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Opportunity for companies to test 'Audit Committee Reports'

This Lab project will research the content and style of existing and newly developing Audit Committee Reports. The Lab is calling for listed companies and investors/analysts to participate in a project to develop and publish observations on approaches to reporting that are considered to be most effective.

The FRC issued an updated UK Corporate Governance Code (the Code), together with Guidance for Audit Committees on 28 September 2012. The Code includes a series of measures intended to give effect to the policies originally identified in 'Effective Company Stewardship: Next Steps', published in September 2011, and applies to reporting years beginning on or after 1 October 2012.

The Code requires the Annual Report to provide (on a comply or explain basis) information describing the work of the Audit Committee, including:

- the significant issues considered in relation to the financial statements, and how they were addressed,
- how the Audit Committee assessed the effectiveness of the external audit process, and
- the approach to appointing the auditor and how objectivity and independence is safeguarded relative to non-audit services.

The specific content and presentation of this and certain other information is largely left to each Committee's discretion.

The aim of the Lab's project is to provide insight from the reporting and investment communities on effective approaches to reporting, including both the content and style of presenting information. The project will provide companies with an opportunity to better understand what it is that the investment community wants to see reported by audit committees, in light of both new and existing aspects of the Code and Guidance to Audit Committees.

Proposed scope of the project

The project will involve several companies whose current or developing Audit Committee reporting will be used to illustrate various approaches taken. It is anticipated that current practices will be analysed and anonymous examples developed through the project. The project will explore what investors and analysts find to be useful information in Audit Committee Reports and what information they consider would further add value.

We are seeking a number of listed companies to provide example Audit Committee Reports and discuss the rationale behind the content and format used. The examples provided will be tested with the investment community through a series of meetings facilitated by the Lab. If preferred by participating companies, examples could be presented to the investment community on an anonymous basis.

The Lab's output report on this project will set out which aspects of the Audit Committee Report formats are judged to be useful by the investment community. If different types of investors and analysts hold diverse opinions, the Lab's report will also indicate this.

While the project will focus on Audit Committee Reports, existing and proposed changes in the reporting on audits by auditors will also be taken into consideration. In particular, recent revisions to auditing standards, published by the FRC in connection with the update to the Code, enhance communications to audit committees and auditor reporting. Such changes require the auditor to communicate to the audit committee information that the auditor believes the audit committee will need to understand the significant professional judgments made in the audit, and require the auditor to report by exception, if the matters disclosed in the report from the audit committee do not appropriately address matters communicated by the auditor to the committee. Developments following the IAASB 'Invitation to Comment: Improving the Auditor's Report, issued for comment 8 October 2012 will also be considered.

What level of involvement is required?

Companies participating in this project will need to provide existing and if possible, potential changes in their planned Audit Committee Reports. Given the sensitivity of reporting in this area, it is essential that the involvement of each participating company is supported by the company's Audit Committee, particularly the Chair. Participating companies are also encouraged to obtain the support of their auditor.

Companies are requested to indicate interest in participating in this project over the course of the next month. This will allow the Lab to obtain input from the investment community during the first half of next year, with the aim of publishing the Lab's report on this topic in the summer.

Beyond providing the examples for testing with the investment community, we do not expect that company participants will need to commit significant time to this project. For example, the Lab team can facilitate meetings with the investment community and share with participating companies the feedback from the meetings.

All parties involved in the project will be required to respect the confidentiality of information provided by other participants. This includes respecting the confidentiality of the names of companies and investors/analysts participating in the project until such information is made public in the Lab's report.

What is the Financial Reporting Lab?

In October 2011, the Financial Reporting Council (FRC) launched its Financial Reporting Lab (Lab) with the aim of improving the effectiveness of corporate reporting in the UK. The Lab provides a safe environment for companies, investors and analysts to discuss innovative reporting solutions that better meet the needs of both communities.

How should companies and investors express interest in participating?

Companies and investors/analysts interested in discussing participation in this project should contact the Lab team by email at: FinancialReportingLab@frc.org.uk, or contact Jennifer Guest by telephone on 020 7492 2427.

Further information on the Lab and its activities can be found at:
<http://frc.org.uk/Our-Work/Codes-Standards/Financial-Reporting-Lab.aspx>.