

AUDIT HORIZONS

Balance between compliance and efficiency:

The role of the *Audit Committee* as a trusted Board adviser



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We are facing exponential changes...

Speedy **TRANSFORMATIONS** for Society & Business

Low cost vs premium

Dematerialisation of intermediaries

Digital / Agility imperative

Frugality approach

Social networks impacts

Lack of loyalty

Artificial intelligence



Cycle of permanent **CRISIS / EXCESSES**

Migration flows - **D**emographic imbalance

Economic wars

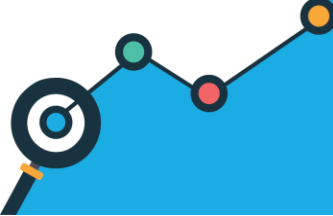
Climate deregulation

Global Supply Chain

Cyberattacks

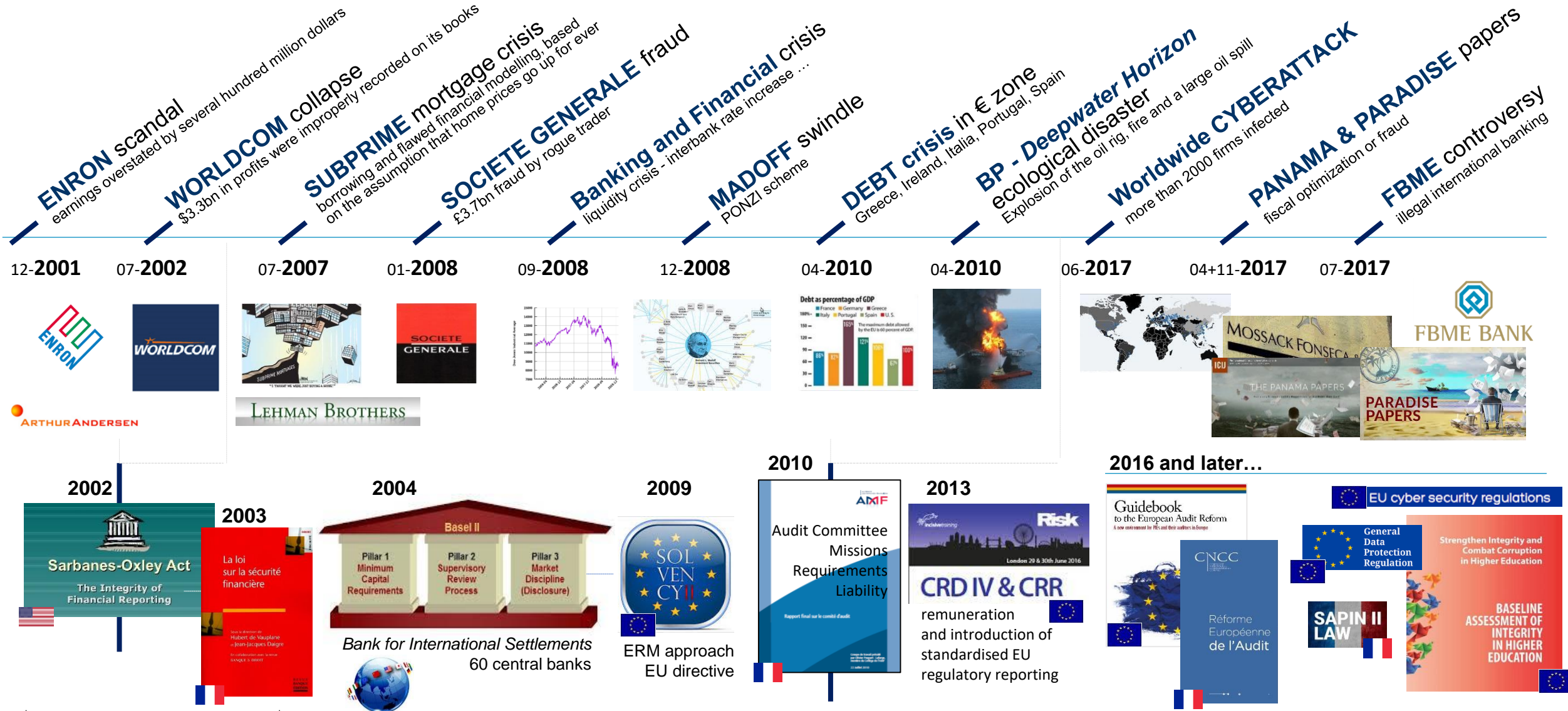
Sovereign debts - **B**ankruptcy

Offshoring / relocation



Crazy world: the terrible decade(s)

from crisis to restoration of confidence through regulation





An increasingly complex world...

