



# **The Audit Committee in Luxembourg**

**Good practices**

**23 May 2008**

# ILA Audit Committee Commission

**Chairman: John Li (KPMG)**

**Members:**

- ◆ **Ravi Beegun, KPMG**
- ◆ **Stanislas Chambourdon, KPMG**
- ◆ **Pia Haas, Dexia BIL**
- ◆ **Andrew Hallan, Integrity**
- ◆ **Olivier Lemaire, E&Y**
- ◆ **Peter Maartens, previously European Investment Bank**
- ◆ **Marc Olinger, Fortis**
- ◆ **Frank Tusch, Le Foyer**
- ◆ **Christian Van Nederveelde, SES Astra**

# Agenda

1. **Why an Audit Committee (AC)?**
2. **What are the responsibilities of the Audit Committee and the Board of Directors?**
3. **What is the profile of an Audit Committee?**
4. **Audit Committee modus operandi**
5. **Panel discussion**

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# Why an Audit Committee?

- ◆ **Delegation of tasks**
- ◆ **Is it mandatory?**
- ◆ **Future developments**
  - Eighth Directive
  - Regulatory requirements

# Why an Audit Committee?

## Delegation of tasks

- ◆ **Increasing BOD's requirements => becomes more important to create audit committee to help the Board in managing their responsibilities.**
- ◆ **AC provides focus on specific topics**
- ◆ **Structured audit committee can contribute significantly towards**
  - reducing controls failures
  - improving overall risk management
  - improving corporate governance.
- ◆ **Independence of non-executive can play a major role**

# Why an Audit Committee?

## Is it mandatory?

Mandatory for listed companies	“Comply or explain” requirement	Option under law or voluntary code	Alternative structures
Australia Canada Hong Kong India Ireland Singapore Spain <b>USA</b>	<b>Germany</b> South Africa <b>United Kingdom</b>	<b>Belgium</b> <b>France</b> Greece Italy Japan <b>Luxembourg</b> Netherlands Russia Switzerland	Austria China Denmark Finland Poland Portugal

# Why an Audit Committee?

## Code and guidelines per country

<b>Luxembourg</b>	<b>Luxembourg Stock Exchange – Corporate Governance Code</b>
<b>France</b>	<b>Vienot / Bouton, Law on Financial Security</b>
<b>Germany</b>	<b>German Corporate Governance Code</b>
<b>UK</b>	<b>Audit Committee Combined Code – Smith Report</b>
<b>USA</b>	<b>SEC standard for listed companies, NYSE corporate governance rules</b>
<b>Belgium</b>	<b>Code Lippens / Code Buysse</b>

# Why an Audit Committee? Eighth European directive



## Requirement to set up an Audit Committee (Article 41):

- ◆ to strengthen monitoring of the financial reporting process and the statutory audit and
- ◆ help to prevent any possible undue influence of the executive management on the financial reporting of the entity.

# Why an Audit Committee?

## Increasing regulatory requirements

### ◆ Banking

- Basel II ICAAP

### ◆ Insurance

- Solvency II

### ◆ Funds

- Risk Management Process

### ◆ Industry (listed companies)

- Shareholder protection

### ◆ All sectors

- Code of Conduct, Investor/shareholder Protection

# Why an Audit Committee?

## Conclusion

In Luxembourg,

- ◆ an Audit Committee is not mandatory, but strongly recommended
- ◆ it is becoming more and more a part of a sound corporate governance structure

