



**THE AUTHORITY OF AUDIT, ACCOUNTING,
PROPERTY VALUATION AND INSOLVENCY
MANAGEMENT**

UNDER THE MINISTRY OF FINANCE OF THE REPUBLIC OF LITHUANIA

**RECOMMENDATIONS FOR THE WORK OF AUDIT COMMITTEES OF PUBLIC-INTEREST
ENTITIES**

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 states that the market of statutory audit services for public-interest entities is constantly changing, which has led to the need for competent authorities of the Member States to monitor market developments of audit services, in particular as regards risks arising from high market concentration, as well as to assess the performance results of the audit committees.

The audit committee is needed to increase the transparency, reliability and efficiency of the entity's activities, to ensure the benefits of financial, operational and investment decisions made to its shareholders, employees, clients and other interested parties, including regulatory authorities: shareholders rely on the insights of audit committees while making investment decisions, board members – considering the entity's performance prospects, entity's management – seeking to improve the entity's performance, evaluate and manage current and potential operational risks, while other interested parties expect the audit committee to promote the culture of corporate governance and compliance with applicable laws, regulations and codes of conduct.

The functions of the members of the audit committee cover a rather wide range of issues that we will discuss in these recommendations, but the main functions are to monitor the financial reporting process, play an active role in the process of auditing annual financial statements and consolidated financial statements, make recommendations, observations, insights, inform the entity's management and those charged with governance about the audit of financial statements.

The success of this ever-increasing mandate requires a clear understanding of the role and responsibilities of the audit committee and committee members.

The Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania (hereinafter referred to as 'the AVNT') was entitled, within its remit, to assess the activities of audit committees of public-interest entities. In this context, the AVNT in the process of supervision of public-interest entities' auditors and audit firms endeavors to pay increasing attention to the analysis of the activities of audit committees of public-interest entities, the related challenges and topical issues, as well as to the improvement and efficiency.

After assessing the current situation in Lithuania and seeking more efficient work of audit committees, the AVNT has prepared recommendations for audit committees of public-interest entities, which are expected to be useful while seeking to improve the efficiency of the activities of committees, to carry out the procedures for selecting audit committee members more transparently, better understand the principles of committee organization, priorities of activities and priority areas of activity. The recommendations provide examples of issues to be considered, which are expected to be useful for the members of the audit committee in their practical work.

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ABBREVIATIONS

Government – the Government of the Republic of Lithuania.

AVNT – the Authority of Audit, Accounting, Property Valuation and Insolvency Management under the Ministry of Finance of the Republic of Lithuania.

AC – audit committee.

PIE – public-interest entity.

ESEF - [European Single Electronic Format](#).

Regulation - [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](#).

ESG – Environmental, Social and Governance.

The Law on Audit – [Republic of Lithuania Law on the Audit of Financial Statements](#).

The Law on Companies – [Republic of Lithuania Law on Companies](#).

The Law on the Bank of Lithuania – [Law of the Republic of Lithuania on the Bank of Lithuania](#).

The Directive on Sustainability reporting – [Directive \(EU\) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation \(EU\) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting](#).

Requirements set up by Government – [‘The description of the requirements for audit committees in a state enterprise and/or a municipal enterprise’ approved by Resolution No 383 of the Government of the Republic of Lithuania of 24 May 2017](#).

Requirements set up by Bank of Lithuania – [‘The description of the requirements for audit committees’ approved by Resolution No 03-14 of the Board of the Bank of Lithuania of 24 January 2017](#).

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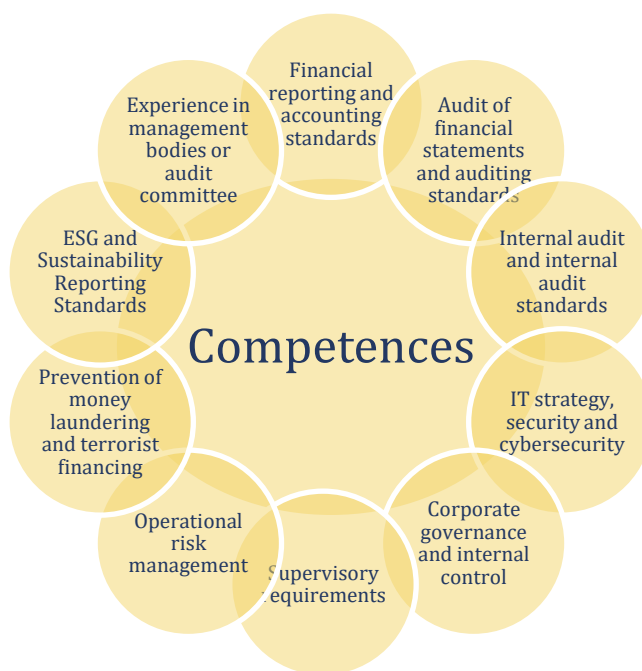
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The appointment of members of the AC shall take into account the issues to be considered and addressed by the AC. For this purpose, a matrix for assessing professional competence can be used to identify skills and experience relevant to the AC, considering relevant issues related to financial reporting and accounting, audit of financial statements, operational risk management, IT strategy and cybersecurity, environmental, social and governance issues. The AC members should understand the latest developments in financial reporting and auditing standards, as well as changes affecting the entity's activities, especially in the areas supervised by the AC.

