

The Investor Relations Society
5th Floor, 30 Coleman Street
London, EC2R 5AL

Laura Warren
Director of Competition Policy
Financial Reporting Council

By email: acstandard@frc.org.uk

8th February 2023

Dear Laura,

Re: Minimum standards for audit committees

Thank you for giving us the opportunity to comment on the FRC [consultation](#) on its draft proposal for a minimum standard for audit committees. This response is on behalf of the UK's Investor Relations Society ('the IR Society').

The IR Society represents members working for publicly listed companies and consultancies to assist them in the development of effective two-way communication with the markets and to create a level playing field for all investors. It has over 850 members, drawn mainly from the UK, including the majority of the UK FTSE 100 and many of the FTSE 250 constituents, but also including some from companies listed overseas.

The IR Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and Government; and to act as a forum for issuers and the investment community.

We note the purpose of the standard will be to increase performance across audit committees in the FTSE350, ensuring a consistent approach and supporting a well-functioning audit market. The standard sets out the responsibilities of the audit committee in relation to the external audit, in particular with regard to the tendering process, the oversight of the external auditors and reporting to investors on these responsibilities in the annual report. The draft draws on existing FRC publications, including its Guidance on Audit Committees and the Governance Code. Following the consultation, the standard will apply on a voluntary basis by the end of 2023, ahead of the planned legislation that will make the standard mandatory.

We understand that this consultation on draft minimum audit committee standards is the first step towards implementing the Government's reforms set out in its [response](#) to the White Paper on restoring trust in audit and corporate governance. We are responding at this stage to offer liaison with the FRC going forward so that we can provide our input on the logistics and practicalities of any FRC proposals for engagement with shareholders as

they are being developed and thus help to ensure that any new measures are appropriate and avoid unintended consequences.

As we set out in our [response](#) to the 2021 White Paper, giving shareholders a formal opportunity to engage with risk and audit planning will raise a number of challenges. We also mention below the new Audit and Assurance Policy that 750/750 PIEs will be required to develop and publish to provide insight and assurance to investors and other stakeholders, given these measures are likely to have time and resource implications for those companies and their Company Secretarial and IR departments.

Enhanced shareholder engagement with risk and audit planning

We note that, following its 2021 White Paper, the Government continues to believe that a formal mechanism should be established to enable audit committees to gather shareholder views on the audit plan. This is likely to give shareholders the ability to consider and respond on the audit plan and to consider any revised/updated risk report.

In our experience, it is already common practice for Chairs of listed companies to offer meetings with shareholders that facilitate wide-ranging conversations on governance, including the opportunity to discuss financial reporting and the audit process. An increasing number of companies are also hosting governance roundtables for shareholders featuring a variety of non-executive directors including Audit Chairs.

The practicalities of managing greater investor engagement with Audit Committees may likely fall on Company Secretaries and Investor Relations Officers/IR departments (which, especially in small/mid-cap companies, can be a combined role). The Society would therefore be keen to establish ongoing dialogue with the FRC so that we can feed in our comments on the logistics and practicalities while these proposals are being developed (ideally prior to public consultation), to help ensure that the reforms are workable in practice and to minimise or mitigate any resource implications for companies, CoSecs and IR departments.

Audit and Assurance Policy (AAP)

We note that the primary purpose of the AAP will be to require companies that are 750/750 PIEs to demonstrate to their shareholders and others with a direct interest in a company's reporting and prospects – including creditors, customers and suppliers – how they are ensuring the integrity of their annual statutory and voluntary disclosures beyond the financial statements, whether internally or externally, and how they are considering where any additional internal or external assurance may be needed going forward.

This reform will require companies to seek shareholder engagement in the development of the AAP, and to state how shareholder views have been taken into account in its development.

We note the AAP will also be required to set out whether, and if so how, the company intends to seek independent/external assurance over any part of the new Resilience

Statement or over reporting on its internal control framework, and is intended to provide investors with an opportunity to press for more assurance if they have concerns.

Any such engagement with investors is likely to involve IR departments, and therefore the Society is seeking dialogue with the FRC/ARGA to provide our input on the logistics and practicalities of any proposed requirements and guidance on good practice in this area (ideally prior to public consultation).

We look forward to discussing these topics with you at an appropriate moment.

Your sincerely,

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