audit

The consultation asked about the current quality of auditing and how it could be improved to enhance the usefulness of financial statements. The EU legislation on auditing enacted in 2014 included, among other things, new requirements on audit firm rotation and limits on nonaudit services. Have these new requirements worked as anticipated? What other actions might be taken to improve auditing? For example, would more restrictions on nonaudit services or mandates for joint audits be helpful? These actions were among several the consultation considered. *See Appendix 4 (page 15) for possible actions to improve statutory audits.*

EACLN members had an array of views about trends in auditing and avenues for improvement. Some were skeptical about the value of mandatory firm rotation. One member explained, *"The big question is whether mandatory rotation has had sufficient impact [relative to] the normal partner rotation cycles that are in place every five years. Has it really made a difference? And is it worth continuing? Because there's no doubt that there's a huge amount of cost for the industry, both the audit firms and the reporting companies."* But others praised mandatory rotation: *"I was skeptical, and I was wrong. It's very healthy for the company because you get a fresh set of eyes, a fresh set of norms, when you replace the company that had been doing this for decades—so I'm a big fan."*

Members were wary of further limitations on nonaudit services: *"To limit the scope of nonaudit services, rationally we should do that, but operationally, I'm not sure it will improve anything. The scope of nonaudit services is already limited; not totally limited, but I don't see the advantage of going further, except maybe to increase the prices."* Another member mentioned a drawback of prohibiting audit firms from providing nonaudit services: *"If they give up consultancy, they also give up competence. And maybe audits are then more expensive because it's a calculation—there is more profit in consultancy and less profit in auditing. So, I don't think this would really work. Breaking up the firms is not the solution."*

EACLN members had divergent views on joint audits. Some were strongly against this approach. *"I don't like joint audits. I think there's absolutely no benefit. It doesn't improve quality at all; it's only more expensive. It's not efficient, and you always have a political dimension on it,"* one member said. Others saw benefits: *"I've always appreciated very much the different discussions with different auditors about the same company."* A member urged the EC to take an empirical approach to assessing this option: *"Look at what has been happening in France with this joint audit before you start making it mandatory somewhere else. Compare France with other countries in Europe."*

One factor that members saw as important for audit quality is technology. *"Audit quality has improved tremendously because of the use of data. Most big firms have invested a lot in data management and artificial intelligence,"* one member noted. *"When you've got algorithms across all your data, you can really extract value and intelligence. And that was not possible previously because you couldn't have as many people checking as you had people calculating figures. With the use of data, we can have that sort of insight, and I think this is very valuable. For me, it's one of the highest differentiators between audit firms."* Another member agreed and suggested that the EC address this factor: *"It seems to me that they might want to make* *sure that there's adequate pressure and attention being paid to having firms improve in this area."*

Different members offered other suggestions for improving audit quality, some of which might be amenable to action by the EC:

- **Have an external authority appoint the auditor.** *"I would have appointment of the external auditor by an external body and not by the board, which comes through management. And I would pay them decently,"* a member said. Another added, *"I do think that there is an inherent conflict in that the company pays for its own audit and negotiates its own audit fee."*
- **Strengthen audit committee oversight of the auditor appointment.** Members stressed the importance of making sure that the audit committee, not management, is in control of auditor selection. At many companies, a member noted, the process is still highly influenced by management.
- **Improve audit reports.** A member said, *"Increasing the informational value of the audit report could be a good idea. It could be very valuable for it to be clearer or to make a kind of hierarchy of the different information they're giving us, just to be sure that we clearly get the importance or lesser importance of the different comments."*
- **Improve information flow to the audit committee.** One member supported a legal obligation for the auditor to go directly to the audit committee if there is a significant finding of fraud. Another member recommended that audit committees have executive sessions with the auditor: *"Once a year, we have a meeting with the auditors without the company's officials, and this is quite interesting because it gives us an idea where possible problems are and how to how to fix them."*

