



Summary of the UK Government's response to the proposals on reforming audit and corporate governance

9 June 2022



Foreword

The [Government's response on strengthening the UK's audit, corporate reporting and corporate governance systems](#) published on 31 May 2022, whilst not a culmination of the process initiated in 2018, marks an important milestone.

Following three independent reviews, a parliamentary inquiry and extensive policy proposals, a 'Draft Audit Reform Bill' was announced in the Queen's Speech on 10 May. This means that the reforms are still on the Government's agenda, but not a political priority. Whilst legislation to implement relevant reforms is not expected until after June 2023, some policy measures will be implemented through other regulatory interventions like revisions to the UK Corporate Governance Code (UK CG Code).

The genesis of the audit and corporate governance reforms was to enhance society's trust in the wider UK business environment following corporate scandals and collapses. Whilst there have been many calls for the Government to press ahead, reforms have stalled and been scaled back.

Today, companies face significant challenges from soaring energy prices, supply chain disruptions and record inflation - all of which are exacerbated by the war in Ukraine and the ongoing impact of the pandemic and Brexit. This dynamic risk landscape and the consequent heightened risk of fraudulent behaviour make it all the more important for our capital markets to have resilient, well-controlled companies. The case for the reform is stronger than ever.

Despite the slow progress in finalising and enacting the reforms, companies have identified opportunities to seize some of the earlier ideas and proposals for reform. For example, our research shows that 67 companies in the FTSE 100 are focussing on enhancing their internal controls over financial reporting. Many also began assessing and improving components of their fraud risk framework, given the consultation's proposal for directors of public interest entities (PIEs) to report on the steps taken to prevent and detect material fraud. Additionally, boards are actively enhancing their governance over climate, sustainability and social issues beyond what is required in legislation or the UK CG Code. For our part, we continue to make significant investments in audit quality and have also incorporated enhanced procedures in respect of climate and fraud risks into our audits.

EY has been vocal about the importance of the balance of responsibility and accountability in the corporate ecosystem. The response sets out high level principles. We remain eager to see a plan showing when and how the policies will be implemented, and whether this achieves the right balance. We remain concerned that the scaled-back plans and the pace of change will mean both that this balance is not achieved and the opportunity to reform our business ecosystem is missed.



Hywel Ball
EY UK Chair| UK&I Regional Managing Partner



Introduction

On 31 May 2022, the UK Government published the long-awaited [response](#) to its proposals to strengthen UK's audit, corporate reporting and corporate governance systems. Whilst this marks an important milestone and the reforms outlined will have a marked impact on many UK companies, their boards, the audit profession and the regulator, it is disappointing that many measures have been scaled back significantly from the original proposals.

Purpose of this document

This document has been developed to provide an immediate high-level summary of the measures in the response compared to the original consultation proposals. For ease of reference, the relevant chapters of the Government's response are noted in first column headed 'CH' in the table below.

Timing and pace of change

- ▶ The response notes that there is no precise timetable and it only outlines the actions to be taken, including what the Government intends to ask of the Audit, Reporting and Governance Authority (ARGA) and other stakeholders. Hence, other than in a few places, the table below is silent on timings.
- ▶ It is important to note that many of the measures in this response will be subject to further scrutiny - including potentially from Parliament - and/or consultation, e.g., the Financial Reporting Council (FRC) is required to consult on changes to the UK CG Code before they become effective. This is likely to impact the pace of change and potentially their substance too.
- ▶ Legislation is expected in the next parliamentary session 2023/24 at the earliest. We expect all of ARGA's new powers to be in force by 2024.
- ▶ The FRC has committed to publishing a work plan and position paper to explain how it expects the next stage of reform to proceed. It will also produce an engagement programme to provide more information about the key policy areas it will be taking forward.

PIE definition

- ▶ The Government has created a new threshold: £750m+ turnover **and** 750 (global) employees to extend the scope of the definition of a PIE. BEIS estimate that circa 600 new entities will be brought into the PIE scope. This includes private limited companies, AIM-listed companies, and other eligible entity types for example, LLPs and third sector entities. Around 550 of these entities are companies with the remainder being a mix of other legal forms.
- ▶ At this stage, it is not intended that the new reporting proposals noted in the **Appendix** of this summary will apply to non-company PIEs e.g., LLPs.
- ▶ Further clarity is needed to establish which requirements will impact which type of PIE and whether exemptions may apply. The Government intends to address the risk for duplication of reporting in a group structure.

Key for icons used in the table below – consider the icon highlighted **in yellow**.

