

**REPORT ON THE AUDIT COMMITTEE SURVEY
FEBRUARY 2020**

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1 Summary of the main observations and areas for further consideration

The overall objective of the EU audit reform was to improve the integrity of financial reporting and introduce new responsibilities - responsibilities for auditors, audit committees and regulators. The EU Commission encouraged regulators to engage with audit committees and help make them aware of their new responsibilities and more prominent role. An EU level audit committee survey was prepared by the CEAOB (Committee of European Auditing Oversight Bodies) with the primary objective of helping authorities better understand how audit committees are operating and what difficulties they are facing in carrying out their responsibilities.

For these reasons Financial Supervisory Authority (FIN-FSA) and Finnish Patent and Registration Office (PRH) carried out an audit committee survey in spring 2019 on grounds of the CEAOB questionnaire. This report presents the results of the survey. The survey was conducted as a self-assessment. Due to this approach the results may tend to represent more the positive than the negative.

The report provides a summary of the 122 responses, observations made by the authorities and some references to related literature. This report is being published in order to assist audit committees and boards of directors to reflect on their compliance with the new legislation and their practices in comparison with their peers.

Based on the survey results FIN-FSA and PRH wish to draw attention to the following areas.

Note to the reader: The tasks of the audit committee can be conducted by a distinct audit committee, by another body or the board of directors of the audited entity. Note that in the report "audit committee" refers to all of these options when applicable.

Audit committees are to support the decision-making and efficient working of the board of directors

Audit committees' enhanced role does not decrease or remove the responsibilities of the board of directors. Audit committees should ensure that the board of directors makes decisions on a well informed and independent basis. Moreover, concentrating the oversight of financial reporting and audit related matters with audit committees is intended to make the work of boards of directors more efficient.

Increased demand for audit committee expertise and independence

The results of the survey show that almost all distinct committees have at least some competence in accounting or auditing, and that the majority of the members are independent of the entity.

In connection with the increasing complexity of financial reporting and audit regulation, it is vital that audit committees have appropriate technical expertise in accounting and auditing. Audit committee members should be able to make their own sound, objective and independent decisions and judgments and be able to positively influence the quality of financial reporting and audit. Although the legal requirements in this area don't apply to the board of directors carrying out the audit committee tasks, the ability to properly fulfil the audit committee responsibilities should be carefully considered even on those boards.

Effective audit committees have clearly defined procedures

The results of the survey show that the audit committee responsibilities are handled in many different ways. Some audit committees had clear procedures for all audit committee tasks, while other audit committees appeared to operate in a less structured manner.

In connection with the increasing number of audit committee responsibilities, detailed enough terms of reference help to clarify audit committee roles and responsibilities, as

well as the relationship and communication with the board of directors, management, internal and external auditors, as well as other parties. Furthermore, the terms of reference should reflect the entity's business and operational characteristics. The boards of directors carrying out audit committee tasks are also recommended to have effective and efficient processes for handling these responsibilities.

Audit committees play a key role in the selection of the auditor

Audit committees have an important role in the selection process of the auditor. The selection procedure should be transparent, non-discriminatory and conducted in a fair manner. Audit committees should assess tenders from an audit quality perspective and that assessment should be used in the selection of the auditor. The results of the survey show that the responsibilities are in general recognized by audit committees.

Audit committees should monitor the auditor's performance and independence on a regular basis

Several specific obligations, which derive from the Audit Directive and the Audit Regulation on PIE audits highlight the auditor's independence. The results of the survey show that audit committees carry on their monitoring responsibilities in various ways.

Audit committees should review and monitor the auditor's performance and independence on a regular basis. For example, non-audit services provided by an auditor should be reviewed and monitored. Audit committees are encouraged to meet the auditor and ensure independence issues are discussed as part of the agenda. Effective communication between audit committees and auditors is vital for the fulfilment of these requirements.

Audit quality indicators serve as a tool for audit committees in the selection and monitoring of the auditor

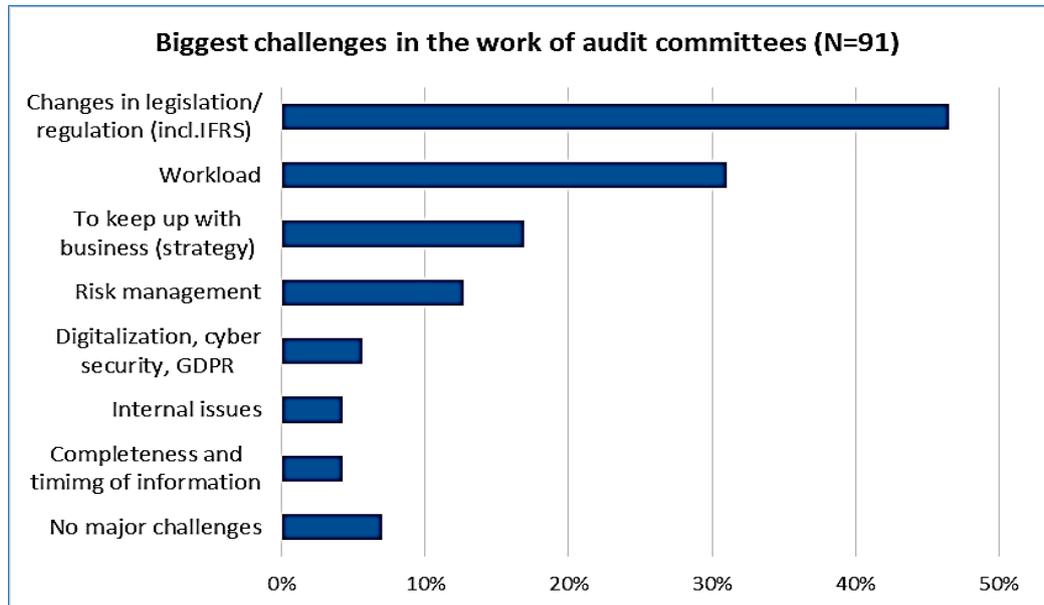
One of the overall objectives of the EU audit reform was to improve audit quality. Audit committees are encouraged to consider having a set of audit quality indicators (AQI) which they could use to engage with auditors on audit quality matters. The audit quality indicators are quantitative measures of particular aspects of the audit, for example, the experience of the engagement team, partner/manager involvement, and the audit hours by Key Audit Matters. The objective of the audit quality indicators is to provide more in-depth information about factors that influence audit quality.

Audit committees play an important role in contributing to the integrity of financial reporting

The results of the survey show that the audit committees could take a more active role in monitoring the financial reporting process, for example in determination of alternative performance measures (APMs), which often form an essential part in the reporting of an entity's financial performance. To fulfil its oversight responsibilities, the audit committee must be able to question and analytically and independently assess decisions made by the operative management. Based on their monitoring role, audit committees should also submit recommendations to the board to ensure the integrity of the financial reporting process.

Biggest challenges for audit committees relate to continuously changing legislation and to workload

From the entities participating in the survey, over two thirds described challenges related to their work. The biggest challenges of the audit committees relate to keeping up with changing legislation, including IFRS. In addition, audit committees struggle with the workload and optimal and reasonable time consumption related to it. Furthermore, keeping up with operational matters, risk management and digitalization, cybersecurity and GDPR cause challenges. The detailed distribution of the responses is presented below. Multiple answers were permitted.



The increasing legislation and rapidly changing economic environment make the duties of the audit committees more demanding in terms of workload and time management. More complex issues and the changing operating environment require in-depth knowledge of financial reporting as well as the business and the industry to ensure the validity and accuracy of financial reporting of an entity.

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2 Background

2.1 The EU audit reform

The 2014 audit reform was implemented to enhance trust in the financial information of companies. The reform consists of the Audit Directive (the AUD) and the Audit Regulation (the AUR). The AUD has been implemented into national law and it sets out the framework for statutory audits, public oversight and cooperation between authorities. The AUR is enforceable as law in all EU member states containing specific requirements for the statutory audits of public interest entities (PIEs) which are listed companies, credit institutions and insurance undertakings.

Strengthened role of the audit committees

The new audit legislation underlines the importance of the role of the audit committees. Many requirements that have previously been seen as best practice are now enforceable law and therefore have a different status than previously. The audit committee is now instrumental in enhancing trust in the statutory audit and in financial information generally.

Based on the new audit legislation, the audit committee shall, for example, continue to

- monitor the financial reporting process;
- monitor the effectiveness of the undertaking's internal quality control, risk management systems and, where applicable, its internal audit;
- monitor the independence and work of the auditor.

Furthermore, the new audit legislation contains new responsibilities for audit committees. The audit committee shall, for example,

- review and monitor the appropriateness of the provision of non-audit services, and where applicable, issue guidelines with regard to non-audit services;
- prepare the appointment of statutory auditors or audit firms according to a specific procedure;
- receive an additional report for the audit committee from the statutory auditor.

Changes in the supervisory framework

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by enhancing the protection of investors and promoting stable and orderly financial markets. One of the objectives of ESMA is to promote, through supervisory cooperation, the uniform application of the IFRS thus enhancing comparability and transparency in financial reporting. FIN-FSA is a member of ESMA.

The Committee of European Auditing Oversight Bodies (CEAOB) is the new framework for co-operation between national audit oversight bodies at EU level. By facilitating supervisory convergence, the CEAOB contributes to the effective and consistent application of EU audit legislation throughout the EU. PRH is a member of the CEAOB and its mission is to enhance audit quality through auditor oversight and general guidance.

New supervisory tasks relating to market monitoring

The objective of the EU audit reform was to enhance audit quality and promote competition in the audit market. Based on the AUR, national competent authorities (NCAs) shall monitor the development in the market for providing statutory audit services to PIEs and shall in particular assess the following:

- (a) the risks arising from high incidence of quality deficiencies of a statutory auditor or an audit firm, including systematic deficiencies within an audit firm network, which may lead to the demise of any audit firm, the disruption in the provision of statutory audit services, whether in a specific sector or across sectors, the further accumulation of risk of audit deficiencies and the impact on the overall stability of the financial sector;
- (b) the market concentration levels, including in specific sectors;
- (c) the performance of audit committees;
- (d) the need to adopt measures to mitigate the risks referred to in point (a).

The NCA responsible for auditor oversight is to collect information on these factors. Every three years, the EU Commission draws up a market monitoring EU-wide report. The CEAOB collects the information from NCAs and reports on the compiled results to the EU Commission. The aggregated results of the Finnish survey (2019) have already been reported to the CEAOB by PRH. The next monitoring report will be available on EU Commission's website later this year.

PRH is the NCA responsible for the monitoring tasks in points (a), (b) and (d) of the above-mentioned provision whereas FIN-FSA is the NCA for monitoring and assessing the performance of audit committees in accordance with point (c) as stipulated in the Act on the Financial Supervisory Authority¹. Furthermore, as a prudential supervisor of credit institutions and insurance companies, FIN-FSA has sector-specific supervisory responsibilities in relation to the reliability of the governance of the supervised entities. This area was not covered by the survey.

¹ Section 50i

2.2 How was the audit committee survey designed?

The objective was set at the EU level

The first market monitoring report² from the EU Commission concluded that most NCAs have very little experience in monitoring the audit committees' activities and performance. It suggested that the NCAs should start engaging with audit committees, making audit committee members aware of their new responsibilities and more prominent role. Therefore, the CEAOB launched an EU-wide audit committee survey to help national regulators better understand how audit committees are operating and what difficulties they are facing in carrying out their new responsibilities.

FIN-FSA and PRH carried out the survey in Finland in collaboration. The survey was seen as an opportunity to start engaging with PIE audit committees and boards of directors. Furthermore, the survey was seen as an opportunity for the audit committees themselves to reflect at general level their compliance with the new legislation and their practices in comparison with their peers.

In Finland the aim was to reach the majority of the PIE audit committees

There are about 420 individual PIEs in Finland. Some groups of entities (especially credit institutions) include several individual PIEs. The survey was sent to audit committees or the board of directors of 142 PIEs or PIE groups including nearly all equity issuers, major credit institution groups and pension insurance companies as well as some other insurance companies and some bond issuers. The target group represented a large proportion of the PIE groups and was therefore expected to give a fair insight into the functioning of the audit committees in Finland.

Survey questions focused most on audit committee tasks related to the auditing

The survey was conducted as an electronic questionnaire in spring 2019. The questionnaire is to be found in Appendix 2.

The questions in the survey addressed the following topics:

- Information about the respondent (e.g. business line, market value and audit committee contact details)
- Audit committee composition and skills
- Interaction with the administrative or supervisory body
- Monitoring auditor independence including the provision of permitted NAS
- Auditor selection process
- Oversight of the audit function
- Oversight of the financial reporting process
- Oversight of the internal quality control and risk management systems
- Implementation of new IFRS standards, biggest challenges for the audit committees and interaction with supervisory authorities.

The core survey was coordinated at the EU level and therefore the questions have not been modified to the legal framework in Finland. The AUD requirements provide, however, insight and background on the national legislation, even if it is not directly enforceable law as the AUR.

The survey was conducted as a self-assessment

The survey was conducted as a self-assessment. Due to this approach the results may tend to represent more the positive than the negative. The responses have not been verified but with a few fact-based matters, the responses were corrected when necessary (e.g. the category of the entity).

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52017DC0464>

Most questions had response options and a text box

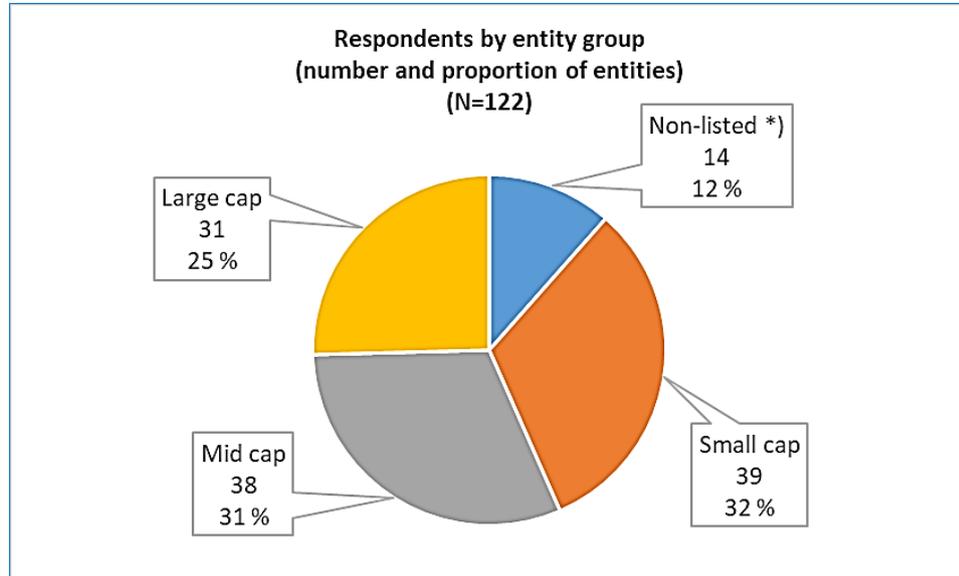
Responses to questions posed were graded 1 – 4 as follows:

1. Yes
2. Yes, partly
3. No
4. Not applicable

The audit committees were invited to use, when applicable, the text boxes underneath each question to provide clarifications and comments.

2.3 Who responded to the survey?

The survey was answered by representatives of 122 entities. The response rate was high at 86%.



*) The group of non-listed entities includes all other entities except equity issuers.

In question 42 the respondents were asked to describe how the audit committee had processed the survey.

The majority of the respondents (80% of 122 respondents) explained the responding process. In most cases (over 90%) the responses were prepared by the audit committee or the audit committee chair in cooperation with the secretary of the committee or member of the management. In some cases (13%) the audit committee chair and, in a few cases (8%), the CFO or someone else from management was the respondent. In other words, the responses were in most cases directly prepared by the audit committee or the audit committee chair and thus the responses can be seen to genuinely represent the views of the audit committees.

2.4 The audit committee event in September 2019

The purpose of the event organized by FIN-FSA and PRH was to meet up with Finnish audit committees for the first time from the perspective of the audit legislation and to increase awareness of the authorities' work. The preliminary results of the survey were presented. The keynote speaker was Annette Köhler from Germany, audit committee member/chair of various audit committees and Professor of Accounting, Auditing and Controlling, who presented her views on the role of audit committees and good practices. The presentation material from the event is available on the websites of FIN-FSA and PRH.³



Photos by Paula Ojansuu.

³

https://www.finanssivalvonta.fi/contentassets/720374915f934030ae5f34735eed8f3e/audit_committee_event_20092019.pdf
https://www.prh.fi/stc/attachments/tilintarkastusvalvonta/Audit_Committee_Event_20092019.pdf

2.5 How to read the report?

Example of how the survey results are presented in the report:

Biggest challenges in the work of audit committees

References to specific articles in the AUD and the AUR. The text presented may only be an extract of the relevant paragraph.

Legal reference

Summary of responses

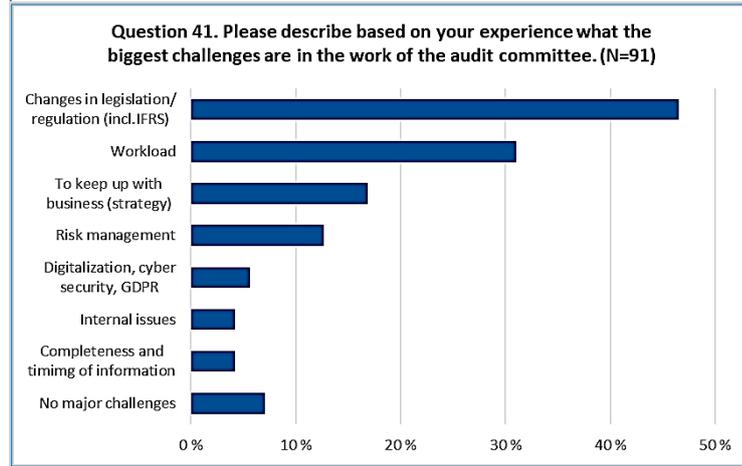
The specific question, number of responses and detailed results are presented in the graph.

The results are summarized below the graph and a distribution of results per entity group is presented where relevant.

Selected examples of descriptions given by the respondents are also presented to enlighten the matter.

Not applicable to this question

The summary below presents the responses from 71 respondents. Multiple answers were permitted.



From the entities participating in the survey, over two thirds (66%) described challenges related to their work. The biggest challenges of the audit committees relate to keeping up with changing legislation, including IFRS. In addition, audit committees struggle with the workload and optimal and reasonable time consumption related to it. Furthermore, keeping up with operational matters, risk management and digitalization, cybersecurity and General Data Protection Regulation (GDPR) cause challenges.

Respondents gave comments such as the following (direct quotations):

- "Implementation of new reporting standards and regulations. Implementation timelines are usually tight and require extensive analysis and implementation efforts by Audit Committee and management."
- "Time management and increasing regulation causing broader agenda."
- "The main challenges for the committee are understanding the future operating models in the sector and its impact on the company's processes, and being able to monitor the governance model and critical processes through the organization structure covering all key entities."
- "The committee needs to understand the business well enough to understand where the risks are and what is reachable."
- "It is important to understand the business and the risks of the company, follow the changes in the regulation environment and based on previous, build the ability to understand the meaning and implications to the company of constant changes in the regulation environment."

Seven respondents answered that there had been no major challenges for the audit committee. Six of these respondents were mid or small cap entities. The respondents did not explain why the audit committee had not encountered any major challenges.

Observations

Observations made based on the results.



The increasing legislation and rapidly changing economic environment make the duties of the audit committees more demanding in terms of workload and time management. More complex issues and the changing operating environment require in-depth knowledge of financial reporting as well as the business and the industry to ensure the validity and accuracy of financial reporting of an entity.

References to related literature

References to related literature represent good practise in the addressed topic, but they do not constitute binding guidance to audit committees.

Not applicable to this question

2.6 Glossary of terms

AC	Audit committee
APM	Alternative Performance Measure. An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. ESMA has issued a guideline on APMs.
AUD	Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, OJ L 157, 27.5.2014, p. 196.
Audit committee tasks	Can be conducted by a distinct audit committee, by another body or the board of directors of the audited entity. Note that in the report “audit committee” refers to all of these from question 5 onwards.
Audited entity	Entity (company, audit client), for which the statutory auditor is appointed to conduct statutory audit.
Auditor	In the report the term “auditor” refers to both an individual statutory auditor and an audit firm, if not indicated otherwise.
AUR	Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, OJ L 158, 27.5.2014, p. 77.
CEAOB	Committee of European Auditing Oversight Bodies
CG code	Finnish Corporate Governance Code
ecoDa	European Confederation of Directors’ Associations
ESMA	European Securities and Markets Authority
GDPR	Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (Data Protection Directive) <i>OJ L 119, 4.5.2016, p. 1</i>
FEE	Fédération des Experts-comptables Européens (Federation of European Accountants), which has changed its name to Accountancy Europe in 2016.
IASB	International Accounting Standards Board
IFIAR	International Forum of Independent Audit Regulators. IFIAR is comprised of independent audit regulators from 55 jurisdictions around the world. IFIAR’s mission is to serve the public interest, including investors, by enhancing audit oversight globally.
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions. IOSCO brings together the world’s securities regulators and is recognized as the global standard setter for the securities sector.

NAS	Non-Audit Services. Non-audit services are services other than statutory audit.
NCA	National Competent Authority
Non-listed entity	In the report “the group of non-listed entities” includes all other respondents than equity issuers i.e. bond issuers and non-listed insurance companies and credit institutions.
PIE	Public Interest Entity, which refers to 1) a Finnish entity which has issued a share, bond or another security on a regulated market, 2) a credit institution, and 3) an insurance company. See Accounting Act Chapter 3 Section 9.

3 Audit committee composition, skills and independence

3.1 Body performing the audit committee functions

Legal reference

Art 39.1 of AUD

Member States shall ensure that each public-interest entity has an audit committee. The audit committee shall be either a stand-alone committee or a committee of the administrative body or supervisory body of the audited entity. It shall be composed of non-executive members of the administrative body and/or members of the supervisory body of the audited entity and/or members appointed by the general meeting of shareholders of the audited entity or, for entities without shareholders, by an equivalent body.

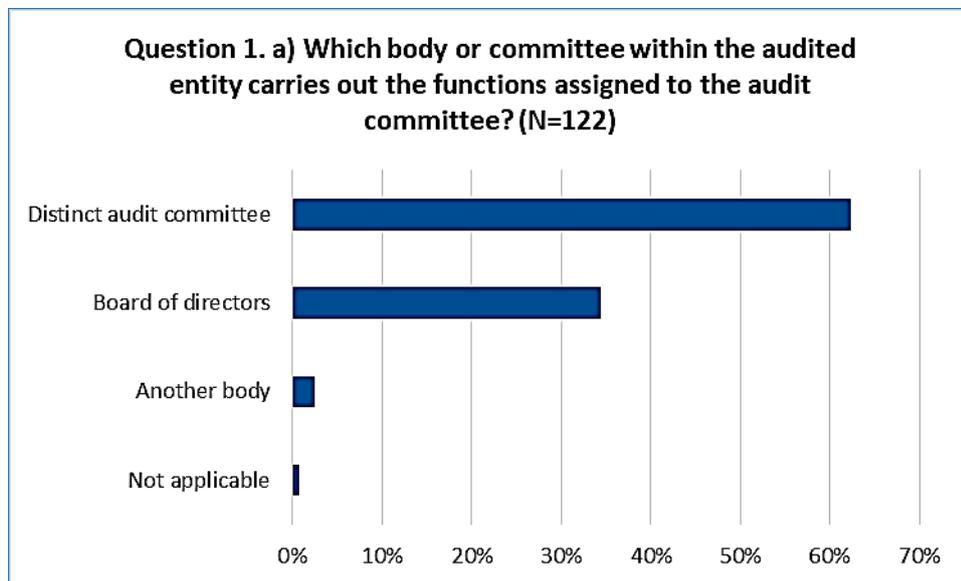
Art 39.2 of AUD

Where an audit committee forms part of the administrative body or of the supervisory body of the audited entity in accordance with paragraph 1, Member States may permit or require the administrative body or the supervisory body, as appropriate, to perform the functions of the audit committee for the purpose of the obligations set out in this Directive and in Regulation (EU) No 537/2014.

Art 39.4 of AUD

By way of derogation from paragraph 1, Member States may require or allow a public-interest entity not to have an audit committee provided that it has a body or bodies performing equivalent functions to an audit committee, established and functioning in accordance with provisions in place in the Member State in which the entity to be audited is registered. In such a case the entity shall disclose which body carries out those functions and how that body is composed.