In the transparent selection of AC members, the competence of the candidate must remain the main criterion. Once candidates receive the same assessment, priority could be given to a representative of the under-represented gender in order to ensure gender equality in the AC.



As the legislation does not provide for the methods of selecting the AC members, the selection method may be chosen at its discretion by the body selecting the AC members or the PIE in which the AC will operate. Depending on functions of the AC, one of the most appropriate ways to select members of the AC is a selection process, which would be made public and open to all eligible applicants.

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Independence:

- as set out in points 4.5.1 to 4.5.7 of Requirements set up by Government;
- as set out in points 23.1 to 23.8 of Requirements set up by Bank of Lithuania.

AC member may hold office for several consecutive terms, but it should be noted that if AC member has been in office for more than 12 years, he/she will no longer be considered independent¹.

Professional competence in the field of:

- audit of financial statements;
- financial accounting;
- internal audit;
- sustainability reporting and/or auditing;
- the undertaking's activities, management and internal control, operational risk management;
- prevention of money laundering and terrorist financing.

A member of the AC shall have professional competence in one or more specified areas and the professional competence of the AC collegially should cover all specified areas².

The use of a matrix for assessing professional competence is recommended for the assessment of professional competence (see Annex 1).

Experience in the field of:

- audit of financial statements; or
- financial accounting; or
- sustainability reporting and/ or ensuring sustainability accountability³.

Other criteria set by PIE, in which the AC will operate. For example, needed competence and experience in specific sector or special activities of the entity/ group of entities.

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¹ Point 4.5.7 of Requirements set up by Government, point 23.7 of Requirements set up by Bank of Lithuania.

In accordance with point 4.5 of Requirements set up by Government, the majority of PIE AC members must be independent in accordance with point 8 of Requirements set up by Bank of Lithuania. Other specific requirements of these rules with regard to ensuring the independence of the AC are also applicable.

² The areas of professional competence are distinguished according to the requirements of point 4.3 of Requirements set up by Government, point 8 of Requirements set up by Bank of Lithuania, point 5 of Article 69 of the Law on Audit and taking into account the expected regulatory changes in the implementation of the Directive on Sustainability reporting.

³ The areas of experience have been identified in accordance with the requirements of point 4.3 of Requirements set up by Government, points 8 and 9 of Requirements set up by Bank of Lithuania and taking into account the expected regulatory developments in the implementation of the Directive on Sustainability reporting.

According to point 4.3 of Requirements set up by Government, at least one AC member must have at least 3 years of experience in accounting and/or auditing of financial statements.

According to points 8 and 9 of Requirements set up by Bank of Lithuania, at least one of independent members of the AC must have at least 3 years of experience in accounting or auditing of financial statements.

REQUIREMENTS FOR COMPOSITION OF AUDIT COMMITTEE

Requirements for composition of ACs are set by two different authorities: Government and the Bank of Lithuania⁴.

Requirements set up by Government

Point 4 of Requirements set up by Government lays down requirements for the composition of AC for PIE⁵:

- a state enterprise and/or a municipal enterprise whose indicators on the last day of the financial year exceed, for at least two consecutive financial years, the amounts specified in Article 4 (3) of the Law of the Republic of Lithuania on Financial Reporting by Undertakings, public limited liability companies and/or private limited liability companies whose shares or a share of shares issuing more than 1/2 of all votes at the general meeting of shareholders of these companies are held by the State and/or one or more municipalities by the right of ownership and whose at least two indicators on the last day of the financial year exceed the amounts specified in Article 4 (3) of the Law of the Republic of Lithuania on Financial Reporting by Undertakings of the Republic of Lithuania for at least two consecutive financial years;
- a drinking water supplier and waste water manager, a surface waste water manager, an energy undertaking whose prices of services are regulated by the State and whose indicators on the last day of the financial year exceed the amounts specified in Article 4(3) of the Law of the Republic of Lithuania on Financial Reporting by Undertakings for at least two consecutive financial years and whose income from activity or activities the prices of which are subject to state regulation represent more than half of the total income of the enterprise.

A decision on the composition ACs of these entities, with the exception of state and municipal enterprises, shall be taken by:

- the Supervisory Board; or
- the Board; or
- the General Meeting of Shareholders⁶.

A decision on the composition of the AC of state enterprises and municipal enterprises shall be taken by the Board⁷.

Requirements set up by Bank of Lithuania

Points 6 to 12 of Requirements set up by Bank of Lithuania set out the requirements for composition of AC for the following PIE⁸:

- an undertaking whose securities are traded on the regulated market of the Republic of Lithuania and/or any other Member State;
- a bank and the Central Credit Union;
- an insurance undertaking, a reinsurance undertaking.

The composition of these ACs shall be decided by:

- in a bank, the supervisory body (supervisory board or board which, in the case provided for by the Law on Companies, performs the supervisory functions assigned to the supervisory board);
- in other PIE (except banks) - the supervisory body or the general meeting of shareholders (if the matter falls within the competence of the general meeting of shareholders) referred to in point 1 of Requirements set up by Bank of Lithuania⁹.

⁴ Article 69 (3), (4) of the Law on Audit.

⁵ Point 2 of Requirements set up by Government, the PIE referred to in Article 2(32) (9) and (10) of the Law on Audit.