More & more regulation \Rightarrow becomes a STRAIGHTJACKET

CxO jobs look like a puzzling dilemma: how to RECONCILE

- Efficiency
 - Profitability
 - Compliance
- in VOLATILE ENVIRONMENTS?

One way to survive and win: TAKE RISKS



“If you want to qualify as a great business leader, you need to be a bold risk taker”.



RENAULT NISSAN MITSUBISHI

“Now if you want to stay in business and sustain your performance, you’d better steer those risks, firmly”.

Carlos Ghosn : La gouvernance est un outil de performance

Lors d’une conférence à l’ESA, le PDG de l’Alliance Renault-Nissan-Mitsubishi a recommandé aux entreprises familiales de viser les marchés extérieurs et d’ouvrir leur capital.

Kenza OUZZANI

Pour assurer leur croissance, les entreprises familiales devraient s’inspirer des pratiques de bonne gouvernance des grands groupes internationaux : tel est le message qu’a voulu transmettre Carlos Ghosn, le PDG de l’Alliance Renault-Nissan-Mitsubishi, lors d’une conférence organisée lundi soir à l’École supérieure des affaires (ESA).

M. Ghosn a commencé par exposer les grands principes de bonne gouvernance en vigueur au sein de l’Alliance, devenue numéro un mondial

en créant une structure commune. Ensuite, nous avons réussi à faire converger les ressources humaines, la logistique et la production », s’est réjoui M. Ghosn. Selon lui, cette flexibilité s’est imposée d’elle-même face à la globalisation, même s’il a fallu aussi tenir compte de la diversité des acteurs au sein de l’Alliance.

Transparence

S’agissant des entreprises familiales, « le grand défi est de prendre des décisions en toute objectivité », a dit M. Ghosn qui a appelé ces organisations à distinguer clairement les prérogatives de l’actionariat de



Le PDG de l’Alliance Renault-Nissan-Mitsubishi, Carlos Ghosn, lors de la conférence organisée à l’ESA. Photo D. R.

la famille reste aux commandes. « La principale difficulté est que le marché libanais est très restreint. Or, pour que les entreprises familiales puissent

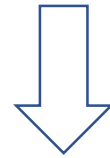
priorités doivent être la croissance de l’entreprise, les profits et leur durabilité. La transparence de la gouvernance est primordiale. Il faut assurer une

(*) Etymology : From Latin **gubernare**, and therefore from the Greek Kivernao (Κυβερνάω) which means “govern”

- To govern is both “**do the right things**” and “**do the things right**”

Take risks, but not as a “*hothead*”

Refocus on basics: PERFORMANCE – and SUSTAINABLE PERFORMANCE



Promote GOOD GOVERNANCE in view of SUSTAINABLE PERFORMANCE



INTERNAL AUDIT in the heart of good governance



of the Audit Committee



Basic#1 W⁵H² of Governance

WHAT?

SYSTEM consisting by
all processes, structures, laws, regulations and
institutions aimed at defining the way the company
is managed, run and controlled

HOW?

3 KEY WORDS

- ✓ Formalisation
- ✓ Transparency
- ✓ Capacity to say “no”

WHY?

Improve the DECISION QUALITY,
in view of sustainable performance

WHERE?

Within the organisation

WHEN?

Always, continuously, and not to tick boxes before formal milestones

WHO?

