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# For more effective corporate reporting, the EU needs effective governance, not just templates

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Corporate governance reports are the public record of how a company is directed and controlled. By making roles, controls and oversight visible, they enhance transparency and accountability – giving investors, employees, creditors and regulators the decisive basis to assess the reliability of financial and non-financial reporting.

In short, if investors don't trust the numbers, they won't trust the story. Across the EU, the quality of corporate reporting still turns less on any single template than on how companies are governed – who oversees the reporting process, what internal controls actually run day-to-day and whether boards and audit committees can spot weaknesses early and fix them.

## The architecture – comprehensive on paper, fragmented in practice

The EU's rulebook for corporate reporting is comprehensive at framework level, but practice legitimately reflects national company-law traditions, ownership structures and market size, thus a degree of divergence is natural and often valuable. Hard-law directives set baselines while national corporate governance codes fill in gaps on a comply-or-explain basis.

Such a blend preserves flexibility and maintains relevant common principles across different legal governance models (unitary/two-tier boards, dispersed vs concentrated ownership) and across firm sizes – from listed multinationals to family-owned SMEs. It also allows governance to fit local corporate realities. Even so, it can produce uneven disclosure, oversight and liability

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regimes across Member States – down to how shareholders exercise rights, how committees are structured and what board independence means in practice.

## Internal controls – the fulcrum and the EU's gap

Internal control systems (ICS) are the fulcrum of decision-useful reporting. In most EU jurisdictions, companies must establish controls but few are required to systematically assess and publicly disclose their effectiveness. By contrast, the US model hard-wires discipline: CEOs/CFOs certify, management assesses and external auditors attest to controls over financial reporting under the Sarbanes-Oxley Act (SOX) 404. Japan sits in the middle, as companies must establish ICS and describe them, but publicly certifying effectiveness isn't required. The 2023 OECD/G20 Principles of Corporate Governance reinforce, at a principles level, boards' responsibility for internal controls and transparent disclosure, reference points that member countries are expected to reflect domestically.

While firm-level measures are pragmatic and quick to deploy, most investors price governance quality at the market level, not by conducting deep, entity-by-entity assessments across large portfolios. Without a clear, minimum baseline, they apply a broad discount to reported information. Evidence shows that when a market-wide floor is in place (such as in Italy and the US), there are clear material benefits: consistent expectations reduce information asymmetry, narrow discounts and lift confidence.

The policy aim, then, is convergence on a simple, comparable baseline – not one-size-fits-all rules – with firm-level improvements layered on top of a trusted market foundation.

Even within the EU, control obligations differ. Some countries require listed firms to maintain appropriate and effective ICS and risk management; others lean more on codes and principles. Across governance models, executive management carries primary responsibility, with audit committees doing preparatory oversight and internal audit providing ongoing evaluation. But formal, standardised methodologies and public effectiveness statements remain the exception rather than the rule.

## What companies actually disclose

A review of 100 corporate reports across 10 Member States shows strong compliance with baseline corporate governance statement requirements and frequent references to the relevant national code. But the depth and placement of ICS information can vary. Some preparers/issuers often provide richer stand-alone sections; others fold ICS into the broader governance statement. Many companies do include an 'effectiveness' statement, yet most do not specify the level of assurance behind it. Where assurance levels are named, 'reasonable assurance' typically means an internal declaration by management or the board, not an external audit of controls. External assurance on ICS isn't required under EU law. Importantly, most 'effectiveness' statements are framed as negative assurance ('we have no reason to believe controls are ineffective') rather than a positive assertion ('we tested the control

environment and found it effective'), and the latter is materially more decision-useful to investors.

The cross-country picture is uneven. In some markets, internal audit roles and risk management specifics are described in detail; in others, anti-fraud measures are scarcely mentioned, whistleblowing systems are glossed over, or the applied control framework (e.g. the Committee of Sponsoring Organizations of the Treadway Commission (COSO)) isn't identified at all – despite COSO being a common lingua franca for control design.

## Why audit committees matter

Views from about 120 surveyed and interviewed stakeholders converge on one conclusion: effective audit committees (independent and financially literate) increase reporting quality. Auditors, academics and market participants consistently cite the committee's role in reviewing financials before publication, supervising ICS and risk management and engaging with external auditors.

