



CNMV APPROVES THE TECHNICAL GUIDE ON AUDIT COMMITTEES

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- The purpose of the guide is to provide principles, recommendations and criteria for the proper functioning of audit committees, a body with which the so-called "public interest entities" must rely on.
- Public interest entities are listed companies, financial entities in general and unlisted companies whose size exceeds certain thresholds.
- The Technical Guide emphasizes the need for the independence of the audit committee in order to better fulfil its supervision functions.
- A particularly relevant matter that is covered in the Technical Guide is the relationship that the audit committee should have with the auditor, in addition to with the internal auditor.

The National Securities Market Commission (CNMV) has approved a [Technical Guide on audit committees of public interest entities](#).

The Technical Guide is published after the entry into force of the new Spanish Audit Law, which entrusts CNMV with the supervision of the aforementioned committees.

These regulations extended the obligation to have an audit committee to public interest entities (PIEs) that channel savings through different instruments or are relevant because of their importance, the nature of their activity, size or number of employees.

Audit committees have become increasingly important and a key element in ensuring the quality of the financial and non-financial information of companies.



The basic principles that should inspire the audit committee's activity are the following:

- Responsibility
- Scepticism or critical attitude
- Constructive dialogue among its members (free participation, without pressure)
- Continuous dialogue with internal audit, the auditor and management
- Sufficient analytical skills with the power to use experts.

Good practices include most notably those aimed at strengthening the independence of the committee and promoting its proper functioning in supervising both the preparation and presentation of financial and non-financial information as well as the management, risk control and internal audit processes. Measures have also been proposed to safeguard the independence of the external auditor.

Good practices focus on aspects such as:

- Composition:
Criteria on diversity, appointments and training are defined and a suitable variety of profiles is recommended to encourage a critical attitude and different points of view.
- Operation:
It details the contents that, where appropriate, the committee's operation regulation should have. This document should promote the committee's independence and recommend its publication on the entity's website.

The Guide also recommends a minimum of four annual meetings with the possibility of executive directors or other persons attending occasionally, but only by virtue of a prior invitation by the Chairman of the committee and to deal with specific items on the agenda.

It also addresses matters such as the resources and remuneration of the members of the audit committee. In particular, it points out that the latter should be sufficient given the responsibility and required dedication, but it should not compromise their independence.

- Supervision of financial and non-financial information
It is important that the members have a sound knowledge and understanding of the internal control system for the financial information to adequately supervise its effectiveness.

In addition, the audit committee should be able to review and discuss financial statements and other relevant non-financial information with management, internal audit and the external auditor.

It is also advisable to establish a system for reporting irregularities, especially those that have financial and accounting significance. The audit committee should oversee the "complaints channel", review how it functions and propose improvements.

The new document also focuses on the supervision functions of risk management and control as well as on the supervision of internal audit.

Criteria are established for relations with the auditor, which include those related to selection and appointment proposals, with guidelines to ensure independence.

- Public information
It is recommended that audit committees publicly report on their activity in an annual report on the occasion of the convening of the ordinary general meeting.

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