Audit and Risk Committees
News from EU Legislation and Best Practices

Julia Graham, President of FERMA

Our world is spinning faster and we live and work in a new "risk normality" that is increasingly complex and connected. Audit and Risk Committees need to rely more than ever on competent risk and internal audit professionals. It is important to note that Audit and Risk Committees have seen their workloads constantly increase over the last 4 years with significant impacts on their agendas, even in countries in the EU that have already gone beyond the most recent transparency requirements from the European Union.

The latest evolution of the 8th Company Law Directive indicates the continued importance of the Audit Committee with a return to more of a financial oversight role as regards External Audit.

FERMA and ECIIA have a shared objective to demonstrate with this Guidance that the Audit and Risk Committees of organizations are the places where ALL risks are discussed and reported, in line with the EU regulatory focus which is towards a greater transparency on financial AND non-financial reporting.

Julia Graham
President of FERMA

Thijs Smit, President of ECIIA

In 2008, the financial crisis showed that the monitoring of risks and controls by Audit and Risk Committees was not good enough to detect the major risks that led to the crisis.

The European authorities have reacted with new regulations to improve the situation.

In this changing environment where regulatory and business burdens are increasing, it is important for each organization to set up an efficient and integrated corporate governance model.

The roles of the Risk Committee and the Audit Committee and interactions between the two are crucial.

It is also vital that the '3 lines of defense' model is effectively implemented and risk management and the internal audit activity efficiently coordinated.

Let's never forget that one of the biggest risks that the audit committee and board face today is the risk of not seeing the threats in front of them until they are 'at the door'.

I am very pleased that we have been able to define a common view with FERMA on the role of Audit and Risk Committees together with guidance to improve their performance.

Thijs Smit
President of ECIIA

CONTENT

1	Executive Summary	4
2	Lessons learnt from the Global Financial Crisis	5
3	Background for new legislation	6
4	2014-2020 Horizon	7
	Non-financial reporting and financial transparency	7
5	The role of the Audit Committees and Risk Committees	8
	The Audit Committee	8
	The Risk Committee	9
6	The three lines of defense	10
Appendix 1	10 potential responsibilities of the Risk Committees and Audit Committees	11
Appendix 2	1984-2010 - A look back at the 8th Company Law Directive	13

Design GREEN/PEPPER advise·create·evolve greenpepper.be © 2014

1 Executive Summary

The financial crisis has affected all businesses, and the European authorities have reacted with new legislation for all listed companies as well as the Financial Services sector. The objective of this FERMA/ECIIA explanatory note is to assist board members, in particular members of the audit and risk committees, with the implementation of new EU legislation (Directive 2014/56)

FERMA and ECIIA issued position papers in 2010 (supplemented in 2011) to assist board members, and particularly members of the audit committee, with the implementation of article 41 of the 8th European Company Law Directive. As a response to the recent legislative amendments, FERMA and ECIIA have set up a common working group to analyse the impact for the audit committees (and where established risk committees) as well as the consequences for the risk management and the internal audit professions presented in this document.

Recent updates of the 8th Directive have focused on the work of external auditors and the increased non - financial information reporting requirements. This means that the burden for audit committees is increasing and the knowledge requirements of their members is evolving.

" I support more transparency but it means more reporting and it is important that we evaluate the purpose, scope and content of the existing and future reporting. Information overload is becoming a great risk"

Steffen Kragh, Audit Committee Chair, Nykredit

In the financial sector, there is an increasing requirement for a risk committee to be created alongside the audit committee. The role and responsibility of each committee must be well defined in order to avoid overlap and ensure that the coverage of risk is comprehensive. At the same time it is important to take into account that the audit committee is dependent on a good understanding of key risks to be able to have an independent view on the effectiveness of risk management and internal controls.

"Committee Chairs must be vigilant about new legislations and avoid "mission creep" by extending too much the scope of activities and lose the original purposes ."

Rudi Vander Vennet, Chairman of the Risk & Capital Committee of Belfius Bank

The new legislation impacts on the corporate governance model of the organizations concerned, and it will be important that the EU guidelines[1] take all the actors of corporate governance into consideration. New challenges are affecting the risk management and internal audit profession as they support the audit (and risk) committees in their new duties. However, the three lines of defense model are still considered to be the most efficient way to organize risk management and control functions. Each of these "lines" plays a distinct role within the organization's wider governance framework.[2] Outside the organization, the external auditors also play a role assessing the accuracy and fair view presentation of the financial statements. A good functioning of the second and third lines of defense together with external audit is crucial for the efficiency and effectiveness of risk management and internal control processes.