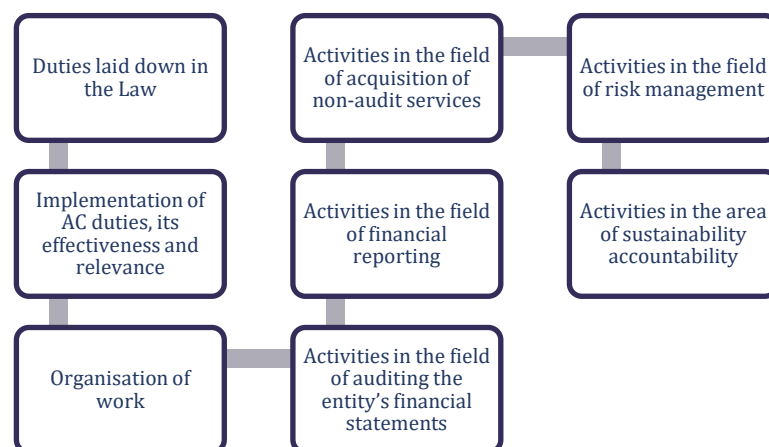
⁶ Point 7 of Requirements set up by Government.

⁷ Point 8 of Requirements set up by Government.

⁸ Point 1 of Requirements set up by Bank of Lithuania, Article 2(32) (1) of the Law on Audit, Article 2(32) (1), (2), (7) of the Law on Audit, as well as points 9 and 10 of the Law on Audit, refer to the PIEs, which are attributable to the undertakings referred to in Article 2(32)(1), (2) and (7) of the Law on Audit.

⁹ Point 5 of Requirements set up by Bank of Lithuania.

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DUTIES LAID DOWN IN THE LAW ON AUDIT

The duties of AC are set out in Article 69(5) of the Law on Audit:

- 1) to inform management or supervisory body of an audited entity about the results of the audit of financial statements and explain how this audit has contributed to the credibility of the financial statements and what role has been performed therein by the AC;
- 2) to monitor the financial reporting process and present recommendations regarding ensuring of the credibility thereof;
- 3) to monitor the effectiveness of the entity's internal quality control and risk management systems affecting the financial statements of the audited entity, the effectiveness of entity's internal quality control and risk management systems, intended for prevention of corruption, bribery of foreign official when making international transactions, money laundering and financing of terrorists and, where applicable, effectiveness of internal audit not compromising the independence of internal audit;
- 4) to monitor the audit of annual financial statements and consolidated financial statements with a particular focus on its performance, having regard to the deficiencies of the audit of financial statements identified during

the inspection of the Authority and the findings made pursuant to Article 26 (6) of Regulation;

- 5) to review and to monitor the independence of auditors/ audit firms as stipulated in Article 4 of this Law and Article 6 of Regulation, in particular the appropriateness of providing non-audit services to the audited entity pursuant to Article 5 of Regulation;

- 6) to bear responsibility for the carrying out of the procedure of selection of the auditor/ auditors or the audit firm/firms and the submission of a recommendation for the appointment of the auditor/ auditors or the audit firm/ firms pursuant to Article 16 of Regulation, except in cases covered by Article 16 (8) of Regulation.

In addition to these duties, pursuant to Article 69 (6) of the Law on Audit, the AC in an entity whose securities are traded on a regulated market of the Republic of Lithuania and/or Member State shall also issue opinions on transactions by these companies with related parties, as laid down in Article 37² of the Law on the Companies.

Also, pursuant to Article 69 (7) of the Law on Audit, the Bank of Lithuania may, in carrying out the functions assigned to it by the Law on the Bank of Lithuania, impose additional duties on the AC. These duties are set out in points 18-21 of Requirements set up by the Bank of Lithuania.

IMPLEMENTATION OF AUDIT COMMITTEE DUTIES, EFFECTIVENESS AND IMPORTANCE OF THE AUDIT COMMITTEE

The functions set out in legal acts and their interaction have assigned the AC a crucial role in ensuring the quality of the financial reporting and the audit of financial statements, thus ensuring the quality and reliability of the entity's financial statements and the interests of users of financial statements who make economic decisions on the basis of these financial statements.

The effectiveness of the functions entrusted to the AC depends in particular on the involvement of the AC in activities, as well as on the constructiveness, intensity, effectiveness of cooperation with the entity's management, internal and external auditors, other interested parties, including supervisors.

The quality of the preparation of financial statements significantly depends upon culture of ethical behavior promoted by the audited entity's management, the AC, other persons responsible for management, upon promotion and maintenance of appropriate accounting policies and procedures, open sharing of the necessary information for the preparation of high-quality financial statements and creating an environment where problems and aspects to be improved are addressed constructively.

At the same time, the AC's constructive cooperation with auditors of entity's financial statements can provide the AC with valuable insights concerning the risks arising during financial reporting process, the quality of this process, the key areas where significant management decisions on financial statements are taken, internal control deficiencies, and help make decisions on the correct and appropriate presentation of financial statements, in particular on issues where the management of the audited entity fails to act on issues raised by auditors, such as fraud risk, management's accounting estimates and assumptions applied, unusual transactions, and other valuation uncertainties. The AC's active monitoring of the audit process of financial statements, the independence of auditors/ audit firms can also help auditors to identify risks in the financial reporting process, areas of business requiring greater auditor's attention, assess the resources needed for the



audit, threats to independence and to seek higher quality of audit of financial statements.