Summary of responses

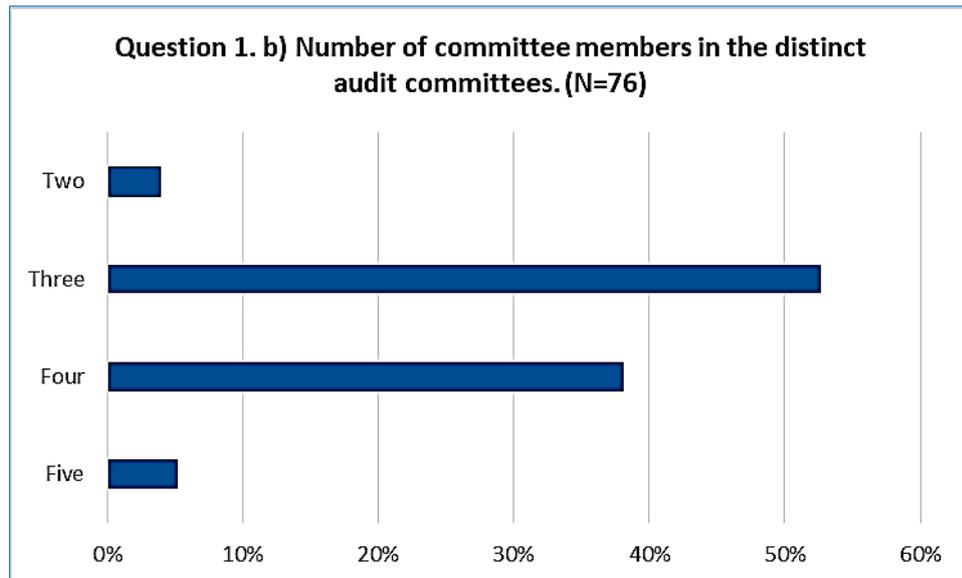


In about two thirds (65%) of the audited entities, i.e. in 79 respondents of 122, the board of directors has established a committee that carries out the audit committee functions. The committee is most often an audit committee, but in some entities it is another committee, for example a combined risk and audit committee.

The share of distinct committees was the following in different entity groups:

- 100% in large cap listed entities;
- 71% in mid cap listed entities;
- 23% in small cap listed entities; and
- 86% in non-listed entities.

The non-listed entities indicated more often than the listed entities (14% vs 1%), that they had another committee, other than audit committee, that carries out the functions assigned to the audit committee.



The size of the distinct audit committees was between two and five members. The results do not include other committees, for example risk and audit committees, because the tasks of other committees might be broader. The average number of members in distinct audit committees was 3,4. The average number of members in the different entity groups was:

- 3,7 in large cap listed entities;
- 3,3 in mid cap listed entities;
- 2,9 in small cap listed entities; and
- 3,6 in non-listed entities.

Distinct audit committee respondents gave comments such as the following (direct quotations):

- "Each member of the board of directors is entitled to take part in the audit committee meetings at their discretion."
- "In addition to the audit committee members, the following persons participate in the audit committee meetings: Chairman of the board, the President and CEO, CFO, VP Group Controller, Group General Counsel (secretary of the AC), auditors, Chief Audit Executive (where applicable) and Chief Risk Manager (where applicable)."
- "In addition to the 4 committee members there are 3 expert members who attend the meetings but do not have any role in decision making."

Observations



Larger entities are more likely to have distinct audit committees than smaller entities. Within the sample of non-listed entities a high proportion had a distinct committee (86%). This may be because, even prior to the latest EU audit reform, the Act on Credit

Institutions highlighted the importance of audit committees and the audit and accounting competencies required by those committee members.

Some respondents clarified that the board of directors had established a distinct audit committee after the reference period in the survey. As a result, the number of audit committees seems to be increasing in the long run. One reason could be that the new audit legislation has emphasized the role of the audit committee. Many requirements that have previously been seen as best practice are now enforced by law.

The respondents answered that the size of the distinct audit committees was between two and five members. Several respondents clarified that in addition to the audit committee members, there are also a number of other persons present at the audit committee meetings. Certain management board members (for example the chief executive officer and the chief financial officer) attend the meetings. Based on the responses, all members of the board of directors were entitled to attend the meetings.

References to related literature

According to the new⁴ Finnish Corporate Governance Code (hereafter “CG code”) the committee must have at least three members. The fact that a board of directors only has a few directors may be a reason to depart from the recommendation regarding the minimum number of members.⁵ According to ecoDa⁶ the size of the audit committee typically varies depending on the business environment and organisational structure of the company. The extent of the responsibilities delegated to the audit committee varies depending on the aforementioned factors and also the management culture. EcoDa concludes that an audit committee size of between three and five members is generally most appropriate for reflecting enough expertise and perspective, but not being too big for efficient functioning.

⁴ The amended CG Code came into force on 1 January 2020

⁵ Securities Market Association 2020: page 33

⁶ ecoDa 2011: page 10

3.2 Competence in accounting or auditing

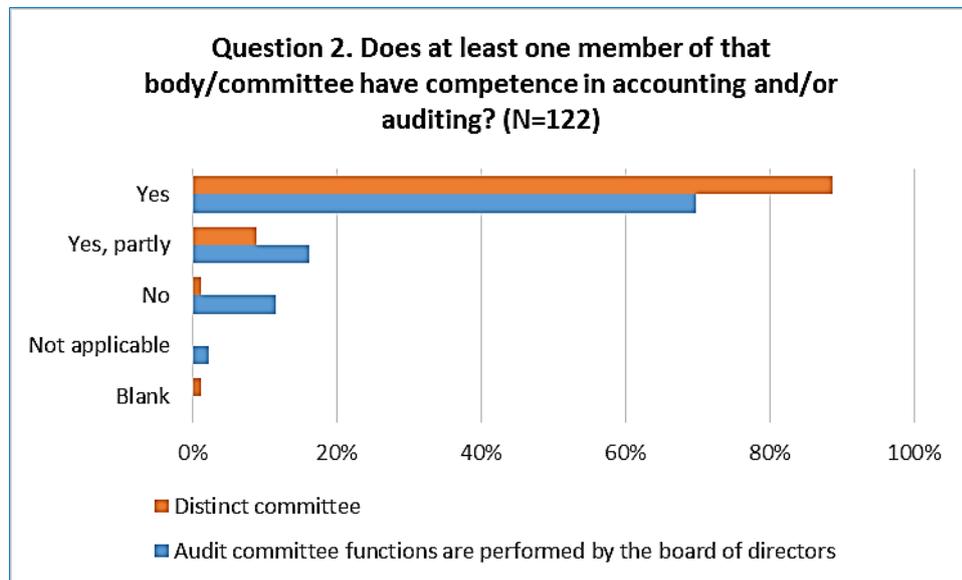
Legal reference

Art 39.1 of AUD

At least one member of the audit committee shall have competence in accounting and/or auditing.

Summary of responses

The summary below presents the responses separately for distinct committee respondents (N=79) and for those respondents whose board of directors carry out the audit committee functions (N=42), as in Finland the competence requirement applies only to distinct committees.



Almost all (97%) distinct committee respondents have, at least partly, competence in accounting and/or auditing. The share of **Yes** and **Yes, partly** responses in different entity groups was as follows:

- 100% in large and mid cap listed entities;
- 89% in small cap listed entities; and
- 92% in non-listed entities.

Almost 90% of the board of directors, performing audit committee functions, also responded that they have, at least partly, competence in accounting and/or auditing. It should be taken into account here, that from a purely legal perspective, the competence requirement of the Limited Liability Companies Act applies only to distinct committees.

Yes respondents' gave comments such as the following (direct quotations):

- "Chairman of the audit committee is Certified Public Accountant who also has worked as CFO and is chairman of audit committee in other listed companies."
- "The Chairman of the Committee has acted as CFO in a large cap listed entity."
- "Chairman is former CFO and chairman of various other ACs."
- "One experienced CFO (large cap public co)."
- "One retired CFO and one acting CFO."
- "One person is authorised public accountant."

- “All audit committee members have extensive experience in corporate management and financial matters and therefore, considered to also to have competence in accounting and/or auditing.”

Yes, partly respondents’ gave comments such as the following (direct quotations):

- “Several members have competence in accounting. None was a certified accountant nor auditor, however.”
- “The members have extensive experience on general accounting and financial management issues and financial reporting.”
- “Several board members have a master’s degree in Business Administration.”
- “Board members have accounting training, and Chairman has also practical experience.”

Most of the **No** responses were given by small cap listed entities.

Observations

The competence in accounting and/or auditing is mostly in the hands of one member. The competence in accounting and/or auditing is most often obtained from practical experience as a CFO or as an authorised public accountant. Some respondents commented, that extensive experience in corporate management and financial matters are also considered as required competence.

Based on the responses, the biggest challenges of the audit committees relate to keeping up with changing legislation, including IFRS. Accounting training is seen as a good practice to meet the challenges. The sufficient competence is the key for independent decision making by the audit committee.

References to related literature

The government proposal for the auditing act⁷ stated that the required competence would typically be obtained from acting as a chief financial officer, in other similar demanding financial administration positions or as an auditor. The AUD states that it is particularly important to reinforce the technical competence of the audit committee.⁸ The CG code states that in addition to sufficient expertise there should also be sufficient experience to be able to challenge the accounting and auditing function of the entity.⁹

Referring to ecoDa, each audit committee should assess the adequate competence level from its point of view, taking into account the nature and complexity of the business and operational environment and what kind of challenges they bring to the financial reporting of the entity. EcoDa discusses its point of view regarding the competency requirement further: "A professional qualification from one of the professional accountancy bodies might be considered as an indicator of competence. But recent and relevant experience as a result of past employment in a significant financial/auditing role or one that included oversight responsibilities for financial reporting is highly desirable."¹⁰

Federation of European Accountants - Fédération des Experts-comptables Européens (FEE) states in its publication that the one-member technical competency requirement in the directive is to be taken just as a minimum starting point for PIEs and they should not necessarily rely on just one audit committee member to have all the competence required. For example, in financial PIEs having only one member competent in accounting in general would not be adequate, as an actuary or a financial sector reporting expert would also be needed. An audit committee should also be free to obtain advice

⁷ HE 70/2016 vp: page 49

⁸ Directive 2014/56/EU, paragraph 24

⁹ Securities Market Association 2020: page 35

¹⁰ ecoDa 2011: page 8

and assistance from outside legal, accounting or other advisors as it deems necessary to carry out its duties, and should receive appropriate funding from the company to this effect.¹¹

¹¹ FEE 2016: page 10

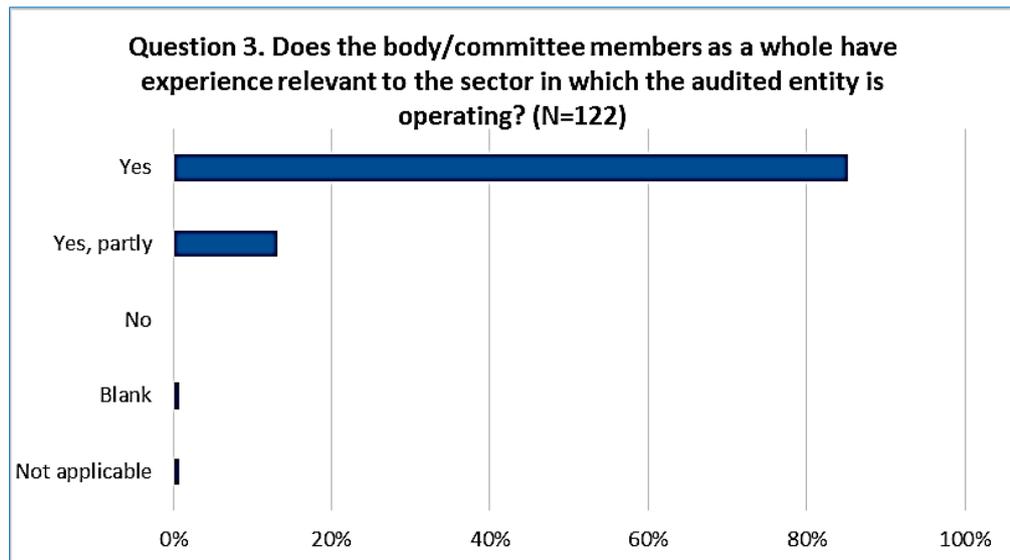
3.3 Experience relevant to the sector

Legal reference

Art 39.1 of AUD

The committee members as a whole shall have competence relevant to the sector in which the audited entity is operating.

Summary of responses



Respondents gave comments such as the following (direct quotations):

- "Chairman is former CFO in industry and various other ACs."
- "The diversity principles include, among others, that the board composition shall include expertise from the geographical areas where the company conducts its business, the background profession of the board members shall include such competences that support realisation of the company's strategy and that enable board members to challenge management decisions and to exercise their role of having oversight."

Observations



Almost all (98%) respondents answered that they have or have some experience relevant to the sector. The sector experience is clearly essential for the body/committee to fulfil their functions. The sector experience is also a key when assessing the substance of certain accounting treatments. For example the impact of the new IFRS about revenue recognition was different for different industries.

References to related literature

According to ecoDa, it is important to balance the competence in accounting/auditing with other experience relevant to the company and the sector.¹²

FEE welcomes the development that the audit committee as a whole should have business and industry experience and competence and expects this requirement to increase the audit committees' understanding of industry specifics in terms of matters affecting financial reporting. Furthermore, FEE considers it important that the

¹² ecoDa 2011: page 10

shareholders would assess, at the nomination, if the audit committee fulfils this sector competence requirement.¹³

For example in the financial sector, the European Central Bank (ECB) is responsible for approving the appointment of all members of the management bodies of the significant credit institutions that fall under its direct supervision. These bodies include the management function (executives) and the supervisory function (non-executives). According to the ECB, all members of the management body of the significant institutions are expected to possess, as a minimum, basic theoretical banking experience that allows them to understand the institution's activities and main risks.¹⁴

¹³ FEE 2016: page 10

¹⁴ ECB 2018: page 10

3.4 Independence from the entity

Legal reference

Art 39.1 of AUD

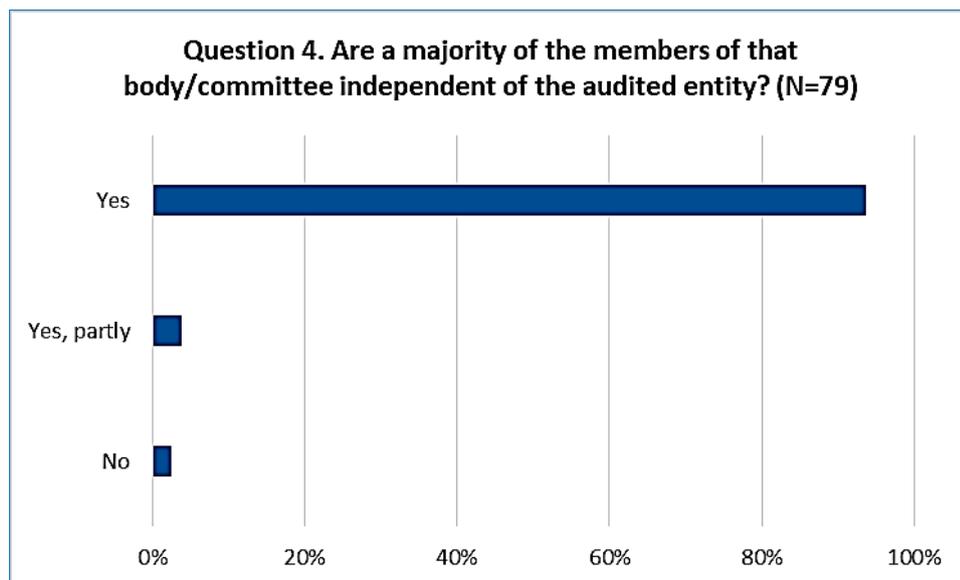
A majority of the members of the audit committee shall be independent of the audited entity. The chairman of the audit committee shall be appointed by its members or by the supervisory body of the audited entity, and shall be independent of the audited entity. Member States may require the chairman of the audit committee to be elected annually by the general meeting of shareholders of the audited entity.

Art 39.5 of AUD

Where all members of the audit committee are members of the administrative or supervisory body of the audited entity, the Member State may provide that the audit committee is to be exempt from the independence requirements laid down in the fourth subparagraph of paragraph 1.

Summary of responses

The summary below includes only those respondents whose audit committee functions are performed by a distinct committee (N=79), as in Finland the independence requirement applies only to distinct committees.



Yes respondents (94%) gave comments such as the following (direct quotations):

- "All members are non-executive directors. The company also complies with the Finnish Corporate Governance Code without exceptions and assess independency annually, and when needed, and reports the results in Corporate Governance Statement."
- "All members are independent of the entity. Three out of four members are independent of the significant shareholders."
- "All members of the Audit Committee are independent of the company and all except one member are independent of company's significant shareholders."

Observations



Almost all (94%) respondents indicated that their committee members are independent of the audited entity. Only a small amount of the respondents answered Yes, partly (4%) or No (2%). Some of these answers indicated that all the audit committee members are independent of the entity, but not independent from the major shareholders. Over a third



of the responses described separately the independence from the entity and independence from the major shareholders.

It is to be noted, that most of the respondents are required to follow the Finnish Limited Liability Companies Act. The independence requirement from the AUD is implemented there as follows: “An audit committee member cannot participate in the day-to-day management of the company or a company in the same group of companies.”

References to related literature

FEE discusses the concept of the independence of an audit committee member in its publication. According to FEE, the concept of independence is not easy to define due to lack of detailed description of the requirement. It is only stated in the directive that more than 50% of the audit committee should be independent. FEE continues bringing up the requirement for the two year cooling-off period for an active PIE auditor. An active PIE auditor should not become an audit committee member before two years has passed since he/she ceased to act as a statutory auditor or key audit partner in connection with the audit engagement. Apart from that, FEE concludes that neither the Directive nor the Regulation gives further clarification on what independence of audit committee members means.¹⁵

FEE considers that the assessment of the independence of audit committee members should remain principles-based.¹⁶

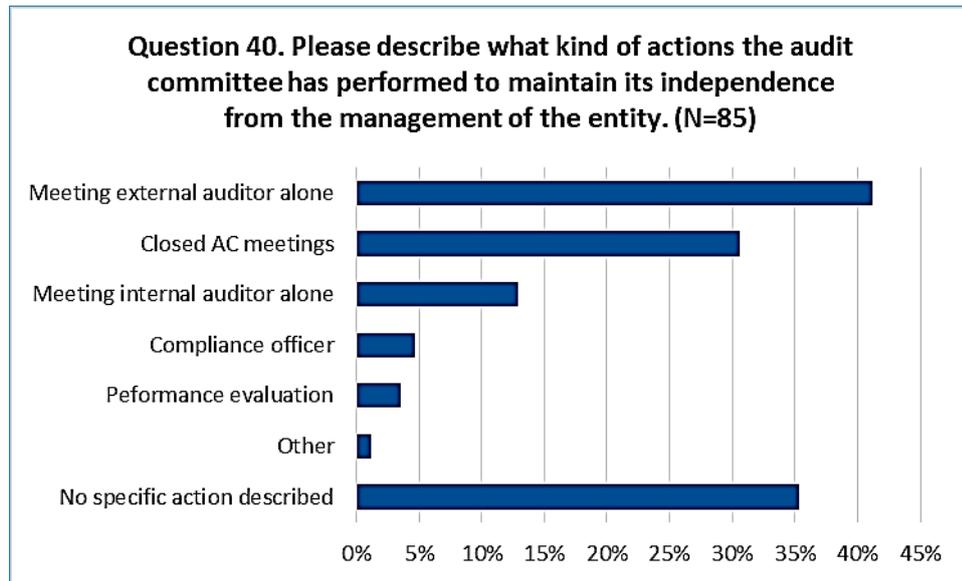
¹⁵ FEE 2016: page 11

¹⁶ FEE 2016: page 11

3.5 Independence from the management

Summary of responses

The summary below presents the responses from 85 respondents. Multiple answers were permitted.



From the participants in the survey, 70% described actions performed to maintain independence from the management. About two thirds (65%) of these descriptions specified action or several actions that the audit committee had taken to ensure independence from management. The most commonly mentioned action was meeting the external auditor alone (41% of the responses) and closed audit committee meetings (31% of the responses). About a third (35%) of the descriptions did not indicate any specific actions. Some descriptions for example only indicated, that audit committee members are all independent from the entity.

Respondents gave comments such as the following (direct quotations):

- "Regular sessions with committee only as well as the committee and auditors only."
- "The audit committee holds sessions without management representatives in connection with every face-to-face committee meeting; the audit committee and its Chairman holds separate meetings with the auditors without management, as well as with Head of Internal Audit."
- "The audit committee has regularly closed meetings with the auditors and closed meetings with only audit committee members present. Also the final conclusions in the minutes of the meetings are discussed and written without the management and expert members."
- "The audit committee assesses the pre-reading material prepared by the company independently and critically and, every so often, initiates specific information requests and action points at its own discretion. Further, the audit committee also meets the company's statutory auditor at least once a year without the management being present."
- "AC invite senior executives representing different functions (subordinates to top-management) to the AC-meeting's in order to secure multiple views are reflected, reported and addressed. Also the AC perform discussion's/meeting's excluding top-management."

- “At the end of the meeting AC can have time to discuss the matters among themselves without the management.”
- “The Audit Committee considers after each meeting whether a discussion without the management is needed. The Committee also discusses with the internal audit, the auditor and the compliance officer without the management, if needed.”
- “The board has used external accounting support and diligent auditing by external auditor.”

Observations

To fulfil its oversight responsibilities, the audit committee must be able to make sound and unbiased decisions and recommendations. This requires in-depth competence in accounting/auditing. The audit committee must be able to challenge and analytically and independently assess decisions made by the operative management. To ensure independence, it is important to sometimes have separate meetings with only audit committee members. The audit committee should, when necessary, consult an external party, to be able to form an independent opinion of the decisions made by management.

The action mentioned most often in the responses is closed meetings or meetings only with the auditor without the management being present. Only a small part of the descriptions included references to other measures. Use of external, independent experts would be one action to consider.

References to related literature

IOSCO¹⁷ states, that one of the good features of an audit committee member is to maintain professional scepticism and a questioning attitude towards the information received from management.¹⁸

The audit committees frequently invite chief executive officers, other management and internal and external auditors to attend the meetings and give additional information insight. However, ecoDa underlines that their presence should not inhibit open discussion and challenging the decisions and judgements of management.¹⁹ Closed audit committee meetings is also one way to ensure the independence of the audit committee.

If the auditor disagrees with management on any issues, the audit committee should gain an understanding of both positions to be able to form its own independent view.²⁰

Audit committee members are not expected to be accounting experts, but they should seek explanation and advise that support the decisions made by management. For example if the accounting treatment chosen by the management does not reflect the audit committee’s understanding of the substance of the arrangement, the audit committee should consult with an external party (which could also be a regulator).²¹

¹⁷ International Organization of Securities Commissions

¹⁸ IOSCO 2019: page 11

¹⁹ ecoDa 2011: page 13

²⁰ IOSCO 2019: pages 8-9

²¹ IOSCO 2019: page 9

4 Interaction with the board of directors

4.1 Number of interactions

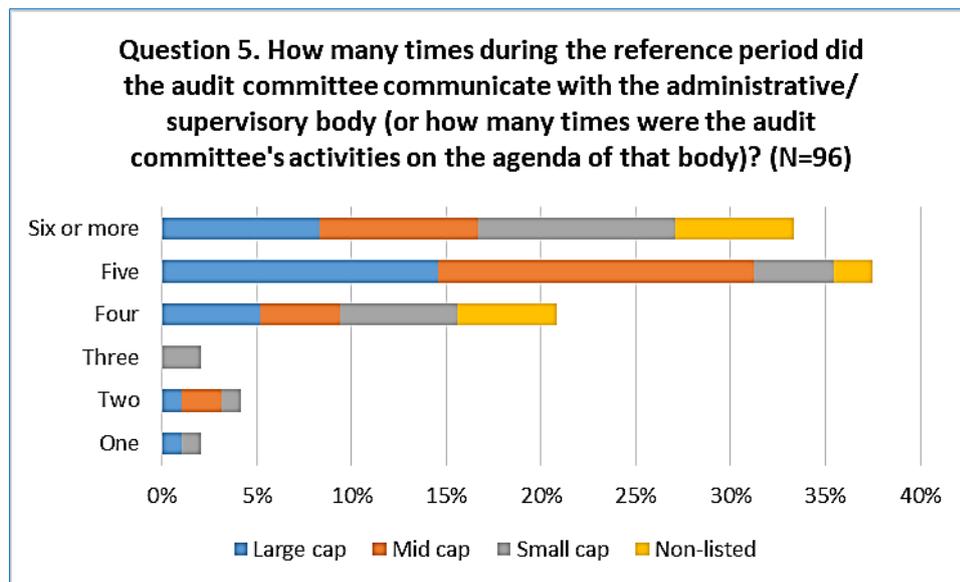
Legal reference

Art 39.6.a) of AUD

... the audit committee shall, *inter alia*:

(a) inform the administrative or supervisory body of the audited entity of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process;

Summary of responses



Of those respondents that reported a number of interactions, almost 60% of the respondents communicated with the board of directors or the audit committee activities were on their agenda four or five times during the reference period and over a third (33%) reported six or more times.