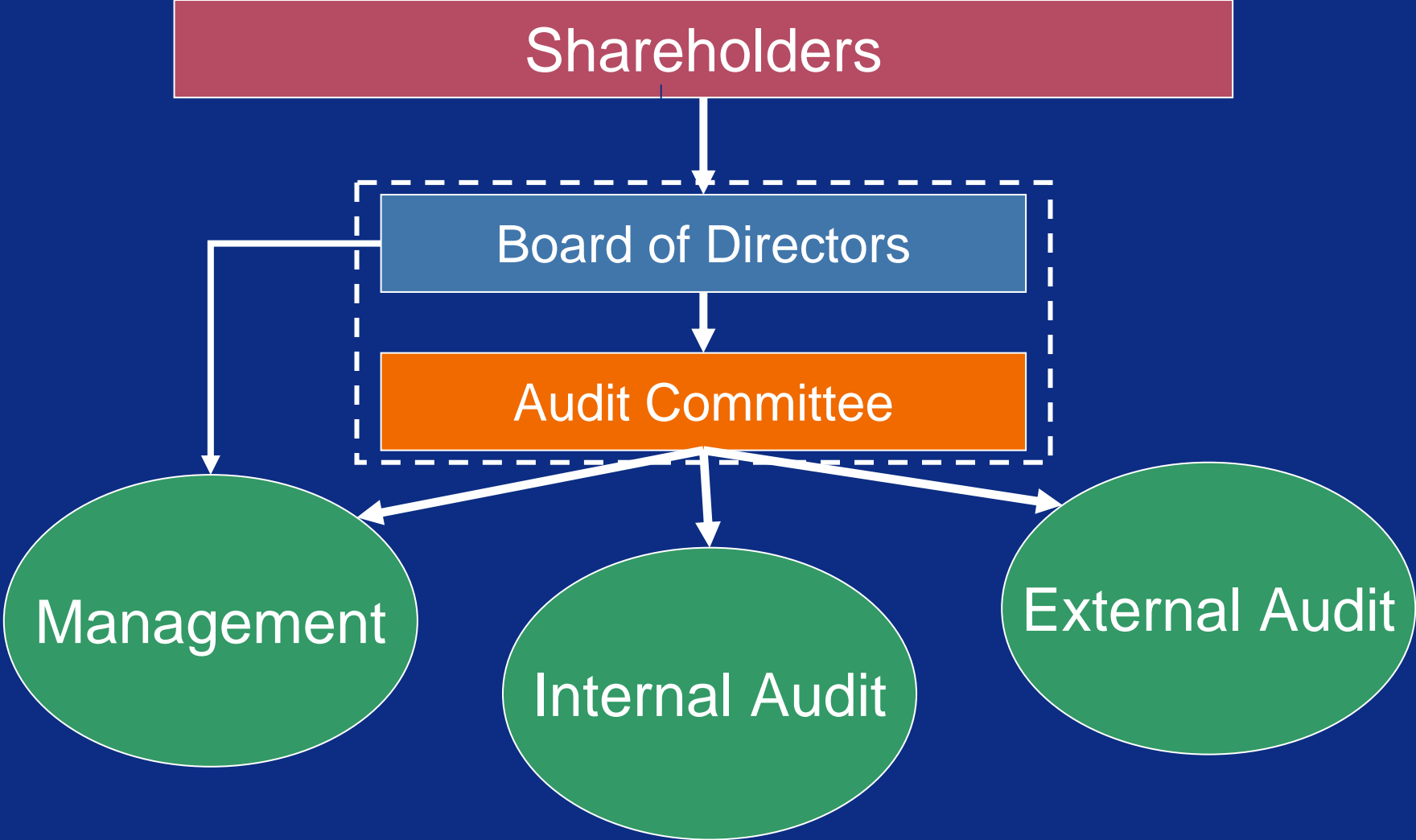
**AUDIT COMMITTEE =  
ADDITIONAL PROTECTION**



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# Interrelated Governance relationships



# Responsibilities of the Board

## Luxembourg Stock Exchange CG code

- ◆ The Board is responsible for the management of the Company.
- ◆ It acts in the best interests of the Company and protects the general interests of the shareholders by ensuring the sustainable development of the Company.
- ◆ It functions in a well-informed manner as a collective body .

# Role of the Audit Committee

## Roles

The European union 8th Directive Article 41, §2-3, defines the role of Audit Committee as follows:

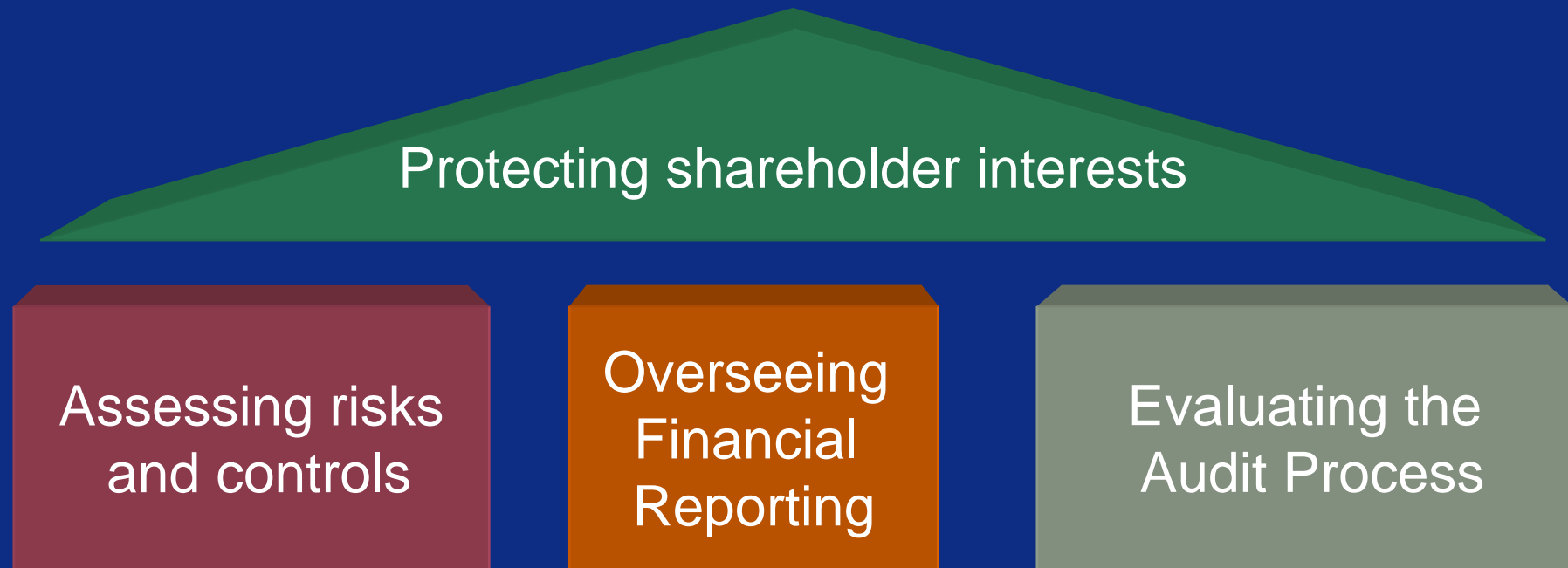
- ◆ Monitor the financial reporting process;
- ◆ Monitor the effectiveness of the company's internal control, internal audit where applicable, and risk management systems;
- ◆ Monitor the statutory audit of the annual and consolidated accounts;
- ◆ Review and monitor the independence of the statutory auditor or audit firm (in particular for non-audit services)
- ◆ Recommend the appointment of a statutory auditor or audit firm.