The AC's role in ensuring transparent and efficient procedures for the selection of auditors and audit firms also provides essential preconditions for the quality of financial statements audit, provides these reversible benefits in improving the financial reporting process and improving the quality of the entity's financial statements.

The AC functions cover a wide range of issues for which a comprehensive assessment requires highly qualified expertise in financial accounting, financial reporting, sustainability reporting, the sector in which the PIE operates. For the AC is also increasingly assigned additional responsibilities, including overseeing and auditing: cybersecurity, environmental, social, governance issues and sustainability reporting.

As regards the limits of the AC's responsibilities, the above-mentioned activities of the AC in financial reporting process and in audit of financial statements should in principle be limited to the exercise of supervisory functions without subtracting the duties, functions and responsibilities of the entity's management.

Additional responsibilities of ACs could also be established by assessing the organizational structure of a particular entity, the powers and functions of other external bodies operating or involved within the entity, as well as the requirements of the legal acts governing these matters (i.e., for example, the AC should not be entrusted with the duties of other committees which must be established in accordance with the requirements of the legislation in force).

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AC activities shall be organized in accordance with the approved AC regulations recommending the establishment of¹⁰:

- the procedure for establishing the AC;
- the duration of the term of office of the members of the AC;
- the number of AC members;
- the procedure for electing the Chair of the AC;
- the procedure for replacing the Chair of the AC in his absence;
- the organization of AC meetings;
- decision-making procedures at AC meetings;
- provisions on the remuneration of AC members;
- aspects of communication with the entity's management;
- aspects of communication with those charged with governance;
- the arrangements for compliance with the independence requirements of AC members;
- procedures for the use and confidentiality of confidential information received by AC members;
- the procedure and deadlines for drawing up and submitting the AC activity report.

Cooperation with the management of the PIE and persons charged with governance

AC shall provide management and persons charged with governance with information on:

- risk management analysis/internal controls;
- assessment of compliance with the legal acts;
- cyber security;
- funding and liquidity;
- financial statements and non-financial statements (e.g.: preparation of the Annual Report, sustainability reporting);
- auditing of financial statements;
- ensuring sustainability accountability;
- other relevant issues discussed by the AC.

To present its activities, questions and recommendations related to the audit of the financial statements, the AC should organize meetings during the reporting period with:

- the management of the entity;
- persons those charged with governance.

The AC may present the results of the audit to the entity's management and/or persons those charged with governance:

- in oral meetings, with the participation of management and persons those charged with governance;
- in oral meetings, with the sole participation of the management or persons those charged with governance;
- in written form.

Cooperation with the PIE's internal auditor (if any)

The AC should use an internal auditor to carry out its functions effectively in the areas assigned to it. The focus can be on important fields, focusing on:

- the involvement of the internal auditor in the assessment of the main risks identified in the risk management program, in the analysis and monitoring of internal controls;
- the conclusions of the internal auditor relating to management decisions and evaluations affecting the accounting policy of the entity, the preparation of financial and non-financial statements;
- how the internal audit responds to emerging and changing risk areas such as technology, cybersecurity, environmental protection, social responsibility and governance;
- how the internal audit plan is consistent with the main risks identified in the entity's risk management program;
- the internal auditor's observations in the areas of financial statements and non-financial reporting risks;
- the work carried out or reports submitted by the internal auditor on the effectiveness of the entity's internal quality control and risk management measures.

Participation in the process of selecting an auditor/audit firm

The AC participates in the selection process of an auditor/audit firm performing the audit of the

¹⁰ Point 10 of Requirements set up by Government, point 6 of Requirements set up by Bank of Lithuania.

entity's financial statements and providing its opinion. The AC, among other issues can:

- draw up/certify a list of audit firms to which calls for selection are sent;
- organize pre-submission meetings with candidates during which full information is given for the submission of tenders;
- prepare/review selection documents and/or selection criteria;
- evaluate proposals;
- review the analysis of proposals prepared by the management of the entity;
- present the results of the selection to the general meeting;
- review publicly available information about deficiencies identified by the AVNT concerning the quality of auditing of financial statements;
- request from the audit firm to submit a plan to remedy deficiencies concerning the quality of the audit of financial statements (if deficiencies have been identified) and information on the implementation of the plan to remedy deficiencies concerning the quality of the audit of financial statements, the implementation of the measures provided for in the plan to remedy the deficiencies.

Monitoring activities undertaken by the Audit Committee concerning the audit of financial statements

The AC must supervise how the auditor's/audit firm's audit of the entity's financial statements complies with the standards of independence:

- obtain a written confirmation from the auditor/audit firm that the auditor, audit firm, partners, senior management and management responsible for the audit are independent of the audited entity.
- discuss orally/written with the auditor/audit firm threats to compliance with independence requirements and the safeguards applied.

The AC must supervise how and what the auditor/audit firm auditing the entity's financial statements has established materiality¹¹ for the audit of the entity's financial statements.

The AC is responsible for overseeing the performance and quality of the audit, as well as the independence of auditors (appointment, remuneration and supervision of the independent auditor, including the resolution of any disagreements with management).

¹¹ When planning the audit, the auditor decides on the extent of the misstatement, which will be considered material. Such decisions become the basis for: determine the nature, timing and scope of risk assessment procedures; identify and assess the risk of material misstatements; and determine the nature, timing and scope of follow-up audit procedures. (Point 6 of International Auditing Standard 320 – Materiality in planning and performing an audit).

