ISSN: 2634-1050

CORPORATE GOVERNANCE & BOARDS

VIEWS & INSIGHTS

ISSUE 2
DEC 2020

HELLENIC OBSERVATORY OF CORPORATE GOVERNANCE

ΕΛΛΗΝΙΚΟ ΠΑΡΑΤΗΡΗΤΗΡΙΟ ΕΤΑΙΡΙΚΗΣ ΔΙΑΚΥΒΕΡΝΗΣΗΣ

THE AUDIT COMMITTEE IN CORPORATE GOVERNANCE

Sarbanes-Oxley has given prominence to the Board of Directors (BoD) as a basic tool towards resolving the agency problem. Regulatory authorities have ever since viewed the BoD as a major monitoring mechanism. The BoD closely monitors the decisions of the managers and ascertains that decision-making within the company follows agreed schemes and formal documentation. BoDs that are more independent are believed to have greater monitoring power. To achieve independence, a significant number of non-executive members in the BoD is needed (Shivadasani and Zenner, 2004). The existence of independent non-executive members in the BoD can guarantee more efficient monitoring of the management team's actions (Lei and Deng, 2014). The greater the number of independent members in the BoD the greater the autonomy and compliance with decisions that are not harmful to shareholders (CFA, 2016).

Board Committees are considered to perform many of the board's most critical functions (Kolev et al., 2019). The existence of committees, namely the Audit, Remuneration and Nomination, is positively related with conditions enabling efficient control (OECD, 2019). Their widespread operation has also empirically suggested that there is a benefit to the decision making process (Anderson and Reeb, 2004).

The participation of executive members in these committees hampers their monitoring role. The active involvement of the CEO in their formation will result in few outsiders being chosen for these positions. Many of those appointed under such schemes may have controversial vested interests in the firm (Rahman et al., 2020). For this reason sound corporate governance practices call for the need exclusively non-executive, and primarily independent members, to form these committees.

The prevalent Board committee is the Audit Committee (AC). Following the evolution of corporate governance it became apparent that there is an imminent need to develop internal mechanisms that would ensure high quality in the produced financial information and protection of companies' assets. The AC is the committee that oversees internal and external audit quality. Its existence is believed to enhance board oversight, improve auditors' performance, reduce the asymmetry of information between managers and different stakeholders, thus mitigating the agency problem, and improve companies' disclosures like CSR (Dwekat et al., 2020). The introduction of organised internal audit departments

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under the supervision of the AC were the primary mechanisms towards achieving these goals.

According to Chen and Wu (2016) all US public firms operate an Audit Committee (AC) while 98.1% and 84.8% respectively have a Compensation and a Nominating/ Governance Committee. The size of these committees is a further aspect that academic literature has investigated. The average size for committees in Europe is 4.2 members for ACs while it is respectively 3.9 and 3.4 members for Nomination and Compensation Committees (Green and Homroy, 2018). It appears that smaller committees are less likely to be influenced by insiders (Singh et al., 2018). On the contrary, larger committees are more prone to manipulation.

McKinsey (2018) claims that independent committees more efficiently introduce sound management practices. The frequency of committee meetings also directly influences monitoring quality and facilitates the proactive action process. This, in turn, enhances their supervisory role.

THE AUDIT COMMITTEE IN THE GREEK CG FRAMEWORK

L.3693/2008 introduced ACs in Greece and since then, all public interest entities, including public firms, operate an AC. In 2010, following L.3873/2010 and the introduction of the Corporate

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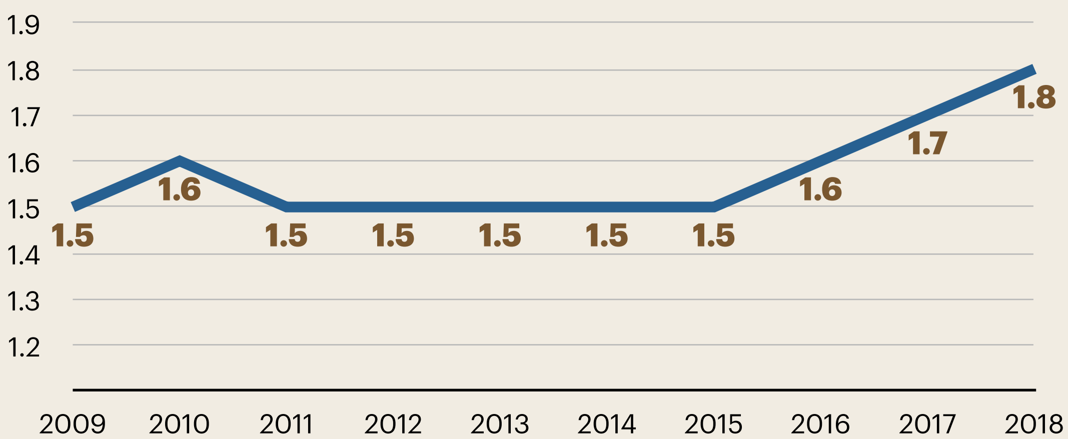
Governance code and the Corporate Governance Statement, the Hellenic Federation of Enterprises, through its first Corporate Governance Code, suggested as a good practice for public firms to form Remuneration and Nomination Committees. The Hellenic Corporate Governance Code of the Hellenic Corporate Governance Council kept the same reasoning in its renewed Corporate Governance Code in 2013.