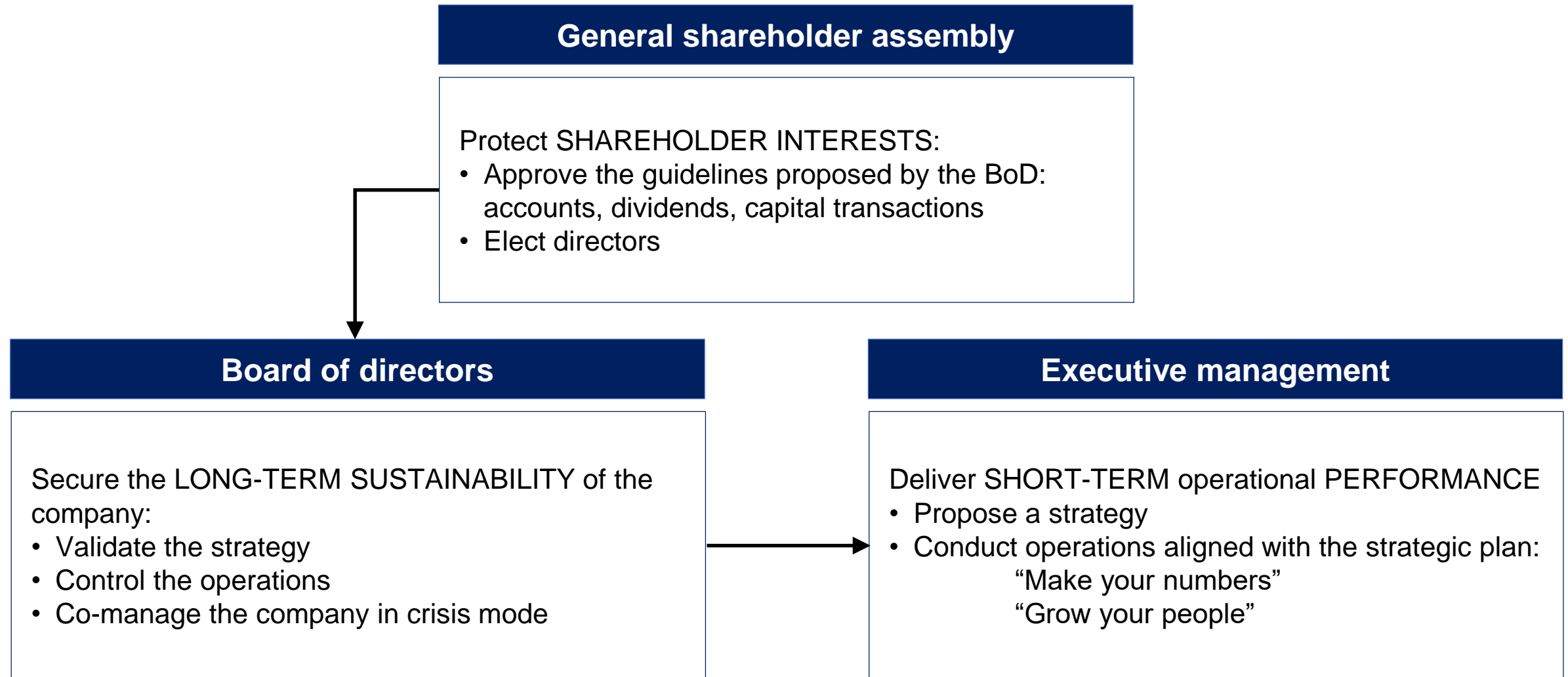
STAKE HOLDERS

Board of Directors, Executive Management, Operating Management,
Employees, Analysts, Clients, NGO's, ...

HOW MUCH?