However, members warned about overregulation, which could excessively burden auditors. *"We're seeing a drain of talent out of auditing into other financial areas because, frankly, it's just become too burdensome,"* one member said. Another added, *"The great resignation starts with the audit firms."* Loss of talent would be a serious problem because, as one member noted, the quality of an audit team is fundamental to the quality of an audit: *"Much of it comes down to the individual partners involved and the team members as opposed to anything else."*

Supervision by regulators

The last two sections of the consultation asked about the ongoing role of regulators in improving corporate reporting. How can regulators improve supervisory processes? One section focused on supervision of the audit profession, and the other focused on supervision and enforcement around corporate reporting itself. Among the actions proposed in both areas were increasing resources for authorities and improving coordination among them.

One action proposed under audit supervision was to establish supervision of audit committees. An EACLN member welcomed this approach as a way of increasing accountability: *"If they interview you once a year, you are careful. It's one thing to say that* *[something] is the audit committee's responsibility; it is another thing for the audit committee chair or the audit committee to have to explain it to the authority."*

Other members were more skeptical of such scrutiny, noting that supervision would require qualitative analysis as well as quantitative measures. One member elaborated: *"They don't have the capability of doing that, of actual supervision of audit committees themselves. They could sit in on audit committee meetings and observe what they're doing, but you've got to understand the firm, the issues of the firm, in order to add value."* A member also mentioned the challenge of assessing the audit committee separately from the entire board, given the integration of the committee with the board. The member added that it would be better to *"strongly encourage dialogue rather than supervision—that is constructive."*

The consultation also proposed addressing the issue of consistency in the supervision of audit firms' cross-border networks. EACLN members, who chair the audit committees of multinational companies, note that they want *"seamless service"* in their audits; they see their audit firms as transnational, and they want supervision of the firms to reflect this aspect of their operations. While affiliates in a particular jurisdiction should have knowledge of the local environment, they should also adhere to international standards and norms.

Issues of format and content

While the EC's consultation on corporate reporting was focused largely on processes, EACLN members noted that issues of format and content remain. The type of information included in corporate reporting could be improved, as could its presentation. Directors say that reports are often too long and too complex. One member noted, *"I'm always an advocate of being simple. Maybe this is one reason why the public does not understand the financial statements anymore. We should try to do the utmost to keep them transparent."* Another member agreed: *"I was looking at the disclosures about remuneration from one company. It was 60 pages. You know, when you talk about the quality [of a report], I have a very easy test: I need to understand it."*

A few suggestions on format and content emerged. A member said, *"An executive summary on significant accounting issues and areas of professional judgment would be useful at the beginning of the disclosures."* Another said, *"The words in the front of an annual report or any sort of communication with the public need to be consistent with what's in the back, in the accounts themselves. The accounts need to be very readable; there need to be notes and footnotes as necessary to make points clear."* One member had a specific suggestion: *"Where companies tend to fall down is risk appetite. They should indicate in corporate reporting a company's appetite for risk, where the desired risk target is."*

Several members raised concerns regarding the accounting standards that underpin the financial statements. IFRS standards, members suggested, often result in content that is unhelpful to stakeholders. *"I don't have any investors that look at the statutory financial numbers. They only look at non-IFRS or non-GAAP measures,"* a member said, adding that *"the notes to the accounts are very dangerous. They are incredibly dense and detailed. Very few people understand them."* Members noted, for example, that the income statements reported under IFRS may portray an overly optimistic view of the health of the company as compared to the cash flows of the company. One member wanted to see an *"obligation for proper reconciliation to cash … How close are the revenues extracted to cash?"*

The proposed directive on sustainability reporting

The proposed Corporate Sustainability Reporting Directive (CSRD) would replace the 2014 Non-Financial Reporting Directive, amending previous directives and regulations such as the Accounting Directive (Directive 2013/34/EU) and the Audit Regulation (Regulation (EU) No. 537/2014). As the EC explains on its website on sustainability reporting, the CSRD:

- extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises)
- requires third-party audit (assurance) of reported information
- introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards
- requires companies to digitally 'tag' the reported information, so it is machine readable and feeds into the European single access point envisaged in the capital markets union action plan.[5]

The proposed CSRD includes requirements regarding information that should be included in the management report and authorizes the EC to adopt sustainability standards that will specify in detail the information that should be reported.

