

Response to FRC Consultation on UK Corporate Governance Code 2023

Q4 Including directors' commitments to other organisations in board performance reviews is a valuable change. This could prompt both individual reflection on work balance and career progression as well as identifying the extent to which such other commitments benefit a director's contribution to a company, in terms of developing knowledge and skills e.g. understanding of the broader industry.

Q5 Requiring greater transparency about directors' other commitments could be helpful for investors and other stakeholders seeking to consider the board's overall capacity to manage its responsibilities. This would be particularly relevant where directors chair board committees, especially audit committees, in more than one company.

Q7 A broader approach to characteristics of diversity may be helpful for those seeking to learn how a company deals with this issue but it is also important for boards to consider the fundamental objectives of establishing and extending measures to improve diversity and inclusion. To what extent do such considerations support a company's particular strategic objectives? The pursuit of board diversity appears to be predicated on the idea that this will enhance board performance by providing diversity of thought but there is little evidence supporting this assumption. It is worth noting that a similar idea prompted the required appointment of non-executive directors, assuming that their independence would enhance an oversight role: a growing body of research questions this assumption. (see further comments at <http://viewer.zmags.com/publication/e8c7bb38#/e8c7bb38/66>)

Q12 I began studying audit committees in the 1990s and their responsibilities have extended hugely since then. I have been unable to locate recent research into how AC members currently perceive their role and manage its demands: I think some insight into this is essential before making any further expansion to their remit.

Q13-17 My role as academic adviser to the Turnbull Review Group prompted much of my interest in internal control and risk management reporting - see below for links to my published work. Although this research took place two decades ago, the insights into the thinking of those involved are still relevant.

In particular, the role of internal audit is important but often overlooked. I hope that internal auditors will respond to the consultation as they are best placed to take an informed view on these issues.

In principle, a greater focus on these areas in the Code would be welcome.

Q15: I think that changing the Code wording from the narrower focus on financial reporting could potentially extend the scope of the control system in a poorly defined way and more thought needs to be given to the practical effects of this.

Q17: Definitions of effectiveness and material weakness depend on the identification of purpose within specific contexts and should be left to boards to define.

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Relevant publications

Spira, L.F and Page, M. (2003) 'Risk management: the reinvention of internal control and the changing role of internal audit', Accounting, Auditing and Accountability Journal, 16(4), 640-661

Page, M and Spira, L.F (2004) 'The Turnbull Report, Internal Control and Risk Management: the Developing Role of Internal Audit', Institute of Chartered Accountants in Scotland, ISBN 1-904574-05-X
(https://www.icas.com/__data/assets/pdf_file/0017/10574/72-The-Turnbull-Report-Internal-Control-And-Risk-Management-ICAS.pdf)

Spira, L. F and Gowthorpe, C. (2008) 'Reporting on Internal Control in the UK and the US: Insights from the Turnbull and Sarbanes-Oxley Consultations' Institute of Chartered Accountants in Scotland, ISBN 978-1-904574-31-6
(https://www.icas.com/__data/assets/pdf_file/0004/7717/70-Reporting-on-Internal-Control-in-the-UK-and-US-ICAS.pdf)

Spira, L.F and Page, M (2010) "Regulation by Disclosure: the Case of Internal Control" , Journal of Management and Governance 14, 409-433