"Increased regulations, whether national or from the European Union, are not the only reason why the audit committee has a wider and more crowded agenda.These wider responsibilities are also coming from an increasingly challenging complex business environment"

John Ormerod, Chairman of Audit Committee, ITV plc

[1] To facilitate the implementation of the last Directive on non-financial reporting adopted last April 2014, the European Parliament has required the European Commission to adopt guidelines within the next 2 years on a methodology for reporting non-financial information

[2] Guidance on the 8th EU Directive for boards and audit committees - ECIIA and FERMA - 2010

2 Lessons learnt from the Global Financial Crisis

Both regulators and business enterprises learnt many lessons from the global financial crisis and many questions were raised about the absence of the provision of adequate warning signs to the board and top management. The more serious shortfalls in corporate governance were not related to technology and risk model construction but to the role of individuals, decision-making processes in general and the understanding and interpretation of risk models.

Weaknesses were identified in the governance model, which did not perform as it should have as a result of the lack of accountability, ineffective organization structure, and weaknesses in risk management. Risk management was too focused on individual silos of the business and failed to take a holistic view of the enterprise.

Criticism was also raised in respect of assurance functions that failed to communicate appropriate information to the board and executive management and did not help protect the organization, by assessing all significant risks and the effects of the changing risk environment and by challenging the executive management to improve the effectiveness of governance, risk management and internal controls. Complex and inconsistent reporting made it difficult for the board and executive management to provide effective risk oversight.

Finally the lack of harmonization between the different assurance functions was perceived to have led to confusion at the board level. Primary weaknesses identified were differences in risk language and terminology, in methodologies and in the assessment of similar processes or departments.

3 Background for new legislation

The Global Financial Crisis in 2008 triggered a series of regulatory responses from EU Member States and the need for a consistent supervision of the European financial markets. This paved the way for the European System of Financial Supervision and its three separate authorities for the banking sector (EBA), insurance sector (EIOPA) and the financial markets (ESMA)[3]. All these authorities came into force by the end of 2010 and then it was the turn of the statutory audit sector to be put under the EU microscope.

It became clear that both the European Commission and the Member States wished to arrive at a new revision of the 8th Company Law Directive[4] and, at the same time, the Audit Market Reform package appeared in the pipeline.

All these reforms were meant to reinforce the independence and the quality of the external auditors in their work in certifying the financial statements.

On 3 April 2014, the European Parliament adopted the revised Directive as well as the Regulation, published in the Official Journal of the EU on 27 May 2014 and now known as Directive 2014/56 and Regulation 537/2014. In its new formulation, article 39 6) c. of Directive 2014/56 amends the scope of the audit committee related to the financial reporting process adding that:

art. 39

"6. [...] the audit committee shall, inter alia: [...] (c) monitor the effectiveness of the undertaking's internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the audited entity, without breaching its independence;"

This is a substantial modification of the original text as there is a shift of focus to external audit and the certification of the financial statements.

It is important to be aware of that the amendments made in the Directive 2014/56 and Regulation 537/2014 are focused on the consequences for audit committees of new legislation for external auditors. These changes do not have any specific effect on the risk management and internal audit functions. However, the introduction of requiring a risk committee might have.

[3] EBA : European Banking Authority ; EIOPA : European Insurance & Occupational Pensions Authority ; ESMA : European Securities & Markets Authority
[4] For a historical perspective of the 8th Company Law Directive, see appendix 2 "1984-2010 – A look back at the 8th Company Law Directive"

4 2014 - 2020 Horizon

Far beyond classic financial reporting, an increased workload for Audit & Risk Committees

Non-financial reporting and financial transparency

On April 15th 2014, the European Parliament amended Directive 2013/34 (the Accounting Directive) regarding the disclosure of non-financial and diversity information by large entities (that is those public interest entities with more than 500 employees which represents around 6000 large companies and groups across the EU).