The most common response was the following in different entity groups:

- five times in large and mid cap listed entities; and
- four times in small cap listed entities and non-listed entities.

Respondents gave comments such as the following (direct quotations):

- "Audit committee reported regularly on its meetings to the board of directors, at least following every of the eight audit committee meetings. In addition there were additional discussions between the chairman of the board of directors and the chairman of the audit committee on certain topics. The audit committee prepared accounting and auditing matters to be handled by the board of directors and made recommendations to the board of directors on the review of the reports and the financial statements release."
- "A review by the audit committee chair was on the agenda of all the supervisory board meetings."
- "The audit committee chair reports on the committee's work in each board meeting following an audit committee meeting."
- "In connection of each of the quarterly report."

Observations



Over 90% of the respondents that reported a number of interactions, had audit committee activities on the board agenda quarterly or more often. The audit committee reports to the administrative or supervisory body most often after every audit committee meeting. The audit committee chair is typically responsible for this. The communication is done for example by a written summary or delivering the minutes of the audit committee meeting to the board of directors. The board of directors in many cases have access to all audit committee materials.

References to related literature

EcoDa advises that the audit committee chair reports to the board after every audit committee meeting. The reports of audit committee meetings should be drafted to clearly²²:

- summarise the work undertaken by the audit committee, explaining if necessary the importance of the work and any conclusions drawn or actions taken; and
- advise the chairman of the board on any relevant matters, including any matter on which the audit committee believes the board should be taking action.

According to ecoDa the audit committees should meet as often as their role and duties require. Based on ecoDa's survey most audit committees meet on average between four and five times a year. EcoDa advises the audit committees and boards of directors to schedule the meetings in such a way that the audit committee has time to report their work to the board of directors and that the board members have time to study the audit committee's reports on their work before the meeting.²³

²² ecoDa 2011: page 14

²³ ecoDa 2011: page 13

4.2 Outcome of statutory audit

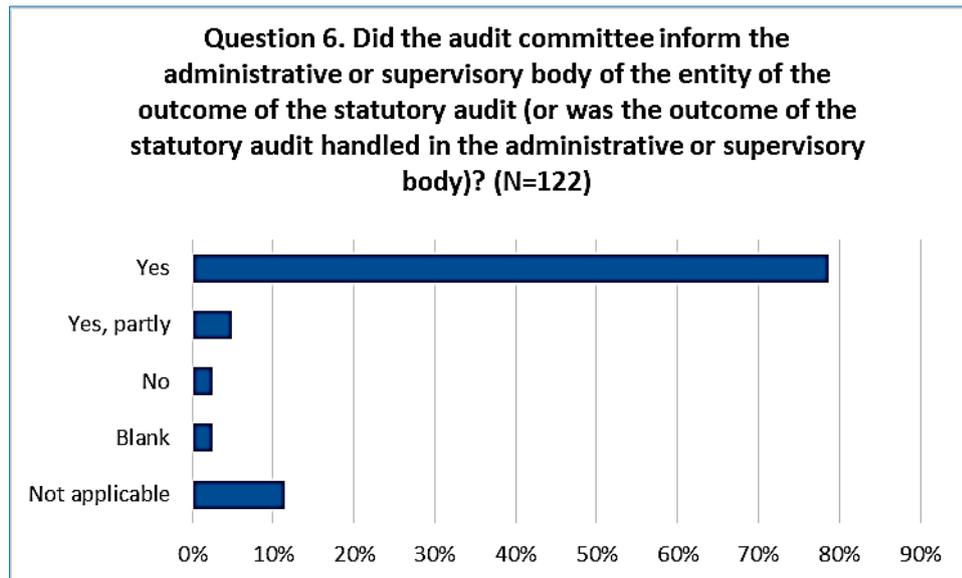
Legal reference

Art 39.6.a) of AUD

... the audit committee shall, *inter alia*:

(a) inform the administrative or supervisory body of the audited entity of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process;

Summary of responses



More than three quarters (79%) of the respondents answered that the audit committee informs the board of the outcome of the statutory audit or the outcome is handled by the board of directors.

The share of **Yes** responses was the following in different entity groups:

- 97% in large cap listed entities;
- 79% in mid cap listed entities;
- 64% in small cap listed entities; and
- 79% in non-listed entities.

Many of the descriptions given with the **No** and **Not applicable** responses indicated that the results of the statutory audit were handled in the meeting of the board of directors.

Yes respondents' gave for example the following comments (direct quotations):

- "The outcome of the statutory audit is handled both in the audit committee meeting and the meeting of the board of directors."
- "The result of the statutory audit was presented to both the audit committee as well as the board of directors by the company's auditors. The audit committee received a slightly more in-depth overview than did the board of directors, and communicated its findings to the BoD."
- "Statutory audit was addressed in details in audit committee, the board of directors handled the topic in a summary level including the input from the audit committee."
- "The chairman of the audit committee presents a report on each audit committee meeting to the board of directors. The auditor further presents the results of the audit to the full board of directors."

Observations



More than three quarters (79%) of the respondents answered that the audit committee informs the board of the outcome of the statutory audit or it is handled by the board of directors. Based on the comments, the distinct audit committee handles the outcome of the audit in more detail than the board of directors. About a quarter of those who wrote a comment, indicated that the auditors themselves inform both the audit committee and/or the board of directors of the outcome of the audit when attending relevant meetings.

References to related literature

Better communication channels between the auditor, the audit committee and the audited entity were one of the key objectives of the European Commission while drafting its proposals. The revised Directive now provides for the audit committee to inform the administrative or supervisory body on the outcome of the audit contributing to the integrity of financial reporting and to explain the audit committee's role in this process.²⁴

Information collected by the auditor during the audit can be directly relevant to those charged with governance responsibilities and can be communicated via the required additional report to the audit committee. It is a tool for the auditor to communicate key matters arising from the statutory audit and in particular on material weaknesses in internal controls with regard to the financial reporting process.²⁵

²⁴ FEE 2016: page 8

²⁵ FEE 2016: pages 13-14

4.3 Auditors contribution to the integrity of financial reporting

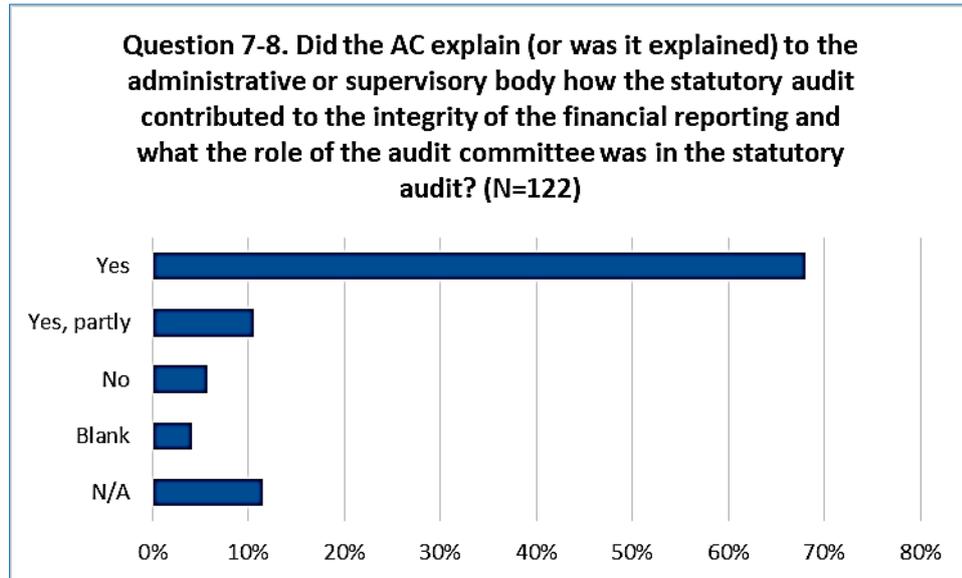
Legal reference

Art 39.6.a) of AUD

...the audit committee shall, *inter alia*:

(a) inform the administrative or supervisory body of the audited entity of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process;

Summary of responses



About two thirds (68%) of the respondents answered that it was explained to the board of directors how the statutory audit contributed to the integrity of the financial reporting and also the audit committee's role in the statutory audit. The share of **Yes** responses in different entity groups was as follows:

- 81% in large cap listed entities;
- 71% in mid cap listed entities;
- 56% in small cap listed entities; and
- 64% in non-listed entities.

Yes respondents gave comments such as the following (direct quotations):

- "The chairman of the audit committee explained to the board of directors how the audit committee had been monitoring the status and interim findings of the statutory audit."
- "In addition to the continuous monitoring of the content and form of the company's financial reporting during the year, the audit committee reviews the audit findings (interim and final) by the auditors as well as key audit matters, including any material weaknesses in internal control in relation to the financial reporting process. These are also reported to the board of directors."
- "Chairman of the audit committee reports regularly after each audit committee meeting issues to the board of directors, including but not limited to, status of the audit and observations made by the statutory auditors. The role of the audit committee is to supervise the audit work and arrangements in line with the Companies Act and Corporate Governance Code."

No and **Not applicable** respondents gave comments such as the following (direct quotations):

- “Auditors reported directly to the board, also how the statutory audit contributed to the financial reporting.”
- “Audit committee does not need to explain the basics as Company has documented role of Audit committee and the audit process is also standardise. Only if there would be changes to the process or roles or some major issues, then audit committee would explain to BoD what and why.”
- “The Audit committee is composed of members of the Board, therefore no separate explanations have been made; financial reports and statutory audit were discussed by both the Audit committee and the Board of Directors.”
- “No separate audit committee.”
- “Audit committee functions are performed by the board of directors.”

Observations



About two thirds (68%) of the respondents responded that it was explained to the board of directors how the statutory audit contributed to the integrity of the financial reporting. The audit committee keeps in general the board of directors informed of the statutory audit and of the work of the audit committee. However, some of the respondents indicated there was no need for the audit committee to explain in detail, how the audit contributed to the integrity of the financial reporting or what the role of the audit committee was in the statutory audit.

References to related literature

IOSCO comments in its Report on Good Practices for Audit Committees in Supporting Audit Quality²⁶ that the quality of a company's financial report is key to market confidence. Transparent and high-quality financial reporting leads to effective functioning of the capital markets. IOSCO underlines audit committees' role in promoting and supporting audit quality and thereby contributing to greater confidence in the quality of listed company's financial reports. Furthermore, IOSCO notes that audit committees are also generally tasked with supporting the quality of the work of the auditor.

The Financial Reporting Council (FRC) has issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process. FRC emphasizes, that the audit committee's assessment of the audit process is an assessment of whether the audit process as a whole has been successful.²⁷

Furthermore, FRC encourages audit committees to see their evaluation of the audit quality integrated with other aspects of their role. These other aspects mentioned by FRC relate to ensuring the quality of the financial statements by

- obtaining evidence of the quality of the auditor's judgments made throughout the audit;
- identifying audit risks;
- determining materiality and planning their work accordingly; and
- assessing issues.²⁸

²⁶ IOSCO 2019: pages 5-6

²⁷ FRC 2019: page 6

²⁸ FRC 2019: page 7

5 Monitoring auditor independence

5.1 Written representation, fees, threats and safeguards

This section summarizes legal references, responses and observations relating to questions 9-11.

Legal reference

Art 39.6 e) of AUD

... the audit committee shall, inter alia:

(e) Review and monitor the independence of the statutory auditors or the audit firms in accordance with Articles 22, 22 a, 22 b, 24 a and 24 b of this Directive and Article 6 of Regulation (EU) No 537/2014, and in particular the appropriateness of the provision of non-audit services to the audited entity in accordance with Article 5 of that Regulation;

Art 6.2 of AUR

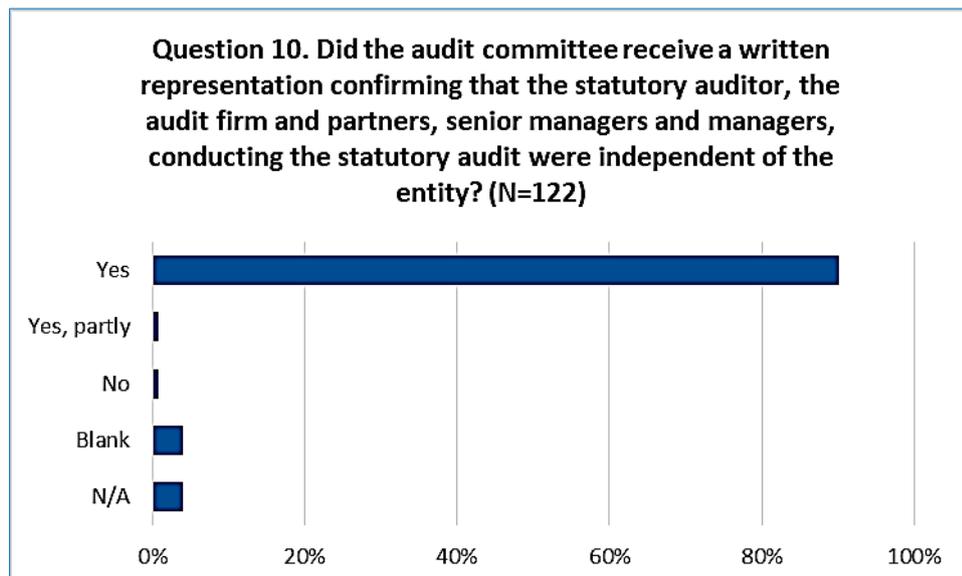
A statutory auditor or an audit firm shall:

- (a) confirm annually in writing to the audit committee that the statutory auditor, the audit firm and partners, senior managers and managers, conducting the statutory audit are independent from the audited entity;*
- (b) discuss with the audit committee the threats to their independence and the safeguards applied to mitigate those threats, as documented by them pursuant to paragraph 1.*

Art 4.2 of AUR

When the statutory auditor or the audit firm provides to the audited entity, its parent undertaking or its controlled undertakings, for a period of three or more consecutive financial years, non-audit services other than those referred to in Article 5(1) of this Regulation, the total fees for such services shall be limited to no more than 70 % of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, of its parent undertaking, of its controlled undertakings and of the consolidated financial statements of that group of undertakings.

Summary of responses

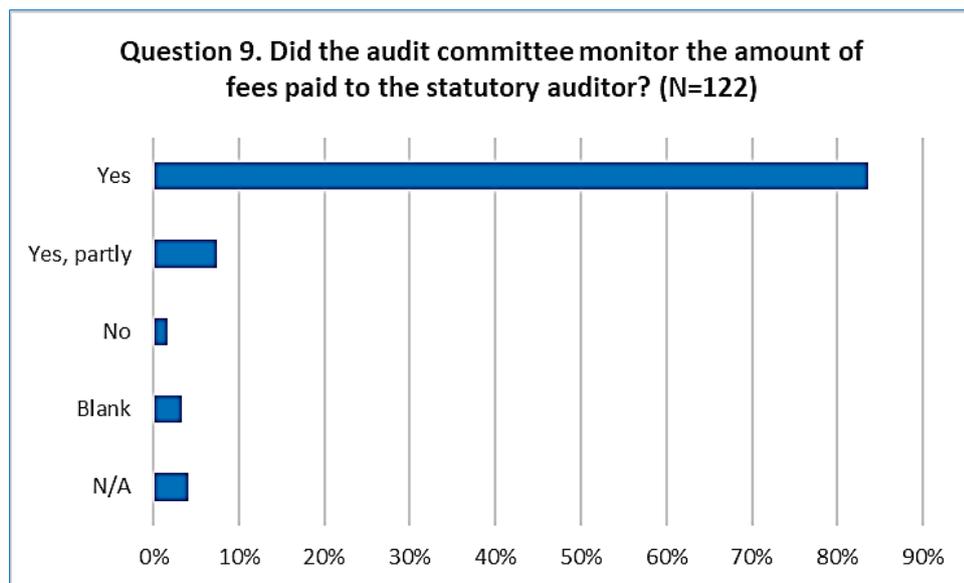


A clear majority (91 %) of the respondents reported that the audit committee received a written representation from the statutory auditor confirming that the statutory auditor, the audit firm and partners, senior managers and managers, conducting the statutory audit were independent of the entity.

All mid cap (100 %) and almost all large cap (97 %) listed entities received a written independence confirmation from the auditor. For non-listed companies and small cap listed entities the percentages were 86 % and 79 % respectively.

Yes and **Yes partly** respondents gave comments such as the following (direct quotations):

- "In addition, the auditors processes are communicated to the audit committee for ensuring independence."
- "Also the Chairman of the Working Committee had his own regular meetings with the auditor."

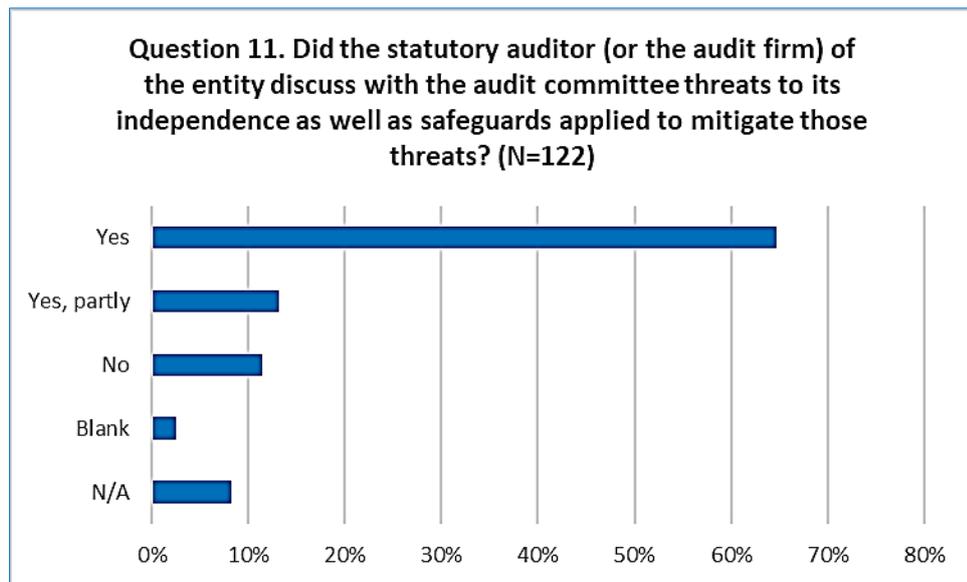


A clear majority (91 %) of the respondents reported that the audit committee monitored the amount of fees paid to the statutory auditor.

In all large cap (100 %) and almost all (93 %) non-listed entities the audit committee monitored the amount of fees paid to the auditor. For mid cap and small cap listed entities the percentages were 89 % and 85 % respectively.

Yes and **Yes partly** respondents gave comments such as the following (direct quotations):

- "Usage of the non-audit services are reported to Audit and Risk Management committee in every committee meeting."
- "Audit Committee was updated on the amount of fees paid to the It is the audit committee's duty to monitor the independence of the statutory auditors or the audit firms."



Most respondents (78 %) stated that the statutory auditor of the entity discussed with the audit committee threats to its independence as well as safeguards applied to mitigate those threats.

In the vast majority of large cap (94 %) and in most (79 %) of mid cap listed entities the auditor discussed with the audit committee threats to its independence and safeguards applied to mitigate those threats. For non-listed entities and small cap listed entities the percentages were 71 % and 67 % respectively.

Yes and **Yes** partly respondents gave comments such as the following (direct quotations):

- “The auditors have described and gone through their processes for ensuring independence to the Committee, which covers various aspects of independence. These are discussed and reviewed regularly.”
- “Statutory auditor’s independence is on the audit committee agenda in the meeting deliberating the financial statements as well as in connection with the audit plan.”
- “The issue has been discussed in each preparatory meeting between the statutory auditor and the AC chair and covered in the NAS-topics in the AC with the auditor - answered Yes, partly as there have not been any independence threats identified.”
- “Auditor has discussed with the Board about e.g. the length of auditing firm’s engagement...”
- “Yes this has been discussed together with the given independence statement when auditors have attended the meeting of the Board of Directors.”

Observations

According to the responses, a clear majority (91%) of audited entities received a written representation from the auditor confirming the auditor’s independence, as required by the regulations. A few respondents referred to the Auditor’s report as the written representation.

According to the responses it seems that the audit committee’s obligations to monitor audit fees are recognized and generally followed (91% of the respondents), and the timespan for performing the monitoring of auditor fees varies from “in every audit committee meeting” to “quarterly” and “yearly”.

In most cases (78%) the auditor discussed threats to the auditor's independence with the audit committee. A few respondents commented that no threats to independence were identified. However it should be noted that the regulation requires the auditor to discuss the various aspects of independence with the audit committee, including the possible threats to independence and the need for safeguards. This is a fundamental element in regular communication between the auditor and the audit committee.

References to related literature

It is the audit committee's duty to monitor the independence of the statutory auditors or the audit firms. According to IOSCO's good practices for supporting audit quality, audit committees should have a policy regarding how to evaluate the auditor's independence.²⁹

IOSCO lists that audit committees should for example³⁰:

- Oversee the company's policies for non-audit services
- Establish policies relating to hiring from the audit firm to certain senior positions for the entity (for example CFO)
- Consider any other matters that may affect the independence and objectivity of the auditor
- Undertake procedures to satisfy auditor's independence in the beginning and on an ongoing basis.

EU Commission recommendation of Statutory Auditors' Independence in the EU: A Set of Fundamental Principles³¹ states that the threats to an auditor's independence are:

- Self-interest threat: the Statutory Auditor's independence may be threatened by a financial or other self-interest conflict (e.g., direct or indirect financial interest in the client, over-dependence on the client's audit or non-audit fees, the desire to collect outstanding fees, fear of losing the client);
- Self-review threat: relates to the difficulty of maintaining objectivity in conducting self-review procedures (e.g., when taking decisions, or taking part in decisions, that should be taken wholly by the Audit Client's management; or when any product or judgement of a previous audit or non-audit assignment performed by the Statutory Auditor or his firm needs to be challenged or re-evaluated to reach a conclusion on the current audit);
- Advocacy threat: the Statutory Auditor's independence may be threatened if the Statutory Auditor becomes an advocate for, or against, his client's position in any adversarial proceedings or situations (e.g. dealing in or promoting shares or securities in the client; acting as an advocate on behalf of the client in litigation; when the client litigates against the auditor)
- Familiarity or trust threat: a risk that the Statutory Auditor may be over-influenced by the client's personality and qualities, and consequently become too sympathetic to the client's interest through, for example, too long and too close relationships with client personnel, which may result in excessive trust in the client and insufficient objective testing of his representations.
- Intimidation threat: covers the possibility that the auditor may be deterred from acting objectively by threats or by fear of, for example, an influential or overbearing client.

²⁹ IOSCO 2019: page 24

³⁰ IOSCO 2019: pages 23-24

³¹ Commission Recommendation 2002, Annex, Section 3.

5.2 Provision of non-audit services (NAS)

This section summarizes legal references, responses and observations relating to questions 12-15. Diagrams 13-14 below are based on those 97 respondents to whom the statutory auditor submitted a tender for the provision of non-audit services during the reference period.

