



AUDIT COMMITTEE KEY TO INVESTOR CONFIDENCE

European Federation of Accountants issue a series of recommendations for corporate governance

Brussels, 01 September 2003: The European Federation of Accountants (FEE), which represents more than 500,000 accountants throughout Europe, has today launched a discussion paper with practical recommendations to strengthen corporate governance and to increase confidence in financial reporting. The recommendations specifically strive to move the corporate governance debate forward, by highlighting the essential role the audit committee needs to play in the future.

According to FEE the role of the audit committee for listed companies is essential. Audit committees' core responsibilities should include: reviewing financial reporting arrangements (including internal control); monitoring of the relationship with the external auditor; and monitoring of the work and resources of the internal audit function. It should also establish a policy on purchasing of non-audit services.

In its paper FEE has also detailed the elements of good corporate governance relevant to the process of financial reporting and auditing and has considered the fundamental relationships and obligations between the company boards, auditors, shareholders and other stakeholders in an effective corporate governance system.

FEE's key recommendations for sound corporate governance include:

- All listed companies should have an audit committee function discharged by non-executive directors or supervisory board members where, at a minimum, the majority of the committee's members are independent.
 - Entities not having an audit committee should disclose in a corporate governance statement their reasons for not having an audit committee and how the audit committee function has been discharged.
- The audit committee should establish its policy on purchasing non-audit services in line with applicable legislation. The audit committee's report should set out its policy on non-audit services and explain its assessment that there are sufficient safeguards to ensure independence in relation to the provision of these services.
- Companies should be required to make a comprehensive corporate governance statement in their annual report, as disclosure is a powerful tool to improve corporate governance.
 - Information on the audit committee's responsibilities and activities should be provided as a part of the board's corporate governance statement.

- There is a need to agree common principles on the form and content for corporate governance reporting.
- The use of extended (“long form”) reports by the external auditors in combination with presentations and discussions should be explored by boards. It facilitates more informal and in-depth exchange of views between the auditor and the audit committee or board.
- Internal Control: The board should ensure a regular evaluation of the nature and extent of the risks to which the company is exposed and the controls to manage them.
 - FEE is at present undertaking a project on internal control which will allow directors and auditors to serve the public interest by appropriately reporting on companies' systems of internal control.
- Boards should ensure that the company has an ethical code emphasising integrity and that they and their staff understand and apply it.
- There is no need for a separate European Corporate Governance Code. However, some principles and common benchmarks for national codes should be set at European level, together with guidance on the “comply or explain approach” to corporate governance advocated by the Jaap Winter Group Report, in order to ensure adequate coordination.
- In order to ensure an appropriate balance of power, no single individual, or group, should have unfettered control of the company. FEE recommends that in a unitary board, the roles of chairman and chief executive should be held by different people balanced by a strong independent non-executive element. In a two-tier structure, at least for listed companies, the management board should have further members in addition to the chief executive.

Commenting on the launch of the paper, David Devlin, President of FEE said:

“Good corporate governance is essential to restoring confidence in financial reporting and thus it contributes to business efficiency and economic growth. The European Commission’s Communication on Corporate Governance and Company Law of 21 May 2003, which FEE actively supports, has ensured that corporate governance is currently high on the political agenda.

With its new publication, the European accountancy profession wishes to maintain the momentum by outlining the next steps that need to be taken. The role of the audit committee is crucial, as a fully functioning audit committee helps to improve the quality of financial reporting. FEE is calling for these recommendations to be implemented.”

He added that:

“The FEE paper focuses on publicly listed companies, but is also relevant to other entities, in particular to public interest entities.”

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Notes for Editors:

1. The new publication **Discussion Paper on the Financial Reporting and Auditing Aspects of Corporate Governance** was approved for publication by the FEE Council on 25 June 2003. It can be downloaded free-of-charge from the FEE website (<http://www.fee.be>) or ordered from Sylvie Romancide (Fax: + 32 2 231 11 12, Email: Sylvie_Romancide@fee.be).
2. For more information regarding the European Commission's Communication on Statutory Auditing and the Communication on Company Law and Corporate Governance visit: http://europa.eu.int/comm/internal_market/en/index.htm

FEE's official response to the EC's consultation on its Communication of 21 May 2003 on Company Law and Corporate Governance, is available from:
<http://www.fee.be/secretariat/Positionpaper.htm>
3. The Final Report of the High Level Group of Company Law Experts (Winter Group) on A Modern Regulatory Framework for Company Law in Europe is available from:
http://europa.eu.int/comm/internal_market/en/company/company/modern/index.htm
4. The **Fédération des Experts Comptables Européens** (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 41 professional bodies from 29 countries. FEE member bodies are present in all fifteen member states of the European Union, nine European Union candidate countries and three member countries of EFTA. Between them, these bodies have a combined membership of 500.000 individuals, of whom approximately 94% are from EU countries.