According to the NFR (Non-Financial Reporting) Directive, companies will be required to issue a non-financial statement with the management report including the following matters: environment, social and employee matters, respect for human rights, anti-corruption, bribery and diversity, the business model, procedures and risks related to these matters. As the co-legislator, the Council of the EU followed the European Parliament and adopted on the same terms the Directive on Non-Financial Reporting on 29 September 2014.

> *"More is better than less but the reporting must bring relevant information in an understandable format for all stakeholders. Smaller entities in the financial services sector are already struggling to complete all the mandatory reporting requirements"*
>
> **Rudi Vander Vennet, Chairman of the Risk & Capital Committee of Belfius Bank**

The European Commission will prepare non-binding guidelines on methodology for non-financial reporting and the transposition in national laws should take place within 24 months. The International Integrated Reporting Council has issued a framework last December to define the content of non-financial reporting[5]. The framework uses the concept of "materiality": major social and economic issues – those that reflect the significant economic, environmental and social effects on the organization itself and/or on society, as well as those having an influence on the assessments and decisions of stakeholders.

So "material" topics will be those that have a direct or indirect impact on the organization's ability to create, conserve or erode its economic, environmental or social value either for itself, its stakeholders, the environment or society at large.

Sustainability is a key subject for the future and for coordination between management, the "support functions" and the board and its audit committee as well as the external shareholders of the business.

Although in the majority of cases organisations will already have established non-financial reporting processes, this does not mean they are ready to demonstrate management of the issues identified as material. Some might just keep reporting as before without ever making the jump to actual sustainability management.

> *"The UK has been on the journey for transparency and increased public reporting for some time. Most obligations are already in place in the UK, others are even going already beyond the new EU requirements.*
> *Much more details are requested but at the same time, we received very few questions from investors or other stakeholders, so we can reasonably ask how valuable this disclosure is for stakeholders "*
>
> **John Ormerod, Chairman of Audit Committee, ITV plc**

Another risk is that sustainability targets could continue to be scattered across the firm in a fragmented way so that material issues of strategic importance are not identified The reporting on those risks will have to be organized by risk managers. In addition an overall assurance report in respect of all material processes encompassing how they are identified, structured and implemented might be helpful for the Management. As already in the past, internal audit may also be consulted in the establishment of relevant processes and reports (an independent "consulting" role).

[5] International <IR> Framework, International Integrated Reporting Council (IIRC), December 2013 (http://www.theiirc.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf)

5 The role of the Audit Committees and Risk Committees

The board is responsible for establishing an audit committee and/or a risk committee and defining the roles[6] in a charter of terms of reference (example in appendix 1). In doing so, it should ensure their composition reflects a gender balance in order to benefit from a wider diversity of ideas and opinions and avoid group thinking phenomenon.

As several committees may be involved in the evaluation of risks it is important that the board explains the delegated duties and responsibilities to each committee. The board should consider how the committees shall report to the board[7]. If there is more than one committee, a clear definition of roles and responsibilities is important to ensure sufficient information is passed to all involved and to avoid duplication and misunderstandings. Cooperation between the audit committee and the risk committee is also crucial to ensure a common risk management approach.

The Audit Committee

The audit committee has a particular role, acting independent of executive management to ensure that the interests of the shareholders are properly protected in relation to risk management, internal control and financial reporting.

> *"There are increased expectations from stakeholders related to the audit committee role. There is a need to have competent people to assist in performing an independent review of what management presents"*
>
> **Hans Erik F. Andersson, Board member of Gjensidige**

There is a need for a clear overview of the company's risk and control framework which will allow the audit committee to monitor and evaluate the effectiveness of the company's internal control, risk management and reporting. One of the biggest risk the audit committee faces today is the risk of not seeing the threats in front of them until they are at the door.

Management is under an obligation to ensure the audit committee is kept properly informed and should take the initiative to furnish accurate and appropriate information to the committee. The internal auditor should be regularly invited to the meetings of the audit committee to bring the independent assurance to the table

The Audit Committee assists the board in fulfilling its responsibilities in corporate governance by:

- Having a good understanding of the company's structure, controls and types of transactions as well as the business model and its associated risks.
- Maintaining a free and open communication with the external auditors, internal auditors, the second line of defense and the management of the company.
- Having the power and authority to investigate any matter based on full access to the records, the company's operations and people.