Diagram 1—based on HOCG data covering all listed firms—shows the average number of committees per listed firm in the Greek stock exchange almost reached the two-committee threshold only very recently (2018).

operate a Remuneration and Nomination Committee.

Firms according to Greek corporate governance laws are obliged to disclose detailed and timely information on Board Committees. The law that governs the formation of the AC is L.4449/2017. Previous legislation (L.3693) called for the need to have exclusively non-executive BoD members as members in the AC. Nine years after the initial implementation of L.3693 regulatory authorities relaxed the membership of the committee clause whereby AC members should also be serving BoD members.

Diagram 1: Average number of Committees for Greek public firms (Based on HOCG data)



Largely, firms appear to fulfil the minimum requirement by operating on average, simply, the AC. This is set to change following L.4706/2020 since henceforth companies will be obliged to

Today AC members should either be non-executive members of the BoD or non-BoD members elected directly from the General Assembly, the latter members fulfilling the prescribed characteristics for independent BoD

Table 1: Audit Committee responsibilities according to L.4449
a) informs the BoD about the external audit results and how the auditor ascertains the integrity of financial information
b) oversees the quality of the produced financial information and risk management practices
c) monitors the efficacy of internal audit procedures and supervises the operation of the internal audit department
d) monitors the auditing procedures of the annual and interim financial statements
e) verifies and monitors the independence of elected external auditors and is responsible for supervising their annual election procedures by the General Assembly

members. The majority of the committee members have to be independent. Table 1 shows the AC responsibilities according to the Greek legislation.

L.4706 has updated the list of characteristics that render an individual as independent. The numbers of independent members in the Boards has continuously been on the rise; thus allowing for the greater representation needed in the increasing number of Board Committees. The average number of independent directors in the Athens Stock Exchange almost equals executive members. According to the HOCG database, since 2009 the percentage of independent non-executive members on the board has grown from 29.6 to 34.8 in 2018. Executive members were 42.6 percent while today they are only 35.8 percent. The sum of independent and non-executive directors in the Board today is 64.2 percent (57.3% in 2009).

The AC should have at least three members and they should be appointed under the provision that they have adequate knowledge of the firm's operations and specialist audit knowledge. The latter should apply for at least one member of the Committee. The table shows the responsibilities of the AC according to L.4449.

Most firms are still reluctant towards disclosing detailed information on the internal audit practices through the Corporate Governance Report or/and the Corporate Governance Code. The same largely applies for the particular mechanism of communication underpinning the AC-Internal Audit department collaboration. It is reported that on average ACs assemble four times a year, presumably during the period coinciding with the 3-month interim financial results release. No further information is usually offered towards these meetings and the corrective action taken. In this respect it is often not clear to what extent the existing communication channels ensure that internal audit procedures commensurate with internationally accepted standards actually exist. The same largely applies for the involvement of the AC in the selection of external auditors and regulatory compliance.

POLICY IMPLICATIONS & RECOMMENDATIONS

The AC has evolved through time as the predominant Committee within firms that comply with corporate governance under mandatory laws and directives. In Greece, while the Law calls for the need to have a Committee comprising of non-executive BoD members, it permits the participation of non-BoD members that collectively fulfil the independence criteria as laid out by Law 4706. The Greek legislatory framework has kept apace international evolvements and complies with good practices that govern the operation of the AC.

L.4449 introduced the current Audit Committee composition and operation framework and the accompanying tighter monitoring role on the part of the Hellenic Capital Market Commission (HCMC) and the Hellenic Accounting and Auditing Oversight Board (HAASOB), has undoubtedly overhauled all the audit framework.

However, recent major accounting scandals (FF Group) and current cases of public firms under investigation for repeatedly misstating their official financial results (MLS), pose open questions towards whether the existing framework manages to successfully raise investors' concerns in a fragmented capital market. Regulatory authorities (namely HCMC and HAASOB) should further enforce their supervisory role towards ensuring the sound operation of ACs and the ensuing protection of firm and public interest.

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 ISSN: 2634-1050

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Published by the **Hellenic Observatory of Corporate Governance**.

Citation: HOCG (2020), "The Audit Committee in Corporate Governance", Corporate Governance and Boards: Views and Insights, Issue 2, December, ISSN: 2634-1050

DOI: http://dx.doi.org/10.13140/RG.2.2.24776.55046

Accessed at: http://hocg.eu/wp-content/uploads/2021/02/HOCG-Issue-2-Audit-Committee-v.-16.pdf

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