

# The Critical Role of Audit Committees in Transparency and Accountability

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# Agenda

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1. Role and Functions of Audit Committees in SOEs
2. Regulatory Framework and Governance Standards
3. Challenges Faced by Audit Committees in SOEs
4. Best Practices and Case Studies
5. Conclusion and Recommendations

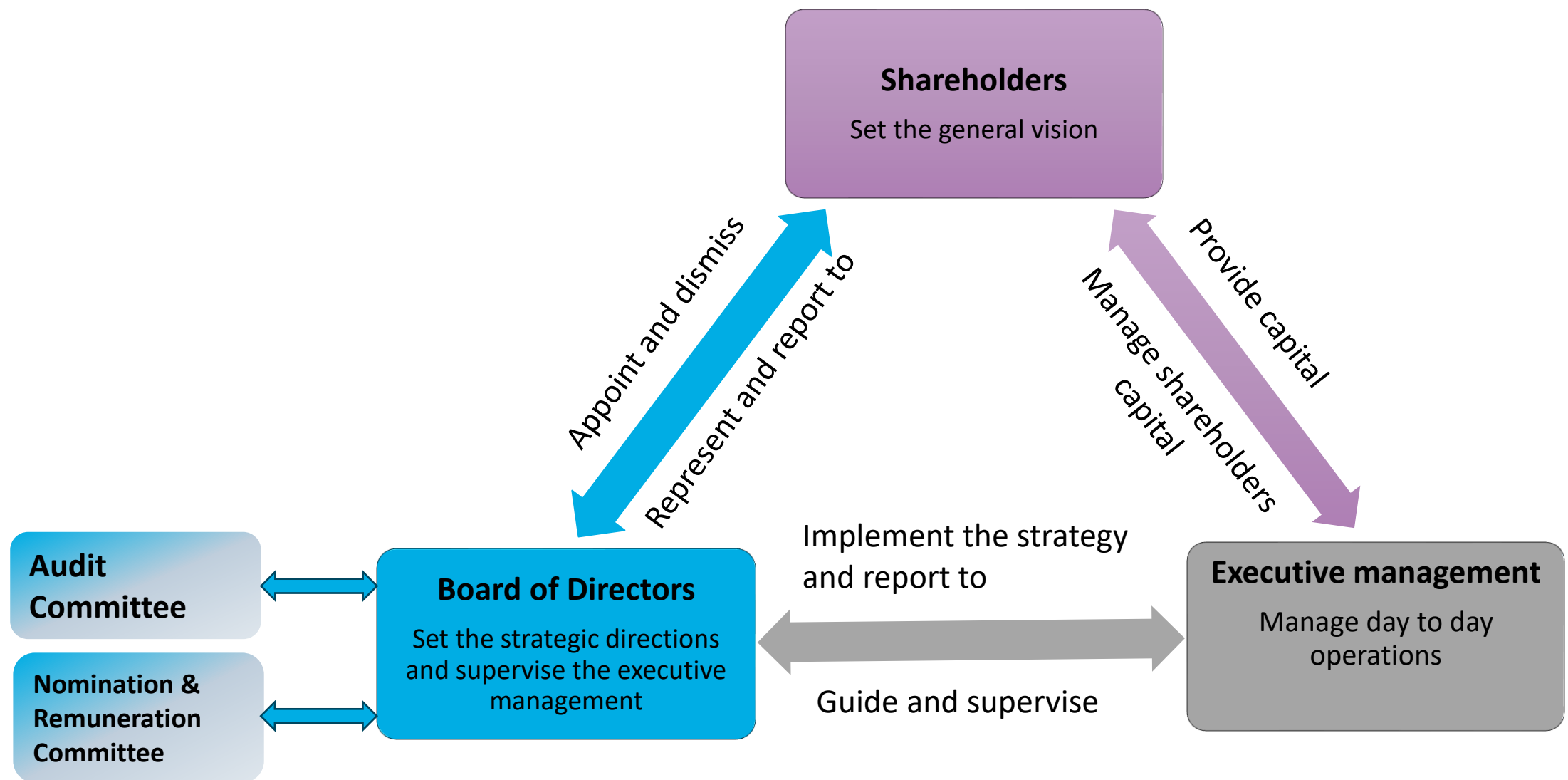
# **Role and Functions of Audit Committee**