## Practical aspects

- ◆ Endorse a higher level of responsibility;
- ◆ Enterprise risk management & internal control systems documentation;
- ◆ Procedures to ensure that design and effectiveness of internal control system are regularly assessed;
- ◆ Strengthen communication with internal audit and statutory auditor;
- ◆ Define the procedure and criteria for selecting a statutory auditor and audit firm.

# Responsibilities of the Audit Committee Luxembourg Stock Exchange CG code

- ◆ To assess the risk and control environment;
- ◆ To oversee financial reporting and;
- ◆ To evaluate audit processes.



# Responsibilities of the Audit Committee

## Assessing risk and control

### Enterprise Risk Management framework (COSO)

- ◆ Control environment
- ◆ Risk assessment
- ◆ Control activities
- ◆ Information & communication
- ◆ Monitoring



# Responsibilities of the Audit Committee Overseeing Financial Reporting

- ◆ Review earnings releases
- ◆ Appropriateness of accounting policies
- ◆ Disclosures in Financial statements



# Responsibilities of the Audit Committee

## Evaluating the audit process

- ◆ Internal audit role
- ◆ External audit role
- ◆ Independence of auditors
- ◆ Collaboration and communication
- ◆ Understanding results and conclusions

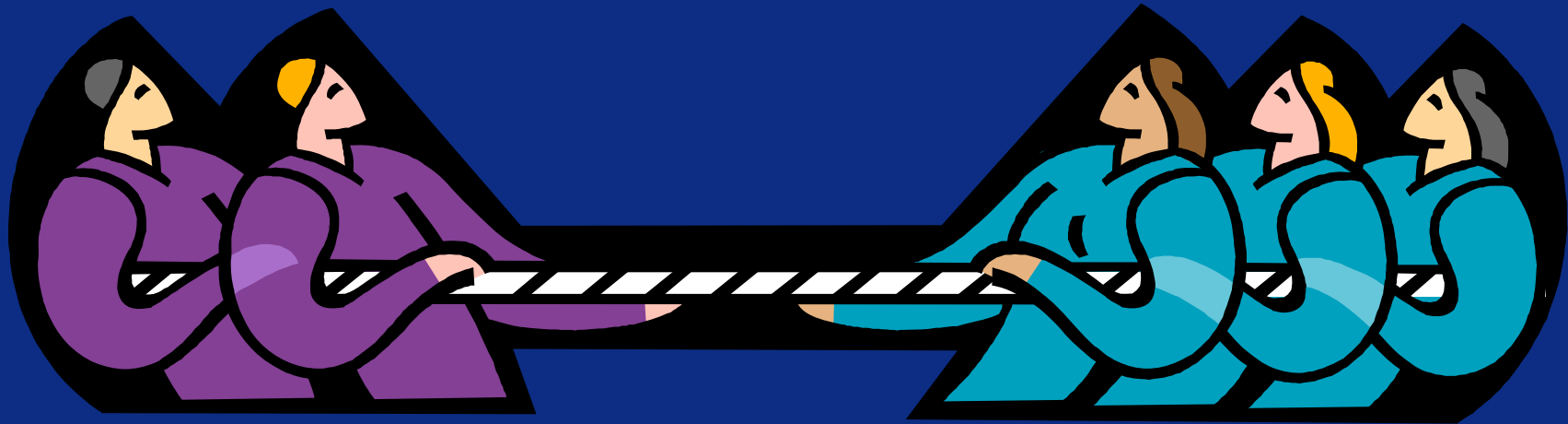


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# Profile of an Audit Committee

## Independence



### Luxembourg Stock Exchange:

- ◆ independent in character and judgement
- ◆ has no relationships or circumstances that affect his judgement

# Composition



- ◆ **Composed of non executive directors**
- ◆ **Majority of independent members**
- ◆ **Board Chairman should not chair Audit Committee**

# Profile of an Audit Committee

## Knowledge/ Financial Experience



- ◆ Relevant experience of activities, industry
- ◆ Relevant financial knowledge ( GAAP, estimates)
- ◆ Diagnosis and remedies
- ◆ Continuous education

# Agenda

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5. Panel discussion

# Audit Committee modus operandi

How?

Size of committee?  
How often to meet?  
Time required?  
Who attends?

What?

Agenda?  
Areas of focus?