Many also see committees as pivotal to the credibility of sustainability disclosures. The challenge is that EU requirements on audit committees – including their remit, independence, expertise and interaction with boards, internal audit and external auditors – are still not fully harmonised across Member States, and national implementation diverges further in practice. Consequently, powers and expectations vary widely and recruiting the right talent remains difficult, particularly in smaller markets.

Evidence from the nine scandals examined in this study suggests that weaknesses in audit processes and audit committees often played a contributory role. Ensuring independence, clear remits and financial expertise are not box-ticking exercises; they're the minimum for credible oversight and they must work in practice – not just on paper.

## Costs, benefits and proportionality

Upgrading governance and controls has costs: staffing, training, tooling and ongoing maintenance. Many companies report high-cost expectations and opportunity costs (e.g. diverted resources, delayed initiatives). Yet evidence from more rigorous control environments points to long-run benefits – such as fewer misstatements, higher efficiency and better access to capital – especially when digital controls are embedded. The policy implication isn't to copy-paste the US model; it's to sequence reforms, scale expectations to company size and maturity, and back them up with practical guidance and technology.

Beyond operational gains, a credible market-wide baseline for ICS disclosure is associated with measurable reductions in issuers' cost of capital; the benefits are likely to outweigh compliance costs. A Commission-led *ex-ante* and *ex-post* cost–benefit assessment would help calibrate scope, thresholds and reporting granularity.

## What 'good' looks like right now

Three design choices stand out if the aim is higher-quality reporting without blunt, one-size-fits-all mandates:

- *Make management accountability visible*. Ask boards to state how they evaluate control effectiveness (scope, period, testing performed, framework used) and to disclose material weaknesses with remediation plans. Encourage a positive assertion where feasible, rather than a generic negative-assurance formula. Start as a structured management assessment – public and comparable – without immediately forcing auditor attestations. It would improves culture and process and it creates a path towards stronger assurance later.
- *Strengthen audit committee capability in practice*. Independence, financial/risk expertise and meaningful engagement with external auditors should be non-negotiable. Define roles and responsibilities clearly and require a disclosed skills matrix; this will naturally trigger targeted, company-specific training and clearer interfaces with risk and internal audit, while consistent expectations across Member States would increase quality – without over-legislating committee micromanagement.
- *Standardise the scaffolding, not the structure*. Encourage common control lexicons (e.g. COSO), consistent terms for assurance levels and baseline data points in governance statements. This keeps comparability high and costs contained, while letting companies tailor the control architecture to their risks.

## An emerging practice to watch

There are helpful signals from national code reform. Some countries are moving forward and are proposing changes that would require a risk-management statement in the management report, with the board explicitly responsible for evaluating ICS across operations, compliance and reporting – and acknowledging that internal systems provide at least limited assurance over sustainability reporting.

It's a practical way to clarify responsibilities, anchor frameworks like COSO and set realistic assurance expectations, without jumping straight to SOX-style attestations.

## A practical agenda for boards and policymakers

- *Boards*: Treat internal control reporting as a leadership task, not a template. Define ownership for ICS design and testing, insist on candid weakness disclosures and ensure the audit committee has the skills (and time) to challenge management.
- *Audit committees*: Map the control landscape (financial and material non-financial), align on a framework and strengthen structured dialogue with both internal and external audit. Push for clear remediation timelines and document how the committee satisfied itself that weaknesses are addressed.

- *Policymakers/standard setters*: Drive convergence, not uniformity – shared definitions, baseline disclosures and practical guidance that scale with issuer size. Promote digital controls and reporting pipelines; they reduce costs while improving auditability. Set a light, market-wide floor (e.g. a short, structured management ICS statement naming the framework and disclosing material weaknesses), and keep external assurance on ICS as an end-state option once management assessments are bedded in and the criteria are stable.

## The bottom line

Trustworthy reporting isn't produced by ever-longer templates. It's produced by governance that works: ethical leadership, clear board accountability, empowered audit committees and internal controls that are designed, operated and explained in a way users can rely on.

The EU already has many of the right pieces. The fastest route to consistent, high-quality reporting is to raise the floor on internal control reporting and audit committee capability, standardise the scaffolding where it helps comparability and scale expectations to firm size and maturity.

Done well, this combination will build investor confidence without forcing a costly, one-size-fits-all regime.

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