ACTIVITIES IN THE FIELD OF PREPARATION OF FINANCIAL STATEMENTS

The AC, the management of the entity, including the internal auditor, and the independent auditor have different roles in the process of preparation of financial statements:

- the management of the entity, the internal auditor shall be responsible for preparing the financial statements, establishing, maintaining and evaluating the effectiveness of appropriate internal control and procedures;
- the independent auditor is responsible for issuing an opinion on whether the financial statements present fairly, in all material respects, the financial position, results and cash flows in accordance with the applicable accounting principles;
- The AC is responsible for overseeing the financial reporting process. To do so effectively, the AC members should be aware of the processes and controls designed by management as to whether they are implemented and operating effectively. In carrying out its supervisory and monitoring functions, the AC may rely on the management, on the independent auditor, on the internal auditor (if any) and on the external consultants/advisors that the AC may use.

The AC should understand the risks involved in the process of preparation of financial statements and the related internal controls. The focus can be on several important areas, focusing on:

- the complexity of accounting and financial reporting and how management deals with them.
- significantly influencing accounting policies, decisions, management assessments and their impact on the financial statements;
- in the past identified any internal control findings and how they have been resolved;
- corporate anti-fraud and anti-corruption compliance programs to ensure that these programs are adequately supervised, autonomous and resourced;
- the entity's tax risk management strategy;
- the entity's taxes and their potential impact on the financial statements;
- foreseeable changes in financial reporting and regulation, with a focus on understanding their impact on the entity;
-

- indicators used in corporate sustainability reporting consistency with financial statements data.

Issues to be considered by the AC related to the assessment of the internal auditor, if any:

- Is there an internal auditor in the entity, is he independent and objective?
- Does the internal auditor have the necessary resources and access to information to carry out his/her functions?
- Was there cooperation with the internal auditor while assessing internal control risks, controls, their monitoring and remediation measures concerning internal control deficiencies?

Issues to be considered by the AC related to the internal control of the financial reporting process:

- Does the AC understand the main risks and related controls identified by management, an independent auditor and an internal audit?
- How does management determine the level of competence required for certain duties related to the preparation of financial statements, how does it implement the separation of duties and responsibilities, what are the reporting lines and the hierarchy of powers?
- To what extent does the entity rely on third-parties – service providers and how controls and processes concerning relations with third parties are managed?
- What is the management's approach to the importance of financial reporting process, information processing, human resource competence assurance and continuous development, considering the latest changes in financial reporting and applicable standards requirements?
- How does management ensure compliance of the applicable accounting policies with the relevant requirements of the applicable standards, what controls are in place to implement relevant changes in the requirements of the applicable standards in the financial statements in a timely manner?
- What software, information systems, technical tools, manual procedures are used by management to record and account the entity's

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business operations, to prepare the entity's financial statements?

- What tools are used to prepare the financial statements of ESEF for entities whose securities (e.g. equity or debt) are admitted to trading on regulated markets?

- What controls are in place to record non-standard accounting records, non-recurring, unusual transactions or adjustments?

- What other controls are in place in relation to the processing of information, data analysis, verification of data entered, records, physical control measures, as well as protection of access to assets and records, possibilities to access computer programs and data?

- What are risk assessment procedures for determining the risks associated with accounting estimates (e.g. ageing inventories, recoverable, expected credit loss deductions, ongoing litigation, etc.), relevant methods, models, assumptions, choice of data sources, possible alternatives and the need to change them, the need for specific skills or knowledge related to accounting estimates, and the need for external expertise?

- What are risk assessment procedures for fraud and controls to reduce the possibility of fraudulent financial reporting or concealment of asset misappropriation, including the assessment of significant transactions that do not correspond to the normal nature of the business, the assessment of related parties transactions?

- What are the business risk assessment procedures in relation to the application of the going concern assumption, sources of funding, liquidity assessment, performance review, budget analysis and forecasts?

- What are the risk assessment procedures for ensuring compliance with the laws and regulations governing the entity's activities and financial statements, applicable tax strategies?

- Have the controls and/or their monitoring been changed? How did management ensure that appropriate controls were in place?

- What new internal controls need to be addressed in the event of a change in the business model, such as the shift to more remote work?

- Does the entity have sufficient resources to ensure adequate internal control? Does the entity use experts if necessary to assess the control of complex IT processes?

- Has the entity's management developed and implemented plans to correct previously identified internal control deficiencies? Was the risk mitigation subject to temporary internal controls? Is the management of the entity responsible for timely correction of internal control deficiencies?

Issues to be considered by the AC concerning related parties transactions¹²:

- What determines related parties business transactions? Is this in line with the entity's overall strategy and objectives?

- Are the terms of the transaction with related parties in line with market conditions? Would the same conditions apply to unrelated parties?

- When and how were related parties transactions disclosed? How will investors evaluate transactions when they are disclosed?

- What impact will related parties transactions have on the financial statements?

- Which insiders could benefit from the related parties transactions and in what way?

- Are external consultants needed to understand the consequences of related parties transactions?