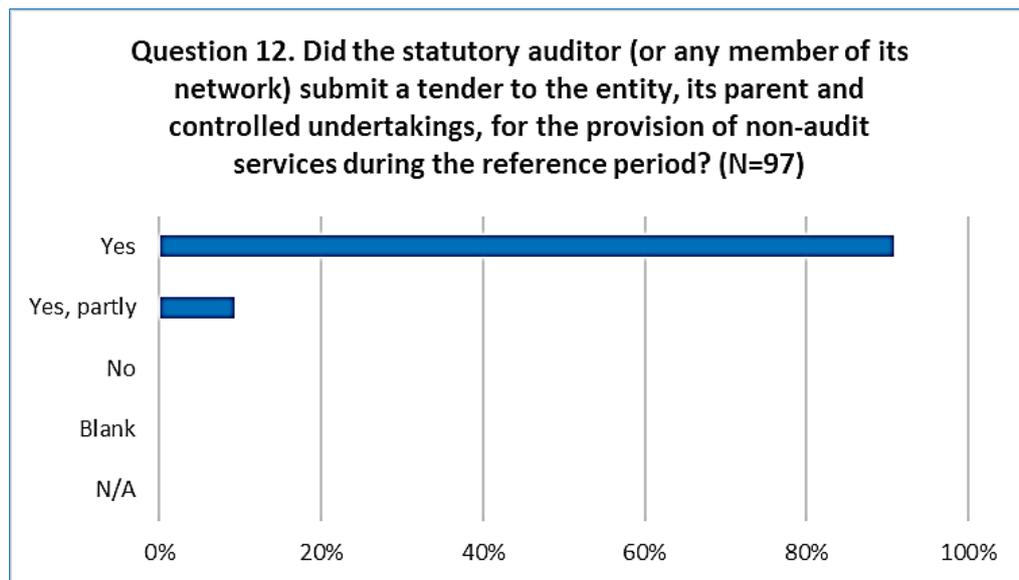
Legal reference

Art 5.4 of AUR³²

A statutory auditor or an audit firm carrying out statutory audits of public-interest entities and, where the statutory auditor or the audit firm belongs to a network, any member of such network, may provide to the audited entity, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in paragraphs 1 and 2 subject to the approval of the audit committee after it has properly assessed threats to independence and the safeguards applied in accordance with Article 22 b of Directive 2006/43/EC. The audit committee shall, where applicable, issue guidelines with regard to the services referred to in paragraph 3.

Member States may establish stricter rules setting out the conditions under which a statutory auditor, an audit firm or a member of a network to which the statutory auditor or audit firm belongs may provide to the audited entity, to its parent undertaking or to its controlled undertakings non-audit services other than the prohibited non-audit services referred to in paragraph 1.

Summary of responses



Most (80 %) of the respondents stated that the auditor submitted a tender for the provision of non-audit services (NAS) during the reference period.

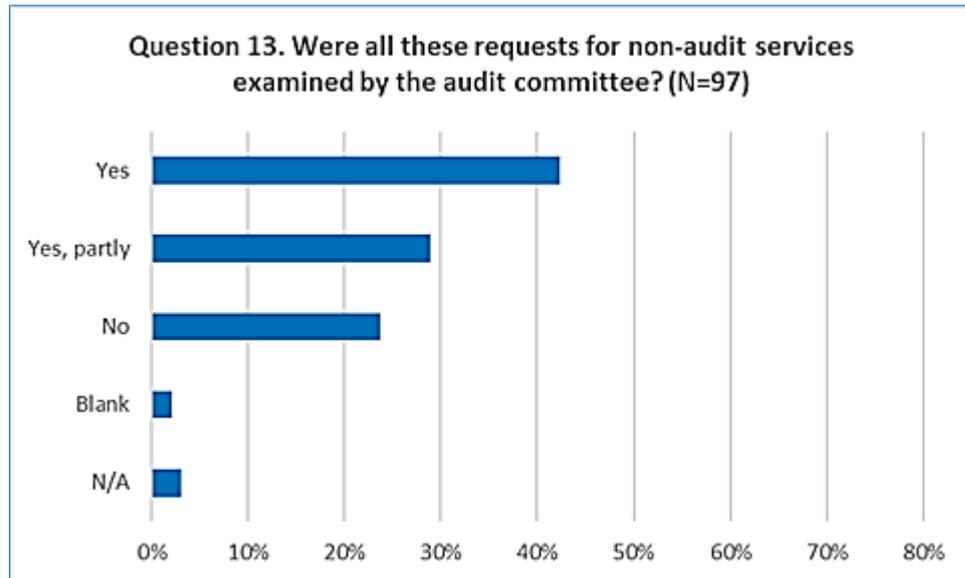
Tender for the provision of NAS was submitted to the majority of large cap (90 %) and mid cap (87 %) listed entities. The percentages to non-listed entities and small cap listed entities were 71 % and 67 % respectively.

Yes and **Yes, partly** respondents gave comments such as the following (direct quotations):

- "All non-audit services are approved by the company's CFO based on separate offers of the statutory auditors and in accordance with the audit committee's authorization."

³² For prohibited non-audit services see AUR 5.1-2. Prohibited services include *inter alia* tax services, services that involve playing any part in the management of decision-making of the audited entity and legal services, as defined in AUR 5.1-2.

- “Tenders have to be approved by the Group CFO (and bigger ones by board).”
- “We ask for a quotes for any non-audit services. Based on an evaluation it is then decided to proceed with the statutory auditor or go with another party. Auditor independence regulation is taken into account during the evaluation and selection process.”
- “Yes, non-audit services were provided based on pre-approvals. All non-audit services have regularly been reported to the Audit Committee.”



Based on the responses it seems that in question 13 the respondents interpreted the “examination performed by audit committee” in different ways. Yes, Yes partly and No respondents gave very similar comments, indicating that similar procedures were performed by audit committees despite the yes, yes partly and no responses to this question.

Yes and **Yes, partly** respondents gave comments such as the following (direct quotations):

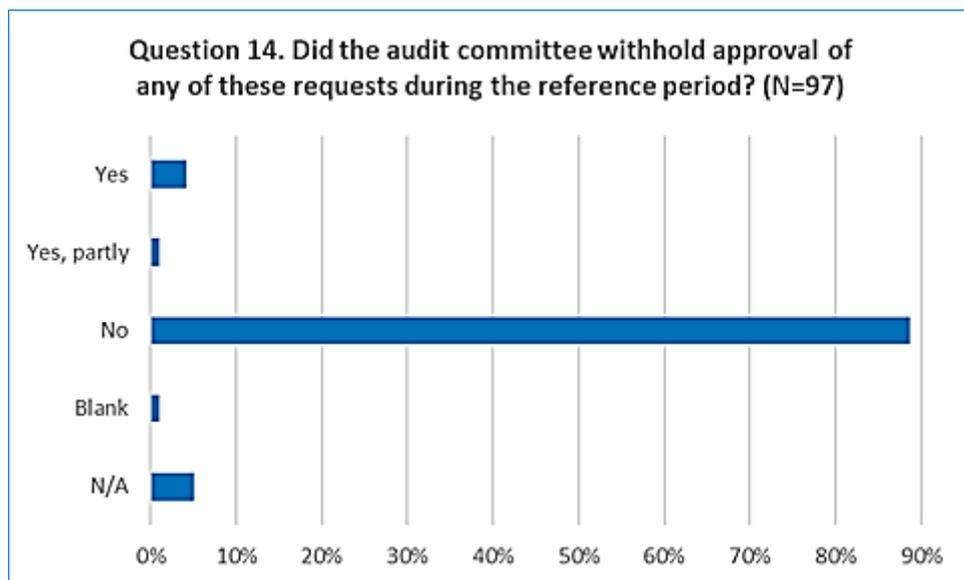
- “The audit committee has approved an annual budget for non-audit services and authorized the CFO of the company to approve individual assignments within the budget. Possible overrun of the budget must be approved by the audit committee or its chairperson in advance.”
- “The audit committee has authorized the company's management to approve individual non-audit assignments, and the audit committee is informed of all approved non-audit services regularly.”
- “The company has a Non-audit Services Policy which is reviewed by the audit committee and approved by the board of directors. As part of the annual review and approval, there will be a pre-approval for the services and related fee limits that may be provided by the external auditor during the following calendar year without obtaining a specific pre-approval. Requests for services to be provided by the external auditor shall be submitted to the Chief Financial Officer (‘CFO’) of the company. The CFO shall determine whether such services fall into the category of the general pre-approved non-audit services that have been approved for the financial year in question. Where the CFO determines that the individual service does not fall into the above mentioned scope, the CFO shall bring the service to the attention of the audit committee chairman for the specific pre-approval. Such requests shall also include a statement whether, in the CFO's view, the request for

service is consistent with the applicable rules and regulations on auditor independence.”

- “AC approves once a year a framework for non-audit services. During the year, they don't see requests for non-audit services, if the non-audit services are within the framework. Once a year, they receive a summary of non-audit services that were received during the year.”
- “The company has a policy on non-audit policy which states that an approval must be obtained before the engagement of the Auditor for non-audit services. The approval must be given by- the Audit Committee,- the Chair of the Audit Committee up to [N/A] EUR threshold,- CEO or CFO up to [N/A] threshold.”

No and Not applicable respondents gave comments such as the following (direct quotations):

- “The AC approves a policy for acquiring non-audit services. Within the limits of the policy no separate review is currently performed.”
- “AC has pre-approved services up to a maximum level and authorised management to assess the services. All non-audit services are reported to AC twice a year.”
- “A limited right to approve purchasing of non-audit services has been delegated to the operational management based on separately approved principles. Purchasing of services exceeding said limit is subject to approval by the chair.”
- “Audit and Risk Management committee has authorized ... CFO to review and approve non-audit services up to a certain limit. CFO has reviewed every request and also discussed any potential independence topics with the auditors. CFO and the Auditor report the utilization of non-audit services in every Audit and Risk Committee meeting.”
- “AC approves and monitors the limit assigned to permitted non-audit services. The limit is granted the management of the company. The management acquires services under this limit and reports at the end of the year the total amount of non-audit services.”
- “The Audit Committee has approved a policy for handling non-audit services. According to the policy, the CFO approves the service requests up to EUR ... per calendar year after which the service requests are approved by the Chairman of the Audit Committee, provided that applicable legal requirements are met.”



Only a few respondents (5%) stated that the audit committee withheld approval of some of the requests for non-audit services. Responses in most cases (89%) indicated that there were no such situations where approval of NAS was withheld.

Yes and **Yes partly** respondents gave the following reasons for supporting these refusals (direct quotations):

- "Availability of funds in the pre-approved NAS framework"
- "Independence rules for the auditor prevent provision of NAS"
- "Reasons were not related to concerns about auditor independence."

No and **Not applicable** respondents gave comments such as the following (direct quotations):

- "The company has a policy which is very restrictive and a very limited amount of proposals are brought to the audit committee for approval. This is also communicated to the auditors. The audit committee has not received any proposals regarding which it would need to withhold the approval."
- "The audit committee has guided the group management to monitor carefully the use of non-audit services provided by the auditor to ensure that such services do not exceed 70 % of the audit fees. Based on that guidance the group management has stopped several requests during the reference period in order to minimize the use of auditor for the non-audit services."

Observations

During the reference period most of the respondents (80% or 97 out of 122 respondents) reported that the audit committee received tenders for non-audit services. Observations of questions 12-15 relate to those respondents who received tenders for non-audit services during the reference period.

About two thirds of respondents explained their practices and policies relating to approval of the provision of non-audit services (NAS).

In many audited entities a special pre-approval policy is applied. Based on responses the policy often includes guidelines for delegation of approval for provision of NAS and the scope of services and euro limits to be applied in provision of NAS. In addition the policy may state how often the provision of NAS is reported to the audit committee and the procedures applied if the determined euro limits are exceeded.

The responses indicate that in quite few cases (4%) the audit committee withheld an approval for requests for NAS. Non-availability of funds in the pre-approval provision of NAS and independence rules were mentioned as reasons for these refusals.

References to related literature

According to IOSCO³³ the audit committee should:

- oversee establishment of the company's policies governing the circumstances in which contracts for the provision of permitted non-audit services can be entered into with the auditor and the procedures that must be followed before doing so.
- consider implementing a policy that all non-audit services to be provided by the auditor must be approved in advance by the audit committee.

³³ IOSCO 2019: page 23

6 Tendering process of statutory audit

6.1 Appointment and reappointment of a statutory auditor and invitations to tender

This section summarizes legal references, responses and observation relating to questions 16-20. The diagrams 17-20 below are based on the 25 respondents who appointed a new statutory auditor(s) or reappointed the previous statutory auditor after a tendering process during the reference period.

Legal reference

Art 16.3 of AUR

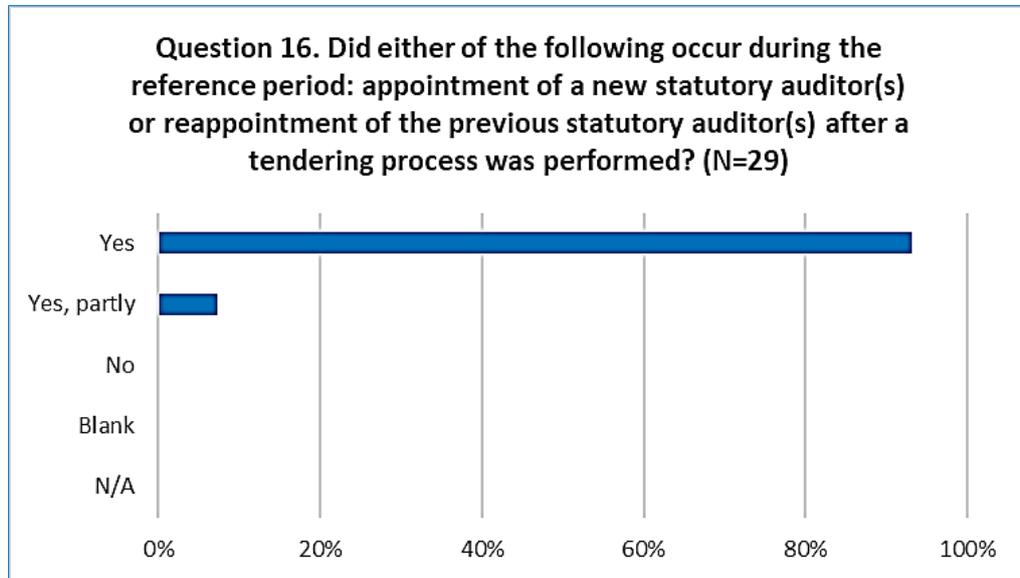
Unless it concerns the renewal of an audit engagement in accordance with Article 17(1) and 17(2), the recommendation of the audit committee referred to in paragraph 2 of this Article shall be prepared following a selection procedure organised by the audited entity respecting the following criteria:

- (a) the audited entity shall be free to invite any statutory auditors or audit firms to submit proposals for the provision of the statutory audit service on the condition that Article 17(3) is respected and that the organisation of the tender process does not in any way preclude the participation in the selection procedure of firms which received less than 15 % of the total audit fees from public-interest entities in the Member State concerned in the previous calendar year;*
- (b) the audited entity shall prepare tender documents for the attention of the invited statutory auditors or audit firms. Those tender documents shall allow them to understand the business of the audited entity and the type of statutory audit that is to be carried out. The tender documents shall contain transparent and non-discriminatory selection criteria that shall be used by the audited entity to evaluate the proposals made by statutory auditors or audit firms;*
- (c) the audited entity shall be free to determine the selection procedure and may conduct direct negotiations with interested tenderers in the course of the procedure;*
- (d) where, in accordance with Union or national law, the competent authorities referred to in Article 20 require statutory auditors and audit firms to comply with certain quality standards, those standards shall be included in the tender documents;*
- (e) the audited entity shall evaluate the proposals made by the statutory auditors or the audit firms in accordance with the selection criteria predefined in the tender documents. The audited entity shall prepare a report on the conclusions of the selection procedure, which shall be validated by the audit committee. The audited entity and the audit committee shall take into consideration any findings or conclusions of any inspection report on the applicant statutory auditor or audit firm referred to in Article 26(8) and published by the competent authority pursuant to point (d) of Article 28; 27.5.2014 L 158/96 Official Journal of the European Union EN*
- (f) the audited entity shall be able to demonstrate, upon request, to the competent authority referred to in Article 20 that the selection procedure was conducted in a fair manner.*

The audit committee shall be responsible for the selection procedure referred to in the first subparagraph.

For the purposes of point (a) of the first subparagraph, the competent authority referred to in Article 20 (1) shall make public a list of the statutory auditors and the audit firms concerned which shall be updated on an annual basis. The competent authority shall use the information provided by statutory auditors and audit firms pursuant to Article 14 to make the relevant calculations.

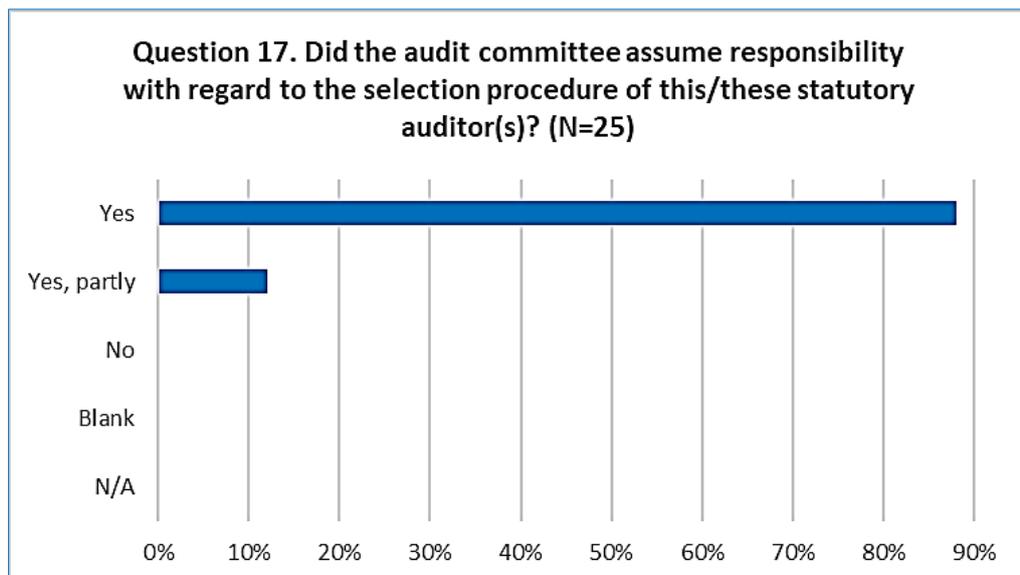
Summary of responses



Only 29 respondents out of all 122 respondents stated that during the reference period a new statutory auditor(s) was appointed or the previous statutory auditor(s) was reappointment after a tendering process (yes and yes partly responses). In 4 out of the 29 responses the tendering process was not organized during the reference period. Therefore 25 “yes” and “yes partly” respondents are the reference population in this report with regards to questions 17-27.

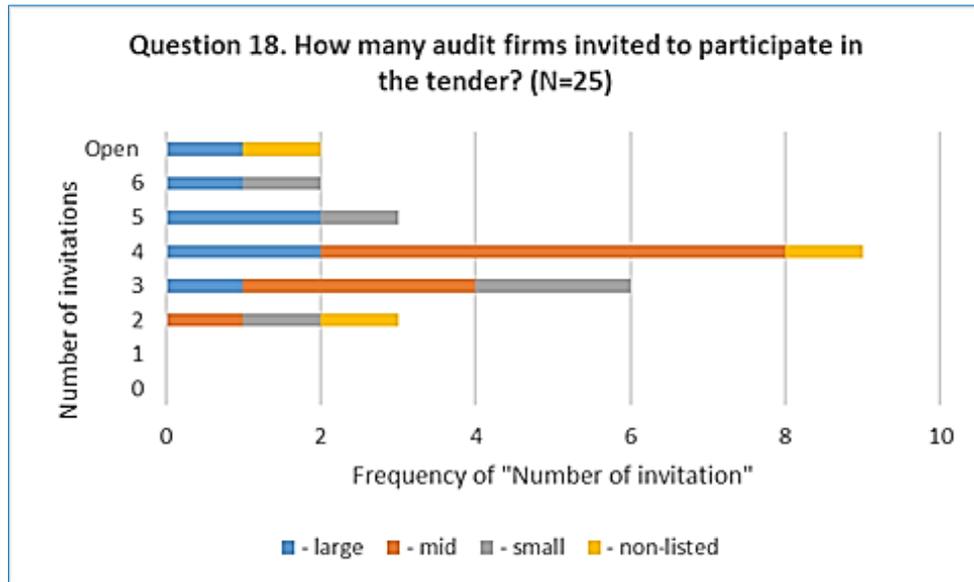
Appointment of a new statutory auditor or reappointment of the previous statutory auditor by an entity group:

- 7 in large cap listed entities;
- 8 in mid cap listed entities;
- 5 in small cap listed entities; and
- 5 in non-listed entities.



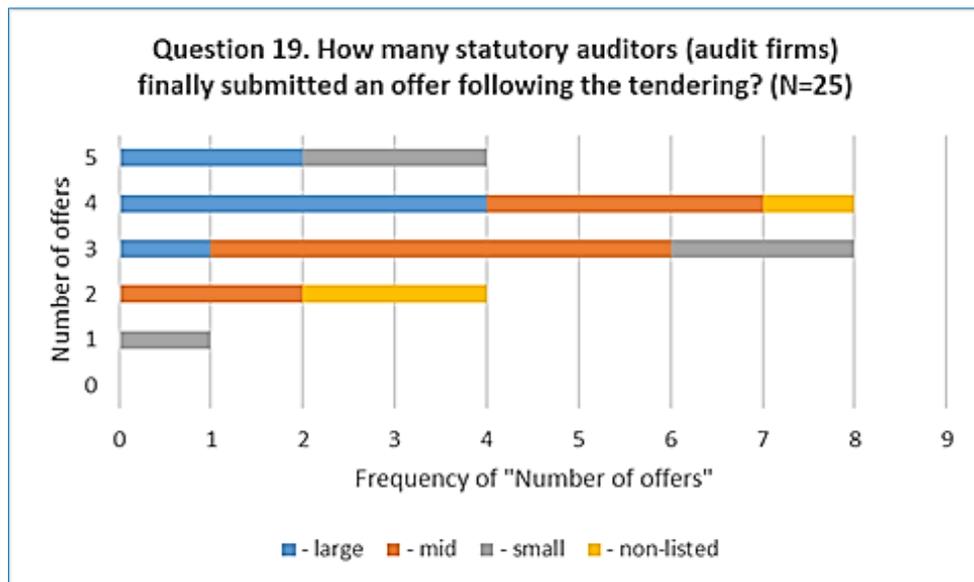
Yes and **Yes, partly** respondents' gave for example the following comments (direct quotations):

- "The audit committee monitored the auditor tender process and approved of its terms as set out in the tender documents prior to them being sent out. The Chairman of the audit committee was actively involved in the tender process and candidates were invited to meet and present themselves to all audit committee members prior to its final decision on the recommendation to the board of directors."
- "The Chairman of the audit committee was involved in the whole process and interviewed the top 3 candidates with the CFO and made together a suggestion to the audit committee."



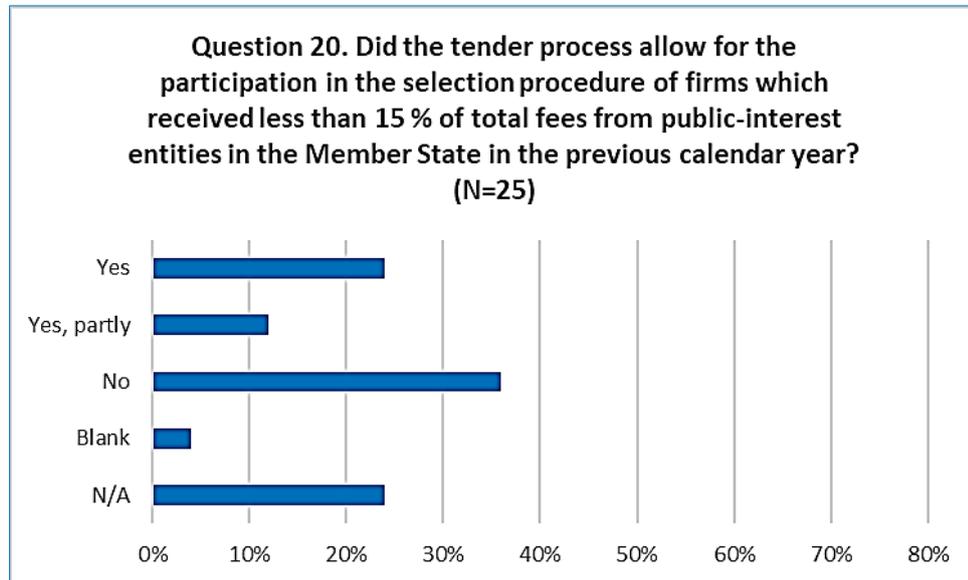
The diagram above shows how many times a certain number of invitations occurred in the responses of each entity category.