# The Role of Audit Committees in State-Owned Enterprises (SOEs)

- » SOEs are organizations where the government has a controlling stake
  - » Critical components of the economic landscape in many countries (energy, utilities, transportation, and healthcare)
  - » Specific set of responsibilities beyond profitability, including social and economic objectives
- » Audit committees play a key role in ensuring transparency, accountability, and efficient use of resources
  - » Oversee financial reporting processes
  - » Ensure the integrity of financial statements
  - » Review the effectiveness of internal control and risk management systems

# Corporate Governance System





# Audit Committee Composition Requirements

## » Independence

» Members are typically non-executive directors who do not engage in day-to-day management, crucial for maintaining objective oversight.

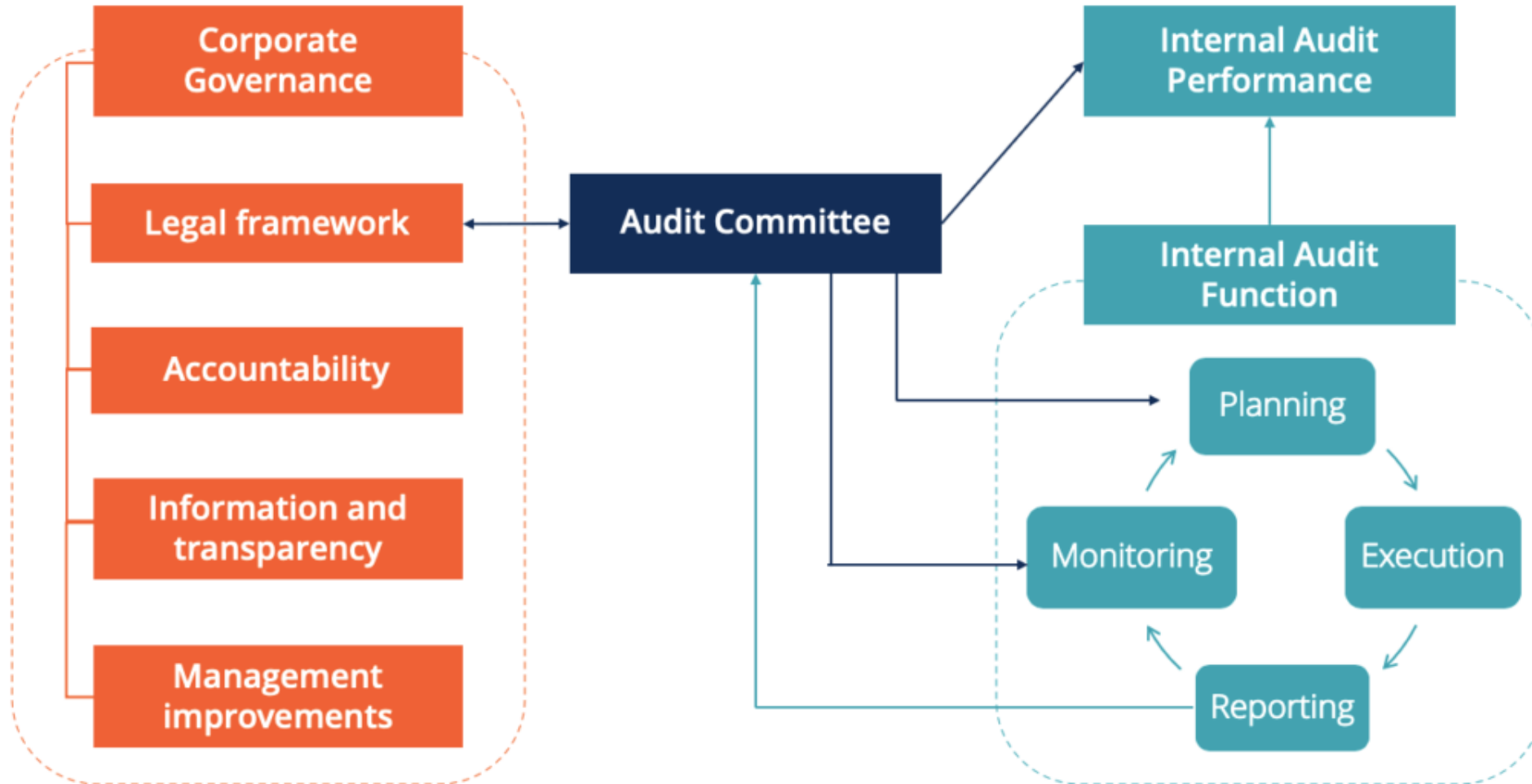
## » Expertise

» Members should bring a diverse range of expertise, including at least one member with professional qualifications and deep experience in finance or auditing, to oversee complex financial matters.

# Classical Responsibilities of Audit Committee



# The role of Audit Committee in Internal Audit







# Specific Duties of Audit Committees in SOEs

- » Review of financial statements
  - » Evaluate the accuracy of financial statements, including the review of significant financial ratios, trends, and key data points.
  - » Establish the scope and presentation of financial disclosures to ensure compliance with national and international standards.
- » Selection and remuneration of auditors
  - » Oversee external auditor selection process
  - » Role in setting and reviewing auditor fees to prevent conflicts of interest and ensure an independent audit.
- » Evaluation of compliance
  - » Regulatory compliance monitoring
  - » Handling ethics and complaints



# Responsibilities of Audit Committee under Corporate Sustainability Reporting Directive (CSRD)

- » Oversight of sustainability reporting
- » Verification and Assurance
- » Risk management related to sustainability issues