When the EACLN members were meeting with the EC officials, the EC, the European Parliament, and the Council of the European Union were just starting negotiations to finalize the directive. The Parliament had added a significant new proposal that would prohibit the same audit firm from auditing both a company's financial statements and its sustainability reports. EACLN members had observations about this proposal and several other aspects of the directive, including its standard-setting provisions and its mandate for assurance.

The need for uniform standards

EACLN members generally welcomed the EC's push to develop uniform standards. *"Hopefully, they will contribute as much as they can to harmonize and set minimum ESG [environmental, social, and governance] reporting standards worldwide,"* a member said. *"We've got to get to a set of much more consistent definitions and transparency for purposes of comparability and clarity,"* another member noted.

However, some members warned about pitfalls of uniform standards. A one-size-fits-all approach will not work, one member said: *"Every firm in every industry is dealing with slightly different aspects of ESG, so pinning this down precisely is impossible."* Another member worried about length and complexity: *"I wonder if this is going to be yet another 100- to 200-page report. No one's going to understand it."*

A few members were concerned about the wisdom of having the EC—as opposed to the private sector—decide what companies should report. One member said that the effort might distract companies from developing and reporting their own customized metrics on sustainability: *"Constantly developing and trying to create rules could stop development and improvement in this area—so don't! Keep your hands off, would be my recommendation."* Another member advised the EC to stay focused on the ultimate objective of the standards: *"What is important is that whatever they do is helpful to the corporate world and to their stakeholders, [allowing] them to see whether companies are making progress toward their goals."*

Assurance

The directive "requires the statutory auditor to perform a limited assurance engagement on a company's sustainability reporting."[6] Several EACLN members welcomed this new requirement, even recommending that assurance be more rigorous. As one put it, *"If we're serious about ESG, we need to move to reasonable assurance, rather than limited or no assurance."* However, a few members noted that reaching a level of rigor comparable to the level applied to financial statements would take time, a point acknowledged by the EC in a supplementary document on the directive.[7]

EACLN members were skeptical of the Parliament's proposal to prohibit the same audit firm from auditing both a company's financial statements and its sustainability reports. *"A mandatory split doesn't make sense. A company should make that decision and have that flexibility,"* a member said. Other members believed there should be a single internal control system for both types of reporting: *"It would be inefficient to have two parties working on the same system,"* one said. Members worried that their choice of auditors would be even more constrained by such a restriction, particularly in jurisdictions with joint audit, where companies need two auditors for the financial reports.

The extent to which corporate reporting needs reform

Overall, EACLN members agree with the EC that the quality of corporate reporting could improve, and that all the key players involved—executive management, audit committees, auditors, and regulators—have opportunities to enhance their role in reporting and contribute to its improvement. Members supported many of the ideas being explored by the EC, and they offered ideas of their own. At the same time, they urged caution in making changes to the current reporting framework and its various elements. Some of the changes being mooted by the EC could be significant, particularly for large enterprises, and EACLN members are not certain that wholesale reform is needed, for several reasons.

First, they had questions about the data behind findings reported by ESMA. As noted earlier, ESMA's report asserted that action for departures from IFRS was taken on a significant number of the financial statements reviewed.[8] Members were surprised by this finding. *"I am a bit shocked,"* one said, *"What is the materiality of those misstatements? What is important is how significant they are, how serious they are."* Others wanted to know whether the data included problems emerging over time or just at the time of review, and how consistent the data were with the findings of audit regulators. One member said that *"there appears to be a disconnect between national supervisory bodies and audit committees. If we know what the issues are, we may be able to do something about it."* Members were keen to analyze the findings and underlying drivers so as to avoid action based on erroneous or misleading data.