> *"A core objective of the Audit Committee is to help the business operates successfully"*
>
> **John Ormerod, Chairman of Audit Committee, ITV plc**

[6] In some countries, though, the audit committee is part of the Supervisory Board and the mission is restricted by law. In this context the roles of the Supervisory Board are reduced compared to the ones described in the guidance.
[7] Dependencies between risk management and internal control processes defined in the requirements for audit committees (Directive 2014/56 art 39-6C)

5

The Risk Committee

The new and broader view of risk and the need for improved risk management after the financial crisis has resulted in boards considering the need to create risk committees. The main purpose of the risk committee is to assist the board in ensuring that the company has an effective risk management process, which includes the management of the key risks the company is facing and the follow up of risk appetite, risk tolerance, risk framework and risk strategy.

"Key risks and strategic thinking are deeply intertwined"

John Ormerod, Chairman of Audit Committee, ITV plc

In some organizations, based on their tasks, size, complexity and maturity, risk profile and risk culture, there is a preference not to establish a separate risk committee, but to organize a joint audit and risk committee. In large organizations with complex operations or in specific business, there may be good reasons for creating a dedicated risk committee.

European banks are required to organize separately an audit committee and a risk committee (see Capital Requirement Directive CRD IV). In non-financial organizations the risk committee may be organized at executive level, sometimes reporting to the audit committee and sometimes chaired by the CFO. Regardless of organization it is important that non-financial risks are well managed and reported comprehensively to the board.

"The Risk & Capital Committee has frequent and very open discussions with management and operational people (IT, HR). It is a bit different with the Board. It is the place where decisions have to be taken, therefore discussions are much more focused and directed to specific issues"

Rudi Vander Vennet, Chairman of the Risk & Capital Committee of Belfius Bank

The need to create a separate Risk Committee may arise from the following reasons:

- The requirements of the relevant regulator(s)
- The alignment between risk management and strategy
- The need for more detailed oversight of the risk management infrastructure (people, process, infrastructure)
- The complexity of the major/critical risks to be assessed

Risk committee members must be knowledgeable about risk governance and business activities to be able to challenge the board or management decisions. The Chief Risk Officer or the Director or Head of risk management should participate in the meetings of the risk committee. The members of the risk committee should be independent and include independent board members (for example non-executive board members) as it is also the case for the audit committee.

"The challenges for risk committee Chair and also for audit committee Chair is to be constructively critical and use common sense advising the board. The board needs to trust the committees and also to challenge and ask the right questions"

Hans Erik F. Andersson, Board member of Gjensidige

6 The three lines of defense

A lesson learned from the financial crisis is the need for a cohesive, coordinated approach to risk. Limited risk and control resources may not be deployed effectively and significant risks may not be identified or managed appropriately if efforts are not coordinated. IIA and FERMA endorse the "three lines of defense model" as an important tool for integrating, coordinating and aligning all support and assurance functions within an entity.

1ST LINE	**Operational management**	Has ownership, responsibility and accountability for assessing, controlling and mitigating risks
2ND LINE	**Internal governance functions** (Group support and control functions)	Monitors and facilitates the implementation of effective risk management practices by the 1st line and assists risk owners in reporting adequate risk-related information throughout the organization
3RD LINE	**Internal Audit**	Provides assurance to the Group Governing body and senior management on the organization's effectiveness in assessing and managing its risks and related internal control systems, including the manner in which the 1st and 2nd lines operate.

The CEO and the executive team are ultimately responsible for the management of risks and internal controls and they are held accountable for this by the board. The board approves the overall risk appetite and the philosophy of risk taking.

Many support functions are involved in the second line (risk management, financial controller, compliance, inspection, business continuity, quality, security and legal...). While specific scoring methods may differ across areas, each group's rating scheme can be mapped to a corporate risk profile that provides insight into the enterprise risk addressed by each group as well as their impact on their organization.

*It is vital that the assurance functions are well coordinated. Regular meetings between CRO,CCO and CAE are valuable-basically the same goal of activity for these assurance functions. At the end of the day, any organization is dependent on a well managed 1st line "**

Hans Erik F. Andersson, Board member of Gjensidige

A holistic approach creates synergies among the teams that can decrease the likelihood of duplicated efforts, higher costs, assurance gaps and significant operational losses.

The way companies organize the various lines may vary significantly and depends on the maturity, resources and staffing of the second and third line.