- ▶ Proposal dropped
- ▶ Proposal taken forward
- ▶ Proposal taken forward but significantly scaled back



CH	Measure	Vehicle	Scope	Summary
1.6	New entities in scope of the PIE definition <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	Legislation	750+ employees and £750m+ turnover	<p>Headline: New threshold and varying impacts on different categories of PIEs.</p> <ul style="list-style-type: none"> ▶ The definition of PIE¹ has been revised to capture a number of entities identified as of systemic public interest because of their economic impact, number of employees, size of supply chains, whether they are publicly traded or such that their collapse would have wider ramifications on society (e.g., energy providers, financial institutions, water utilities, transport companies). ▶ The two thresholds proposed in the consultation have been discarded in favour of a new one, set at turnover of £750m or more and 750+ employees². For clarity: <ul style="list-style-type: none"> ▶ In scope: large private companies, AIM traded, Limited Liability Partnerships (LLPs) and third sector. ▶ Not in scope: Lloyd's syndicates and local authorities not already in scope of the existing definition of PIE. ▶ UK parent companies, which prepare UK consolidated accounts that on aggregation meet the size threshold, are also caught. Consequently, when an entity that is a PIE (because it meets the new size threshold), is a subsidiary of a UK-incorporated parent, the parent will also qualify as a PIE. ▶ The scope will capture individual entities that meet the threshold; however, the intention is to address the risk of duplication of reporting in a group structure. ▶ Newly listed PIEs will not benefit from any exemptions. ▶ A phased-in implementation of at least a full annual reporting period will be introduced as well as a smoothing mechanism to ensure that new PIEs will continue to meet the requirements for a set period, when they drop out of the threshold. ▶ Due to the associated costs, entities that become PIEs by virtue of the new size threshold will not be required to have an audit committee (AC), to retender every 10 years or to rotate auditor every 20 years. ▶ The new requirements for a Resilience Statement (RS), Audit and Assurance Policy (AAP), directors' statement on steps taken to prevent and detect material fraud and new measures on dividends and distributable reserves, will only apply to PIE

¹ Entities currently in scope of the UK PIE definition include:

- ▶ Those with securities traded on a regulated market (e.g., premium listed companies)
- ▶ Credit institutions (banks and building societies)
- ▶ Insurance undertakings

² The Government intends to use a global employee figure; therefore, numbers relate to employees of UK headquartered companies regardless of where in the world their activities take place.



CH	Measure	Vehicle	Scope	Summary
				<p>companies³ that meet the size threshold (therefore, those entities in scope of the current PIE definition, which do not meet the new 750m/750 threshold, will not be in scope of those new measures).</p> <p>The Government intends to 'deregulate' over time with a view to reduce EU-derived requirements, to harmonise measures and thresholds.</p> <p>Legislation is expected in the next Parliamentary session (2023/24) at the earliest. It is expected that implementation of the expanded scope of the PIE definition will be phased in.</p>
5	Directors' overall accountability <input type="checkbox"/> <input checked="" type="checkbox"/>	Legislation (powers to ARGAs over directors)	All PIEs, and in exceptional cases non-PIEs	<p>Headline: new civil enforcement regime in relation to directors' statutory duties on audit and corporate reporting. No powers to prosecute offences.</p> <p>Scope</p> <ul style="list-style-type: none"> ▶ All directors (executive and non-executive) of all PIEs (existing and newly in scope) will be in scope of ARGAs' new civil enforcement regime in relation to their statutory duties on audit and corporate reporting. ▶ These new powers will apply to all types of entities in scope of the PIE definition (not just companies) and to management persons that are not directors. ▶ In exceptional cases and in the public interest, ARGAs' powers may extend to non-PIEs. <p>Powers</p> <ul style="list-style-type: none"> ▶ ARGAs will have powers to investigate and sanction breaches of PIE directors' duties in relation to audit and corporate reporting, in line with the principles of the audit enforcement regime. ▶ In addition, in cases of overlap of powers and remit between ARGAs and Financial Conduct Authority (FCA), ARGAs will be given powers to take action against directors of listed and financial services entities. Any overlap should be addressed directly by the regulators through an updated Memorandum of Understanding (MoU). ▶ ARGAs will not have powers to prosecute offences and will need to refer cases to other regulators, such as Serious Fraud Office or the Insolvency Service. ▶ ARGAs' powers will complement the Insolvency Service's existing ones to disqualify directors for up to 15 years.