Second, members noted that eliminating all bankruptcies and fraud is impossible. A member said, *"You are always going to have some bankruptcies. That's what the market environment is about. It rewards success and penalizes failure."* Other members saw fraud in similar terms. *"I don't see that it's possible to avoid every one of these kinds of scandals, and for me, it's part of humankind that people will continue to try to find holes in the system,"* one member said. Another agreed: *"It's an illusion to think that by more regulation, you won't have crooks any longer."*

Moreover, detecting these problems is inherently difficult, as a member noted: *"As long as there's appropriate disclosure, the notion that you can sort these things out well in advance so you can signal them early is an inappropriate aspiration. There needs to be an appropriate amount of information provided to the market, but to be able to ascertain with certainty whether a firm is going to succeed or fail is not something that we should be striving for."* Another member pointed out that certain kinds of fraud can be very hard to spot: *"When fraud is organized at such a high level, it's very difficult to detect. Let's be quite clear: the governance in place is OK, but you're very much relying upon management information. If management information is distorted or hidden, or there are two sets of figures, it's very difficult to detect. Unless you get lucky, even the external auditors can't find their way. Even with modern tools, very basic facts can be distorted and hidden."*

Some EACLN members suggested that media coverage of fraud has created the public perception that it is more rampant than before. *"I think it's more about communication and current media and social media that are suddenly spreading all the stories so widely that it has become glaringly obvious that there are fraudsters. But they always existed, only we didn't know so much about them,"* one member said. Another drew out the implication: *"Are there so many that you actually have to change the rules of the game?"*

This member recommended a key question to ask: *"Is this a structural problem, or is it an isolated problem? And only if it's truly a structural problem that might pop up again and again on a broad scale do we actually create rules."* Another member added, *"In my experience, there are very, very few misstatements, and I think there is a duty on regulators and politicians to show that they think that their policy is proportionate and commensurate to the scale of the problem."* One member suggested that despite the general outcry, at least some key stakeholders are not worried: *"I've not had one single investor, in my nine years doing this job, express a lack of confidence in capital markets."*

Members were more worried about the prospect of overregulation. One member said, *"What I really think is that legislation and legislators' rules have [sometimes discouraged] creative development and made matters more complicated."* Another member was worried about promoting a compliance-driven culture that misses the bigger picture: *"We check the boxes and more and more boxes. A consequence of that, very often, is that you forget the global overview of all the boxes."* One member urged the EC to consider what legislation was appropriate at the European level as opposed to the national level: *"What I expect from the EU is to set the framework, but the implementation should be done on a local level."*

Conclusion

Despite their worries about overregulation, EACLN members generally saw the value of trying to improve reporting systems. As one member put it, *"Overall, I would say the concerns are right, and I understand why they are looking for better governance to improve the situation. It would strengthen confidence in capital markets and strengthen the belief in capitalism overall."* Several members suggested that SOX-like elements might add rigor to the governance processes around reporting and internal controls. Though members were skeptical of using joint audits to improve audit quality, they offered other suggestions, such as encouraging the use of technology and improving audit committee oversight of the auditor.

Members also endorsed EU efforts in the burgeoning area of sustainability reporting, welcoming the push for uniform standards and assurance for sustainability reporting. However, they were doubtful about the European Parliament's proposal to prohibit the same audit firm from performing audits of both a company's financial statements and its sustainability reports, saying this approach would be inefficient and would limit companies' choice of auditor. Regarding both sustainability reporting and reporting more generally, many EACLN members were keen to continue engaging with the EC as it moves forward in these areas.