For instance nine of the entities invited four audit firms to participate (two times from large entities, six times from mid entities and once from non-listed entity).



The diagram above shows how many times a certain number of tenders received occurred in the responses of each entity category.

For instance four offers were received eight times (four times from large entities, three times from mid entities and one time from non-listed entity).



AUR requires that the organisation of the tender process does not in any way preclude the participation in the selection procedure of firms, which received less than 15 % of the total audit fees from public-interest entities in the Member State concerned in the previous calendar year.

Eight of the 25 respondents informed that in the tender processes the 15 % rule was followed.

Yes respondents gave comments such as the following (direct quotation):

- "No such criteria. Open tender process."
- "To the best of the Company's knowledge, yes. All applicable audit firms with global presence were invited."

No respondents gave comments such as the following (direct quotation):

- "The offers were requested from Big 4 companies."
- "Due to the specific criteria of deep Financial and Insurance knowledge as well as IFRS."

Observations

During the reference period 25 out of 122 respondents appointed a new auditor or reselected the previous auditor after a tender process. Observations to questions 17-20 are presented below and relate to those respondents who went through an auditor tender process during the reference period.

All 25 respondents reported that the audit committee assumed responsibility with regard to the selection procedure of statutory auditor(s) appointed after the tender process.

The number of audit firms invited to participate varied from two to six and two respondents stated they had an open tender. Most often the number of audit firms invited was three or four. It can be noted that the widest variation in number of audit firms invited



to tender was in small cap listed entities (two to six audit firms invited and open invitation). There was less variation in the number of audit firms invited in mid cap listed entities (two to four audit firms invited). Most auditors submitted an offer. The number of offers remained less than the number of audit firms invited in 10 responses and in 13 responses the number of offers equalled the number of firms invited. In the two open tenders mentioned by respondents, one received two offers, and the other received four offers.

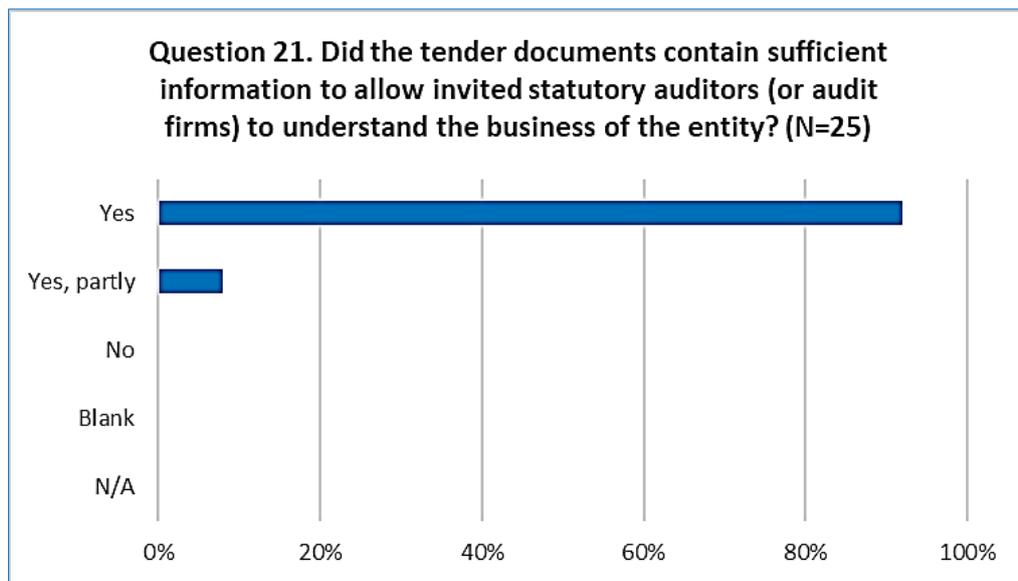
6.2 Tender documentation requirements

This section summarizes legal references, responses and observation relating to questions 21-23. Diagrams 21-23 below are based on the 25 responses from those entities which appointed a new statutory auditor(s) or reappointed the previous statutory auditor after a tendering process during reference period.

Legal reference

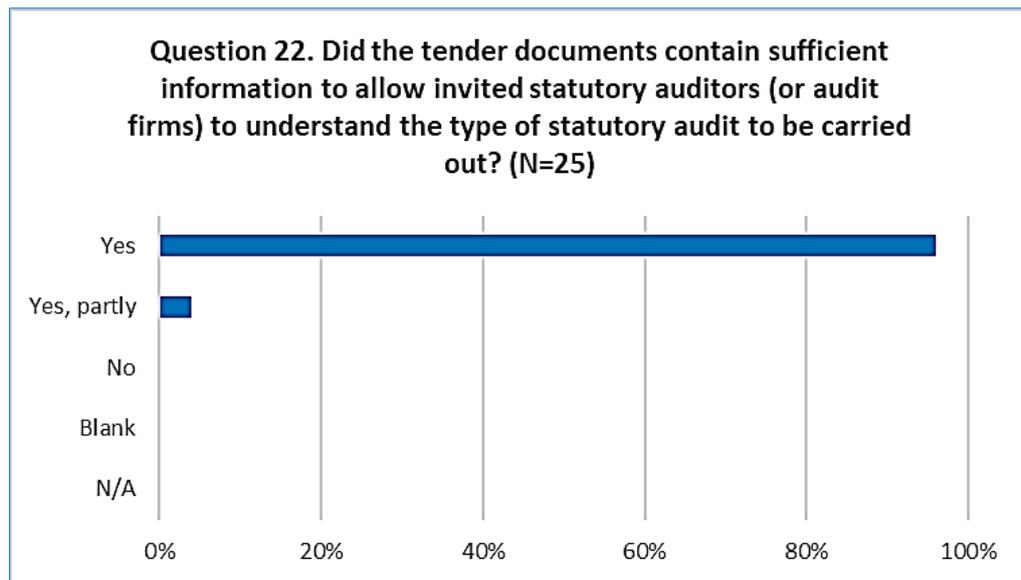
Art 16.3.b) of AUR See full reference in section 6.1 "Appointment and reappointment of a statutory auditor and invitations to tender".

Summary of responses



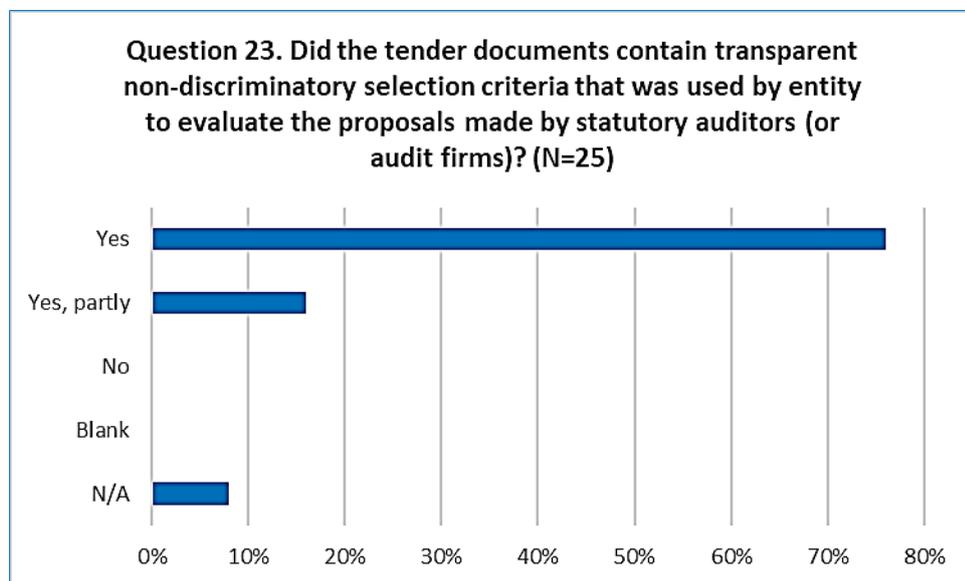
Yes respondents gave comments such as the following (direct quotations):

- "In addition, the company arranged two half-day sessions per audit firm candidate and presented the business of the company, the structure of the financial reporting as well as internal control framework and processes."
- "In addition the company hosted a company presentation day to which all tendering audit firms were invited. Company representatives from all business lines participated in the presentation day as well as representatives for all relevant group functions. All audit firm candidates had information and discussion sessions with business and group representatives on equal terms."
- "The auditors were invited to discuss about business and procedures."



Yes respondents gave comments such as the following (direct quotations):

- “The tender documents contained detailed information on the type of statutory audit to be carried out. In addition, tendering firms had the possibility to send additional questions to the company. The answers to all questions were sent out equally to all audit firm candidates.”
- “The auditors received a written document when invited to the process and during the selection process meetings were organized to discuss the company and the audit requirements with each participating auditor.”



23 out of 25 respondents noted that the tender documents contained transparent non-discriminatory criteria that was used by the audited entity to evaluate the proposals.

A **Yes** and **Yes, partly** respondent gave for example the following comment (direct quotation):

- “The selection criteria were transparently set out in the tender documents sent out to all audit firm candidates.”

- “The decision criteria was discussed with the candidates.”

Observations

During the reference period 25 out of 122 respondents appointed a new auditor or reselected the previous auditor after a tender process. Observations to questions 21-23 are presented below and relate to those respondents who went through an auditor tender process during the reference period.

It seems that based on the responses relating to tender documents, requirements are met in almost all cases. The tender documents contained:

- sufficient information to allow invited statutory auditors (or audit firms) to understand the business of the entity
- sufficient information to allow invited statutory auditors (or audit firms) to understand the type of statutory audit to be carried out
- transparent non-discriminatory selection criteria that was used by the entity to evaluate the proposals made by statutory auditors (or audit firms)

In addition, respondents' comments indicate that information on the business of the entity as well as the type of statutory audit to be carried out was available and discussed in the meetings organized during the tender process. It was also commented that the candidates had the possibility to send questions to the entity and answers to all questions were sent out to each audit firm candidate.

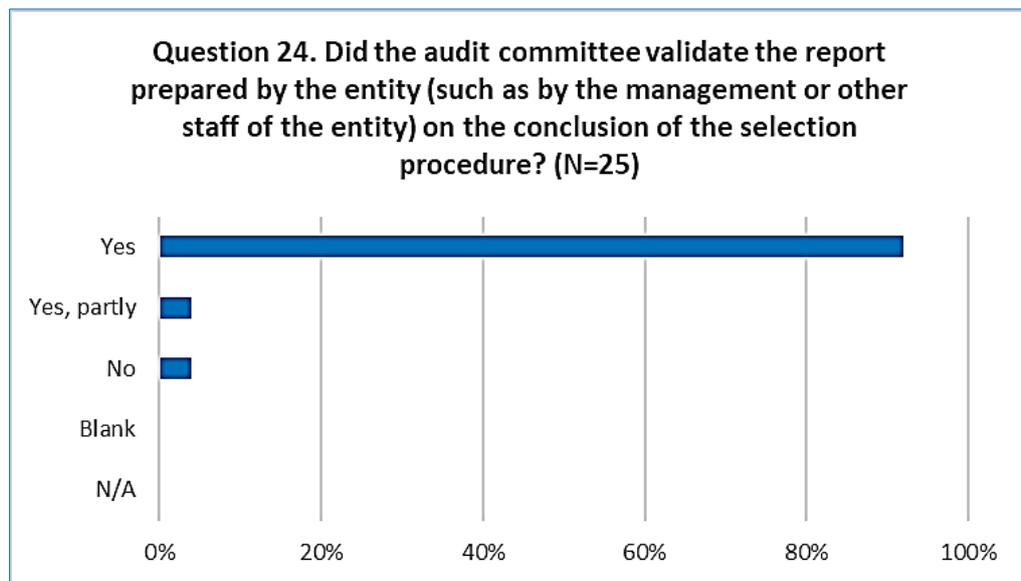
6.3 Assessment of tenders for audit committees' recommendation

This section summarizes legal references, responses and observations relating to questions 24-27. The diagrams 24-27 below are based on the responses of the 25 respondents who appointed a new statutory auditor(s) or reappointed the previous statutory auditor after a tendering process during the reference period.

Legal reference

Art 16.3. e) of AUR See full reference in section 6.1 "Appointment and reappointment of a statutory auditor and invitations to tender".

Summary of responses



Almost all respondents (24 out of 25) informed that the audit committee validated the report prepared by the audited entity on the conclusion of the selection procedure.

Yes and **Yes partly** respondents gave comments such as the following (direct quotations):

- "The selection was prepared in a team involving the chairperson of the audit committee. The proposal of the team was presented in the full board of directors meeting due to time constraints."
- "The audit committee had access to the full documentation and not only on the summaries prepared by the entity."
- "Auditor presented proposal and reasoning for fees. Discussed in the audit committee, confirmed in the audit committee, presented to the full board of directors."
- "The received offers were presented directly to the audit committee."
- "The Chairman and Deputy Chairman participated actively in the selection process. Final proposal for the AGM was approved by the board of directors."

Question 24. b)

In the tendering process (if applicable): (i) Please describe what information was used to evaluate the quality of the audit and the auditor and (ii) Please describe how much weight was put on the price.

Those respondents who commented on the **quality** of the audit or the auditor gave comments such as the following (direct quotations):

- "Understanding of the Group's business and size, presentation of a planned team and planned process"
- "Client reference, principal auditor experience, qualitative factors"
- "Tender doc's, beauty parade for all participants, certain data analytics performed by participants based on Company accounting data, references..."
- "The audit firms were asked to elaborate on their own quality performance processes and the results of the latest quality control review."
- "Existing service level, generic (not specified for the case) knowledge of audit costs by AC members."
- "Knowledge of the Finance and Insurance business, team member experience, IFRS knowledge, audit plan & communication, price"
- "Experience, technical and administrative audit process, knowledge of the business, recommendations and interviews."
- "Process overview, team composition and competence, references, service mindfulness, interview of the team."
- "Competence, references, team, geographical coverage, price."
- "Skills, experience and communication ability of audit team; The ability to understand our business and environment; Audit approach & network."

The weight put on **price as a factor** in the tendering process was described as follows (direct quotations):

- "The price was one factor among others. Price gave information on how well the tenderers understood the assignment and complexity of the company."
- "Price was a criteria among others and was evaluated with reference to time, average price per hour and total price."
- "Price was important but not a determining factor. All participating companies offered approx the same price level."
- "We described the content the company needs and asked for a price to deliver it. Price was a decisive factor along with competence and delivery."

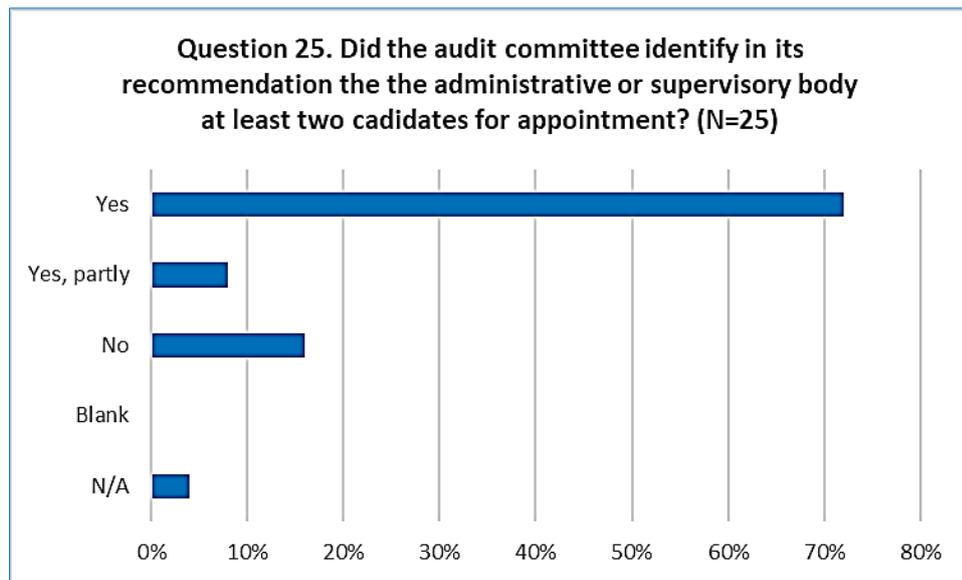
Legal reference

Art 16.2 of AUR

The audit committee shall submit a recommendation to the administrative or supervisory body of the audited entity for the appointment of statutory auditors or audit firms.

Unless it concerns the renewal of an audit engagement in accordance with Article 17(1) and 17(2), the recommendation shall be justified and contain at least two choices for the audit engagement and the audit committee shall express a duly justified preference for one of them.

In its recommendation, the audit committee shall state that its recommendation is free from influence by a third party and that no clause of the kind referred to in paragraph 6 has been imposed upon it.

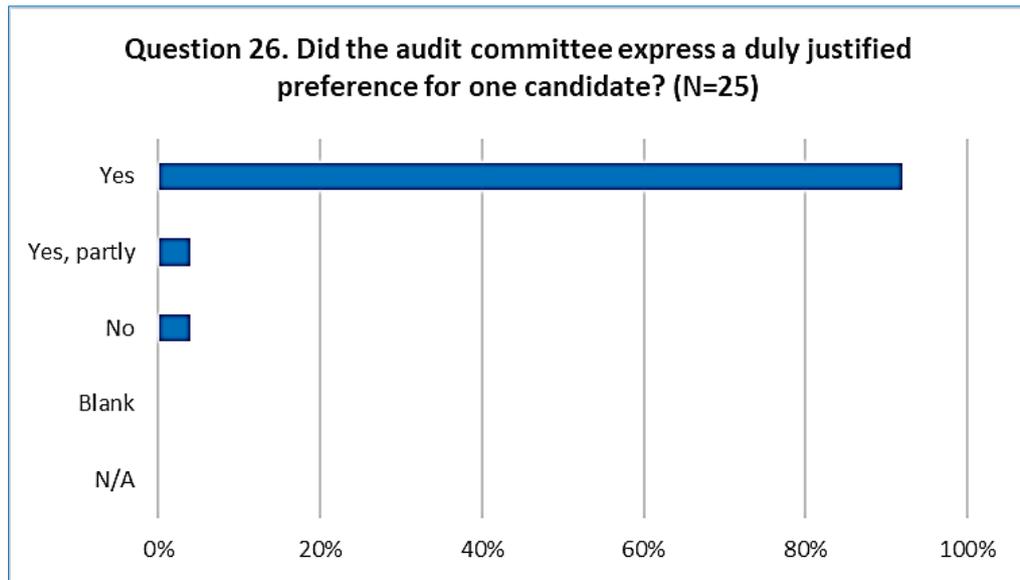


The vast majority, 20 respondents, stated that their audit committee identified in its recommendation to the administrative or supervisory body at least two candidates for appointment.

All large (6) and mid (9) cap listed entities recommended at least two candidates for appointment, as did two out of five small cap listed entities and three out of five non-listed entities.

Yes respondents gave comments such as the following (direct quotations):

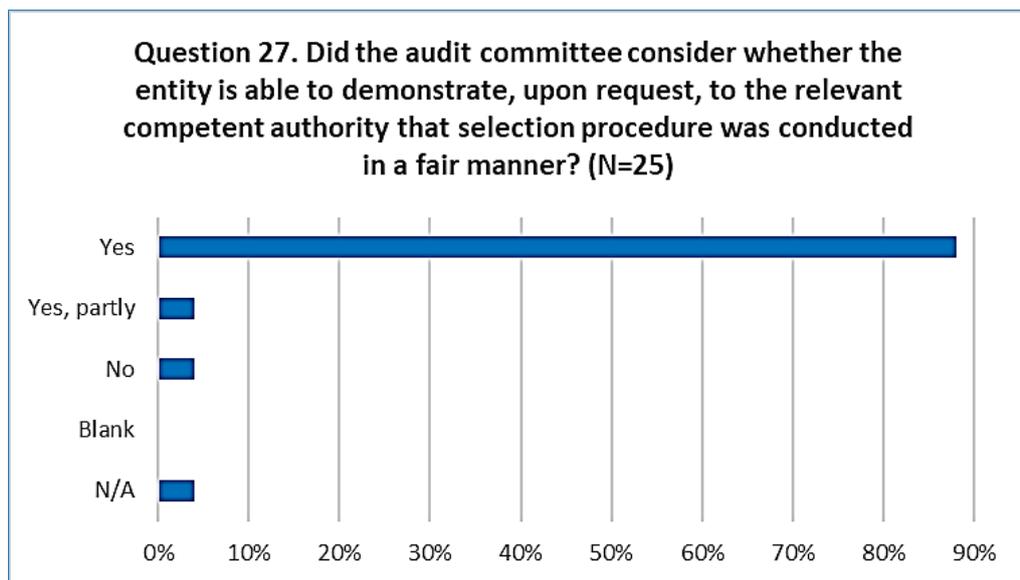
- "Only 2 offers were received. The board of directors discussed the evaluation summary of the team (incl. the chairperson of the audit committee) and approved the proposal by the team to be presented in the Annual General Meeting."
- "The selection is described in the recommendation to the board of directors by the Audit and Risk Committee for appointment of a statutory auditor. The recommendation was made public as part of the proposal for appointment of a statutory auditor to the Annual General Meeting 2017."
- "Primary candidate and the best alternative were discussed the board of directors. The proposal to the general meeting is, however, done directly by the audit committee and not by the board of directors and only one candidate was proposed."



Almost all, 24 respondents, stated that the audit committee expressed a duly justified preference for one candidate.

Yes respondents gave comments such as the following (direct quotations):

- “The justified preference was expressed in the recommendation to the Board of Directors by the Audit and Risk Committee for appointment of a statutory auditor. The recommendation was made public as part of the proposal for appointment of a statutory auditor to the Annual General Meeting 2017.”
- “Recommended to the board to continue with existing auditor.”



23 respondents of 25 stated that the audit committee considered whether the entity is able to demonstrate, upon request, to the relevant competent authority that the selection procedure was conducted in a fair manner.

Yes respondents gave comments such as the following (direct quotations):

- “The audit committee approved of the tender process report, which sets out the selection process governance and the description of how it was conducted in a fair manner. This was also an important criteria considered by the audit committee when it approved the process and the request for proposal prior to it being launched, i.e. throughout the process.”

Observations

During the reference period 25 out of 122 respondents reported that the entity appointed a new auditor or reappointed the previous auditor after a tender process.

Almost all of those respondents stated that the audit committee validated the report prepared by the entity on the conclusion of the selection procedure, and the clear majority of the responses stated that the audit committee identified in its recommendation to the administrative or supervisory body at least two candidates for appointment.

According to the comments from respondents information such as the following was used to evaluate the quality of the audit:

- Skills, experience, communication abilities of the audit team
- Audit approach, network and geographical coverage
- Special skills e.g. IFRS, sector knowledge
- Capabilities in auditing IT systems
- The ability to understand the respondent's business and environment
- Certain data analytics performed by participants based on company accounting data

The weight put on the price as a factor in auditor selection seemed to vary. Some responses described the importance of the price as a percentage, which varied from 15% to 90%. A common response was that price was one factor among other factors. A few responses stated the price was a decisive factor. A few responses also mentioned that the prices offered were quite similar.

Almost all of respondents noted that the audit committee expressed a duly justified preference for one candidate.

Almost all of the respondents noted that the audit committee considered whether the entity is able to demonstrate, upon request, to the relevant competent authority that the selection procedure was conducted in a fair manner.

References to related literature

IOSCO emphasizes³⁴ that it is the duty of the audit committee to ensure that any audit tender or other selection process is conducted independently of the company's management.

Management is often evaluated on financial performance and having cost pressures. This could lead to favoring low audit fees over audit quality.³⁵

In addition to ensuring an independent selection process, IOSCO lists other matters where audit committees play an important role in ensuring that good practices are followed. These include for example ensuring that³⁶:

- audit tender or selection criteria focus on audit quality;
- audit fees are not reduced at the expense of audit quality;
- tender requests include objective criteria regarding both audit quality and fees;

³⁴ IOSCO 2019: page 13

³⁵ IOSCO 2019: page 13

³⁶ IOSCO 2019: page 14

- auditors are assessed against the criteria and selected so that the audit quality is also taken into account. According to IOSCO, matters to be taken into account affecting audit quality include skills, expertise, industry knowledge and technical competence. To prevent the cost being the driver in the selection process over quality, it might be good to assess the quality criteria of the tendering auditors first before assessing the fees.

