

September 2012

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# Feedback Statement

## Revisions to the UK Corporate Governance Code and Guidance on Audit Committees

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## Introduction and Conclusions

In April 2012 the Financial Reporting Council issued a consultation document setting out a series of proposals to amend the UK Corporate Governance Code and the FRC's Guidance on Audit Committees.

These included a series of measures intended to give effect to the policies originally identified in 'Effective Company Stewardship: Next Steps', published in September 2011. The proposals were that:

- Boards would set out in the annual report the reasons why they considered the annual report and accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for users to assess the company's performance, business model and strategy;
- The remit of the audit committee would be extended expressly to advise the board on this issue;
- More informative reporting by audit committees, including on the significant issues considered in relation to the financial statements and the process for assessing and appointing the external auditor, would be encouraged; and
- FTSE 350 companies would be expected to put the external audit contract out to tender at least every ten years. The FRC also sought views on any transitional arrangements that might be required.

In addition the FRC proposed to make a small number of changes to the Code that would: set out the characteristics of an informative explanation to help companies understand what was expected of them when they choose to deviate from the provisions of the Code, and to provide shareholders with a benchmark against which to judge explanations; acknowledge the interests of providers of non-equity capital; and introduce more consistency to the Code's recommendations on disclosure relating to the use of external advisors to the board and committees.

Consultation closed on 13 July 2012. This paper summarises the main points from the responses, the decisions taken by the FRC and the reasons for those decisions. These are set out in more detail later in this report, but in summary:

- The proposed additions to the Code relating to the statement by the board have been amended in the light of comments made by respondents that the original proposals were insufficiently clear and, as a result, potentially blurred lines of responsibility and encouraged boiler-plate reporting. The updated Code states that the board should confirm that it considers the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy. It also states that the board should establish arrangements that will enable it to make this assessment. It will be left to boards to decide what role the audit committee should play in these arrangements.
- The proposed additions to the Code relating to public reporting by the audit committee are largely unchanged, although the wording has been changed to clarify that committees are being encouraged to report the process by which they have assessed the effectiveness of the external audit, rather than state whether they believe the audit to have been effective. Other points raised by respondents on this

topic, relating to the amount and type of information on significant issues considered by the committee that might need to be disclosed, have been addressed in the updated 'Guidance on Audit Committees'.

- The proposed addition stating that FTSE 350 companies should put the external audit contract out to tender at least every ten years has been incorporated into the Code and 'Guidance on Audit Committees', although some changes have been made to the wording of the guidance in the light of comments. In particular, the suggestion that tenders should be conducted on an "open book" basis has been replaced with a statement that all tendering firms should have such access as is necessary to information and individuals during the tendering process.
- However, in the light of comments from some respondents, the FRC wishes to make it clear that it does not consider a "comply or explain" requirement for regular tendering to be mandatory rotation by another name. The FRC considers it is very important that the decision on which auditor to appoint and when to change auditor remains with the company and its shareholders. The purpose of holding a tender is for companies to benchmark the services provided by the incumbent auditor against those offered by other firms, with the aim of obtaining the best quality and most effective audit. If the company judges that this is best secured by reappointing the incumbent auditor, then that is what it should do.
- The FRC will be holding discussions with audit committee chairs, finance directors, audit partners and investors to consider whether further guidance on tendering would be useful.
- The transitional arrangements suggested by the FRC in the consultation document, intended to minimise the risk of the audit market being unable to cope with a large number of listed companies going out to tender at the same time, were broadly supported. They will be set out on the FRC's website and the FRC hopes that they will be borne in mind by companies, and by shareholders when assessing the company's recommendation on auditor appointment. The suggested arrangements are not binding. Companies should put the audit contract out to tender earlier than they would be expected to under these arrangements if they feel it is appropriate to do so, and shareholders should feel free to request them to do so. In any event, the FRC would encourage companies to state, when they first report against the 2012 Code, whether or not they anticipate putting the audit contract out to tender in due course.
- The proposed additions to the introductory sections of the Code have been incorporated, with two drafting changes, prompted by comments received from respondents, which will hopefully clarify the FRC's intentions. The wording on explanations has been amended to remove any unintended inference that it is only acceptable for companies to deviate temporarily from the Code; and the wording on other providers of capital has been amended to reaffirm that the board's primary responsibility is to the shareholders.
- The proposed changes to make the disclosure requirements in the Code relating to executive search consultancies, board reviewers and remuneration consultants more consistent have been adopted. Boards will be expected to disclose the identity of these advisors, and whether they have any other connection with the company.