# **Audit Committee modus operandi**

## **Use of Survey results to illustrate practice**

### **2007 KPMG Audit Committee Institute Survey**

- ◆ **Participants: 1342**
- ◆ **Countries: 25**
- ◆ **Luxembourg participants : 15 (8 listed entities, 6 banks and 1 insurance company).**
- ◆ **European participants: Belgium, Denmark, France, Holland, Germany, Isle of Man, Ireland, United Kingdom, Switzerland**

# Audit Committee modus operandi

How?

Size of committee?  
How often to meet?  
Time required?  
Who attends?

# Size of Audit Committee Criteria

How?

Size of committee?  
How often to meet?  
Time required?  
Who attends?



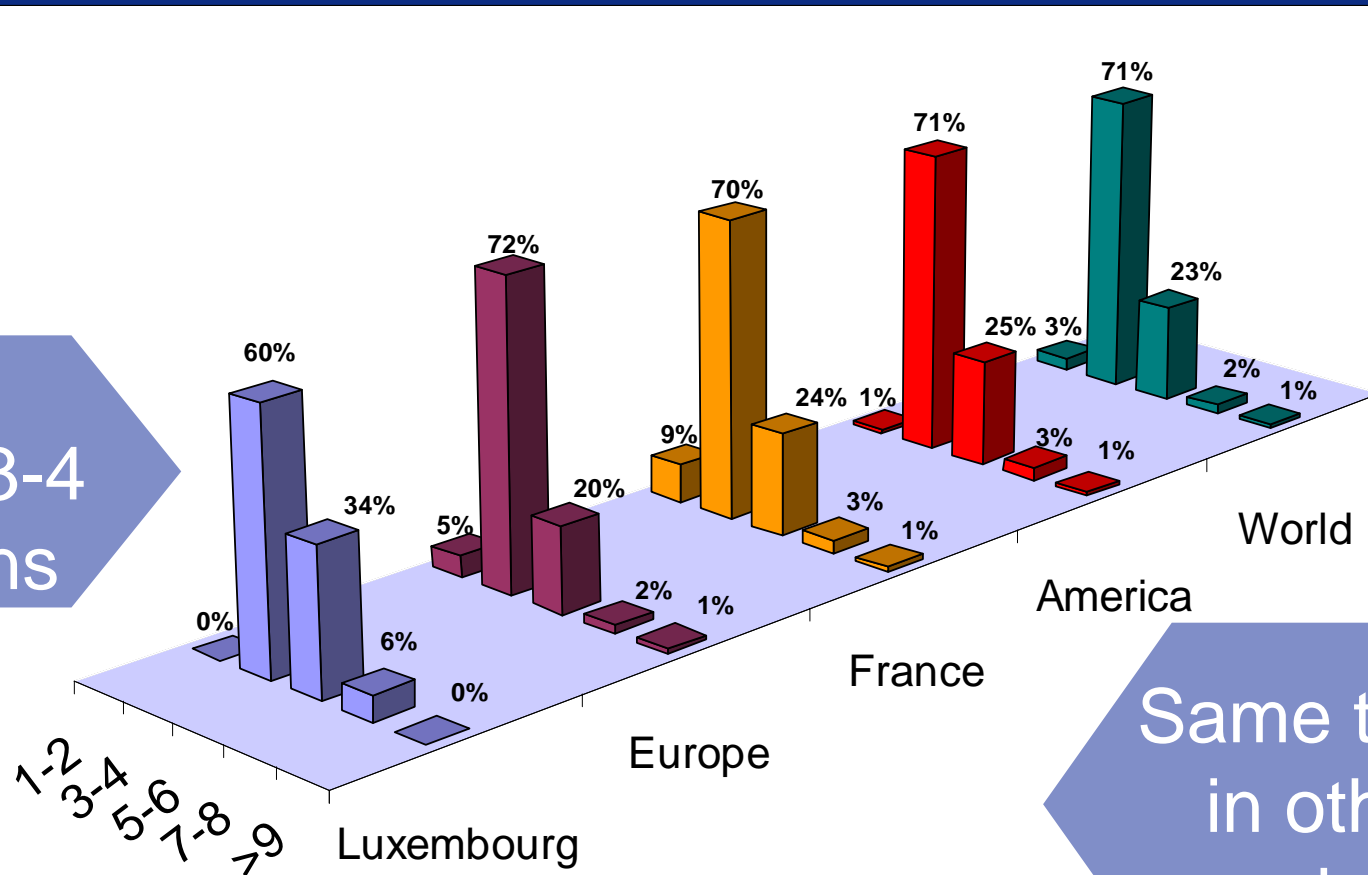
- ◆ **Scope of responsibilities**
- ◆ **Volume of work**
- ◆ **Experience and skills**
- ◆ **Efficiency**
- ◆ **Recommendations from exchanges/authorities**

# Size of Audit Committee ACI survey 2007

How?

Size of committee?  
How often to meet?  
Time required?  
Who attends?