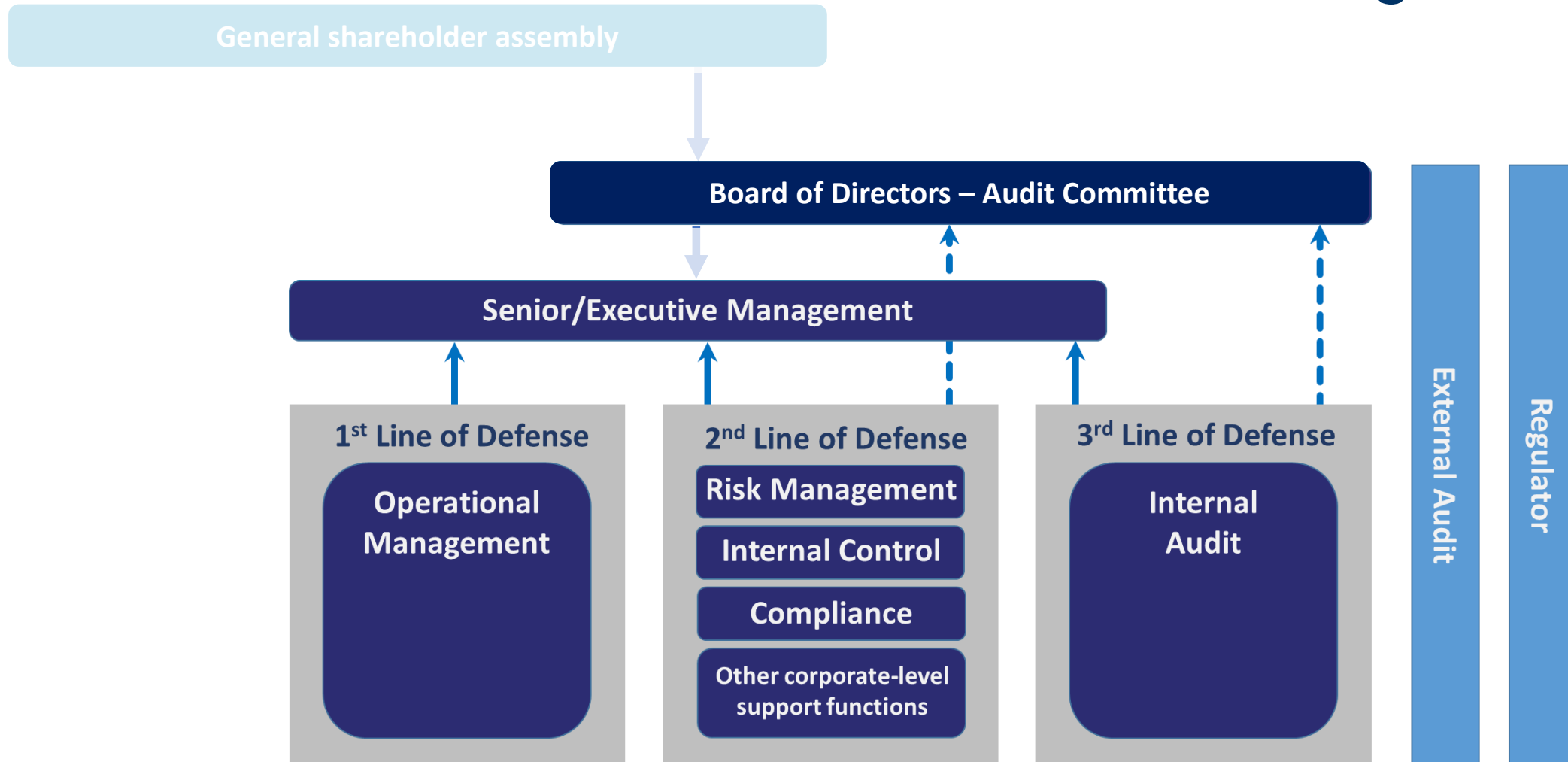
Mandatory – and payback is immediate when the first risk has
been put under control