This edition of the Code also incorporates additional wording on diversity on which the FRC had previously consulted, and which it announced in October 2011 would be incorporated into this edition of the Code. These changes state that boards should disclose their policy on boardroom diversity, including gender, any measurable objectives that have been set for implementing the policy, and progress on achieving the objectives. In addition, the Code states that companies should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity (including gender), how the board works together as a unit, and other factors relevant to its effectiveness as part of the board evaluation.

This edition of 'Guidance of Audit Committees' incorporates additional wording intended to help to implement the recommendations of the Sharman Inquiry into Going Concern, the final report of which was published in June 2012. In addition, the FRC has removed from the guidance the previous appendix on factors to be considered if a company is considering appointing an audit firm from more than one network, the length and level of detail of which the FRC now considers unbalances the guidance. It will, however, continue to be available separately on the FRC website.

The new editions of the UK Corporate Governance Code and the 'Guidance on Audit Committees' will apply to reporting periods beginning on or after 1 October 2012. The revised International Standards on Auditing (UK and Ireland) 260, 265, 700 and 720A, which set out enhancements to auditor reporting in relation to the new disclosures expected of the board and audit committee, will apply from the same date.

The Appendix to this feedback statement includes a table showing how the new edition of the Code differs from the 2010 edition.

## **Next steps**

Looking ahead, the FRC will be taking action to review whether there is a need for further revisions to the UK Corporate Governance Code, and to update its associated guidance.

### *UK Corporate Governance Code*

The FRC normally reviews every two years whether the Code needs to be updated. However there are two specific issues that the FRC has already indicated it will need to review in the light of proposed legislative changes.

The FRC noted in its April 2012 consultation document that further changes might need to be made to the Code depending on the Government's final decisions on whether and how to revise the legal structure of company reporting. Specifically, it might be necessary to amend those Code provisions that state that certain information must be disclosed in the annual report and accounts if the Government decided to replace that single document with a strategic report and a directors' statement.

At time of writing, the outcome of the Government's considerations is not known, but the FRC considers that any resulting revisions to the Code would be most likely to relate to where certain disclosures should be made. In those circumstances, the FRC would propose to reissue the Code with updated cross-references and without further consultation. If more substantial changes were needed to avoid any inconsistency with the legislation, the wording of these changes would be subject to consultation.

The FRC announced in June 2012 that it will consult on whether to amend the sections of the Code dealing with executive remuneration. In particular, it will consult on two proposals that the Government has asked it to consider: to extend the Code's existing provisions on claw-back arrangements, and to limit the practice of executive directors sitting in a non-executive capacity on the remuneration committees of other companies. The FRC will also seek views on whether the Code should specify that companies should engage with shareholders and report to the market in the event that they fail to obtain at least a substantial majority in support of a resolution on remuneration.

The consultation will be carried out after the Government's legislation on voting and reporting on executive remuneration has been finalised. It will be an open consultation and there is no presumption on the part of the FRC that changes to the Code will necessarily follow. Any changes will be effected in the next edition of the Code.

#### *Associated guidance*

As noted in the previous section, the FRC will be holding discussions with audit committee chairs, finance directors, audit partners and investors to consider whether further guidance on tendering would be useful. The FRC will report publicly on the outcome of these discussions, and any guidance that may result will be subject to consultation before it is adopted.

The FRC will be revising 'Going Concern and Liquidity Risk: Guidance to Directors', which is intended to assist directors in applying Section C.1.3 of the UK Corporate Governance Code, to take account of the recommendations of the Sharman Inquiry into Going Concern, the final report of which was published in June 2012. The aim is to consult on revised interim guidance by December 2012.

The FRC will also be updating 'Internal Control: Guidance to Directors' (formerly known as the 'Turnbull Guidance'), which provides guidance to directors on how to apply Section C.2 of the Code. Consultation on revised guidance will also begin by December 2012.