- » Compliance and regulatory alignment
- » Communication with Stakeholders

# **Regulatory Framework and Governance Standards**



# Regulatory framework for Audit Committees

- » EU Directive on Statutory Audits (2014/56/EU)
- » EU Regulation on Specific Requirements Regarding Statutory Audit of Public-Interest Entities (537/2014)
- » Transparency Directive (2004/109/EC, amended by 2013/50/EU)
- » Corporate Sustainability Reporting Directive (Directive (EU) 2022/2464)
- » SOEs national legislation
- » Corporate governance code(s)



# Regulatory framework for Audit Committees

- » PIEs must have an audit committee either as a standalone body or within the administrative or supervisory body
- » At least one member of the audit committee must be independent and possess competence in accounting and/or auditing
- » The audit committee as a whole should have competencies relevant to the sector in which the entity is operating
- » Role in Auditor Selection
- » Oversight of the Financial Reporting Process
  - » Audit committees are tasked with monitoring the financial reporting process and submitting recommendations or proposals to ensure its integrity.
  - » Regular, direct communication between the audit committee and the auditors.
- » Oversight of Audit Function
  - » Supervision of Auditors: Audit committees are responsible for monitoring the effectiveness of the company's internal control, internal audit where applicable, and risk management systems.
  - » Independence and Objectivity: They must monitor the statutory auditor's independence, particularly concerning the provision of non-audit services to the entity.
- » Non-Audit Services
  - » Pre-Approval of Non-Audit Services: Audit committees must approve all non-audit services provided by the statutory auditors to the entity. This is to prevent conflicts of interest and ensure the auditor's independence and objectivity.
  - » Cap on Fees: The total fees for non-audit services must not exceed 70% of the average of fees paid in the last three consecutive financial years for the audit(s) of the PIE.
- » Reporting and Disclosure