³ References to PIE companies vs PIE entities: At this stage, it is not intended that the new reporting measures apply to PIE entities (which meet the 750m/750 thresholds) which are not incorporated as companies under the Companies Act. Hence, for example, LLPs would be excluded. They do not currently prepare full Strategic Reports (in which much of the new reporting will sit) and some of the aims of the new reporting - on resilience statements for example may not be directly relevant to LLPs (capital maintenance provisions for example).



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				<ul style="list-style-type: none"> ▶ ARGAs new powers will not prevent or interfere with shareholders' rights to take action against directors, as already in Part 10 of the Companies Act 2006. <p>Next steps</p> <ul style="list-style-type: none"> ▶ ARGAs will need to set out expectations of directors on compliance with their legal duties. <p>Legislation is expected in the next parliamentary session 2023/24 at the earliest. We expect all of ARGAs new powers to be in force by 2024.</p>
4	Supervision of corporate reporting   	Legislation	ARGA will set out its approach to the use of these new powers, but its main focus will be on reporting by PIEs.	<p>Headline: Entire annual report and accounts (ARA) in scope of ARGAs review. ARGAs will have powers to direct changes.</p> <ul style="list-style-type: none"> ▶ ARGAs powers will extend to cover the entire contents of the ARA. It will be able to review sections of ARAs which it does not have the statutory powers to review currently, such as corporate governance reporting, AC and directors' remuneration reports, and sections which are included voluntarily (e.g., CEO's and Chair's statements). ▶ ARGAs will be given statutory powers to direct changes to ARAs without having to seek a court order. It will also have powers to publish summary findings following a review – similar to its current practice of publishing case summaries with company consent. The Government will ensure that there are fair processes (currently unspecified) for companies to challenge ARGAs decisions. ▶ ARGAs will also have the direct powers to commission an expert review to support its corporate reporting review work. ▶ Two specific proposals were dropped i.e., for ARGAs to provide a pre-clearance service and strengthening regulation over a wider range of investor information (such as preliminary announcements).
2.1	Internal controls statement   	UK CG Code	Premium listed companies	<p>Headline: explicit statement by directors on controls effectiveness to be introduced through the UK CG Code (comply or explain). No mandatory assurance. The AAP to state if external assurance is sought.</p> <ul style="list-style-type: none"> ▶ There was strong support for strengthening the UK's internal control framework based around a more explicit statement by directors about whether they regard their company's internal control framework to be effective. However, 80% of respondents to the consultation opposed the idea of subjecting these statements to mandatory assurance.



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				<ul style="list-style-type: none">▶ The Government concluded that there are risks in putting a directors' statement on a legislative footing. The FRC will therefore consult on strengthening the internal control provisions in the UK CG Code to provide for an explicit statement from the board about their view on the effectiveness of the internal control systems (financial, operational and compliance systems) and the basis for that assessment.▶ This will be underpinned by ARGAs guidance which is expected to cover how boards should approach the preparation of this statement; acceptable standards, benchmarks or principles; definition issues and the circumstances in which external assurance might be considered appropriate.▶ Auditor attestation will not be mandatory. However, as part of a future consultation on the content of audit reports, the FRC will explore whether and how more information about the work auditors have undertaken on the internal controls over financial reporting could be provided. This would be limited to observations based on work carried out as part of the statutory audit and would not amount to assurance over the control system.▶ The Government recognises that implementing changes through the UK CG Code will be more effective if investors apply pressure on directors where internal controls seem to be weak, or where the statements are boilerplate or inadequate. As such, the AAP must state whether or not external assurance over the company's reporting on internal controls will be sought.▶ The Government continues to believe that the AAP should focus on how companies are ensuring the integrity of their annual statutory and voluntary disclosures beyond the financial statements. However, the response notes that it is important that companies consider how they can demonstrate that such disclosures are provided on the basis of robust and reliable internal processes.▶ The Government recognises that the new requirement to report on the steps directors have taken to prevent and detect fraud (see below) will be another opportunity for directors to reference a company's wider internal control system.▶ The Government hopes that the changes to the UK CG Code will proliferate to other companies, either in the form of best practice and/or through changes to other governance codes.