In addition, the potential auditors should confirm that they are not aware of any matters affecting their independence. Finally, when selecting the auditor to recommend, the audit committee should be able to conclude that the auditor is independent in accordance with applicable standards.³⁷

Audit committee should assess the audit quality not only in relation to tenders but also on period basis.

IFIAR's document Audit Committees and Audit Quality: Trends and Possible Areas for Further Consideration³⁸ raises areas for consideration in audit committee's work. In order to enhance audit quality, the audit committees ought to assess the audit's performance periodically. It would it be beneficial for audit committees, in making their periodic assessment, to:

- have a framework of Audit Quality Indicators (AQI's) which audit committees can use in their discussion with auditors on audit quality. It is recognised that the selection of appropriate AQI's is key, however this discussion is still controversial and pending. Therefore, a range of more subjective factors may remain relevant;
- ask audit firms for their findings in the internal quality reviews. The audit committee could also request for the quality reviews of statutory audits by the independent audit regulator. These findings could be consequently discussed within the audit committee and be reflected on in future engagements and evaluations;
- provide a more detailed expectation for the periodic assessments of the auditor performance; and
- make use of sources of information that supplements to their own experiences and information provided by the company's executive board which potentially provides more objectivity.

³⁷ IOSCO 2019: page 15

³⁸ IFIAR 2017: page 13

7 Oversight of the audit function

7.1 Number of interactions

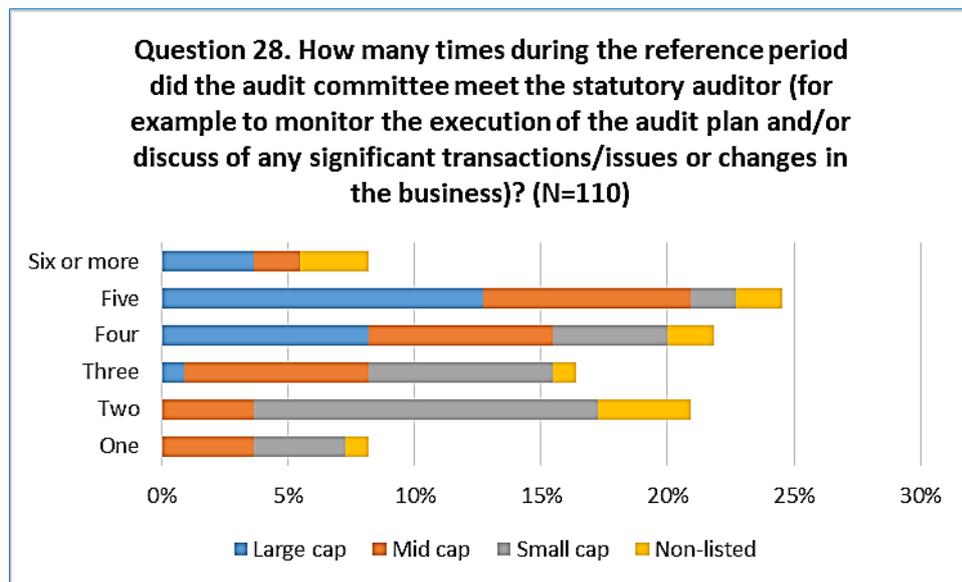
Legal reference

Art 39.6.d) of AUD

...the audit committee shall, inter alia:

(d) monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the competent authority pursuant to Article 26(6) of Regulation (EU) No 537/2014;

Summary of responses



Of those respondents that reported a number of interactions with their auditor, over 80% met their auditor between two and five times during the reference period.

The most common response was the following in different entity groups:

- five times in large and mid cap listed entities; and
- two times in small cap listed entities and non-listed entities.

Respondents that met their auditor five or more times a year gave comments such as the following (direct quotations):

- "In all AC meetings. In addition the AC chair has met before every AC meeting the statutory auditor."
- "The statutory auditor participated in all of the AC meetings, i.e. AC met the statutory auditor 5 times. In addition to this, the chairperson of the AC met the statutory auditor or held a teleconference with it 3 times."

Respondents' that met their auditor less than five times a year gave comments such as the following (direct quotations):

- "Four times. In addition, Chairman of the Committee regularly discusses with the statutory auditor the execution of the audit plan."
- "Two times - audit plan and year-end audit presentation."
- "During the reference period, the statutory auditor attended one meeting with the audit committee."

Observations



Over 80% of the respondents indicated that their audit committee met the auditor between two and five times during the reference period. The respondents met their auditor on average 3,3 times during the reference period. Respondents with a distinct audit committee met their auditor more often (on average 3,9 times) than respondents whose board of directors carries out the functions assigned to the audit committee (on average 2,5 times).

References to related literature

IOSCO states that an audit committee should establish a direct line of communication between the audit committee and the auditor. According to IOSCO, the quality of the communication between the auditors and audit committees affect the audit quality. The concerns and risks affecting the financial reporting process and also measures to cover these risks should be covered in the discussions and communication between the audit committees and auditors. The IOSCO Report on Good Practices for Audit Committees in Supporting Audit Quality (2019) gives good practices for the audit committee communication with the auditor.³⁹

The International Standard on Auditing (ISA) 260 *Communication with Those Charged with Governance* provides an overarching framework for the auditor's communication with those, including audit committees, charged with governance, and identifies some specific matters to be communicated with them.

³⁹ IOSCO 2019: pages 24-27

7.2 Monitoring the performance

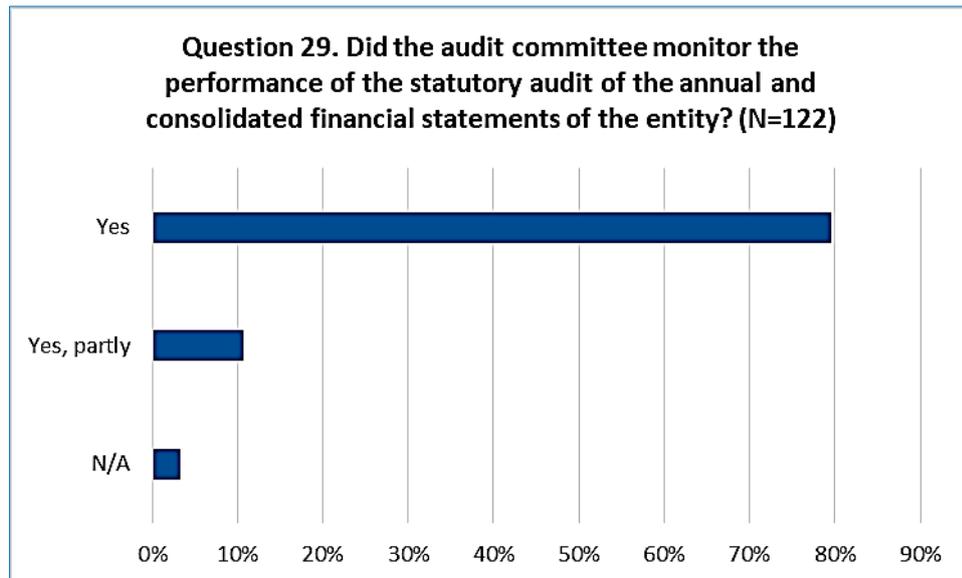
Legal reference

Art 39.6.d) of AUD

...the audit committee shall, inter alia:

(d) monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the competent authority pursuant to Article 26(6) of Regulation (EU) No 537/2014;

Summary of responses



80% of the respondents indicated that they monitor the performance of the auditor. The share of **Yes** responses was as follows in different entity groups:

- 94% in large cap listed entities;
- 82% in mid cap listed entities;
- 69% in small cap listed entities; and
- 71% in non-listed entities.

Yes respondents gave comments such as the following (direct quotations):

- "It is one of the main duties of the Committee, and included in its written charter, to monitor the statutory audit of the financial statements and consolidated financial statements."
- "The audit committee reviews and discusses the performance of the statutory audit during the year and reviews the audit plans and audit findings prepared by the auditor. Once a year, the audit committee evaluates the performance of the statutory auditor by way of a written assessment form."
- "The statutory auditor reports in every meeting on the progress and the results of the audit of the annual financial statements of the entity."

Observations

80% of the respondents indicated that the audit committee monitors the performance of the auditor. The monitoring of the statutory audit is, however, carried out in very different ways. Some audit committees have a clear processes in a written charter or in a written assessment form, while other audit committees appeared less well structured. The monitoring is performed informally when the auditor is met.

References to related literature

The IOSCO⁴⁰ lists certain good practises when:

- facilitating the audit process;
- communicating with the auditor; and
- assessing audit quality.

According to the IOSCO these matters may also be considered for inclusion in some form in the charter or similar document of an audit committee.⁴¹

According to ecoDa the statutory auditor and the audit committee should have a strong candid relationship – anything less may limit the committee’s effectiveness in achieving its oversight responsibilities. The ecoDa give more guidance on the following topics⁴²:

- reviewing the audit plan;
- management representation;
- reviewing the audit findings; and
- internal control.

⁴⁰ IOSCO 2019: pages 10-29

⁴¹ IOSCO 2019: page 10

⁴² ecoDa 2011: pages 25-28

7.3 Findings made by Auditor Oversight

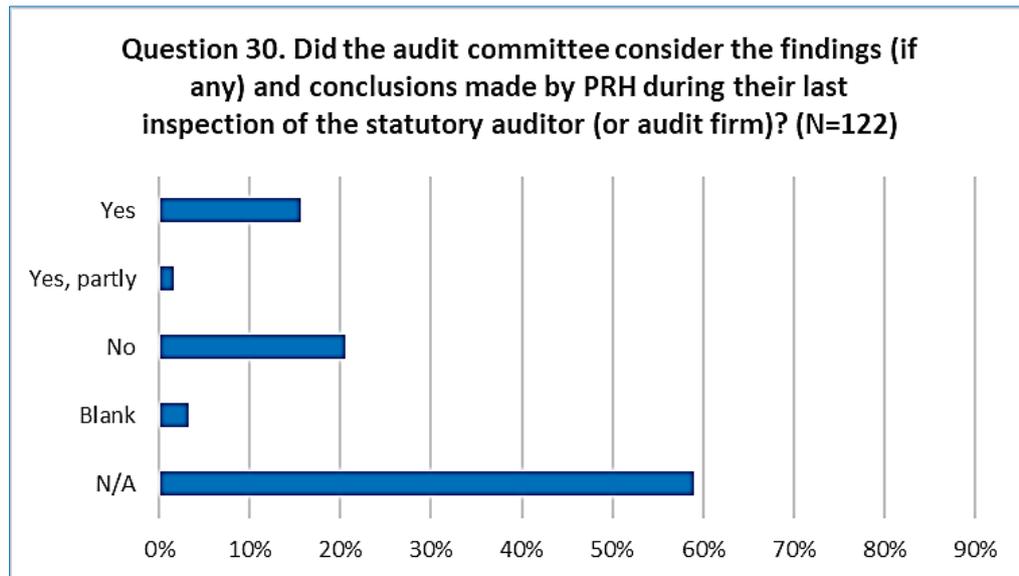
Legal reference

Art 39.6.d) of AUD

... the audit committee shall, *inter alia*:

(d) monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any findings and conclusions by the competent authority pursuant to Article 26(6) of Regulation (EU) No 537/2014;

Summary of responses



Only 17% of the respondents indicated that the audit committee considered the findings (if any) and conclusions made by PRH during their last inspection of the statutory auditor or audit firm.

Yes and **Yes partly** respondents gave comments such as the following (direct quotations):

- "Yes. The principally responsible auditor has reported on the report received from PRH relating to the latest firm-wide inspection."
- "Yes, partly. Confirmation as to any findings by PRH was requested in the audit tender process."

Not applicable respondents gave comments such as the following (direct quotations):

- "There has been no inspection completed concerning the statutory auditor during the reference period."
- "To the knowledge of the company and the audit committee, there were no findings concerning the reference period."

No respondents gave comments such as the following (direct quotations):

- "Our auditor (person) has not been inspected according our knowledge. Auditor Company has been inspected, but the report is not public yet (our knowledge)."
- "Only during the tender process."
- "No, PRH carried out an inspection of the audit firm in 2018. The report is still in a draft format."

Observations

Only 17% of the respondents indicated that the audit committee considered the findings (if any) and conclusions made by the PRH during their last inspection of the statutory auditor or audit firm.

Comments made by some of the No and Not applicable respondents indicated, however, that respondents were aware of PRH inspections, as they commented that no inspection took place during the reference period, or that the inspection report of the audit firm was not yet public. In addition, a few comments indicated that there were no findings in the audit inspection.

The PRH inspects PIE audit firms at least every three years. The PRH also inspects individual auditors every three or six years. Decisions on inspections are available on request from the PRH or from the auditor and audit firm.

Publications and information

For more information see PRH publications (mostly in Finnish)
<https://www.prh.fi/en/auditoroversight.html>

- PRH:n tilintarkastajien laaduntarkastusten vuosiraportit
- PRH:n tutkinta-asioiden vuosiraportit
- PRH:n selvitys listayhtiöiden tilintarkastuskertomuksista 2016–2018

References to related literature

IFIAR's document Audit Committees and Audit Quality: Trends and Possible Areas for Further Consideration⁴³ raises questions which the audit committees should ask their auditor:

- Were the firms that participate in the group audit recently inspected by your audit regulator? If yes, what does the engagement partner know about the results?
- To what extent are the audit quality issues identified by the audit regulator in their public reports related to the testing strategy and what remedial action has the auditor considered?

⁴³ IFIAR 2017: page 21

7.4 Additional report to the audit committee

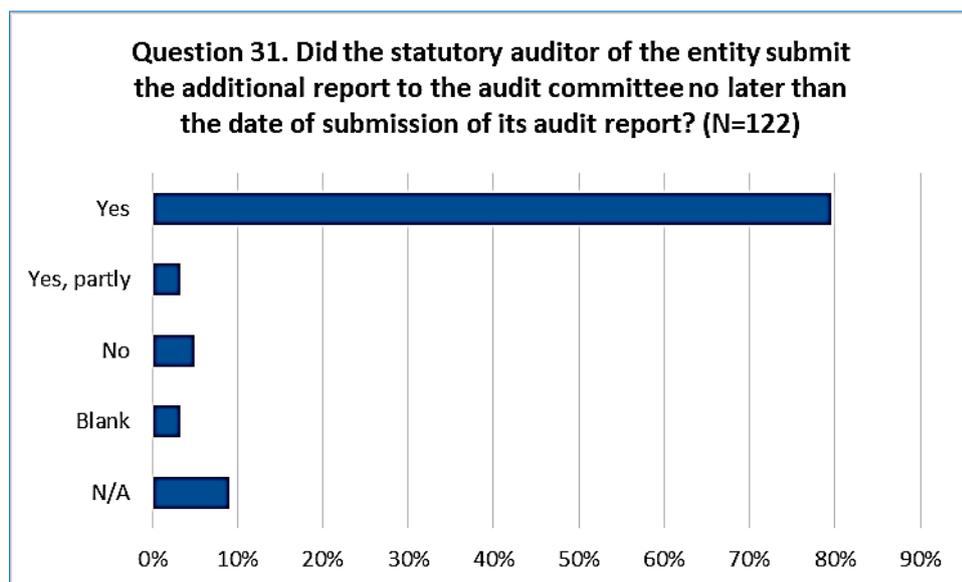
Legal reference

Abstract of paragraph 2 of Art 11 of AUR

The additional report to the audit committee shall be in writing. It shall explain the results of the statutory audit carried out and shall at least:

- (a) include the declaration of independence;*
- (b) identify each key audit partner involved in the audit;*
- (c) confirm that the statutory auditor received a confirmation from the other statutory auditor regarding their independence;*
- (d) describe the nature, frequency and extent of communication with the audit committee, the management body and the supervisory body, including the dates of meetings with those bodies;*
- (e) include a description of the scope and timing of the audit;*
- (f) where more than one statutory auditor or audit firm have been appointed describe the distribution of tasks;*
- (g) describe the methodology used;*
- (h) disclose the quantitative level of materiality applied;*
- (i) report and explain judgements about significant doubt on the entity's ability to continue as a going concern and whether they constitute a material uncertainty;*
- (j) report on any significant deficiencies in the internal financial control system, and/or in the accounting system;*
- (k) report any significant matters involving actual or suspected non-compliance with laws and regulations or articles of association;*
- (l) report and assess the valuation methods applied, including any impact of changes of such methods;*
- (m) explain the scope of consolidation and the exclusion criteria applied;*
- (n) identify any audit work performed by third-country auditor, other than by members of the same network;*
- (o) indicate whether all requested explanations and documents were provided by the audited entity;*
- (p) report:*
 - (i) any significant difficulties encountered in the course audit;*
 - (ii) any significant matters discussed with management; and*
 - (iii) any other matters significant to the oversight of the financial reporting process.*

Summary of responses



80% of the respondents indicated that they received the additional audit committee report in time. The share of **Yes** responses was the following in different entity groups:

- 87% in large cap listed entities;
- 84% in mid cap listed entities;
- 74% in small cap listed entities; and
- 64% in non-listed entities.

Yes respondents gave comments such as the following (direct quotations):

- "Yes, the additional report was submitted to the Audit Committee prior to submission of the audit report."
- "It was submitted to board of directors."

No respondents gave comments such as the following (direct quotations):

- "The additional report was submitted later."
- "No additional report was provided by the statutory auditor."

Four out of ten of the **No** and **Not applicable** respondents were small cap listed companies.

Observations



80% of the respondents answered that the additional report to the audit committee was submitted in time while the other responses indicated that there is room for improvement.

References to related literature

Much of the new information required in the additional report to audit committee is factual, but certain requirements will require consideration to determine the most effective way of presenting it in a way that can facilitate effective dialogue between the audit committee and auditors, comments ecoDa in its Guidance for audit committees from 2016. EcoDa analyses that the aim of the requirement to describe the audit approach taken is to describe it in such a way that audit committees can understand the audit approach taken on significant balance sheet items and how the evidence is obtained.⁴⁴ Audit committees should allow sufficient time in their agenda for effective dialogue with the auditor about the matters disclosed in the additional report to the audit committee.⁴⁵

⁴⁴ ecoDa 2016: page 19

⁴⁵ ecoDa 2016: page 19

7.5 Discussion of key matters

Legal reference

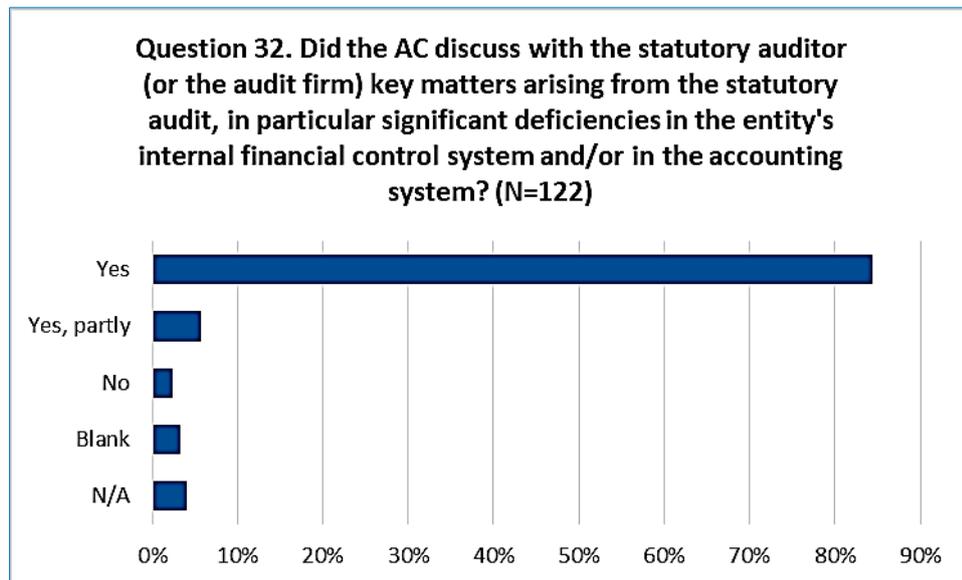
Art 11 of AUR

Upon request by a statutory auditor, an audit firm or the audit committee, the statutory auditor(s) or the audit firm(s) shall discuss key matters arising from the statutory audit, referred to in the additional report to the audit committee, and in particular in point (j) of the first subparagraph, with the audit committee, administrative body or, where applicable, supervisory body of the audited entity.

Art 11 of AUR

(j) report on any significant deficiencies in the audited entity's or, in the case of consolidated financial statements, the parent undertaking's internal financial control system, and/or in the accounting system. For each such significant deficiency, the additional report shall state whether or not the deficiency in question has been resolved by the management;

Summary of responses



Based on the responses, over 80% of the respondents discussed the key matters arising from the statutory audit with the auditor. The share of **Yes** responses was the following in different entity groups:

- 97% in large cap listed entities;
- 87% in mid cap listed entities;
- 74% in small cap listed entities; and
- 79% in non-listed entities.

Yes respondents gave comments such as the following (direct quotations):

- "The statutory auditor presents to the audit committee the key matters arising from the statutory audit."
- "Yes key findings (if any) are regularly discussed along with possible actions or improvements needed."
- "Key Audit Matters (KAMs) were discussed."

Yes, partly respondents gave comments such as the following (direct quotations):

- "Included in the early warning memorandum, the yearend report."

- “All major observations were discussed and issues needing attention were linked also to the internal audit plan to ensure progress.”

Observations



Over 80% of the respondents discussed the key matters arising from the statutory audit with the auditor. Regular discussions with the statutory auditor were held, including addressing possible deficiencies and considering improvements and actions needed.

References to related literature

EcoDa writes in its Audit Committee Guide, that it is also expected that the audit committee reviews the statutory auditor’s findings, including any changes in audit approach or any modifications to the statutory audit report and understands the reasons for those changes and modifications. Audit committees should discuss with the auditors both major issues that arose during the course of the audit and have been resolved and also those issues that have been left unsolved. Consideration of these issues helps the audit committee to assess the appropriateness of the system of internal control and also management’s approach to the preparation and presentation of financial information.⁴⁶

In addition, ecoDa lists topics related to quality of corporate reporting, on which audit committees should have open and frank discussions with the auditor, in addition to their own work and analysis. These important topics include for example:

- the appropriateness of the accounting policies to the particular circumstances of the company;
- the appropriateness of accounting estimates and judgements;
- the potential impact of any uncertainties, including significant risks and exposures, such as pending litigation;
- material uncertainties that may cast doubt on the company’s ability to continue as a going concern;
- the extent to which financial statements are affected by unusual transactions;
- inconsistencies between the financial statements and any other information in the document containing the financial statements for example, narrative reporting; and
- the design and operation of the company’s internal control and risk management systems.⁴⁷

⁴⁶ ecoDa 2011: page 26

⁴⁷ ecoDa 2011: pages 26-27

8 Oversight of the financial reporting process

8.1 Monitoring the financial reporting process

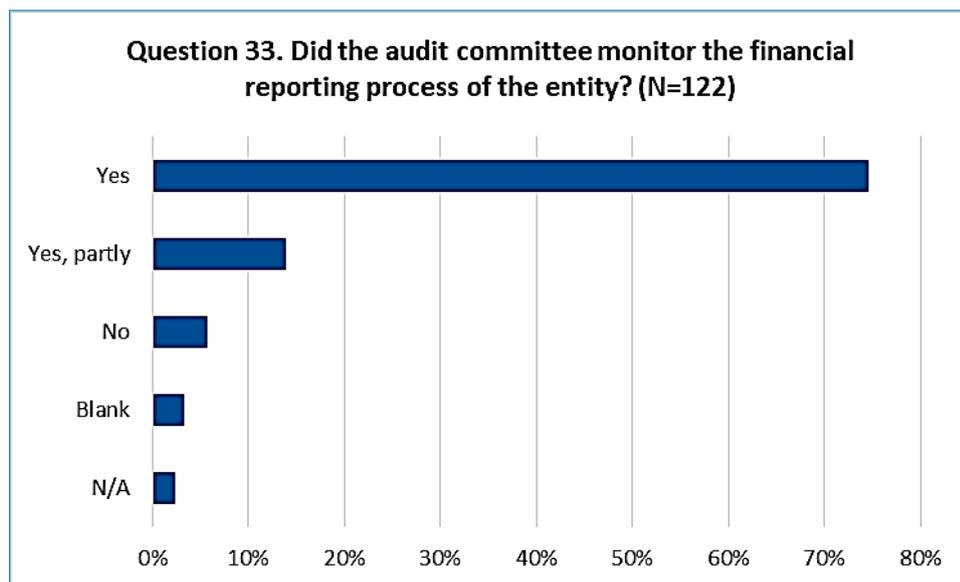
Legal reference

Art 39.6.b) of AUD

... the audit committee shall, inter alia:

(b) monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;

Summary of responses



89% of the respondents answered that they monitor or partly monitor the financial reporting process of the entity. The share of **Yes** responses was the following in different entity groups:

- 84% in large cap listed entities;
- 76% in mid cap listed entities;
- 62% in small cap listed entities; and
- 86% in non-listed entities.

