

Catherine Horton
Financial Reporting Council
8th Floor, 125 London Wall
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19 February 2018 .

Dear Ms Horton

Consultation on Proposed Revisions to the UK Corporate Governance Code

The Board of the Audit Committee Chairs' Independent Forum is pleased to respond to the Financial Reporting Council's Consultation on Proposed Revisions to the UK Corporate Governance Code. We will share this letter with our members.

Our comments are limited to the proposed changes that relate to the role and responsibilities of the audit committee.

Two questions are asked in Section 4 of the consultation document relating to audit, risk and internal control and we address these first.

Q12. Do you agree with retaining the requirements included in the current Code, even though there is some duplication with the Listing Rules, the Disclosure and Transparency Rules or Companies Act?

We consider that the Code should be comprehensive and that it should not omit requirements that it would otherwise contain just because those requirements are included in other regulations. As well as maintaining the integrity of the Code, this has the advantage of avoiding the need for directors to refer to multiple sources. As is currently the case, the Code should include a cross-reference to the regulations concerned.

Q13. Do you support the removal to the Guidance of the requirement currently retained in C.3.3 of the current Code?

We agree that the need to make the terms of reference of the audit committee publicly available can be appropriately covered in the Guidance rather than in the Code itself.

Comments on other aspects of the proposed revisions to the Code

Fair, balanced and understandable.

Based on the revised UK Corporate Governance Code in Appendix A to the consultation document and on the Summary of Changes from 2016 UK corporate Governance Code in Appendix C, it is proposed to delete the current Code provision requiring the audit committee to advise the board, when requested to do so, whether the annual report and accounts is fair, balanced and understandable. We appreciate that the wording of the current Code provision is used in the Guidance for Audit Committees and will presumably be retained there.

We are surprised that this change is not mentioned in the main consultation document and that therefore it is not the subject of a consultation question.

In our views this provision should be retained in the list of the main roles and responsibilities of the audit committee set out in the Code, it being no different in principle from the requirement in

Provision 25 of the revised Code for the audit committee to review the company's internal controls and its internal control and risk management systems whilst the board as a whole is required by Principle N of the revised Code to satisfy itself that the company's internal controls are robust and allow for prudent and effective risk assessment and management. It is similarly no different in principle from the requirement in Provision 25 of the revised Code for the audit committee to monitor the integrity of the financial statements whilst the board as a whole is required by law to approve the financial statements. It is usually the case that only the audit committee knows enough about the financial performance of the company as reported in the financial statements to testify to fairness of presentation and balance in the annual report as a whole, assisted by the committee's discussions with the external auditors who also consider the fairness and balance of the annual report.

Viability statement

We are concerned about the discussion of the viability statement in paragraphs 75 to 77 of the consultation document. The discussion attempts to square the findings in the Financial Reporting Lab report on risk and viability reporting with the existing Code provision on viability statements. The document states at paragraph 75 that "investors want company viability statements to explain more adequately the long term prospects of the company and to communicate messages about its long-term future" and goes on to say that investors "generally want companies, especially those making long-term investments, to discuss their prospects of long-term success over periods going beyond their immediate strategy horizon". The FRC then says at paragraph 76 "some companies have used the viability statement to talk about long-term prospects ... This is consistent with what the 2014 Code envisioned for the viability statement" and goes on to say in paragraph 77 "we encourage companies to develop their viability statements in two stages – first by considering the prospects of the company over a period reflecting its business and investment cycles and, second, by stating whether they have a reasonable expectation that the company will be able to continue to meet its liabilities as they fall due over the assessment period".

In fact, however, the Code provision explicitly requires the board to assess the company's prospects over an appropriate period of assessment and to state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the *same* assessment period. There is no suggestion that a longer period should be used to assess prospects and a shorter period in relation to the ability of the company to continue in operation; in fact the opposite. If the FRC wishes the viability statement to discuss a company's longer-term prospects as well its viability over a (shorter) assessment period, it should propose a change to the existing Code provision on viability statements and justify its proposal. In our view, however, the level of uncertainty surrounding future conditions is such that it would not be appropriate to require directors to discuss the company's prospects of long-term success over periods going beyond their "immediate strategy horizon", and any requirement to do so would result in bland statements of little if any help to investors or other stakeholders.

Yours sincerely



Jock Lennox

Chairman