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				<ul style="list-style-type: none"> ▶ If the planned post-implementation review⁴ concludes that the approach did not meet its objectives, new statutory reporting requirements relating to internal controls could be introduced using existing powers in the Companies Act 2006.
6.2	Fraud <input type="checkbox"/> <input checked="" type="checkbox"/>	Legislation	PIE companies in line with size thresholds	<p>Headline: PIE directors to make a statement on steps they have taken to prevent and detect material fraud. No new obligations on the auditor.</p> <ul style="list-style-type: none"> ▶ Directors of PIE companies will have to report on the steps they have taken to prevent and detect material fraud. ▶ No new obligations will be introduced for auditors in respect of the directors' fraud statement. Before taking further action, the Government intends to see if ISA (UK) 700 on auditor reporting and the FRC's recent revisions to the fraud audit standard ISA (UK) 240 have the anticipated effect in clarifying what is expected of auditors in explaining the work they have done to detect fraud and to assess the effectiveness of relevant fraud controls. ▶ The Regulator will hold discussions with professional bodies on how to enhance auditor education and continuing professional development and on the creation of an accessible case study register.
3.1	Resilience Statement <input type="checkbox"/> <input checked="" type="checkbox"/>	Legislation	PIE companies in line with size thresholds	<p>Headline: risk, going concern and viability statement reporting expectations formalised and merged</p> <p>The Government has taken forward the proposal for an annual Resilience Statement (RS), setting out how directors are assessing the company's prospects and addressing challenges to its business model over the short, medium and long-term. This combines the going concern and viability statement disclosures (as contained in the UK CG Code), and reporting on risk and resilience issues over the short and medium term. This will be included in the Strategic Report within the ARA, and therefore covered by the existing 'safe harbour' provision in Section 463 of the Companies Act 2006. The Government expects that the RS will take into account the company's dividend policy.</p> <p>Assessment period</p> <ul style="list-style-type: none"> ▶ The proposed mandatory five-year assessment period has been replaced with an obligation to choose and explain the period of the medium-term section and how this aligns to a company's strategy and business investment cycle. This is similar to existing expectations in respect of the viability statement.

⁴ Expected to be carried out five years after reform legislation first come into force.



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Risks and resilience issues

- ▶ There will not be a common set of risks to be addressed in every RS; instead, the RS will refer to matters that directors consider to be a material challenge to resilience over the short and medium term and how they arrived at the judgement of materiality.
- ▶ The mandated list of risks originally proposed in the consultation has been replaced with a list of matters companies will be required to have regard to, including the impact of climate change on the company's business model.
- ▶ Reporting on each risk/resilience issue will require setting out its: likelihood, impact, time period over which it is expected to remain (and crystallise), mitigating actions and changes compared to the previous year's RS. The intention is that any existing requirements relating to principal risk and uncertainty reporting can be met through the RS.

Reverse stress testing and material uncertainties

- ▶ Companies will need to perform at least one reverse stress test (as opposed to the minimum of two proposed in the consultation). Reporting will need to set out the combination of adverse circumstances that would lead to the business becoming unviable, the likelihood of this combination occurring and mitigating actions in place. Information deemed prejudicial to the interests of the company would not need to be included.
- ▶ Material uncertainties within the going concern period will need to be reported on a gross basis (prior to the application of any mitigating actions or the use of significant judgements).

Role of the regulator

- ▶ The regulator will publish supporting guidance on the RS with specific content on how materiality should be considered and how the RS should effectively reference and link to wider sustainability disclosures,
- ▶ The regulator will have the right to request documentation supporting the reverse stress testing.
- ▶ The FRC will consult on removing from the UK CG Code i) Provision 30 (going concern) since all companies subject to the UK CG Code will continue to provide a going concern statement under accounting standards and company law, irrespective of whether they are subject to the new RS requirement and ii) Provision 31 (viability



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				reporting) as it will consider how the existing objectives of the viability statement can be adapted within the RS.
2.2	Dividends and capital maintenance ✕ ✓ ⬇	Legislation	PIE companies in line with size thresholds	<p>Headline: Disclosure of distributable reserves based on new guidance. Subject to audit. No group estimate required.</p> <ul style="list-style-type: none"> ▶ ARGA will be given formal responsibility for issuing statutory guidance on what should be treated as 'realised' profits and losses for the purposes of section 853 of the Companies Act 2006. This will be subject to full consultation and once final will replace the guidance currently published on a voluntary basis by the professional accountancy bodies. ▶ Companies in scope, or in the case of a UK group, the parent company only, will be required to disclose their distributable reserves, or a 'not less than' figure if determining an exact figure would be impracticable or involve disproportionate effort. This figure will be subject to audit. ▶ Distributable reserves will be disclosed alongside narrative explaining the long-term approach to the amount and timing of returns to shareholders (including dividends, share buybacks and other capital distributions) and the application of this distribution policy in the reporting year. The regulator is expected to issue guidance to underpin this new narrative reporting requirement. The RS will be required to have regard, amongst other things, to the sustainability of the company's dividend policy. ▶ Directors will be required to make an explicit statement confirming the legality of proposed dividends and any dividends paid in the year. ▶ Disclosure of an estimate of the dividend-paying capacity of the group as a whole will be encouraged but not required. Guidance issued by the regulator and institutional investors (where they would value the information) should be used to improve transparency about the group's overall position. ▶ The proposal for directors to make a statement confirming that a dividend would not be expected to jeopardise the future solvency of the company over a period of two years, has not been taken forward.
3.2	Audit and Assurance Policy (AAP) and annual implementation report	Legislation supported by ARGA guidance	PIE companies in line with size thresholds	<p>Headline: Summary of approach to assurance (internal and external) and to working with the auditor. No new mandatory assurance requirements being introduced.</p> <ul style="list-style-type: none"> ▶ The proposal for companies to publish an AAP every three years has been taken forward. Its primary purpose is to require companies to demonstrate to their shareholders (and others with a direct interest in a company's reporting and prospects) how information beyond the financial statements is being assured,



