

Corporate reporting: Internal control 2.0 as the way forward?

A joint ecoDa / PwC Webinar



On the 27th of October, ecoDa and PwC organised a joint webinar on internal control. As the topic is becoming predominant in today's debates, whether it concerns reflection on corporate reporting, European Sustainability Reporting Standards or audit reforms, as it is the case in the UK or in the Netherlands, the two organisations have invited knowledgeable experts, practitioners and regulators to reflect on the notion, but also on a potential European internal control framework.

As stated by Rogier Wezenbeek, senior expert at DG FISMA, the results from the European Commission [consultation](#) on «corporate reporting - improving its quality and enforcement» are unequivocal, the effectiveness and quality of internal control and control systems should be strengthened.

The main challenge that the panel highlighted is that there is not a common understanding among European Member States on what internal control means. Considerations over internal control, and in particular internal control over financial reporting, have considerably evolved since the issuance of a framework such as COSO and a regulation like Sarbanes-Oxley section 404 a (management assessment) and b (auditors assessment) in the US, which allow for a clear monitoring of the effectiveness of internal control by governance. The European institutions should, first of all, clarify the expectations weighing on audit committees regarding the monitoring of the effectiveness of the undertaking's internal quality control system (as stated in the 2014 EU Audit Reform).

As a recent European Contact Group research concludes, the role and responsibilities in the preparation of corporate reporting varies greatly between European Member States. Evidence shows that countries having defined rigorous and detailed requirements for an internal control system to be adequate, have experienced a reduction in terms of cost of capital and benefit from an increased stakeholders' confidence as the level of risk turns out to be lower.

To both avoid this European fragmentation and create an efficient Capital Market Union the experts recommended the European Institutions to adopt a Sarbanes-Oxley type legislation. If it would imply additional costs for companies to adapt, it will most importantly create better conditions for financial statement preparation and audit by fostering a systemic culture of risk and internal control within companies but also by defining clearer accountability.

The United Kingdom is also investigating how to strengthen the audit, corporate reporting and corporate governance national systems (see the [UK government response](#) to the consultation on 'Restoring trust in audit and corporate governance'). Among the avenues envisaged are the reinforcement of the audit regulator granted with greater scrutiny and legal powers and the separation between the consulting and audit services of the large firms. One development concerns more specifically internal control. The public interest entity should have an audit and assurance policy that should explain how the board and the audit committee seek and use independent assurance.

Eventually, the panelists expressed other recommendations, such as the recognition of global internal audit standards, the need for clear and realistic timeline for legislation changes and a uniform definition of corporate governance responsibilities across Europe.

Speakers: Rogier Wezenbeek (*Senior Expert, DG FISMA, European Commission*), Anne-Hélène Monsellato (*Independent board member and Chairman of the Audit and Risk Committee, Euronav & GENFIT*), Rachel Bowden (*Board Member*), Maurizio Donvito (*Partner, PwC Italy*), Stephen Licence (*Group Chief Internal Auditor, Legal & General*).

The recording of this webinar is available [here](#).

Contact

ecoDa

Béatrice Richez-Baum, Director General:
contact@ecoda.org , Tel: 003222315811

Manon Roehrig, Policy Adviser
policy@ecoda.eu, Tel: +32439933970

www.ecoda.eu

PwC

Jacomien van den Hurk, Director EU Public &
Regulatory Affairs
jacomien.van.den.hurk@pwc.com, Tel: +32 477
580602

<https://www.pwc.be/>