

Audit, Risk and Internal Controls



New Corporate Reporting Requirements

We've seen significant interest from stakeholders on both the new corporate reporting requirements referenced in the consultation. The proposed changes to the Code seek to complement new corporate reporting legislative requirements that have been laid via secondary legislation.

We suggest that Code companies who are not large Public Interest Entities (PIEs) follow the Resilience Statement as a basis for their reporting on future prospects. Like the Resilience Statement, we also propose Code companies follow the Audit and Assurance Policy on a comply or explain basis, with audit committees being responsible for this work.

Companies are keen to see the legislation and relevant guidance associated with these new requirements.



Audit Committees

We have proposed removing some elements of the Code, and instead cross-reference to our recently published 'Audit Committees and the External Audit: Minimum Standard'. Competition related proposals have been a source of discussion in this area.

We've also suggested additional responsibilities for audit committees over narrative reporting.



Risk and internal controls

These proposals are aimed to promote increased accountability and transparency over risk management and internal controls. They have drawn stakeholder commentary around several key issues including materiality and the varying approaches to applying internal and external assurance.

We have proposed a director's declaration, stating the effectiveness of risk management and internal control systems and explaining how they have monitored this. Proposals also call for directors to describe any material weaknesses found and how these have been remedied in the reporting year.

We have spent time outlining the differences between our Code proposals and legislative options, or UK SOX as it has been dubbed by many. Following these conversations, stakeholders have been reassured that the Code offers a proportionate approach, with the flexibility that comes with 'comply or explain'.



Have your say

Comments on the questions set out in this consultation document are requested by **Wednesday 13 September 2023**.

Responses should be sent by email to **codereview@frc.org.uk**.

<https://www.frc.org.uk/consultation-list/2023/corporate-governance-code-consultation>

Corporate Governance Code 2023: The hot topics for our stakeholders



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Leadership and reporting

Sustainability/ESG

Stakeholders have recognised the increasingly important position sustainability and ESG holds for many investors and other stakeholders. These proposals have been designed to recognise the impact that ESG and sustainability continues to have on company reporting, and decision making for boards and investors. The amendments reinforce the role that governance has to play in assessing sustainability-related risks and opportunities, and using this assessment to set realistic and achievable targets.

Where sustainability should sit within a company's governance structure has been a key topic of discussion for stakeholders. The consultation proposes the responsibility for ESG and sustainability related assurance, governance and reporting be overseen by the audit committee.

Remuneration

Here we aim to encourage boards and remuneration committees to design their remuneration policies with a view to deliver long-term stakeholder value, being mindful of not only the financial implications but also the cultural and reputational impacts for the organisation. The proposals also have the addition of more focused requirements for boards to identify and mitigate risks associated with remuneration. Stakeholders have been keen to share views on how we can achieve transparent and decision-useful disclosures relating to remuneration.

This section of the consultation also includes reference to malus and clawback, asking boards and remuneration committees to specify the circumstances in which malus and clawback provisions would be used. Additionally, the consultation asks companies to set out their use of malus and clawback arrangements over the previous five-year period.

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Boards



Over-boarding

Proposals in the consultation around over-boarding aim to increase transparency for users of the annual report. While the proposed changes do not set a numerical limit on the number of director appointments, we have added a provision for directors to disclose all other board appointments and provide a statement confirming they have sufficient time to undertake their role.

This approach aims to recognise the varied responsibilities directors experience across their different board or committee appointments. Assessment of these roles should now be included in the board performance review process.



Diversity

Stakeholders continue to express interest in the consultation's diversity proposals, with discussion focusing on how diversity can be promoted by boards. In our proposals we ask boards to take steps to incorporate environmental and social matters into company strategy. The proposals recommend boards to consider both protected and non-protected characteristics when approaching succession planning at board level, and also when considering the organisations routes towards executive management level.

This is another important area where boards can consider the individual make-up of their organisation and 'comply or explain' accordingly.



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