LU  
60%: 3-4  
persons

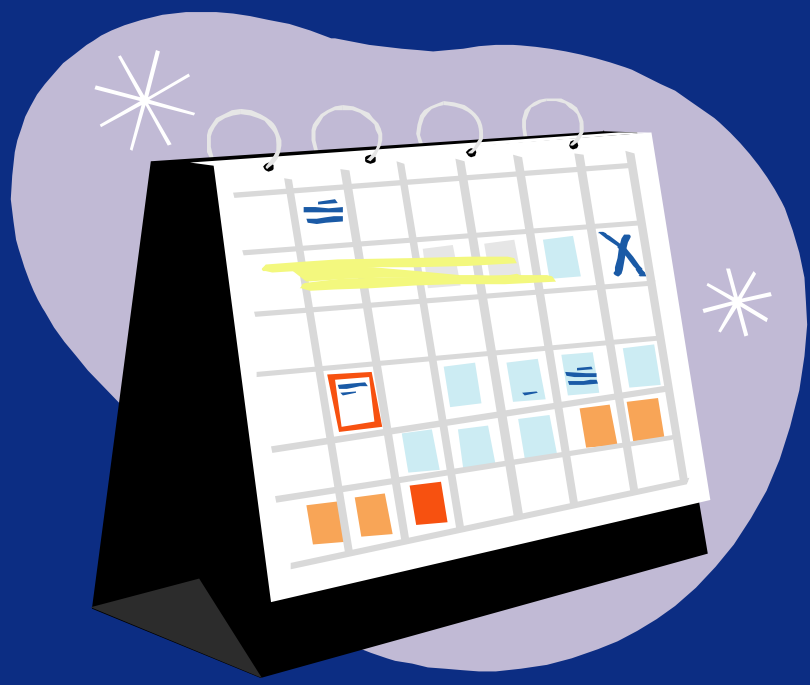


Same trend  
in other  
regions

# Frequency of meetings Criteria

How?

- Size of committee?
- How often to meet?
- Time required?
- Who attends?



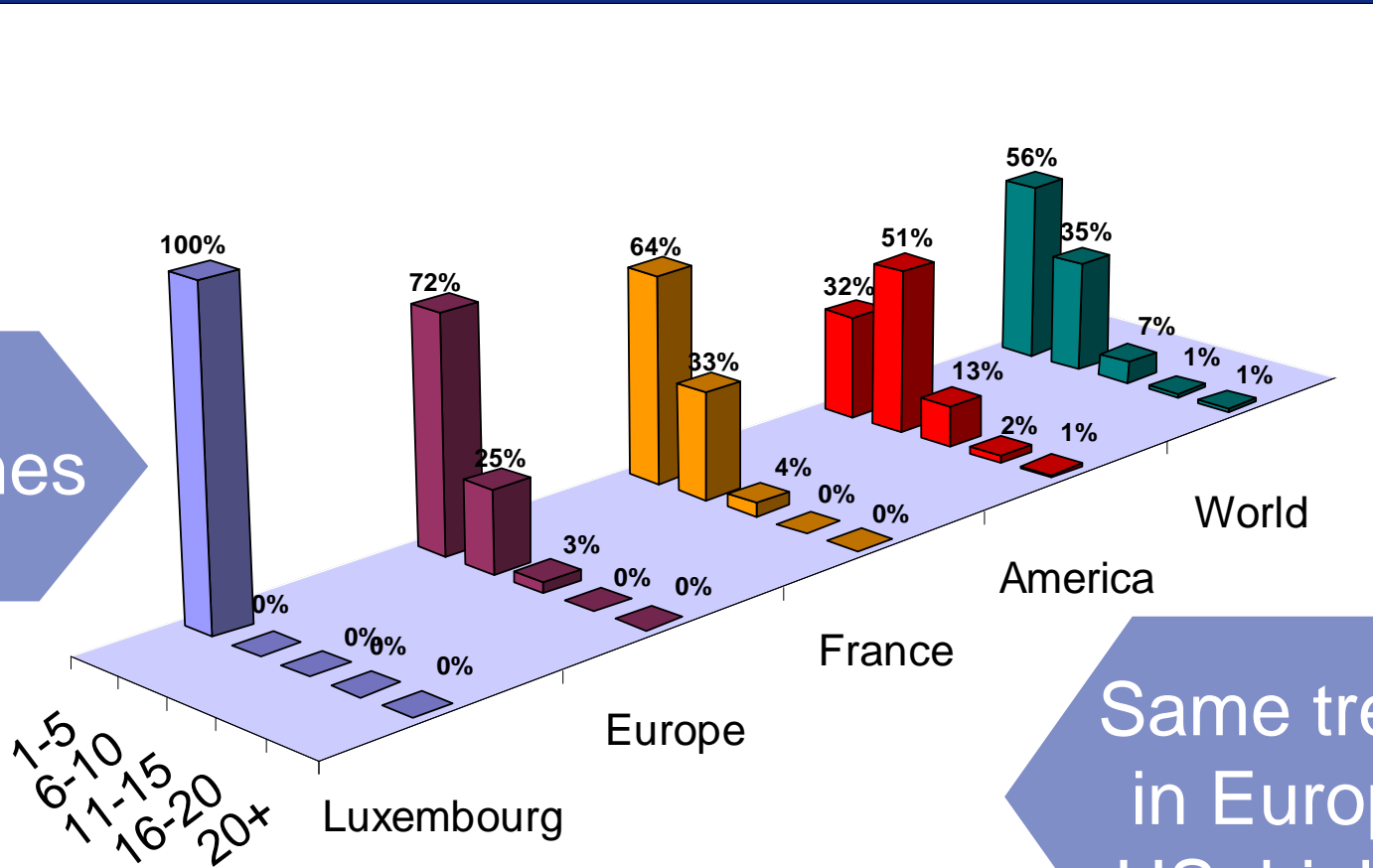
- ◆ Responsibilities
- ◆ Agenda coverage
- ◆ Time and energy
- ◆ Recommendations from exchanges /authorities

# Frequency of meetings ACI survey 2007

How?