"Businesses have to balance the cost of control versus the expected benefits"

John Ormerod, Chairman of Audit Committee, ITV plc

The mission of the third line is to enhance and protect organizational value by taking into account risk and provide stakeholders with objective and independent assurance, advice and insight. As both the second line and the third line may report to the board/governing body; it is important that the role and scope of each line is clearly defined and understood within the business.

"I recommend that the second line of defense units and the internal audit constantly focus on cooperation in planning and execution. I also recommend that they use common frameworks"

Steffen Kragh, Audit Committee Chair Nykredit

*CEO – Chief Executive Officer, CRO – Chief Risk Officer, CCO – Chief Compliance Officer, CAE – Chief Audit Executive

1

Appendix

10 potential responsibilities of the Risk Committees and Audit Committees

The table shows the possible responsibilities for each committee. Indeed, some organizations do not have a risk committee and the responsibilities assigned to each committee depend on the context of each company.

	RESPONSIBILITIES	Risk Committee	Audit Committee
1	**Review risk management systems**		
a	To recommend to the Board the framework and system to manage risks	x	
b	To discuss the enterprise's risk tolerance, risk appetite and strategy with management and CRO and give an opinion on acceptability of the proposed levels of risk to the Board	x	
c	To be informed by management, including the CRO of any changes in conditions or circumstances or new opportunities that could impact the allocation of risk appetite to the different risk categories and provide advice to the Board	x	
d	To oversee the conduct of, and review the results of, enterprise wide risk assessment, like proposed strategic acquisitions or disposals	x	x - Relevant to be able to challenge financial reporting
e	To assess and evaluate the risk profile in light of the activities concerning risk appetite, risk development and risk aggregation and provide advice to the Board	x	
f	To help coordinate activities of the various standing committees for risk oversight	x	x
g	To initiate and monitor special investigations into areas of corporate risk and break-downs in internal control	x	x
h	To review the nature and level of insurance coverage	x	
i	To engage management, including the CRO, in promoting a positive risk culture	x	
j	To monitor the effectiveness of risk management functions throughout the undertaking and ensure that infrastructure, resources and systems are in place for risk management and are adequate to maintain a satisfactory level of risk management discipline	x	x
k	To monitor the independence of risk management functions throughout the organization	x	x
2	**Chief Risk Officer (CRO) or equivalent Head of Risk Management**		
a	To advice the Board about the appointment and, when and if appropriate, replacement of the CRO and ensures that the function gets the necessary means to operate	x	
b	To assess the performance of the framework and procedures in place	x	x - Relevant for monitoring of internal control and financial reporting
c	To organize regular communication with the CRO, who is also permanently invited at the risk committee meetings	x	
3	**External audit**		
a	To review the external auditor’s reporting		x
b	To exchange with the audit committee on the risks identified in the financial reporting process (including sustainability reports) and their impact		x

1

4	Relationship and coordination		
a	In coordination with the audit/risk committee, to understand how the undertaking's internal audit work plan is aligned with the risks that have been identified and with risk governance (and risk management) information needs	x	x
b	To exchange with the audit/risk committee on the risks identified by internal auditors, their impact and recommendations	x	x
c	To identify areas where assurance is required, and to ensure that appropriate assurance is received and that this informs and updates the organization's risk profile	x	x
5	**Report annually on the effectiveness and efficiency of risk management in the organization**	x	x
6	**Review annually the performance and terms of reference of the Committee in order to determine whether it is functioning effectively by reference to best practices**	x	x
7	**Oversee the integrity of the financial reporting process and financial reports**		
a	After review with the management and the external auditors, the Committee will recommend to the Board for approval the financial statements and reports that are intended for publication.		x
b	They will also review any significant financial reporting issues and report to the Board		x
8	**Review the efficiency of internal control and risk management systems**		
a	They review the adequacy and effectiveness of:		
	• The company's policies and procedures to assess, monitor and manage financial and non-financial business risks	x	x
	• Internal control systems	x	x
	• Legal and ethical compliance programs		x
b	They will regularly meet with the management, the external auditors and the internal auditors and other assurance functions to discuss issues and concerns warranting committee attention, including but not limited to their assessment of the effectiveness of the internal controls and risks management systems and the process for improvement.	x	x
c	They receive the reports from the support functions	x	x
9	**Review and appraise the audit activities: independence, objectivity and effectiveness of the audit process**		
a	The Committee makes recommendations to the Board for the appointment and replacement of the external auditors.		x
b	They approve all non-audit services and advise the board on statements to be made in the annual report regarding the statutory auditor's provision of non-audit services		x
10	**Supervise the internal audit function**		
a	The committee recommends to the Board the appointment or dismissal of the chief audit executive		x
b	They review the scope of the internal audit plan, including the work program and the quality control procedures and should also approve the internal charter.		x
c	They assess the performance, independence and objectivity of the internal audit function.		x