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ACTIVITIES IN AN AUDIT OF THE ENTITY'S FINANCIAL STATEMENTS

ACTIVITIES IN THE FIELD OF ACQUISITION OF NON-AUDIT SERVICES

RISK MANAGEMENT ACTIVITIES

ACTIVITIES IN SUSTAINABILITY REPORTING

¹²A related party is a person or entity associated with an entity preparing financial statements. The detailed criteria for identifying related parties are set out in International Accounting Standard 24 Related Party Disclosures.

ACTIVITIES IN AN AUDIT OF THE ENTITY'S FINANCIAL STATEMENTS

One of the main duties of the AC is related to the audit of the entity's financial statements.

Issues to be considered by the AC related to the monitoring of the effectiveness of the audit of the entity's financial statements:

- Does the independent auditor (for the purposes of this section referred to as "the auditor") have sufficient knowledge and experience to understand the entity's risks and activities, and if necessary, are experts involved?
- What services from the audit network and/or other audit firm does the auditor intend to use and what part of services provided by the auditor will constitute such services?
- How did the auditor determine the materiality of the audit? What was the benchmark and what its percentage? Did the auditor use another benchmark (other than that expected by the AC) as a basis to determine the materiality of the financial statements as a whole?
- Has the auditor discussed with the AC the qualitative factors considered in determining the materiality level in order to plan and carry out the audit work?
- Has the auditor explained to the AC the professional judgement on which it bases the choice of such benchmark as the basis for determining materiality?
- Has the auditor, if applicable, discussed with the AC the need to determine the materiality level of certain groups of operations, account balances or disclosures (if different from the one applied to the financial statements as a whole)?
- If applicable, has the auditor discussed the need to review materiality with the AC?
- Has the auditor reported to the AC the materiality threshold below which uncorrected audit misstatements are not reported?
- In the case of a group audit (if applicable), are the AC's expectations regarding the materiality levels of the components applied (e.g. other group entities) met?
- Did the auditor identify any new risks of fraud during the audit for the current year? If not, what procedures have been carried out by the auditor to identify the risk of fraud, and whether they have carried out and did the auditor perform procedures that would differ from previous years?
- Did the auditor identify any significant unusual transactions? If so, how did the auditor assess whether the transaction was intended for a legitimate business purpose?
- What procedures have been carried out by the auditor to identify potential related parties transactions? Has the auditor carried out specific audit procedures for related parties transactions that are also significant unusual transactions?
- Did the auditor's inquiries to the management include questions concerning possible illegal actions, such as possible non-compliance with sanctions, laws or regulations? If any non-compliances were detected, what was their impact on the audit?
- What procedures have been carried out by the auditor to determine whether management has failed to carry out or concealed fraud by making incomplete, inaccurate disclosures of the financial statements or by failing to provide the necessary disclosures?
- How did the auditor gain a sufficient understanding of business and management strategy?
- What procedures have the auditor carried out to understand, select and test relevant controls? Has there been a verification of the data used in the application of the controls being tested?
- How did the auditor assess the specific internal control risks of the entity's financial statements arising from the information technology environment?
- How did the auditor assess cybersecurity risks or incidents? Did the auditor identify risks of material misstatement of financial statements related to cybersecurity?
- Does management use the services of a third party/service organization? If yes, what were the results of the auditor's risk assessment and the related response?
- How has the auditor assessed the economic environment, including relevant economic, accounting or other developments, and whether risks identified are material? What specific risks were identified by the auditor?
- How did the auditor assess economic factors such as inflation, rising interest rates, supply chains, access to capital during the risk assessment procedures?

- Did the AC and the auditor's opinions converge on the risk areas identified by the auditor?
- What audit methodology and audit strategy has been applied to risk areas by the auditor, which balance sheet items have been directly audited and which items have been subject to control testing?
- Has the auditor changed his audit strategy because of the identified control deficiency, if any?
- As regards the areas where significant risks have been identified, has the auditor assessed whether the accounting principles chosen and applied by the firm, including the related disclosures of financial statements, are consistent with the financial reporting regime? Has the auditor proposed any significant disclosures of accounting policies and practices that management has not made?
- How did the auditor assess the economic factors that could affect the going concern of the entity? How did the auditor assess the management's ability and intention to implement its plans to mitigate the impact of such economic factors?
- How did the auditor assess the potential bias regarding management's significant accounting estimates and assumptions? What is the auditor's insight into the potential bias of management during the audit?
- How does the auditor assess the validity of significant assessments made by the entity's management? How does the auditor verify the above-mentioned assessments made by the entity's management?
- Which of the most significant areas has the auditor focused on and discussed with the entity's management during the reporting period? Is the AC satisfied with how the entity's management cooperates and provides the requested information, documents in the most significant areas, and whether the entity's management has provided the requested information?
- Has the auditor selected key audit matters in the auditor's report from the matters he had informed the AC?
- Why were other matters requiring significant auditor's attention that the auditor had informed the AC not considered as key audit matters?
- What audit procedures have been carried out by the auditor for the key audit matters, what are their results? Were there any audit matters at the time of the audit related to the auditor's complex professional judgements?
- Does the auditor use technologies such as automation, data analysis to improve the efficiency and effectiveness of the audit? What technologies and tools have been used? What additional audit risks have arisen from their use?
- What audit strategy was used by the auditor to assess the compliance of the financial statements with ESEF requirements? What tools did the auditor use, were they different from tools used by management to prepare the financial statements according ESEF requirements? What were the auditors' observations and insights on this issue?
- Does the auditor provide assessments and insights to the entity's management?
- Does the AC meet separately with the auditor without the involvement of the entity's management? Separately with members of the entity's management without the involvement of the auditor/internal auditor?
- Does the auditor provide information to the AC in a clear, concise and timely manner? Is the information targeted and relevant to the priority areas?
- Is the AC in constant contact with the auditor to discuss a wide range of topical issues, such as management perspectives and management positions, business trends and the regulatory environment in the area of financial reporting and application of standards?
- In cases when the entity's needs of change, is the auditor involved in the process to advise the entity?