## Summary of responses

The FRC received 74 responses to the consultation. Of these, 17 were from listed companies, nine from investors, ten from audit firms, and 22 from assorted representative bodies. The remainder came from individuals and service providers. Copies of all responses, with the exception of those that respondents asked to be kept confidential, are available on the FRC website.

*Board statement on whether the report and accounts are “fair, balanced and understandable”*

The consultation document proposed additional wording to the Code that would require the directors to set out in the annual report the basis on which they considered that the annual report and accounts was fair, balanced and understandable and provided the information necessary for users to assess the company’s performance, business model and strategy, and to base this assessment on advice from the audit committee.

The purpose of the proposed changes was to address the concern identified in the ‘Effective Company Stewardship’ discussion paper that the narrative report should reflect the board’s considered view of the information that investors and other users of the annual report and accounts needed, rather than being viewed as promotional in nature, and to ensure that the narrative and financial sections of the report were consistent.

The FRC received a significant number of comments. Respondents interpreted some elements of the proposals in very different ways, sometimes in a way opposite to that which was intended.

Many of the comments and concerns were inter-related. The main issues were:

- There was some confusion about whether the FRC wanted boards to describe their assessment process, or simply to state that the considered the annual report and accounts was fair, balanced and understandable, the phrase “the basis on which” being considered ambiguous. There was little enthusiasm from most respondents for a description of process.
- There were some requests for the phrase “fair, balanced and understandable” either to be revisited or to be further defined. Some respondents were unclear as to how the proposal differed from the existing requirements in the Companies Act for the accounts to give a true and fair view and for the business review to contain “a fair review of the company’s business and... a balanced and comprehensive analysis” of the company’s performance and position. A small number of respondents considered that it potentially cut across the responsibility of the auditor to provide a professional judgement to shareholders and directors as to whether the accounts provided a true and fair view.
- There was a view that the term “users” either needed to be qualified, more clearly defined or replaced with “shareholders”, as if interpreted broadly it could encourage clutter as boards attempted to anticipate the needs of a wide range of users and – in the views of a few respondents – blur the legal responsibilities of directors to shareholders.
- There was little support for mandating that the audit committee should carry out the initial assessment, even from those respondents who considered that, in practice, audit committees already carried out that role. Among those who opposed the

proposal, some felt it was inconsistent with the legal responsibilities of the unitary board; some felt that adding to the committee's workload might adversely affect its ability to carry out its current responsibilities effectively; and some felt it implied that the audit committee was the sole source of assurance on which the board relied.

In the light of these comments the FRC has revised its proposals in a way that it hopes expresses its original intentions more clearly while alleviating some of the concerns raised by respondents. This has been done by:

- Amending the existing Code requirement for boards to explain in the annual report their responsibility for preparing the annual report and accounts. In addition, boards will be expected to confirm that the report and accounts, taken as a whole, is fair, balanced and understandable and provides the information needed for shareholders to assess the company's performance, business model and strategy. Referring to shareholders rather than users makes this statement consistent with existing statements required under the Companies Act. As noted in the FRC's 'Statement of Principles for Financial Reporting', by focusing on the interest that investors have in the company's performance and position the board should, in effect, also be focusing on the common interest that all users have.
- Adding a new supporting principle requiring boards to put in place the processes needed for them to satisfy themselves that the report and accounts met these tests. It will be left to the board to decide what if any role the audit committee should play, although Section C.3 (on the role of the audit committee) states that the committee should advise the board on this issue when requested by the board to do so.

These changes have also been reflected in the revised 'Guidance on Audit Committees'.

#### *Public reporting by the audit committee*

The FRC proposed extending the references in the Code to public reporting by the audit committee to encourage more informative reporting on the significant issues that the committee had considered in relation to the financial statements, and how these issues were addressed; to give an assessment of the effectiveness of the external auditor; and to explain the approach taken to the appointment or reappointment of the external auditor. The last of these additions is already recommended in 'Guidance on Audit Committees'.

While a small number of respondents were concerned that these proposals would result in more boiler-plate disclosure, the majority supported them in principle and agreed that it was appropriate for those disclosures recommended in 'Guidance on Audit Committees' to be incorporated into the Code. A few respondents, including some investors and their representative bodies, argued for additional disclosure on one or more elements of the proposals.