2 Appendix

1984-2010 - What was the 8th Company Law Directive? How was it implemented?

A. Context

Originally, the Eighth Council Directive 84/253/EEC of 10 April 1984 only laid down the conditions for the approval of persons responsible for carrying out the statutory audit of accounting documents[1]. It was establishing requirements for adequate knowledge of matters such as company law, fiscal law and social law to become a statutory auditor from one member state to another.

The proposal to revise entirely the 8th Company Law Directive was published in March 2004. The text was in line with most priorities set out in May 2003 in a Commission Communication "Reinforcing statutory audit in the EU"[2].

The proposed Directive was also linked with other corporate governance initiatives covered in a wider Action Plan on modernising company law and enhancing corporate governance in the EU[3], also published in May 2003.

All these initiatives are better understood within the context of two fraud scandals which shook the trust in the audit system of the European Union. In February 2003, Ahold, a Dutch company, revealed accounting irregularities leading to overstated income and in December 2003, Parmalat, an Italian company, filed for bankruptcy; investigations indicated that the company's debts were hidden through a massive fraudulent accounting scheme.

These European scandals happened only two years after the ENRON case where the US Company had also to file bankruptcy for overstating its earnings over four years since 1997.

This gave the right political trigger to push for an EU-wide initiative to regulate and set out certain ethical principles to ensure the objectivity and independence of the auditing system, for example where audit firms also provide their clients with ancillary services or in respect of the rotation of audit firms.

[1] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31984L0253&from=en
[2] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52003DC0286
[3] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52003DC0284&from=EN

2

B. Implementation

Although it targets mostly statutory auditors and audit firms, the legislative text was the source of several innovations from a corporate governance perspective. Among them was the new requirement for listed companies to set up an audit committee with independent members to communicate directly with the external auditor.

The 8th Company Law Directive requires certain types of organizations to be equipped with an audit committee or a body with similar functions. The description of the audit committee and its tasks is broad in scope and details are left to member states and the relevant national authorities in charge of implementing Directive 2006/43.

The rationale behind the audit committee concept is to ensure there is a filter between external auditors and operational managers, thus strengthening ethical issues and avoiding pressures and influences from both sides.

This mandatory audit committee has a wider scope than just financial reporting risks. It extends over the monitoring of the company's risk management, internal controls and internal audit.

The new Directive 2006/43 (Statutory Audit Directive) repealed explicitly the directive 84/253/EEC but is still known as the 8th Company Law Directive. It was adopted in May 2006 after 2 years of deliberation. Member States had until June 2008 to transpose the Directive into their national legislation; the whole process was completed by the end of 2010.

From July 2008 to September 2010, the European Commission watched closely the transposition of the Directive by the Member States. 10 scoreboards were published in order to follow the progress and encourage the remaining member states to finalise the process .

In the first scoreboard of July 2008 and despite the fact that the transposition deadline was missed, 15 of 27 EU Member States still had not implemented the revised 8th Company Law Directive into their national legislation. The first 12 member states to be in line with the new Directive were Bulgaria, Denmark, Greece, Finland, Hungary, Lithuania, the Netherlands, Portugal, Romania, Slovenia, Slovakia and the United Kingdom.

More interesting is the fact that when transposition was only partial, the article 41 of the Directive, which concerns the audit committee, is the most non-transposed article; 11 member states did not implement this particular article.

One year later in July 2009, 21 member states had completed the transposition process and the Audit Committee article was now generally transposed. Finally by September 2010, the whole process was completed with the late transposition of Spain and Ireland.

Only one infringement procedure was started by the European Commission and this was against Cyprus in April 2011 for partially implementing the 8th Company Law Directive and especially failing to set up a public body responsible for the public oversight of statutory audits and audit firms as requested by the Directive.