Basic#2 Missions of *Board* and *Management*



Basic#3 The 3 LoD_{model}

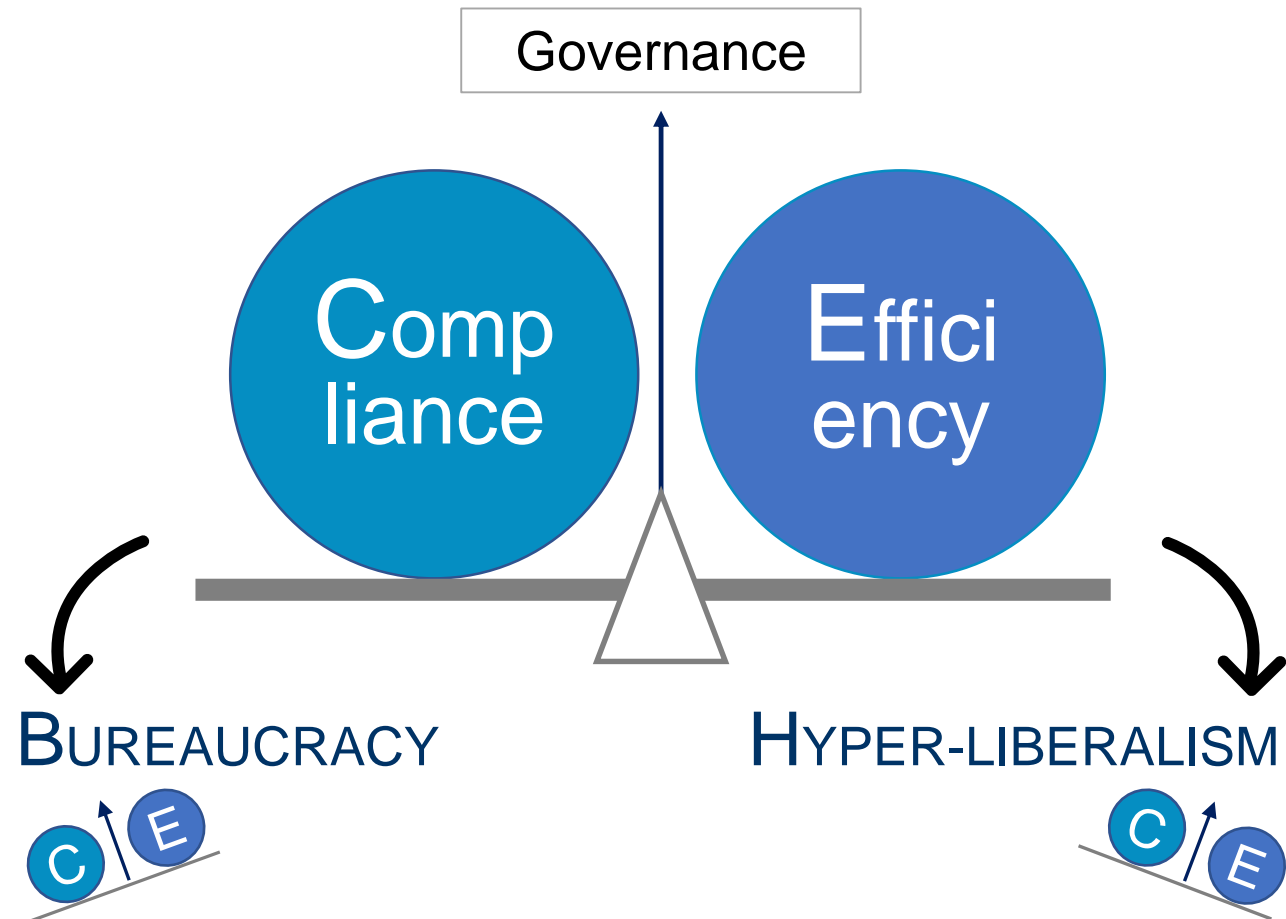
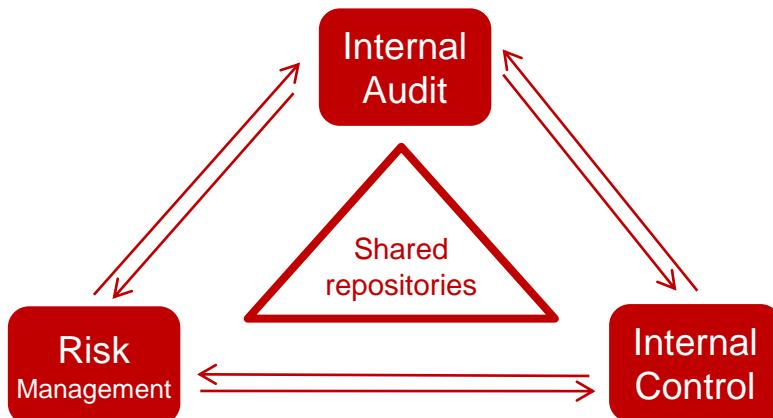
a mean
for effective organisation