However, some concerns were raised as to how the proposals might operate in practice. Nearly half of the listed companies that commented were concerned that they should not be required to disclose commercially sensitive information or expected to make lengthy and immaterial disclosures. The FRC has sought to alleviate these concerns in the revised 'Guidance on Audit Committees' by clarifying that the audit committee would not be expected to disclose information which, in its opinion, would be prejudicial to the interests of the company. It has also sought to alleviate concerns that disclosures would necessarily be lengthy and duplicate information available elsewhere in the report and accounts.

In addition, some respondents raised concerns about the proposal to require “an assessment of the effectiveness of the external auditor”. Some felt that this would be a meaningless statement as no audit committee would want to report that the auditor was ineffective. Others were concerned that the threat of being described as ineffective might affect the auditor’s independence. It was suggested by some respondents that the committee might instead describe what steps it had taken to assess the audit process. The FRC accepts these concerns and has therefore adopted this suggestion in the revised Code and ‘Guidance on Audit Committees’.

### *Audit tendering*

The FRC proposed stating in the Code that FTSE 350 companies should put their audit out to tender at least every ten years, and suggested possible transitional arrangements which linked the timing of the tender to rotation of the audit partner and when the company last put the audit out to tender or changed auditor.

The draft ‘Guidance on Audit Committees’ included proposed further wording on the tendering process and when shareholders should be notified of the company’s intention to put the external audit contract out for tender.

Views amongst companies were fairly evenly divided between those who supported and opposed the proposal. Investors generally supported the proposal and some wanted the FRC to go further, either through more frequent tendering or more prescription on the tendering process. Some believed that in addition to tendering every six to seven years there should be a cap of no more than 15 years on the length of time that an audit firm could audit a company.

The proposal was not supported by the Big 4 audit firms, some of whom suggested other ways of alleviating the perception that long-serving auditors may lack independence. Smaller audit firms generally supported the proposal and some of them wanted the FRC to go further, for example by extending the Code recommendation beyond FTSE 350 companies or by requiring companies to include at least one firm from outside the Big 4 on the shortlist when holding tenders.

Arguments put forward against tendering included: that existing protections such as audit partner rotation were sufficient; that it could be costly and disruptive; that there is limited choice in some sectors; and that it might lead to pressure on audit fees and adversely affect quality.

While the FRC understands these arguments it continues to believe that there are persuasive arguments in favour of regular tendering of the external audit contract. It reduces the perception of a familiarity threat by ensuring that the relationship is subject to open market competitive review on a periodic basis; it provides an opportunity for new personnel and audit techniques to be deployed and so may lead to improvements in audit quality and innovation; and it allows audit committees to make their own judgements about the balance of risk between familiarity and inexperience.

The FRC has therefore adopted this proposal in the revised Code. As with all Code provisions it is subject to “comply or explain”, so if companies consider that in their particular circumstances the risks outweigh the benefits they have the option of explaining to their shareholders why they believe that to be the case. In addition, the FRC will be holding discussions with audit committee chairs, finance directors, audit partners and investors to consider whether further guidance would be useful.

It was also clear from their comments that some respondents believed that there would be an expectation on the part of the FRC and/or investors that tendering must result in a change of auditors. For the avoidance of doubt, the FRC wishes to make it clear that there is no such presumption on its part.

The FRC considers it important that the decision on which auditor to appoint and when to change auditor remains with the company and its shareholders. It does, however, consider that many companies can do more to explain to shareholders the basis on which they are recommending auditors for appointment, and hopes that the additions to the Code on reporting by the audit committee will prompt them to do so.

Where respondents commented on the FRC's proposal to limit the new provision to FTSE 350 companies in the first instance they were generally supportive, accepting that this had been proposal for practical purposes rather than because it was felt the benefits outlined above were not also relevant to smaller listed companies.

There was also general support for other aspects of the FRC's proposed transitional arrangements. These were not intended to be binding arrangements, so the FRC does not intend to incorporate them in either the Code or 'Guidance on Audit Committees', but they will be set out on the FRC's website. The FRC hopes that they will be borne in mind by companies, and by shareholders when assessing the company's recommendation on auditor appointment, but they should not be interpreted as preventing companies from putting the audit contract out to tender sooner if they believe it is appropriate to do so.