# Challenges Faced by Audit Committees in SOEs



# Challenges faced by SOEs Audit Committees

## » Challenges

- » Political interference
- » Conflict of interest
- » Balancing commercial and public objectives
- » Resource constraints

## » Solutions

- » Strengthening legal and regulatory frameworks for SOEs
- » Enhancing transparency and accountability
- » Appointing experienced independent board members
- » Training and capacity building
- » Promoting a Culture of Ethics and Integrity

# Best Practices and Case Studies





# Best Practices

- » Establish Clear Governance Structures
  - » Audit Committee Charter with clear roles and responsibilities
- » Ensuring Independence
  - » Proper selection criteria and regular training
- » Risk Management Oversight
  - » Overseeing an integrated risk management framework that aligns with the SOE's strategy and objectives
  - » Use of technology
- » Enhancing Audit Quality
  - » External Auditor Independence (including rotation requirements)
  - » Quality assurance for both internal and external audit
- » Improving Transparency and Communication
- » Adapting to Regulatory Changes
- » Culture of integrity
  - » Code of ethics
  - » Whistleblower policy

Romgaz, a leading SOE in Romania's natural gas sector, plays a crucial role in the country's energy supply. Listed on both the Bucharest Stock Exchange (2013) and the London Stock Exchange, Romgaz faced stringent regulatory compliance requirements and a broad stakeholder base, including international investors.

## » Challenges

- » Regulatory Compliance
  - » Adapting to stringent EU and local regulations in the energy sector.
- » Operational Efficiency
  - » Managing large-scale energy infrastructure efficiently.
- » Public Trust
  - » Ensuring transparency and accountability to the public and other stakeholders.
- » Lack of integrated Risk Management
- » Suboptimal Internal Audit function

## » Solutions

- » Audit committee reforms
  - » Strengthened independence
  - » Expanded oversight
- » Strengthened Internal Audit
  - » Increased staff, expertise, independence
  - » Developed a comprehensive Internal Audit Charter
  - » Risk-based Audit Planning
- » Integrated robust Risk Management
- » Enhanced transparency and reporting

# Conclusion and Recommendations



# Conclusions and Recommendations (1/2)

## » Critical Oversight Role

- » Audit committees play a vital role in overseeing financial reporting processes, ensuring accuracy, and maintaining compliance with regulations.

## » Strengthen Independence and Expertise

- » Establish stringent criteria for selecting audit committee members, focusing on independence from management and political influence, and ensuring diverse expertise in finance, compliance, risk management, and sustainability.
- » Implement continuous training programs to keep members updated on the latest developments in audit standards, regulatory requirements, sustainability issues, and industry-specific challenges.

## » Enhance Risk Management Practices

- » Develop and maintain an integrated risk management framework that aligns with the strategic goals of the SOE and addresses both financial and non-financial risks, including ESG risks.
- » Utilize advanced risk assessment tools and technologies to provide real-time data and analytics for better risk identification and management.



# Conclusions and Recommendations (2/2)

- » Increase Transparency and Stakeholder Engagement
  - » Commit to regular and detailed reporting on financial and operational performance, risk management activities, sustainability efforts, and audit findings to stakeholders, ensuring clarity and transparency.
  - » Actively seek and incorporate feedback from stakeholders to improve governance practices and address concerns proactively.
- » Foster a Culture of Ethics, Integrity, and Sustainability
  - » Develop and enforce robust ethics programs, including clear codes of conduct, whistleblower protections, and regular ethics training.
  - » Encourage and oversee the implementation of sustainability initiatives that align with the company's strategic goals and stakeholder expectations.
  - » Ensure visible and active support from top leadership for ethical practices, sustainability efforts, and the audit committee's role in governance.
- » Adapting to Regulatory Adjustments:
  - » Stay proactive in adapting to changes in laws and regulations affecting SOEs, particularly in areas of financial reporting, risk management, and sustainability.
  - » Implement a system for continuous monitoring of regulatory changes and ensure timely updates to internal controls and compliance practices.

**Thank you for your attention!**