A small percentage (6%) of the respondents indicated that they don't monitor the financial reporting process at all. Some of these entities however, described in their comments going through the financials at every meeting or co-operating with the auditor.

Yes and **Yes, partly** respondents gave comments such as the following (direct quotations):

- "The audit committee reviewed financial reports on quarterly and annual basis. The audit committee was engaged in the implementation of new accounting policies and accounting judgments made by management. The audit committee interacted on a regular basis with financial management such as the CFO and Group Controller and external auditors, which reported to the audit committee on a regular basis."
- "Reviewing consolidated financial statements and interim reports, reviewing any deficiencies or observations reported by auditors or internal audits, reviewing any changed in the principles of accounting and external reporting prior to implementation."

- "We receive detailed financial reports on monthly basis and discuss them in the audit committee meeting. We also follow up closely the development of the financial reporting process including the implementation of new ERP-system."

Observations



89% of the respondents answered that they monitor or partly monitor the financial reporting process. The core of the financial reporting process monitoring seems to be regular reviews of the financial reports. The validation of the reporting process and its possible weaknesses is based on discussions with and reports from internal and external auditors and management.

References to related literature

IOSCO discussed the importance of the audit committee oversight role with respect to the quality of financial information produced by the management and the high quality of records and analyses supporting the financial report.⁴⁸

According to ecoDa's Audit Committee Guide from 2011, in order to perform their financial reporting monitoring role effectively, the audit committees need to understand the underlying context for financial reporting, and in particular⁴⁹:

- management's responsibilities and their representations to the committee;
- management's remuneration plan. Here, it is important for the audit committee to understand, how this might affect management's decisions and proposals;
- the external auditor's responsibilities under generally accepted auditing standards. The audit committee should understand also where the responsibility ends and what the limitations are;
- the nature of critical accounting policies, judgements and estimates. The audit committee should assess, if they have been considered carefully enough; and
- with any significant or unusual transactions where the accounting is open to different approaches, has there been a profound analysis and justified decision making on these.

⁴⁸ IOSCO 2019: page 8

⁴⁹ ecoDa 2011: page 17

8.2 Implementation of new IFRSs

Legal reference

Art 39.6.b) of AUD

... the audit committee shall, inter alia:

(b) monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;

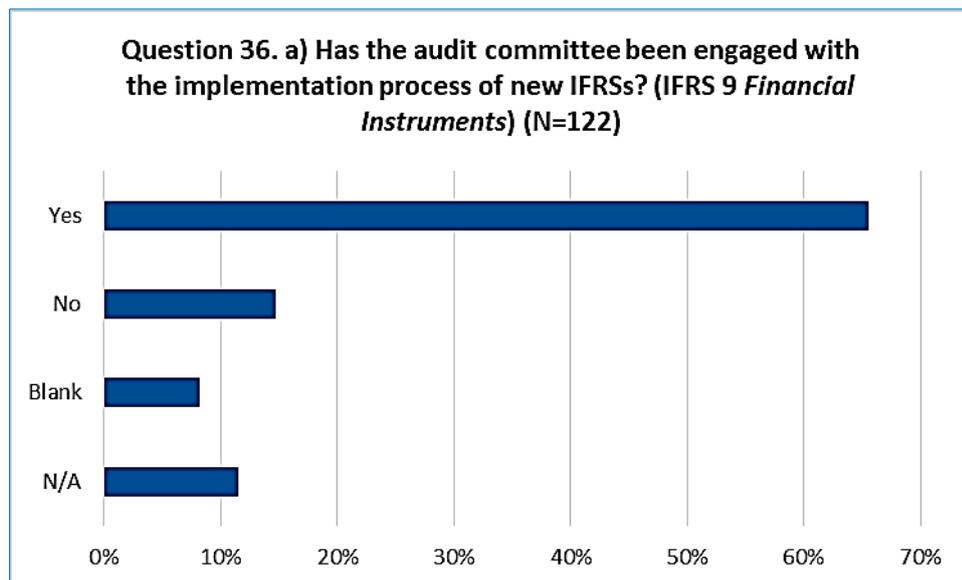
Background

Implementing the new standards IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* was one of the major projects in the field of financial reporting for all listed entities in the EU in the first applications in 2018 and 2019 and the preceding years. In spite of industry and size of the entity, the implementation of these standards resulted in changes in accounting policies, measurement and disclosures for all entities. The results regarding engagement of the audit committee per standard are analysed more carefully below.

IFRS 17, the insurance standard applies to insurers only so it is only applicable to a small number of companies in this survey. In addition, the standard enters into effect 1 January 2022 or later and is still subject to amendments.

Summary of responses

Implementation of IFRS 9 *Financial Instruments*

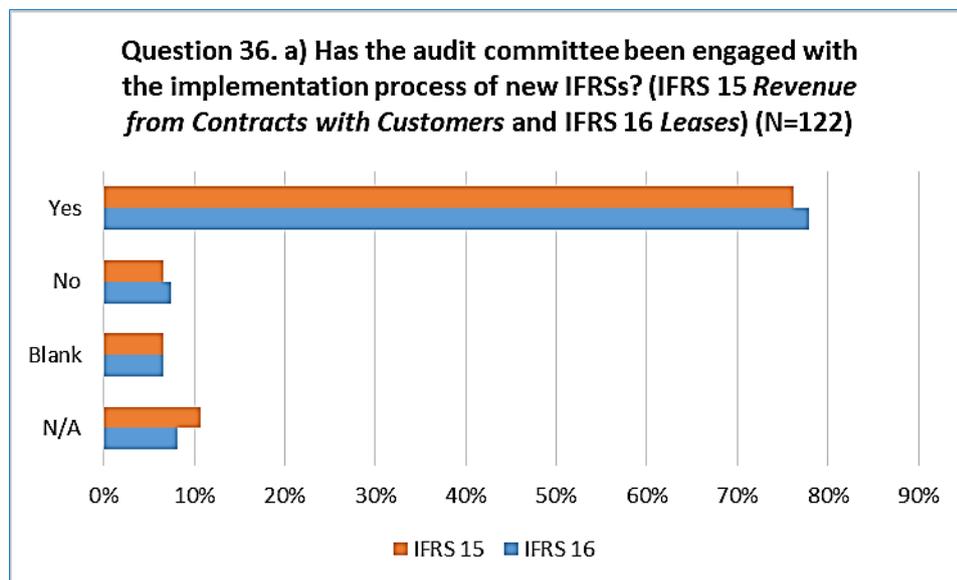


Two thirds (66%) of the respondents had been involved in the implementation of IFRS 9. This is a bit less than regarding the other two new standards already in force, IFRS 15 and 16. This is understandable, since IFRS 9 could be highly significant to some entities, such as banks, but insignificant to other entities, to which financial instruments are not so material. When analysing answers of the large cap companies only, the stage of involvement is slightly higher; 78% of the audit committees had been engaged in the process.

The engagement of the audit committees was commented on as follows (direct quotations):

- "Audit Committee monitored closely implementation project of IFRS 9."
- "Audit committee discussed the impact and was involved in preparing the policy."
- "Audit committee has approved accounting policies."
- "Detailed follow-up by the audit committee in preparation for implementation."
- "The implementation of the standard has been presented several times to the audit committee both before and after entering into effect."
- "Applicability, estimated impact and company's project plan and its progress have been presented in the audit committee and feedback has been given."
- "Thorough follow-up in several meetings of the implementation process including first estimates of impacts."

Implementation of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases



Three quarters (76%) of the respondents had been involved in implementation of IFRS 15, the revenue standard. For large cap entities only, the share is a bit higher; 87%. There is also a high degree of involvement of the respondents in implementation of IFRS 16, the leasing standard (78%).

According to IASB, IFRS 16 was expected to affect the IFRS amounts reported by 50% of the listed entities.⁵⁰ IFRS 16 has effects not only on the balance sheet but also on Alternative Performance Measures (APMs) and key performance indicators (KPIs), income and cash flow statements. Therefore, as APMs and KPIs play a key role in investor reporting and access to finance, audit committees have been monitoring the impact analysis, implementation and disclosures related to IFRS 16 more widely. For large cap entities only, the share is again slightly higher; 87%.

The engagement of the audit committees was described in responses such as the following (direct quotations):

IFRS 15:

- "Board reviewed the changes, assessed the impact on net sales and approved the accounting and reporting concept."
- "Review of the implications as well as the implementation plan by the management, asking feedback from external auditor."

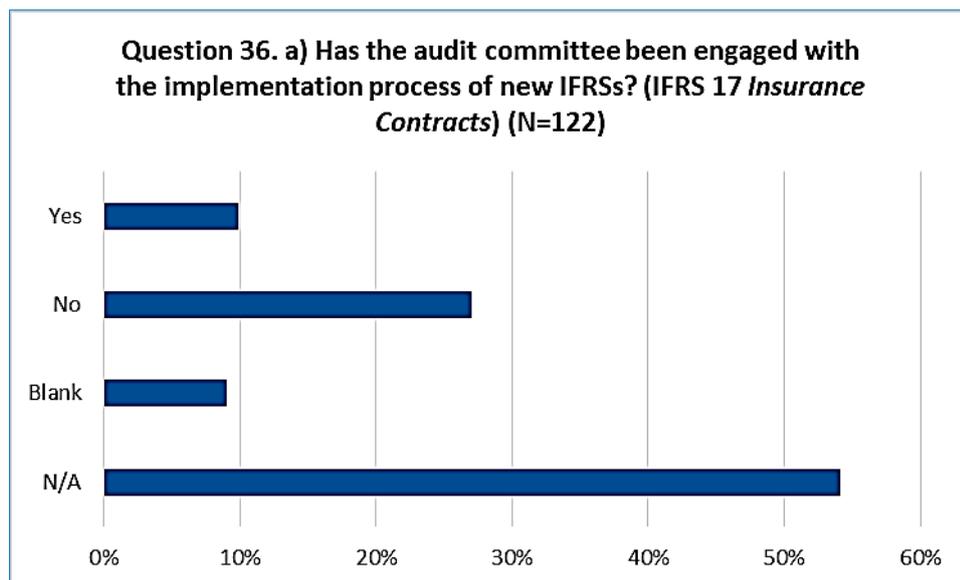
⁵⁰ IASB Effect Analysis IFRS 16 Leases

- "The five step model for revenue recognition and the impact of the standard is reviewed by the board of directors."
- "The implementation of the standard has been presented several times to the audit committee both before and after entering into effect."
- "Audit committee approved the accounting concept, followed the progress of the project and assessed the implications for financial statements."

IFRS 16:

- "Board approved the accounting and reporting concept. Board reviewed implications to financial statements."
- "As part of introducing major change in IFRS related to company and analysing its effects."
- "Applicability, estimated impact and company's project plan and its progress have been presented in the audit committee and feedback has been given."
- "The audit committee has followed the preparatory actions for the adaptation and reviewed the estimates for the impact."

Implementation of IFRS 17 *Insurance Contracts*



The insurance standard IFRS 17 is only applicable to those entities that sell insurances. About 10% of the entities answered that the audit committee had been involved in the implementation process of IFRS 17. However, only four entities answering **Yes** were entities with insurance activities in scope of IFRS 17. For the other Yes responses, the involvement of audit committee therefore presumably means assessment that the entity is not an IFRS 17 applier.

The engagement of the audit committees was described in responses such as the following (direct quotations):

- "The audit committee has followed up the project started to implement this IFRS. Major impact and thus the project will be followed very carefully."
- "Regular status updates on group level IFRS 17 project."
- "Continuously informed by management of status, consequences and implementation."
- "The main changes have been reported to the AC. The implementation is in progress."
- "CFO and Risk management has reported regularly to the Risk and audit committee."

Observations

Implementing the new standards resulted in changes in accounting policies, measurement and disclosures for all entities. When some of the standards are more relevant to some entities and less relevant to others, it was necessary in every entity, to perform a profound impact analysis. The overall picture based on the responses is, that audit committees have largely been involved in the process of implementing these new standards. With few exceptions, the descriptions about audit committee involvement included reference to the audit committee being informed about the impacts and progress of implementation and/or reviewing or assessing the impacts.

However, based on the experience from FIN-FSA enforcement activities, there is room for a more active role for audit committees in implementing new standards and defining accounting policies. The audit committee should question the choices of the management and form their own opinions. Accounting policy choices have possibly major impacts on the financial reporting of the entity. Therefore, both active involvement and high competence are required from the audit committee.

References to related literature

IOSCO published a statement concerning implementation of the three new accounting standards IFRS 9, IFRS 15 and IFRS 16. According to IOSCO, issuers, including their audit committees, and auditors will each play a critical role during the implementation of the three new standards.⁵¹ The recommendations and views of this statement are well applicable to the implementation of any new accounting standards or other major changes in accounting policies of an entity. IOSCO underlines, that issuers, their audit committees, and auditors need to be engaged appropriately and ensure that they have allocated sufficient time and resources, to support the high-quality implementation of the new standards.

⁵¹ IOSCO 2016: page 2

8.3 Determination and use of Alternative Performance Measures

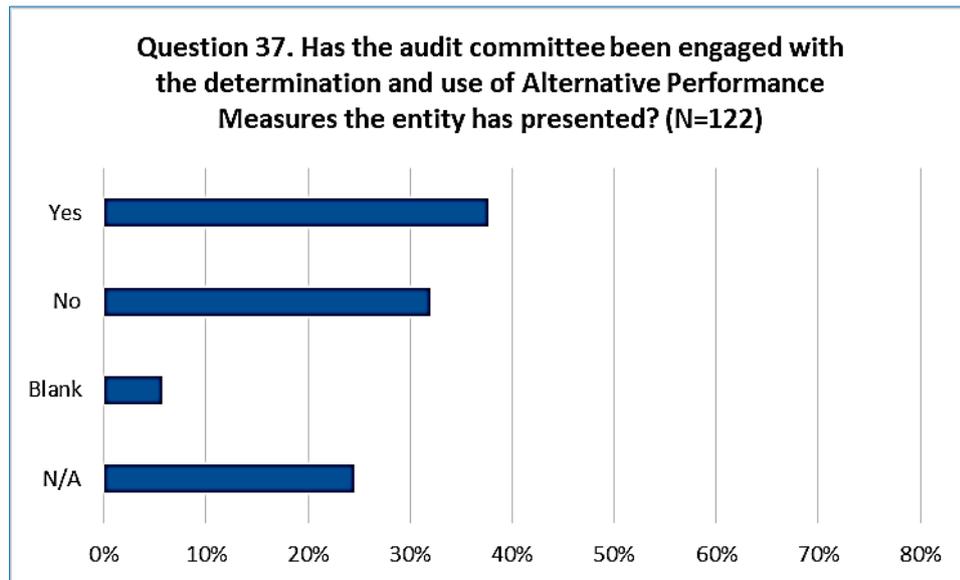
Legal reference

Art 39.6.b) of AUD

... the audit committee shall, inter alia:

(b) monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;

Summary of responses



Based on the answers more than one third (38%) of the respondents were engaged in determination and use of APMs of the entity during the reference period. However, there is a large number of respondents (32%) that were not engaged in this process. There is not much difference to these amounts when monitoring answers of the large cap entities only (42%). It is to be noted, that the low percentage of involvement (38%) could be explained by the limitation of the answer to a defined period and some audit committees not having APMs on their agenda on that specific period.

Of the **No** responses of all listed entities close to 80% presented APMs but respondents however answered not being involved in determination and use of the APMs. A few of them explained that APMs were not subject to determination or changes during the reference period and therefore also not subject to decision making. Others did not include explanations to their No answers.

The engagement of the audit committees was described in respondents' comments such as the following (direct quotations):

- "The audit committee originally reviewed and approved the measures selected to be reported."
- "The audit committee has been involved in the determination of the measures and monitors them on a quarterly basis."
- "By reviewing the APMs in connection with the interim releases and full year financial accounts. Also definition and use of IAC's has been discussed and controlled."
- "The procedure, guidelines and implementation thereof, including the consistency, has be reviewed by the audit committee and validated by the auditors."
- "Reviewing the appropriateness of the APMs proposed and their content and ensuring they are applied in a consistent manner."

The involvement of the audit committee was described as being discussions and review of the APMs in audit committee meetings. In some cases (15% of the Yes answers), the APMs had been subject to the audit committee's approval or decision.

Observations



In addition to financial statements, the APMs often form an essential part of an entity's financial performance reporting. Therefore, the results of the survey showing only 38% of the audit committees being involved in the determination and the use of APMs could be seen as surprising.

To reflect the business, performance and financial state of an entity, the APMs should be carefully selected and consistent over reporting periods. The audit committee should understand and analyse what is the rationale of behind the selection of the APMs for their entity. The audit committee should also be able to challenge the selection and make recommendations. Audit committees are recommended to be familiar with the main principles of the APM Guidelines of ESMA.

References to related literature

The European Securities and Markets Authority (ESMA)⁵² has issued APM Guidelines to set out a common approach towards the use of APMs and benefit users and to promote market confidence.

EY Centre for Board Matters recommends audit committees to question management on its selection of the reported APMs and their significance. According to EY, the audit committee would then request assurance from management that the company has the right internal controls in place to ensure accurate and meaningful reporting. EY's publication includes a list of questions that audit committees should consider, such as "Can the APMs be clearly understood by parties outside the company?", "What are management's reasons for publishing these APMs?" and "Why have certain APMs been discontinued or had their definition changed?"⁵³

In addition, EY underlines that audit committees should be aware that, while there are many advantages to reporting on APMs, there are also some significant disadvantages. Understanding both is the key to ascertaining the quality of their companies' reporting. Advantages include, according to EY, valuable insights to analysts and investors and highlighting key value drivers. Disadvantages include, amongst other, risk of management bias and lack of external verification.⁵⁴

The Center for Audit Quality (CAQ) has published a Roadmap for Audit Committees regarding non-GAAP Measures. The CAQ emphasizes that audit committees have an important role to play in improving or maintaining trust and confidence in non-GAAP measures.⁵⁵

⁵² ESMA 2015

⁵³ EY 2016

⁵⁴ EY 2016

⁵⁵ Center for Audit Quality 2018: page 7

8.4 Recommendations or proposals by the audit committee

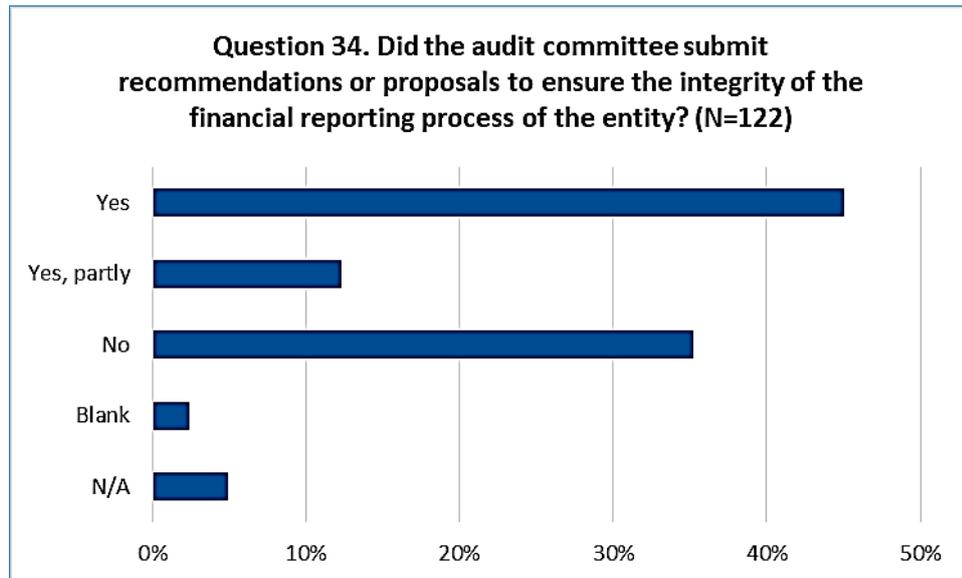
Legal reference

Art 39.6.b) of AUD

... the audit committee shall, *inter alia*:

(b) monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;

Summary of responses



More than half (57%) of the respondents had submitted some kind of recommendation or proposal to the board of directors regarding the integrity of the financial reporting process. The share of **Yes** responses was as follows different entity groups:

- 52% in large cap listed entities;
- 45% in mid cap listed entities; and
- 46% in small cap listed entities.
- 29% in non-listed entities.

The entities commented giving recommendations and submitting proposals by comments such as the following (direct quotations):

- "The Board frequently comments the monthly financial reviews and audit reports."
- "During the year, the audit committee reviewed the reports on the Group's financial situation, including the financial statements release, the half year and quarterly financial report and updated forecasts, and made a recommendation to the board of directors on the review of the reports and the releases. Committee also reviewed the Review of Board of Directors, Corporate Governance Statement and Annual report."
- "Feedback is given based on the pre-reading material and findings made by the audit committee members and the statutory auditor."
- "Various questions relating to the financial reporting process are discussed during the audit committee meetings and also separately if needed."
- "Discussions and actions taken in the audit committee where the CFO participated."

Observations



More than half (57%) of the audit committees had submitted some kind of recommendation or proposal to the board of directors regarding the integrity of the financial reporting process. About a quarter of the entities commented on what kind of a recommendation or proposal was given. Many responses indicated, that submitting recommendations and giving proposals is business as usual, part of the audit committee's core duties. The proposals and recommendations arise from agenda topic discussions, reports and findings of the external or internal auditor and are also often discussed with management.

The number of No responses (35%) was high which relates to the fact that not all entities have a distinct audit committee or it may not have been necessary to submit recommendations during the reference period.

References to related literature

Commission Recommendation states, that as a general rule, the audit committee should make recommendations aimed at preparing the decisions to be taken by the board. The primary purpose of the committees should be to increase the efficiency of the board by making sure that decisions are based on due consideration, and to help organise its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. The creation of the committees is not intended, in principle, to remove the matters considered from the purview of the (supervisory) board itself, which remains fully responsible for the decisions taken in its field of competence.⁵⁶

⁵⁶ Commission Recommendation 2005/162/EC, recommendation 6.1

9 Monitoring internal quality control and risk management systems

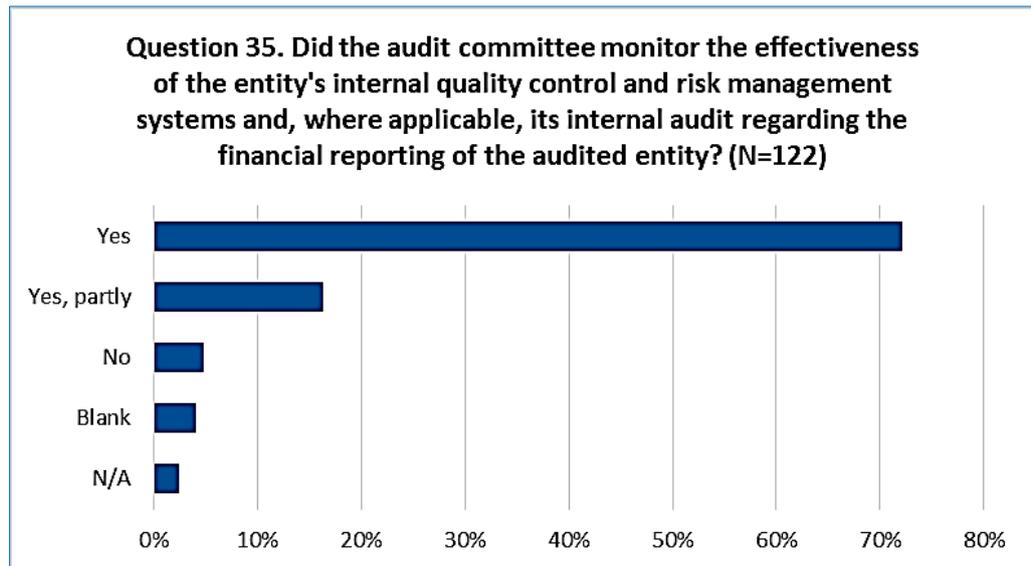
Legal reference

Art 39.6.c) of AUD

... 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;

Summary of responses



Almost all (88 %) of the respondents answered that they monitor or partly monitor the effectiveness of the internal quality control systems. The share of **Yes** responses was the following in different entity groups:

- 100% in large cap listed entities;
- 74% in mid cap listed entities;
- 56% in small cap listed entities; and
- 50% in non-listed entities.