Size of committee?  
How often to meet?  
Time required?  
Who attends?

LU  
1 – 5 times  
Avg: 3

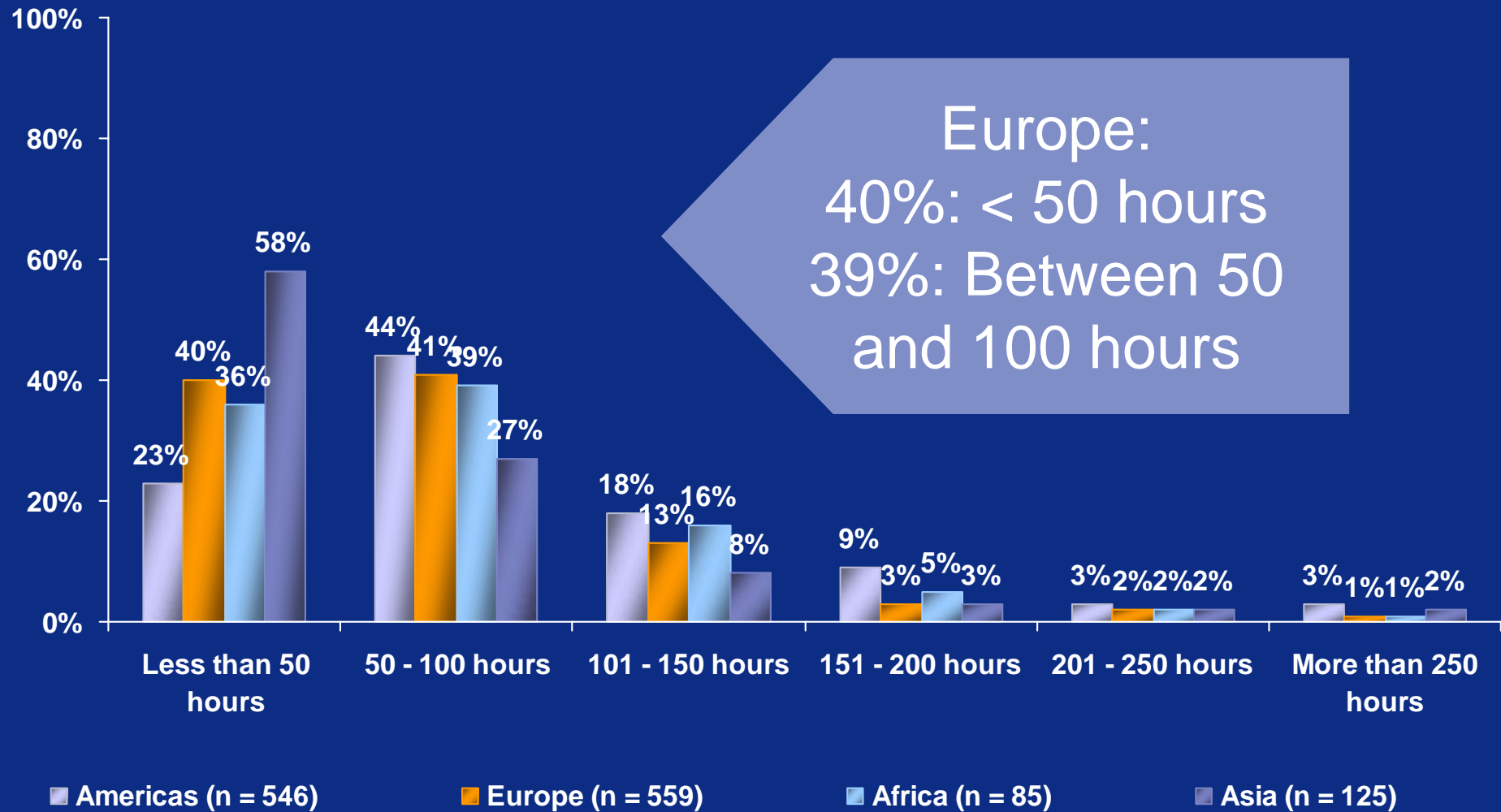


Same trend  
in Europe  
US: higher

# Time required ACI Survey 2007

How?