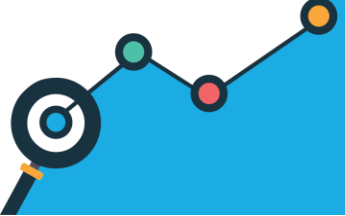


I.A. involvement

A guarantee of balance and, therefore,
a guarantee of performance

*With the unbreakable tripod
in the service of good governance*





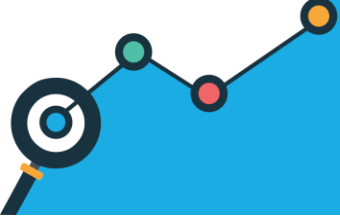
New EU Audit legislation (June 17th, 2016)

Aims to improve **AUDIT QUALITY** and to restore **INVESTOR CONFIDENCE** in financial information, by:

- ☐ Reinforcing the **INDEPENDENCE** of the statutory auditor
- ☐ Reinforcing the **ROLE** and **COMPETENCES** of the **AUDIT COMMITTEE (AC)**
- ☐ Contributing to a more **DYNAMIC AUDIT MARKET** in the EU

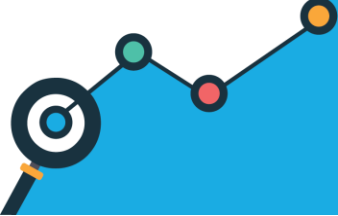
The regulatory authority* of the audit profession gets **POWERS OF SANCTIONS**

- ☐ Against: entities - management - supervisory board (directors)
- ☐ In case of breaches of the rules (as: Auditor rotation – Non audit services Approval ...)



New legislation: A.C. major impacts* [1/2]

TOPIC	BEFORE	NOW
FINANCIAL INFORMATION	Follow the financial reporting process	Idem + (where appropriate) MAKE RECOMMENDATIONS to ensure their integrity
RISKS & IC	Follow the effectiveness of RM & IC systems	Idem + (where appropriate) INTERNAL AUDIT , without affecting its independence
STATUTORY AUDIT	Monitor the statutory audit of accounts	Idem + Take into account FINDINGS and CONCLUSIONS of the regulatory authority
INDEPENDENCE OF THE AUDITORS	Follow the independence of external auditors	ENSURE the independence...



New legislation: A.C major impacts ^[2/2]

TOPIC	BEFORE	NOW
NON-AUDIT SERVICES	Authorized...	List of PROHIBITED SERVICES + Preliminary A.C. APPROVAL before any other mission + control the 70% fees threshold
AUDITOR TURNOVER	A.C.: recommendation for appointment by the General Assembly	Idem + INVOLVEMENT in the process of renewal (tender included)
COMMUNICATION	Regular report about its missions and difficulties	Idem + Report HOW THE INTEGRITY of financial information has been completed
DIRECTOR'S LIABILITY	[none]	SANCTIONS in the event of NON-COMPLIANCE with the rules



Audit Committee missions

Monitor the financial reporting process

Monitor the effectiveness of RM - IC - IA

Recommend to the Board the statutory auditors proposed for appointment by the General Assembly

Monitor the achievement of their mission

Ensure that they comply with the requirement of independence

Approve the delivery of services other than the accounts certification

Report regularly to the Board



Audit Committee hot topics

Reinforce direct responsibility over external auditors

Give enough importance (and time allocation) to non financial indicators

Increase transparency of audit process, by staying tuned to the regulation landscape

Focus internal audit on major risks and ensure relevance of the risk management process

Focus on ethics, compliance and culture

Empower the CFO's authority

Monitor implementation of new accounting standards

Live experiences

RCI BANK



FATTAL GROUP



RENAULT GROUP



as chairman

as permanent guest (DAMRO)



As a conclusion

The Audit Committee is the **BOARD ADVISER**,
... not a direct intruder into operations

- ☐ Not a challenger of the - Executive Management (EM) - Board of Directors
- ☐ Cannot replace the EM to operate directly
(even if aware of a malfunction or a risk of malfunction)

The Audit Committee must develop a "**GOOD FAITH SCEPTICISM**"

- ☐ Ensure the independence of the Internal Audit
- ☐ Promote ERM functions

Focus on **RISK** who have passed (or will soon pass) into the P&L or BS,
(includes strategic, ethical, social, reputational... risks)

Too much talk about accounts, **NOT ENOUGH** about **RISKS**:

- ☐ Take time to carry out its functions,
- ☐ Take time for the Chairman during Board meetings



THANK YOU