Appendix 1: Biographies of guests

Ugo Bassi is director of financial markets at FISMA, the European Commission's Directorate General for Financial Stability, Financial Services and Capital Markets Union, since 2012. Lawyer by profession, Ugo Bassi started his career as a 'référendaire' at the European Court of Justice before joining the European Commission. After the financial crisis of 2008, he was responsible for various postcrisis measures in such areas as posttrade processing, securities, asset management, audit, accounting, and cedit rating agencies. He launched the Capital Markets Union (CMU) project, including the sustainable finance component, and secured the adoption of many legislative proposals in this context. The most recent ones, currently under negotiation, are the proposal to establish a European single access point (ESAP), the proposal to review European long-term investment funds (ELTIFs), the proposal to review the Alternative Investment Fund Managers Directive (AIFMD), and the proposal to review of the Markets in Financial Instruments Regulation (MiFIR). He represents the European Commission on the Board of Supervisors of ESMA and in many other high-level fora and events worldwide, thus contributing to the international work of the Commission in the area.

Dr. Ward Möhlmann works as a deputy head of unit of the corporate reporting, audit and credit rating agencies unit in DG FISMA. Between 2016 and 2020, he worked for the Commission's Task Force 50/UK Task Force, where he was in particular in charge of financial services and direct taxation. Before that he worked in DG FISMA's units in charge of financial services coordination and international relations, corporate governance and company law, and (international) public procurement. He started his career as a lecturer in constitutional law at the Radboud Universiteit in Nijmegen, Netherlands, where in 2006 he defended his doctoral thesis on the political institutions of the European Community. He has also practiced law in a law firm in the Netherlands.

Delia Mehedintu is currently working as policy officer for the audit area in DG FISMA's relevant unit. Her main tasks involve policymaking and managing legislation on audit and assurance of company reports. To this end, she engages with a broad range of European, national and international regulatory and standard-setting organizations as well as stakeholder groups.

Appendix 2: Participants

The following EACLN members participated in all or part of the meeting:

- Horst Baier, Bayer
- Liz Doherty, Novartis and Philips
- Eric Elzvik, Ericsson
- Ana de Pro Gonzalo, STMicroelectronics
- Byron Grote, Akzo Nobel, Anglo American, and Tesco
- Catherine Guillouard, Airbus
- Margarete Haase, ING
- Marion Helmes, Heineken
- Liz Hewitt, National Grid
- Arne Karlsson, Maersk
- Dagmar Kollmann, Deutsche Telekom
- Benoît Maes, Bouygues
- Marie-José Nadeau, ENGIE
- Helman le Pas de Sécheval, Alumnus
- Nathalie Rachou, Veolia
- Mariella Röhm-Kottmann, Zalando
- Guylaine Saucier, Wendel
- Erhard Schipporeit, RWE
- François Thomazeau, Bolloré
- Maria van der Hoeven, Total

EY was represented in all or part of the meeting by the following:

- Marie-Laure Delarue, EY Global Vice Chair, Assurance
- Jean-Yves Jégourel, EY Country Managing Partner, Germany

Appendix 3: Possible actions to improve corporate governance

The following possible actions to improve corporate governance are taken directly from the EC's consultation document:[9]

a) Strengthen the (collective) responsibilities of the board / tasks for reporting / liability of boards for incorrect reporting

b) Require proper expertise of specific board members in relation to corporate reporting (internal controls, accounting framework, sustainability reporting, etc.)