A letter of formal notice to Cyprus was sent to ask for justifications on the identified problem regarding the application of EU law within a 2 months' timeframe. Fortunately, the reply from the Republic of Cyprus was convincing and no further litigation was brought before the European Court of Justice.

Description and contributors

FERMA

The Federation of European Risk Management Associations (FERMA) brings together 22 national risk management associations in 20 European countries. FERMA has 4300 individual members representing a wide range of business sectors from major industrial and commercial companies to financial institutions and local government bodies.

These members play a crucial role for their organizations with respect to the management and treatment of complex risks and insurance issues.
FERMA's objectives are to support its members by coordinating, enhancing awareness and effective use of risk management, insurance and risk financing in Europe. FERMA is celebrating its 40th Anniversary this year.

Member associations are from the following countries: Belgium (BELRIM), Czech Republic (ASPAR CZ), Denmark (DARIM), Finland (FinnRima), France (AMRAE), Germany (DVS/BfV), Italy (ANRA), Luxembourg (ALRiM), Malta (MARM), Netherlands (NARIM), Norway (NORIMA), Poland (POLRISK), Portugal (APOGERIS), Russia (RusRisk), Slovenia (SI.RISK), Spain (AGERS and IGREA), Sweden (SWERMA), Switzerland (SIRM), Turkey (ERMA) and United Kingdom (Airmic).

www.FERMA.eu

ECIIA

The European Confederation of Institutes of Internal Auditing (ECIIA) is the professional representative body of 36 national institutes of internal audit in the wider geographic area of Europe and the Mediterranean basin.

The mission of ECIIA is to be the consolidated voice for the profession of internal auditing in Europe by dealing with the European Union, its Parliament and Commission and any other appropriate institutions of influence and to represent and develop the Internal Audit profession and good Corporate Governance in Europe.
The primary objective is to further the development of corporate governance and internal audit through knowledge sharing, key relationships and regulatory environment oversight.

www.eciia.eu

Contributors to this publication

Thijs Smit-ECIIA President and CAE at SHV Holding • **Bente Sverdrup**-IIA Norway Board member and CAE at Gjensidige Forsikring ASA • **David Lyscom**-Policy Director,IIA UK and Ireland • **Polona Pergar Guzaj**-IIA Slovenia President and CAE at KD Funds • **Christian Van Nedervelde**-IIA Luxembourg Board member and Senior VP Internal Audit at SES • **Kim Stormly Hansen**-IIA Denmark Board member and Deputy CAE at Nykredit • **Rachel Bowden**-IIA UK & Ireland Board member and Partner at Baker Tilly Risk Advisory Services LLP • **Pascale Vandenbussche**-ECIIA Secretary General • **Julia Graham**-FERMA President and Director of Risk Management and Insurance at DLA Piper • **Michel Dennery**-FERMA Vice-President and Deputy Chief Risk Officer at GDF SUEZ • **Marie Gemma Dequae** -FERMA Scientific Adviser **Françoise Gaucher**-AMRAE member, Expert Risk Manager at Groupe La Poste • **Torgny Bogärde**-Former vice-chairman SWERMA, Board member of several companies, Partner and GRC-consultant Allevo AB • **Florence Bindelle**-FERMA Executive Director • **Julien Bedhouche**-FERMA European Affairs Adviser

Special thanks

We would like to thank the ECIIA Board, ECIIA members and FERMA Board, FERMA members for their review and contribution. The project team is also grateful to the following chairpersons of Audit and Risk Committees who accepted to provide insightful information about their mission and tasks: Steffen Kragh, Audit Committee Chair, Nykredit; Rudi Vander Vennet, Chairman of the Risk & Capital Committee, Belfius Bank; John Ormerod, Chairman of Audit Committee, ITV plc; Hans-Erik F. Andersson, Board member of Gjensidige

FERMA
Federation of European Risk Management Associations
Avenue de Tervuren 273 Tervurenlaan /B12
1150 Brussels, Belgium

T +32 (0)2 761 94 31
F +32 (0)2 771 87 20
www.FERMA.eu

ECIIA
European Confederation of Institutes of Internal Auditing
Koningsstraat 109-111 bus 5
1000 Brussels, Belgium

T +32 (0)2 217 33 20
F +32 (0)2 217 33 20
www.eciia.eu