ACTIVITIES IN THE FIELD OF ACQUISITION OF NON-AUDIT SERVICES

The AC must supervise whether non-audit services have been procured from an audit firm as defined in the Regulation or the Law on Audit.

Issues to be considered by the AC related to the assessment of offers to the entity to provide non-audit services:

- Are proposals submitted by the auditor/audit firm reviewed?
- Is assessed the description of non-audit services prepared by the management of the entity?
- What were inquiries made to the auditor/audit firm regarding non-audit services?
- Has a pre-established and validated list of non-audit services been used?
- Have issues been discussed regarding non-audit services with the entity's management?
- Were issues related to non-audit services discussed with the auditor/audit firm?
- Is there a need for a different assessment of non-audit services?
- Are proposals put forward in favor?
- Are proposals to be rejected? And what reasons were for the rejection:
 - 1) risks to the independence of the auditor;
 - 2) in order to encourage more participants from audit firms to participate in the submission of proposals;
 - 3) the risk of breaching the requirement that the amount for providing non-audit services will be bigger than 70 % of the costs for audit services;
 - 4) non-audit services are prohibited under Article 5 of the Regulation;

5) non-audit services are prohibited in accordance with the provisions of the Law on Audit;

6) for other reasons.

Issues to be considered by the AC related to the monitoring of how the entity's management ensures that the non-audit services provided by the auditor/audit firm correspond to the approved nature and cost of the services:

- Have descriptions of the services provided been reviewed to ascertain what non-audit services were provided to the firm and what amount was paid?
- Did the management of the entity provide explanations about the non-audit services provided to the entity and the amount paid?
- Did the representatives of the auditor/audit firm provide explanations about the non-audit services that were provided to the entity and what amount was paid?

The AC may establish guidelines for the provision of authorized non-audit services, which, considering the activities, specificities, needs and other circumstances of the entity, may provide stricter conditions for the provision of non-audit services/additional restrictions on non-audit services or discuss other issues of non-audit services. It is also important to mention that the audit report must include all services provided by the auditor or audit firm to the audited entity or its controlled entity in addition to the statutory audit and which have not been disclosed in the financial statements.

RISK MANAGEMENT ACTIVITIES ¹³

The main risk oversight AC's duties relate to the entity's financial risks, entity's risk management and risks related to ethics and compliance requirements.

The role of the AC risk supervision has expanded and may also include additional responsibilities in areas such as cybersecurity, mergers and acquisitions.

Issues to be considered by the AC related to entity risk management:

- To whom the primary responsibility for overseeing the entity's risk management program and related processes is assigned: to the Board and/or to the individual committees?
- Does the Board and/or the individual committees have explicit supervisory responsibilities in relation to the main risks? Are these responsibilities often reassessed? Is management clearly assigned responsibility for the main risks and is a management representative appointed for each risk? How often, if necessary, corporate risk management issues are on the AC agenda, and what information is provided? How does the AC confirm that new or other emerging risks have been considered and that oversight responsibilities are clearly defined in this case?
- Is the internal audit plan consistent with main risks identified in the entity's risk management program?
- How do management and internal audit respond to emerging and changing risk areas such as technology, cybersecurity, environmental protection, social responsibility and governance?
- Does management assess unlikely but potentially high risks that may have a significant detrimental effect on the entity?
- How are extended entity risks, such as third-party risks, assessed?

Issues to be considered by the AC related to fraud risk management:

- At what levels of the entity is the fraud risk assessment carried out? For example, are the assessments carried out at the entity level or at

significant business venues or business units, and in the case of material account balances or at the level of the underlying processes?

- How do the entity's management and board consider the risk that the entity's management may override control?
- How does management consider the potential risk of fraud and what is the process of designing and evaluating appropriate internal controls?
- How did changes in job responsibilities affect the proper segregation of duties?
- How does the entity associate the identified risk of fraud with control activities aimed at reducing the risk of fraud?
- To what extent have the entity's management developed and implemented preventive controls to prevent fraud, as well as detection controls to detect fraud, if any?

Issues to be considered by the AC related to monitoring the effectiveness of the entity's internal quality control and risk management systems for preventing corruption, bribery of foreign officials in cross-border transactions, money laundering and terrorist financing:

- Has management established and implemented an entity policy that promotes fair conduct and legal compliance, is it easily accessible to all employees and relevant third parties, including, where appropriate, foreign subsidiaries?
- Has the entity integrated ethics and compliance policies into human resources processes to implement a culture of compliance?
- Does the entity have established and published a procedure for reporting potential legal non-compliance, does it provide for procedures and arrangements for a proportionate and independent investigation of such reports and for appropriate follow-up?
- To what extent have the entity's management prepared and implemented preventive measures to control corruption, bribery of foreign officials, money laundering and terrorist financing?