A small number of respondents suggested that in addition to the proposed transitional arrangements the FRC should defer implementation for twelve months to give companies more time to prepare. The FRC considers that "comply or explain" makes such deferral unnecessary but, as with all changes to the Code, will keep under review how the new provision is being implemented and whether it has any unintended effects.

In addition to comments on the merits of the proposal, some detailed comments were received on the proposed revisions to 'Guidance on Audit Committees'. A number of respondents disagreed with the suggestion that companies should be expected to give advance notice of their intention to put the audit contract out to tender in the previous year's annual report, taking the view that this was impractical as circumstances might change and noting that there were other means of notifying the market. There was also opposition to the proposal that tenders should be held on an "open book" basis, including some of the smaller firms.

The FRC has made changes to the guidance in response to these comments. The new edition states that companies should announce their intention in advance of the commencement of the tendering process to allow shareholders to provide input to the process should they wish, and that all tendering firms should have necessary access to information and individuals throughout the tendering process.

### *Explanations*

The proposal was to set out the features of a meaningful explanation in the introductory section of the Code on the operation of "comply or explain", as non-binding guidance for companies and investors.

There was strong support for this addition among the two-thirds of respondents who commented on this issue, and the majority were content with the proposed wording. A small number of respondents were concerned that it could be read as saying there was a presumption that companies should comply in all cases. A few others were concerned that

the final sentence (“The explanation should indicate whether the deviation from the Code’s provisions is limited in time and, if so, when the company intends to return to conformity with the Code’s provisions”) could be read as saying that deviations from the Code could only ever be temporary.

The FRC does not consider that, read as a whole, the introductory section on the operation of ‘comply or explain’ could reasonably be interpreted as expressing a view that companies were discouraged from choosing to explain. It does, however, accept that the final sentence could be read as inferring that deviation from the Code should only be temporary. That was not the FRC’s intention, and the wording has been changed to remove any such inference.

#### *Other providers of capital*

The FRC proposed that chairmen should be encouraged in their statements in the annual report to confirm the board’s interest in listening to the concerns of bond investors insofar as these are relevant to the company’s overall approach to governance. It was proposed to add this suggestion to the Preface of the Code, so it would not be subject to “comply or explain” or the other requirements in the Listing Rules.

Roughly half of respondents commented on this proposal. Of these a strong majority agreed with the sentiment, but quite a number of them raised points on the drafting or positioning of the proposal. The most common comment was that it needed to be made clear that the interests of shareholders remained the primary responsibility of the board, and that they were the primary audience for the annual report and accounts. A small number were concerned that without such a clarification the interests of shareholders could be undermined. While the FRC considers these concerns to be overstated, it has made the clarification requested in the wording adopted in the revised Code.

A small number of respondents suggested that, rather than linking this issue to the chairman’s statement, the FRC should add a supporting principle to Section E of the Code (which deals with relations with shareholders) to the effect that the board should seek to engage with all types of investors, not just holders of equity shares. The FRC considers that adding such a principle in the main body of the Code, to which the requirements in the Listing Rules apply, would exacerbate the concerns identified by other respondents, and has therefore not taken up this suggestion.

#### *Disclosure on external advisors*

In order to make the disclosure requirements on the use of different external advisors consistent within the Code, the FRC proposed to amend the Code to require external board reviewers to be identified, and to require companies that have made use of an external search consultancy to disclose whether they have any other connection with the company.

Almost all respondents who commented on the issue supported the proposal that board reviewers and other board advisers be identified. A small number of respondents sought additional disclosure, while a couple argued that identifying board reviewers would lead to companies wishing to employ one of a small number of reviewers, thereby reducing competition and innovation. While the FRC accepts there is such a risk, it does not consider that it outweighs the benefits of transparency. The proposals have therefore been adopted.

