NOVEMBER 2022 - EVENT SUMMARY REPORT

Corporate reporting: Avenues to improve audit quality, supervision and governance

A joint ecoDa / Mazars Webinar

As the second episode of an ecoDa's series on Corporate Reporting, ecoDa and Mazars held a webinar to discuss avenues to improve audit quality, supervision and governance, on the 21st of November.

In 2021 in the European Union, national competent authorities in charge of supervision of corporate reporting had to take enforcement actions in 40% of the financial statements investigated because of material misstatements (among other reasons). This factual element, in addition to a series of fraudulent financial reporting (such as the Wirecard case), have encouraged the European Commission to consult on how to improve the corporate reporting framework.

The objectives are twofold, first to increase investor protection and second, to improve the depth and attractiveness of the Capital Markets Union.

The results of the European Commission consultation have shown that 65% of the respondents expressed clear support for such an initiative, with 82% of them considering there was a need for improvement of some or all of the three pillars (corporate governance, statutory audit and supervision of PIE auditors). Only 13% said there is enough choice in finding an auditor at appropriate cost.

But many questions remain: Have EU listed companies sufficient legal responsibility for their corporate reporting? Has the European Commission created the right framework for auditors to remain sufficiently focused on their public interest tasks? Is a stronger and more consistent supervision necessary?

The robustness of audit is all the more crucial today since sustainability reporting is developing and that the market keeps being uncertain. If the 2016 EU Audit Reform helped increase the quality of statutory audit, it failed in addressing one main shortcoming: the concentration of the audit market. When complying with the mandatory audit firm rotation, European companies are struggling to find and appoint an auditor: the persistent concentration of the public interest entities (PIEs) audit market prevents companies from having a choice for their auditors and is detrimental, at the end, for audit quality and corporate reporting as a whole.

ecoDa
The European Voice of Directors

mazars

In addition to increasing competition in the audit market, other avenues have been cited such as enhancing internal controls, the enlargement of the Audit Committee Chair's mandate, the development of audit quality indicators, the harmonisation of the current patchwork of rules regarding the audit rotation and non-audit services....

Overall, a systemic approach should be adopted. It is not by setting up new rules tying up management's capacity that the corporate reporting framework will be enhanced but by bringing all the elements of the ecosystem together (including supervision and enforcement).

Transparency, clarity, and proportionality are key in the future European Commission proposal. Whether it is Audit Committees, or auditors, or supervisory authorities, all actors composing the corporate reporting system need to have clear mandates and responsibilities. The European Institutions should also look at best practices in the different Member States to get practical insights. In the Netherlands, for example, the auditor reports in the shareholder's meetings about the outcomes of his/her work.

As a conclusion, the experts and practitioners recommended the European Commission to opt for a systemic approach to enhance the corporate reporting framework. In addition, the European institutions should not neglect the capacity component as without the right talents, whatever rules are being developed, the system will continue to underperform.

Speakers: Jella Benner-Heinacher *(Chief Managing Director, Deutsche Schutzvereinigung für Wertpapierbesitz),* Olivier Boutellis-Taft *(CEO, Accountancy Europe),* Catherine Bradley *(Senior Board Member, EasyJet),* David Herbinet *(Global Head of Audit, Mazars Group)*, Karin Sonnenmoser *(Board member, Leoni AG)*, Ward Möhlmann *(Deputy Head of Unit, European Commission, DG FISMA C.1)*

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

Mazars

Clémence Valleteau, Global Head of Public Affairs
jclemence.valleteau@mazars.com, Tel: +33 6 62 23 37 42

https://www.mazars.com

ecoDa The European Voice of Directors

mazars