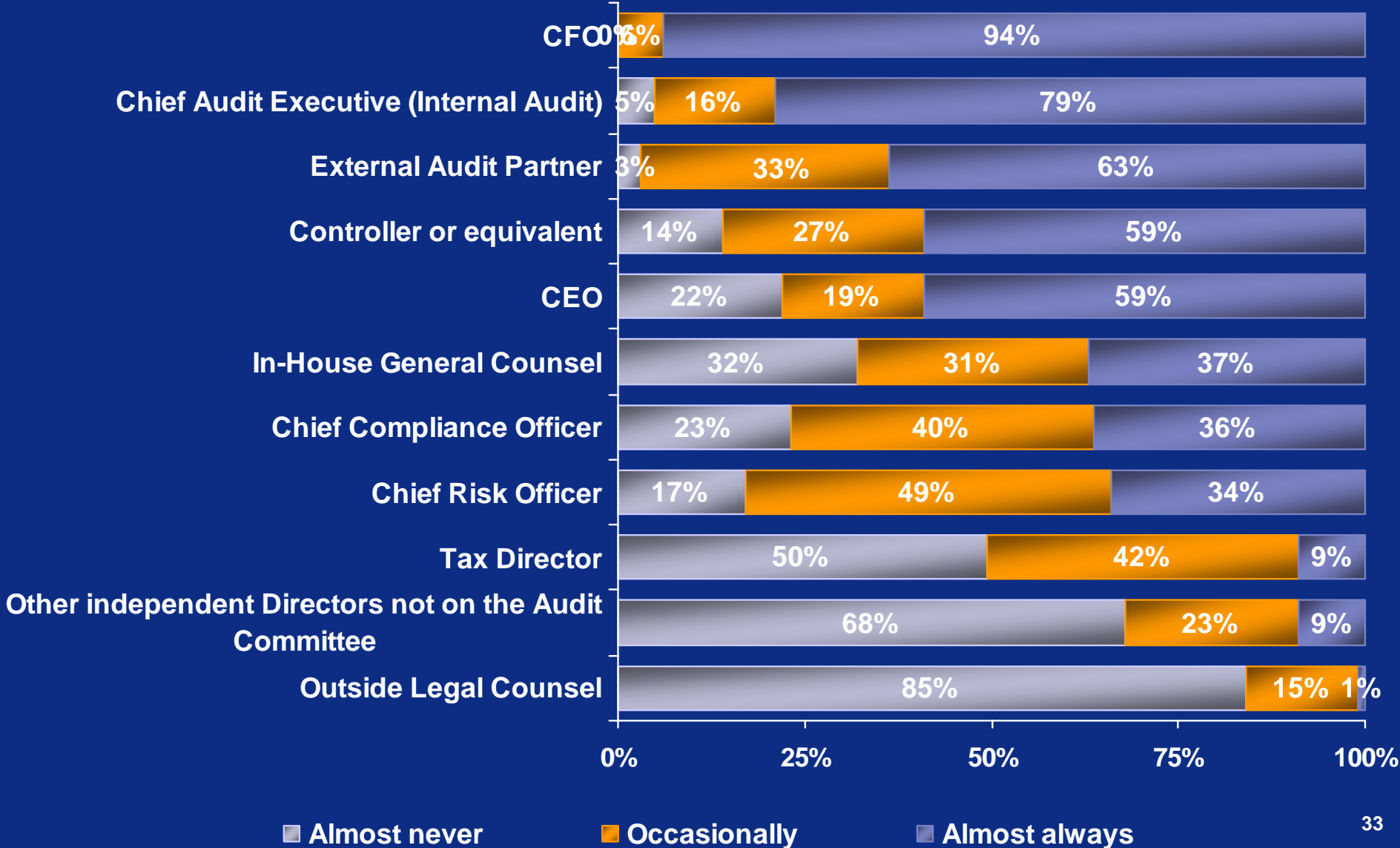
Size of committee?  
How often to meet?  
Time required?  
Who attends?



# Who attends? ACI Survey 2007

How?

Size of committee?  
How often to meet?  
Time required?  
Who attends?



# Audit Committee modus operandi



What?



Agenda?  
Areas of focus?

# Agenda/work plan setting Criteria

What?

Agenda?  
Areas of focus?