Yes and **Yes, partly** respondents gave comments such as the following (direct quotations):

- "Internal audit participates in all audit committee meetings and reports to the audit committee. The audit committee reviews the risk management process annually."
- "The audit committee reviews and discusses the findings with respect to the internal controls of the entity annually, as well as reviews and discusses the development activities of the internal control framework annually."
- "During 2018 Committee also reviewed the assessment of the Group's internal control function and results from the operating subsidiaries' internal control self-assessment, and approved policies related to financial risk management. Internal audit function provides Committee independent, objective assurance and advice. The function independently assessed and reported to Committee on effectiveness of design and operation of the Group's risk management framework. Committee reviews annually the risks and risk management issues presented in the Annual Report and Financial Statements."
- "Group's risk management review and internal audit review are presented to the audit committee in each audit committee meeting and the committee monitors the effectiveness of the group's risk management system and its internal audit regarding

financial reporting while handling the respective reviews and reports. Group's risk management system is regularly assessed by group's internal audit and the quality of group's internal audit is evaluated in accordance with IIA's professional standards by external auditor."

Observations



88% of the respondents answered that they monitor or partly monitor the effectiveness of the entity's internal quality control and risk management systems. Based on the comments received, the monitoring duty is seen as one of the core duties of the audit committees. It is typically performed based on reports and interviews with and from the internal and external auditors and risk management. The accurate operation of the internal audit function itself is also monitored.

References to related literature

FEE⁵⁷ suggests some key points to be considered by the audit committee while undertaking internal control and risk management monitoring activity:

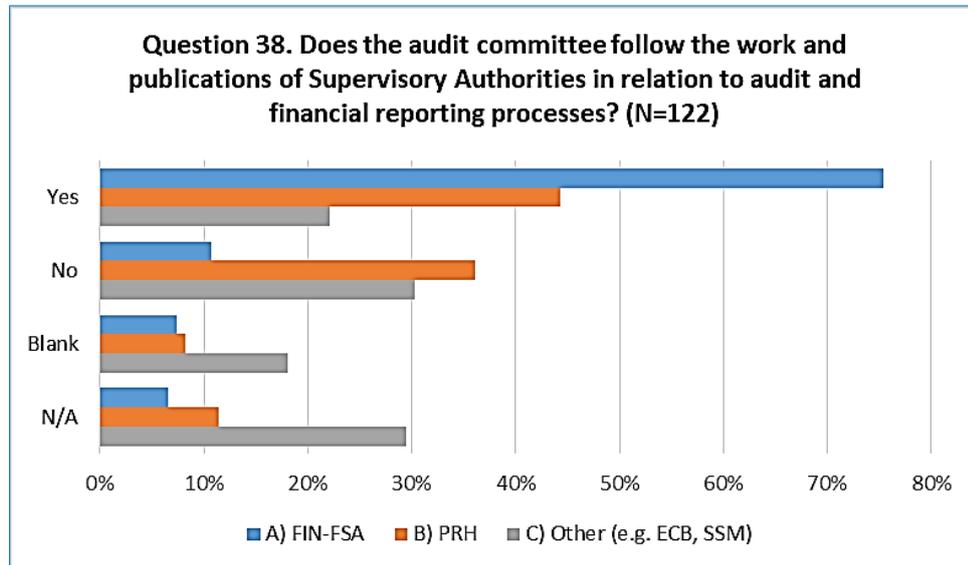
- to check whether the risk management systems have identified meaningful risks to the audited entity's objectives
- to propose 'key controls' to improve the effectiveness of internal controls
- to collect information that indicates in a persuasive manner whether the controls are operating effectively or not.

⁵⁷ FEE 2016: page 9

10 Interactions between audit committees and supervisory authorities

10.1 Publications of the supervisory authorities

Summary of responses



The publications of FIN-FSA seem to be commonly followed (approximately 75% of the respondents), which was also as expected since FIN-FSA is the supervisory body of the PIE entities. The publications of the PRH Auditor Oversight were also quite actively followed (about 45% of the respondents). The publications of other, international supervisory authorities (e.g. ECB, SSM⁵⁸) are not that commonly monitored by audit committees (22%).

Yes responses regarding other supervisory authorities (e.g. the ECB) include also audit committees of non-financial institutions. Some financial sector respondents however, answered surprisingly that they do not follow publications of these other authorities, such as the ECB for instance.

According to some responses, it is assumed to be the task of the audit committee chair, to follow up on the work and publications of the supervisory authorities (direct quotations):

- "The chairperson actively follows and informs the colleagues of issues relevant to the company."
- "Main responsibility for this is with the chairman of the Audit Committee. It was not followed by every member of the audit committee."

Most of the responses indicated, that the audit committee is informed of relevant publications by the management of the entity (CFO, compliance officer etc.) and in a few cases by the auditor (direct quotations):

- "Relevant company level functions (such as finance, compliance and risk management) follow FSA's work and publications and report to the Audit committee, if needed."
- "Work and publications of Supervisory Authorities in relation to audit and financial reporting processes are followed within the Company and updates are provided to the Audit Committee in connection with management reports if deemed relevant to the Company."
- "Part of compliance reporting."

⁵⁸ Single Supervisory Mechanism

- "Finance management communicates and presents to Audit Committee when needed. These issues are typically brought up by the CFO or our auditor."

Some responses indicated, that a wide range of other publications are also followed (direct quotations):

- "Publications of the largest auditing firms, board member associations, professional circles (many board members work in finance/accounting/industry), surveys with similar professionals."

Observations



The publications of the supervisory authorities are known and regularly followed by a large part of the audit committees. However, there seems to be some room for improved awareness and active following of the publications of the international supervisory or regulatory bodies to get a wider perspective on current issues such as the SEC, the ECB and the PCAOB. Following the publications of the ECB is highly recommended for the audit committees of financial sector entities.

Sources of publications of supervisory authorities

FIN-FSA and some other international supervisory bodies

- ESMA www.esma.europa.eu
- FIN-FSA <https://www.finanssivalvonta.fi/en/>
- FIN-FSA Capital Markets <https://www.finanssivalvonta.fi/en/capital-markets/>
 - o Market newsletter (only partly in English)
 - o Annual event for listed companies (only in Finnish)
- U.S. Securities and Exchange Commission (SEC) www.sec.gov
- Financial Reporting Council (FRC) www.frc.org.uk

PRH and some international supervisory bodies

- CEAOB https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-reforms-and-their-progress/regulatory-process-financial-services/expert-groups-comitology-and-other-committees/committee-european-auditing-oversight-bodies_en
 - o Market monitoring report
- PRH <https://www.prh.fi/en/auditoroversight.html>
- Public Company Accounting Oversight Board (PCAOB) <https://pcaobus.org>

10.2 Request for information from supervisory authorities

Question

39. Has the audit committee requested any focused information from Supervisory Authorities?

- a) FIN-FSA (Finanssivalvonta)
- b) Auditor Oversight Authority (PRH:n tilintarkastusvalvonta)
- c) Other (e.g. ECB, SSM⁵⁹)

Summary of responses

Few entities have requested focused information from the supervisory authorities:

- nine from FIN-FSA
- four from PRH
- four from some other authority.

The requests from FIN-FSA mainly related to the disclosure obligation including prospectuses.

A few respondents indicated, that the entity would be the first one to contact the supervisory authority, not the audit committee (direct quotations):

- "Whenever questions arise, the audit committee would address them to Management prior to contacting the Supervisory Authorities."
- "First contacts, if there has been any during the reference period, were primarily taken by the company."
- "Finance management has been in contact with Fiva."

⁵⁹ Single Supervisory Mechanism

Appendix 1. List of References

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European Central Bank (ECB) 2018: Guide to fit and proper assessments. https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.fap_guide_201705_rev_201805.en.pdf

European Commission (EC) 2017. Report from the Commission to the Council, the European Central Bank, the European Systemic Risk Board and the European Parliament on monitoring developments in the EU market for providing statutory audit services to public-interest entities pursuant to Article 27 of Regulation (EU) 537/2014. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017DC0464>

European Confederation of Directors' Associations (ecoDa) in cooperation with KPMG 2011. Audit Committee Guidance for European Companies. https://ecoda.org/wp-content/uploads/2019/08/GUIDANCE_-_2011_Audit_Guidance_for_European_Companies.pdf

European Confederation of Directors' Associations (ecoDa) in cooperation with PwC 2016. Guidance for audit committees. https://ecoda.org/wp-content/uploads/2019/08/ecoDa-PWC_Guidance_Audit_Committees_22_June_2016.pdf

European Securities and Markets Authority (ESMA) 2015. Guidelines on Alternative Performance Measures. <https://www.esma.europa.eu/press-news/esma-news/esma-publishes-final-guidelines-alternative-performance-measures>

EY 2016. The audit committee's role in reporting on alternative performance measures. [https://www.ey.com/Publication/vwLUAssets/EY-reporting-on-alternative-performance-measures/\\$FILE/EY-reporting-on-alternative-performance-measures.pdf](https://www.ey.com/Publication/vwLUAssets/EY-reporting-on-alternative-performance-measures/$FILE/EY-reporting-on-alternative-performance-measures.pdf)

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International Accounting Standards Board (IASB) 2016. Effect Analysis: IFRS 16 Leases. <https://www.ifrs.org/-/media/project/leases/ifrs/published-documents/ifrs16-effects-analysis.pdf>

International Forum of Independent Audit Regulators (IFIAR) 2017. Audit Committees and Audit Quality: Trends and Possible Areas for Further Consideration. <https://www.ifiar.org/?wpdmdl=6632>

International Organization of Securities Commissions (IOSCO) 2016. Statement on implementation of new accounting standards. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD548.pdf>

International Organization of Securities Commissions (IOSCO) 2019. Report on Good Practices for Audit Committees in Supporting Audit Quality.

<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD618.pdf>

Securities Market Association 2019. The Finnish Corporate Governance Code 2020.

<https://cgfinland.fi/wp-content/uploads/sites/39/2019/11/corporate-governance-code-2020.pdf>

Legislation and recommendations

Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC). <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:052:0051:0063:EN:PDF>

Commission Recommendation of 16 May 2002 — Statutory Auditors' Independence in the EU: A Set of Fundamental Principles (Text with EEA relevance) (notified under document number C(2002) 1873) (2002/590/EC) <https://eur-lex.europa.eu/legal-content/CS/TXT/?uri=CELEX:32002H0590>

Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts. <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0056>

Hallituksen esitys eduskunnalle laiksi tilintarkastuslain muuttamisesta ja eräksi siihen liittyviksi laeiksi (HE 70/2016 vp) (in Finnish)

<https://finlex.fi/fi/esitykset/he/2016/20160070.pdf>

Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC. <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32014R0537>

Appendix 2. Survey questions

A. Public Interest Entity details

Name of the entity:

B. Which of these groups does your entity belong to?

- Listed company** (an entity which has issued a share, bond or another security subject to trading on a regulated market referred to in chapter 2, section 5 of the Securities Markets Act 746/2012)
- Credit institution** (a credit institution referred to in chapter 1, section 7 of the Act on Credit Institutions 610/2014)
- Insurance company** (an insurance company referred to in chapter 1, section 1 of the Insurance Companies Act 521/2008)
- Other**

C. Which line of business is your entity in?

- Oil and Gas
- Basic Materials
- Industrials
- Consumer Goods
- Health Care
- Consumer Services
- Telecommunications
- Utilities
- Financials
- Technology
- Other

D. Market value of the entity (31 December 2018):

- Large cap (exceeding EUR 1 billion)
- Mid cap (between EUR 150 million and EUR 1 billion)
- Small cap (smaller than EUR 150 million)
- Not applicable

E. Number of employees (group) (31 December 2018):

F. Contact details of the audit committee

Name of the chairperson of the audit committee or of the board of directors performing functions of the audit committee:

Name of the contact person for this survey:

- Email address if available:

Name of the contact person for future communication between the authorities and the audit committee:

- Email address if available:

Comments on the contact details:

Reference period:

The reference period is defined as the interval of time (usually twelve months) between the annual general meeting at which the most recent statutory accounts have been approved and the annual general meeting at which the accounts for the previous financial year were approved.

The reference period end date should be no later than 31 December 2018. So for entities with the financial period 1 January – 31 December the reference period is the interval of time between the annual general meeting held in 2017 and the annual general meeting held in 2018.

Audit committee composition and skills

Acronyms

AUR

[The Regulation \(EU\) N°537/2014](#) of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

AUD

[The Directive \(2006/43/EC\)](#) of the European Parliament and of the Council of 17 May 2006 as amended by Directive 2014/56/EU of 16 April 2016 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.

OYL

Limited Liability Companies Act 624/2006

1. a) Which body or committee within the audited entity carries out the functions assigned to the audit committee?

Legal reference

Art 39.1 of AUD, OYL 6:16b / The entity has an audit committee

Art 39.2 of AUD, OYL 6:16b / Audit committee functions are performed by administrative or supervisory body

Art 39.4 of AUD, OYL 6:16b / The entity has no audit committee

- Distinct audit committee

 Audit committee functions are preformed by the board of directors

 Audit committee functions are performed by another body

 Not applicable

1. b) Number of committee members in the audit committee (option 1)

Comments:

2. Does at least one member of that body/committee have competence in accounting and/or auditing?

Art 39.1 of AUD, OYL 6:16c / Competence of AC members

- Yes

 Yes, partly

 No

 Not applicable

Comments:

3. Does the body/committee members as a whole have experience relevant to the sector in which the audited entity is operating?

Art 39.1 of AUD, OYL 6:16c / Composition and competence of AC members

Yes Yes, partly No Not applicable

Comments:

4. Are a majority of the members of that body/committee independent of the audited entity?

Art 39.1 of AUD, OYL 6:16c / Composition and competence of AC members

Art 39.5 of AUD¹, OYL 6:16b / Members of AC are members of administrative or supervisory body if the entity

Yes Yes, partly No Not applicable

Comments:

¹ If all members of the audit committee are members of the administrative or supervisory body of the audited entity, Art 39.5 of the Audit Directive allows Member States for an exemption of the requirement for the majority of members to be independent.

Interaction with the administrative or supervisory body (e.g. board of directors)

In the following questions "audit committee" refers to options 1-3.

5. How many times during the reference period did the audit committee communicate with the administrative or supervisory body of the entity to address its activities, issues and related recommendations (or how many times were the audit committee's activities on the agenda of the administrative or supervisory body)?

Legal reference

Art 39.6.a) of AUD / AC's information requirements

Comments:

6. Did the audit committee inform the administrative or supervisory body of the entity of the outcome of the statutory audit (or was the outcome of the statutory audit handled in the administrative or supervisory body)?

Art 39.6.a) of AUD / AC's information requirements

Yes Yes, partly No Not applicable

Comments:

7-8. Did the audit committee explain to the administrative or supervisory body how the statutory audit contributed to the integrity of the financial reporting and what the role of the audit committee was in the statutory audit (or was it explained to the administrative or supervisory body how the statutory audit contributed to the integrity of the financial reporting)?

Art 39.6.a) of AUD / AC's information requirements

Yes Yes, partly No Not applicable

Comments:

Independence including the prior approval of permitted non-audit services

9. Did the audit committee monitor the amount of fees paid to the statutory auditor (or the audit firm) in order to ensure future compliance with the permitted non-audit services fee cap of 70%?

Art 4.2 of AUR / Statutory Auditor's Fee – Requirements & limits

Art 39.6.e) of AUD / AC's monitoring duty

Art 6.2.b) of AUR / Independence of Statutory Auditor

Yes Yes, partly No Not applicable

Comments:

10. Did the audit committee receive a written representation from the statutory auditor (or the audit firm) confirming that the statutory auditor, the audit firm and partners, senior managers and managers, conducting the statutory audit were independent of the entity?

Art 6.2.a) of AUR / Independence of Statutory Auditor

Art 39.6.e) of AUD / AC's monitoring duty

Yes Yes, partly No Not applicable

Comments:

11. Did the statutory auditor (or the audit firm) of the entity discuss with the audit committee threats to its independence as well as safeguards applied to mitigate those threats?

Art 6.2 of AUR / Independence of Statutory Auditor

Art 39.6.e) of AUD / AC's monitoring duty

Yes Yes, partly No Not applicable

Comments:

Provision of permitted non-audit services by the statutory auditor (or any member of its network) :

12. Did the statutory auditor (or any member of its network) submit a tender to the entity, its parent and controlled undertakings, for the provision of non-audit services during the reference period?

Art 5.4 of AUR / Non-audit-services, approval of AC

Yes Yes, partly No Not applicable

Comments:

13. Were all these requests for non-audit services examined by the audit committee?

Art 5.4 of AUR / Non-audit-services, approval of AC

Yes Yes, partly No Not applicable

Comments:

14. Did the audit committee withhold approval of any of these requests during the reference period?

Art 5.4 of AUR / Non-audit-services, approval of AC

Yes Yes, partly No Not applicable

Comments:

15. What were the reasons supporting this/these refusal(s)?

Art 5.4 of AUR / Non-audit-services, approval of AC

Comments:

Auditor selection process

16. Did either of the following occur during the reference period:

- appointment of a new statutory auditor(s) or
- reappointment of the previous statutory auditor(s) after a tendering process was performed.

Legal reference

Art 16.3 of AUR / AC's recommendation, procedure criteria

Yes

 Yes, partly

 No

 Not applicable

Comments:

As part of the selection process of this/these new statutory auditor(s)² :

17. Did the audit committee assume responsibility with regard to the selection procedure of this/these statutory auditor(s)?

Art 16.3 of AUR / AC's recommendation, procedure criteria

Yes

 Yes, partly

 No

 Not applicable

Comments:

18. How many audit firms were invited to participate in the tender?

Art 16.3 of AUR / AC's recommendation, procedure criteria

Comments:

19. How many statutory auditors (or audit firms) finally submitted an offer following the tendering?

Art 16.3 of AUR / AC's recommendation, procedure criteria

Comments:

20. Did the tender process allow for the participation in the selection procedure of firms which received less than 15% of total fees from public-interest entities in the Member State in the previous calendar year?

Art 16.3.a) of AUR / Tender process, 15% limit rule

Yes Yes, partly No Not applicable

Comments:

21. Did the tender documents contain sufficient information to allow invited statutory auditors (or audit firms) to understand the business of the entity?

Art 16.3.b) of AUR / Tender process, document requirements

Yes Yes, partly No Not applicable

Comments:

22. Did the tender documents contain sufficient information to allow invited statutory auditors (or audit firms) to understand the type of statutory audit to be carried out?

Art 16.3.b) of AUR / Tender process, document requirements

Yes Yes, partly No Not applicable

Comments:

23. Did the tender documents contain transparent non-discriminatory selection criteria that was used by the entity to evaluate the proposals made by statutory auditors (or audit firms)?

Art 16.3.b) of AUR / Tender process, document requirements

Yes Yes, partly No Not applicable

Comments:

24. a) Did the audit committee validate the report prepared by the entity (such as by the management or other staff of the entity) on the conclusion of the selection procedure?

Art 16.3.e) of AUR / Tender process, evaluation of proposals

Yes Yes, partly No Not applicable

Comments:

24. b) In the tendering process (if applicable):

i) Please describe what information was used to evaluate the quality of the audit and the auditor.

ii) Please describe how much weight was put on the price.

Comments:

25. Did the audit committee identify in its recommendation to the administrative or supervisory body at least two candidates for appointment?

Art 16.2) of AUR / Recommendation by AC

Yes Yes, partly No Not applicable

Comments:

26. Did the audit committee express a duly justified preference for one candidate?

Art 16.2) of AUR / Recommendation by AC

Yes Yes, partly No Not applicable

Comments:

27. Did the audit committee consider whether the entity is able to demonstrate, upon request, to the relevant

competent authority that the selection procedure was conducted in a fair manner?

Art 16.3.f) of AUR / Recommendation by AC

Yes Yes, partly No Not applicable

Comments:

² According to Art 16.4 of AUR, public-interest entities which meet the criteria set out in the points (f) and (t) of Article 2(1) of Directive 2003/71/EC shall not be required to apply selection procedure referred to in paragraph 3 of the Article 16 of AUR. Questions 17 to 24 may accordingly not be relevant for PIE that meet these criteria's.

Oversight of the audit function

28. How many times during the reference period did the audit committee meet the statutory auditor (for example to monitor the execution of the audit plan and/or discuss of any significant transactions/issues or changes in the business)?

*Legal reference
Art 39.6.d) of AUD, OYL 6:16b / AC's monitoring duty*

Comments:

29. Did the audit committee monitor the performance of the statutory audit of the annual and consolidated financial statements of the entity?

Art 39.6.d) of AUD, OYL 6:16b / AC's monitoring duty

Yes Yes, partly No Not applicable

Comments:

30. Did the audit committee consider the findings (if any) and conclusions made by PRH during their last inspection of the statutory auditor (or audit firm)?³

Art 39.6.d) of AUD, OYL 6:16b / AC's monitoring duty

Yes Yes, partly No Not applicable

Comments:

31. Did the statutory auditor of the entity submit the additional report to the audit committee no later than the date of submission of its audit report?

Art 11 of AUR, OYL 6:16b / Statutory Auditor's additional report to AC

Yes Yes, partly No Not applicable

Comments:

32. Did the audit committee discuss with the statutory auditor (or the audit firm) key matters arising from the statutory audit, in particular significant deficiencies in the entity's internal financial control system and/or in the accounting system?

Art 11 of AUR, OYL 6:16b / Statutory Auditor's additional report to AC

Yes Yes, partly No Not applicable

Comments:

Oversight of the financial reporting process

33. a) Did the audit committee monitor the financial reporting process of the entity?

Art 39.6.b) of AUD, OYL 6:16b / AC's monitoring duty

Yes Yes, partly No Not applicable

33. b) If "Yes" please describe how the audit committee monitored the financial reporting process of the entity.

Comments:

34. Did the audit committee submit recommendations or proposals to ensure the integrity of the financial reporting process of the entity?

Art 39.6.b) of AUD, OYL 6:16b / AC's monitoring duty

Yes Yes, partly No Not applicable

Comments:

Oversight of the internal quality control and risk management systems

35. Did the audit committee monitor the effectiveness of the entity's internal quality control and risk management systems and, where applicable, its internal audit regarding the financial reporting of the audited entity?

Art 39.6.c) of AUD, OYL 6:16b / AC's monitoring duty

Yes
 Yes, partly
 No
 Not applicable

Comments:

³Question might not be applicable when information is made available to the Audit Committee.

Additional questions

36. a) Has the audit committee been engaged with the implementation process of new IFRSs?

	Yes	No	N/A
IFRS 9 <i>Financial Instruments</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
IFRS 15 <i>Revenue from Contracts with Customers</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
IFRS 16 <i>Leases</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
IFRS 17 <i>Insurance Contracts</i>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

36. b) If "Yes" please describe how

IFRS 9 <i>Financial Instruments</i>	<input type="text"/>
IFRS 15 <i>Revenue from Contracts with Customers</i>	<input type="text"/>
IFRS 16 <i>Leases</i>	<input type="text"/>
IFRS 17 <i>Insurance Contracts</i>	<input type="text"/>

Comments:

37. a) Has the audit committee been engaged with the determination and use of Alternative Performance Measures the entity has presented?

Yes

No

N/A

37. b) If "Yes" please describe how.

Comments:

38. Does the audit committee follow the work and publications of Supervisory Authorities in relation to audit and financial reporting processes?

	Yes	No	N/A
FIN-FSA (Finanssivalvonta)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Auditor Oversight Authority (PRH:n tilintarkastusvalvonta)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other (e.g. ECB SSM)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments:

39. Has the audit committee requested any focused information from Supervisory Authorities?

	Yes	No	N/A
FIN-FSA (Finanssivalvonta)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Auditor Oversight Authority (PRH:n tilintarkastusvalvonta)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other (e.g. ECB SSM)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments:

40. Please describe what kind of actions the audit committee has performed to maintain its independence from the management of the entity.

41. Please describe based on your experience what the biggest challenges are in the work of the audit committee.

42. Please describe how the audit committee has processed this survey.

Other Comments

Audit Committees may use this comment box to elaborate on any other topics related to their new tasks. Please note, this comment box is only for items that have not been reported in previous sections of this questionnaire.