## APPENDIX

### Summary of the differences between the 2010 and 2012 editions of the Code

2010 Edition	2012 Edition
'Governance and the Code'	Wording specific to the 2010 edition and preceding review of the Code has been removed.
'Preface'	Wording specific to the 2010 edition and preceding review of the Code has been removed.  New paragraph 7 has been added:  "While in law the company is primarily accountable to its shareholders, and the relationship between the company and its shareholders is also the main focus of the Code, companies are encouraged to recognise the contribution made by other providers of capital and to confirm the board's interest in listening to the views of such providers insofar as these are relevant to the company's overall approach to governance."
'Comply or Explain'	Underlined wording has been added to paragraph 3:  "In providing an explanation, the company should aim to illustrate how its actual practices are consistent with the principle to which the particular provision relates, and contribute to good governance <u>and promote delivery of business objectives. It should set out the background, provide a clear rationale for the action it is taking, and describe any mitigating actions taken to address any additional risk and maintain conformity with the relevant principle. Where deviation from a particular provision is intended to be limited in time, the explanation should indicate when the company expects to conform with the provision</u> ".

<p>Provision B.2.4:</p> <p>“A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director.”</p>	<p>Underlined wording has been added:</p> <p>“A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. <u>This section should include a description of the board’s policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.</u> An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. <u>Where an external search consultancy has been used, it should be identified in the report and a statement should be made as to whether it has any other connection with the company”.</u></p>
<p>Principle B.6:</p> <p>“Main Principle</p> <p>The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.</p> <p>Supporting Principles</p> <p>The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors.</p> <p>Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).”</p>	<p>A new supporting principle has been added:</p> <p>“Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.”</p>

<p>Provision B.6.2:</p> <p>“Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. A statement should be made available of whether an external facilitator has any other connection with the company.”</p>	<p>Underlined wording has been added:</p> <p>“Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. <u>The external facilitator should be identified in the annual report and</u> a statement should be made available <u>as to</u> whether <u>they have</u> any other connection with the company.”</p>
<p>Principle C.1:</p> <p>“Main Principle</p> <p>The board should present a balanced and understandable assessment of the company’s position and prospects.</p> <p>Supporting Principle</p> <p>The board’s responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.”</p>	<p>Underlined wording has been added:</p> <p>“Main Principle</p> <p>The board should present a <u>fair</u>, balanced and understandable assessment of the company’s position and prospects.</p> <p>Supporting Principle</p> <p>The board’s responsibility to present a <u>fair</u>, balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.</p> <p><u>The board should establish arrangements that will enable it to ensure that the information presented is fair, balanced and understandable.</u>”</p>
<p>Provision C.1.1:</p> <p>“The directors should explain in the annual report their responsibility for preparing the annual report and accounts and there should be a statement by the auditor about their reporting responsibilities.”</p>	<p>Underlined wording has been added:</p> <p>“The directors should explain in the annual report their responsibility for preparing the annual report and accounts, <u>and state that they consider the report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s performance, business model and strategy.</u> There should be a statement by the auditor about their reporting responsibilities.”</p>

<p>Provision C.3.2:</p> <p>Lists the audit committee’s main roles and responsibilities.</p>	<p>New bullet point added at the end:</p> <p><u>“and to report to the board on how it has discharged its responsibilities”.</u></p>
<p>Provision C.3.3:</p> <p>“The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. A separate section of the annual report should describe the work of the committee in discharging those responsibilities.”</p>	<p>Struck-through wording has been removed:</p> <p><del>“The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. A separate section of the annual report should describe the work of the committee in discharging those responsibilities.”</del></p> <p>New Provision C.3.4 added and the numbering of subsequent provisions changed:</p> <p><u>“Where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s performance, business model and strategy.”</u></p>
<p>Provision C.3.6 (now C.3.7):</p> <p>“The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee’s recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.”</p>	<p>Underlined wording has been added:</p> <p>“The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. <u>FTSE 350 companies should put the external audit contract out to tender at least every ten years.</u> If the board does not accept the audit committee’s recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.”</p>

<p>Provision C.3.7 (now C.3.8)</p> <p>“The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.”</p>	<p>Replaced with:</p> <p>“A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include:</p> <ul style="list-style-type: none"> <li>• the significant issues that it considered in relation to the financial statements, and how these issues were addressed;</li> <li>• an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;</li> <li>• and, if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.”</li> </ul>
<p>Provision D.2.1:</p> <p>“The board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors. In addition the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the company.”</p>	<p>Final sentence changed to:</p> <p>“Where remuneration consultants are appointed, <u>they should be identified in the annual report and a statement made as to whether they have any other connection with the company.</u>”</p>



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