c) Increase the responsibilities of specific board members (e.g. Chief Executive Officer or the Chief Financial Officer) and their liability on corporate reporting

d) Give company boards an explicit responsibility to establish effective risk management and internal control systems for the preparation of corporate reporting, including as regards controls for risks of fraud and going concern

e) More transparency of company boards about the effectiveness of the companies' risk management and report on the actions undertaken during the reporting period

f) Remove exemptions in EU legislation for establishing an audit committee

g) Increase the tasks of the audit committee, e.g. for providing assurance on internal control systems for the avoidance of risk and fraud and going concern

h) Strengthen the external position of the audit committee (e.g. vis-à-vis the auditor or by reporting to shareholders)

i) Require the setting up of specific whistleblowing procedures inside listed companies and supervisors of corporate reporting to strengthen the protection of whistle blowers

j) Require auditors to provide assurance on the systems and internal controls implemented by the board, including fraud, going concern and related reporting requirements

k) Strengthen the role of shareholders on corporate reporting

Appendix 4: Possible actions to improve statutory audits

The following possible actions to improve auditing are taken directly from the EC's consultation document:[10]

a) Ask auditors to disclose how they have assured the directors' statement on material fraud, and what steps they have taken to assess the effectiveness of the relevant internal controls and to detect any fraud

b) Strengthen the informational value of audit reports

c) Improve the internal governance of audit firms

d) Incentivise or mandate the performance of joint audits for PIEs, including to enhance competition on the PIE audit market

e) Further harmonise the rules on mandatory rotation

f) Limit the scope for statutory auditors and audit firms to provide non-audit services

g) Increase or eliminate caps on auditor liability, at least for cases of gross negligence of statutory auditors

h) Limit the number of Member State options in the EU Audit framework to ensure consistency across the EU and to incentivise cross-border statutory audits

i) The creation of a passporting system for PIE auditors and audit firms, allowing auditors to provide their services across the Union based on their approval in a Member State

Appendix 5: Discussion questions for audit committees

- What aspects of corporate governance could be changed to improve the quality and reliability of corporate reporting?
- What could boards and audit committees do better? How could the role of management be improved?
- What changes to auditing and the audit profession would most improve reporting?
- How could regulators improve their ongoing supervision of reporting and auditing?
- How could the content and format of corporate reports be improved?
- What other measures might be taken to bolster confidence in the economic system?
- Does the CSRD take the right approach to sustainability reporting? What aspects of sustainability reporting are most urgent for regulators to address?
- What issues should the EC keep in mind as it approves standards for sustainability reporting?
- How should assurance for sustainability reporting be established and evolve?
- What would you like to understand or communicate to the EC about the CSRD, the European taxonomy, and sustainability reporting in general?
- To what extent is corporate reporting falling short? Are there major problems with the current regulatory framework, or are most reporting shortcomings marginal?
- Could improvements to corporate reporting reduce the incidence of fraud and bankruptcies?

About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

Endnotes

[1] European Securities and Markets Authority, "ESMA Issues Its 2021 Corporate Reporting Enforcement and Regulatory Report," news release, March 30, 2022.

[2] European Securities and Markets Authority, "ESMA Issues Its 2021 Corporate Reporting Enforcement and Regulatory Report."

[3] European Commission, *Consultation Document: Strengthening of the Quality of Corporate Reporting and Its Enforcement* (Brussels: European Commission, 2021), 11.

[4] Tapestry Networks, *Fighting Fraud: Conversations with Leading European Audit Committee Chairs* (Waltham, MA: Tapestry Networks, 2021), 8.

[5] "Corporate Sustainability Reporting," European Commission, accessed April 29, 2022.

[6] European Commission, *Proposal for a Directive of the European Parliament and of the Council Amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as Regards Corporate Sustainability Reporting, COM/2021/189 Final* (Brussels: European Commission, 2021), 15.

[7] "Questions and Answers: Corporate Sustainability Reporting Directive Proposal," European Commission, April 21, 2021.

[8] European Securities and Markets Authority, "ESMA Issues Its 2021 Corporate Reporting Enforcement and Regulatory Report."

[9] European Commission, *Consultation Document: Strengthening of the Quality of Corporate Reporting and Its Enforcement*, 13.

[10] European Commission, *Consultation Document: Strengthening of the Quality of Corporate Reporting and Its Enforcement*, 17.