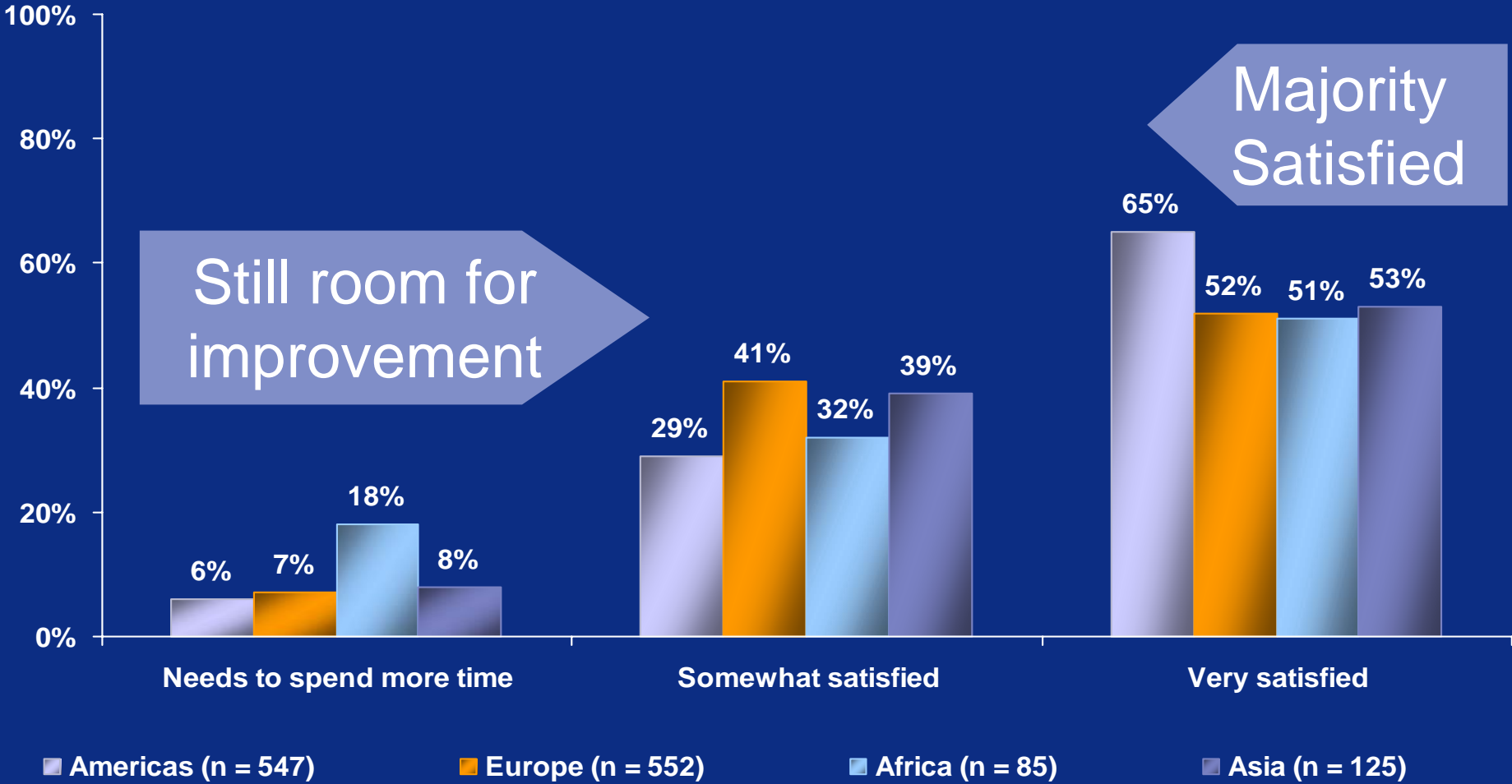


- ◆ Coverage of relevant good practice AC agenda topics
- ◆ Company specificities included?

# Agenda/work plan ACI Survey 2007

What?

Agenda?  
Areas of focus?



# Areas of focus Criteria

What?

Agenda?  
Areas of focus?



- ◆ **Considering risk exposures**
- ◆ **Industry / regulatory specificities**
- ◆ **Coordinating with other bodies /committees**

# Areas of focus ACI Survey 2007

What?

Agenda?  
Areas of focus?



Source: KPMG's Audit Committee Institute, 2007

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# Areas of focus 2008

## Banks

### Risk management and internal control

- ◆ Basel III/ ICAAP process
- ◆ Information Technology risks
- ◆ Protection of customer data
- ◆ MIFID

### Financial Reporting

- ◆ Subprime exposures
- ◆ FINREP regulatory reporting (under IFRS since 1 Jan)
- ◆ Litigations and claims, provisions
- ◆ Regulatory ratios

# Areas of focus 2008

## Commercial companies

### Risk management and internal control

- ◆ Risk management processes
- ◆ Treasury management
- ◆ Financing structures (liquidity assessment)
- ◆ Compliance with relevant Stock Exchange regulations (LU, US etc)
- ◆ Information technology risks
- ◆ International operations

### Financial Reporting

- ◆ Exposures relating to subprime
- ◆ IFRS reporting
- ◆ Revenue recognition policies
- ◆ Litigations, claims and provisions
- ◆ Impairment of assets
- ◆ Tax liabilities

# Areas of focus 2008

## Insurance companies

### Risk management and internal control

- ◆ Evolutions in the regulatory framework/legal obligations
- ◆ Review of threats/opportunities linked to business evolution and trends
- ◆ Information Technology risks
- ◆ Protection of customer's data
- ◆ Follow-up of Management letter's and internal audit reports

### Financial Reporting

- ◆ Any effects of subprime exposures
- ◆ Change in accounting policies/principles
- ◆ IFRS reporting
- ◆ Litigations, claims and provisions
- ◆ Review of Summary of Unadjusted Audit Differences

# Areas of focus 2008

## Investment funds

### Risk management and internal control

- ◆ Risk Management Process
- ◆ Operational errors and breaches
- ◆ Liquidity analysis
- ◆ Compliance matters

### Financial Reporting

- ◆ Subprime exposures
- ◆ Valuation of illiquid instruments
- ◆ Valuation of derivatives
- ◆ Performance fees

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# Tools of the Audit Committee Institute



- ◆ Charter
- ◆ Agenda
- ◆ Self evaluation
- ◆ Risk assessment
- ◆ Topics of interest

[www.auditcommittee.lu](http://www.auditcommittee.lu)

# Panel Discussion



# Questions?