ABBREVIATIONS

SELECTION AND COMPOSITION OF MEMBERS

SELECTION OF MEMBERS

CRITERIA FOR THE SELECTION OF MEMBERS

REQUIREMENTS FOR COMPOSITION

ACTIVITIES

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¹³ Applicable where the AC is responsible for risk management field.

- How does management assess the effectiveness of the preventive controls in place?
- Does management assess the identity, integrity, business reputation and associated risks of business partners? What are the assessment procedures and tools?
- If the entity enters into cross-border transactions, what is the business logic of these cross-border transactions?
- Can these transactions, or other activities, the specificities of the business sector, the geographical, regulatory environment of potential customers and business partners, the use of third-party assistance and other circumstances, pose risks related to corruption, bribery of foreign officials, money laundering or terrorist financing? How does management identify, assess the above-mentioned associated risks, what procedures and measures are in place to do so?
- Does the entity have a system of controls to ensure that accounting documents, records and accounts are kept correctly and accurately and cannot be used for corruption, bribery of foreign public officials, for money laundering and terrorist financing activities or for concealing them?
- Does the entity use internal control systems to identify models that indicate bribery of foreign public officials?
- During the audit process, have the auditors informed about shortcomings in risk management systems for preventing corruption, bribery of foreign officials in cross-border transactions, money laundering and terrorist financing?
- How did management assess and have considered the information provided by auditors on deficiencies in risk management systems?
- Has the management received reports from external auditors, other subjects about suspected signs of bribery, money laundering and terrorist financing of a foreign official?
- Has the management reacted actively and effectively to such reports (measures to investigate alleged cases of bribery of a foreign public official, money laundering and terrorist financing could include: processes to detect, investigate and report misconduct, as well as cooperation with law enforcement authorities; rectification, including, inter alia, an analysis of the underlying causes of misconduct and

addressing identified shortcomings in the undertaking's compliance program or measures; appropriate and consistent disciplinary measures and procedures, including for dealing with infringements at all levels of the undertaking; appropriate communication to ensure awareness of these measures and consistent application of disciplinary proceedings across the entity)?

When the AC monitors the effectiveness of the entity's internal quality control and risk management systems, it may be appropriate to discuss relevant issues with the responsible heads of units, external and internal auditors, review internal and external audit reports, and use external consultants.

In entities where the AC have responsibility for cyber risk oversight, the AC should clearly understand the specific areas it should oversee. The AC can monitor the preparation and response of the entity's management to cyber threats through the supervision of financial risk and monitoring the corporate management's policies and procedures by coordinating cyber risk management. The AC can steer trends in cyber threats, regulatory developments and major emerging threats to the entity. Other responsibilities may include setting targets and accountability for governance, as well as assessing the adequacy of resources, funding and focusing on cyber risk management.

Issues to be considered by the AC related to cyber risk management:

- Who is the primary responsible for cyber risk supervision? If the responsibility is attributed to the AC, is this stated in the documents governing the work of the AC?
- Does the entity's management understand where the entity's secret information is stored and where it is used and what security measures are in place?
- Do the entity's management and board use cyber simulations to assess the effectiveness of the entity's cybersecurity plan and make the necessary changes?
- How are the entity's operating technologies cyber-evaluated? Are the evaluations designed to assess the impact of operational technology violations on business?
- Have cyberattacks increased and which controls have been reassessed as a result,

including those related to changing staff management practices (e.g. remote or hybrid nature of work)?

- How does the entity assess its cyber risks internally or externally to identify areas where the transformation of digital finance, environmental protection, social, governance and other new and rapidly changing requirements and initiatives can pose risks?
- How do leadership, structure, capabilities and resources contribute to a comprehensive focus on cyber risk?

▪ How effectively and quickly would the entity's response and information system recovery plan be implemented if needed?

- Is the management of the entity active in determining and complying with the requirements of laws and other legal acts regulating the collection, use, storage, security and disposal of data?
- How does the internal audit take cyber risks into account when drawing up the internal audit plan?

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ACTIVITIES IN SUSTAINABILITY REPORTING¹⁴

The AC's activities have expanded and may also cover sustainability reporting issues, including the consistency of indicators used by the entity in sustainability reporting with financial statements data.

Issues to be considered by the AC related to the field of sustainability reporting:

- Does the board have the primary responsibility for overseeing sustainability reporting, both overall and considering the different components? Is it clear where and when these issues are discussed - at board and committee levels?
- Is the entity constantly interested in changes in sustainability regulation and legislation in business-relevant jurisdictions?
- When the entity submits a sustainability report, to what extent has the AC reviewed the report before its submission and how has management considered the main assumptions made and the indicators and objectives disclosed?
- If the entity discloses sustainability information in the management report, to what extent does such disclosure correspond to the audited financial statements? What internal controls on financial reporting apply to the disclosures required in the audited financial statements?

- How does management consider the entity's sustainability objectives and related activities for reporting purposes?
- What sustainability information is currently collected and reported in the entity's reports? What additional information (if any) should be produced or collected (including in the audited financial and/or other reports)?
- Does the entity's management properly understand and apply a dual approach to materiality, considering the risks to the entity on the one hand, and the impact of the entity on the other, as highlighted in the Corporate Sustainability Reporting Directive? How does the entity assess the significance of sustainability disclosures? What systems and processes are in place to collect the necessary information to determine whether the information disclosed is significant?

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