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	<input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>			<p>whether internally or externally, and how companies are considering where any additional internal or external assurance may be needed going forward. The AAP will not make any new assurance activity mandatory.</p> <ul style="list-style-type: none">▶ Companies will be required to produce an annual implementation report to complement the triennial AAP. This should summarise how the assurance activity outlined in the AAP is working in practice.▶ Companies required to produce an AC report will have to publish the AAP and the implementation report within the same section of the ARA as the AC report. In respect of other PIE companies, the Government is considering whether this reporting should be in the Strategic Report or elsewhere in the ARA.▶ In contrast with the proposals, the AAP will not be subject to a shareholder advisory vote, but all in-scope companies, including private, will need to explain how they have taken account of shareholder views and whether (and if so, how) they have taken account of employee views. <p>Independent (external) assurance: A company will be required to:</p> <ul style="list-style-type: none">▶ Set out whether, and if so how, it intends to seek independent assurance in relation to the ARA and other company disclosures beyond that required by statutory audit including at a minimum, any part of the resilience statement and reporting on its internal control framework.▶ State whether any independent assurance proposed within the AAP will be limited or reasonable assurance, or whether an alternative form of engagement or review will be undertaken.▶ State whether any independent assurance beyond the statutory audit will be carried out in accordance with a recognised professional standard.▶ The Government will leave directors and investors to decide whether specific assurance on alternative performance measures (APMs) and key performance indicators (KPIs) is necessary. <p>Internal assurance: A company will be required to describe:</p> <ul style="list-style-type: none">▶ Its internal auditing and assurance process and how the integrity of the internal assurance processes is ensured.▶ Whether, and if so how, the company is proposing to strengthen its internal audit and assurance capabilities over the next three years to address any improvements needed in light of experience. <p>External audit: A company will be required to include its policy in relation to:</p>



CH	Measure	Vehicle	Scope	Summary
				<ul style="list-style-type: none"> ▶ The tendering of external audit services. ▶ The commissioning of non-audit services from the statutory auditor. This will not be dissimilar to existing requirements under the UK CG Code, however, will be a new requirement for non-listed company PIEs.
7.1	Audit committee (AC) oversight and engagement with shareholders 	Legislation and regulatory standards	Initially FTSE 350. Potential to extend to some PIEs upon review.	Headline: Minimum standards for ACs on appointment and oversight of auditors to be developed. Investor engagement to be driven via Stewardship Code <ul style="list-style-type: none"> ▶ ARGA will be given powers to set new minimum standards for ACs relating to the appointment and oversight of auditors. ▶ ARGA is to ensure these minimum standards do not conflict with current requirements in place for ACs from the FCA, Prudential Regulation Authority (PRA), Competition and Markets Authority (CMA) and the UK CG Code and will need to consult on them before they are introduced. ▶ It will also have new powers to monitor compliance with these requirements through the review of publicly available information and/or the ability obtain information and reports. ▶ The standards will also include appropriate provisions to encourage shareholder engagement on the audit plan and the risk report and the FRC will also put forward revisions to the Stewardship Code to encourage shareholder engagement.
		Legislation	All PIE audits	<ul style="list-style-type: none"> ▶ The Government intends to introduce legislation to improve statements made by PIE auditors ceasing to hold office, by requiring certain positive statements relating to their recent relationship with the company and its AC.
		N/A	N/A	Proposals not taken forward: <ul style="list-style-type: none"> ▶ Power to place an observer on an AC. ▶ Power to appoint an auditor in specific circumstances including when audit quality issues had been identified, when an auditor had resigned outside the normal cycle, or when there had been a meaningful shareholder vote against auditor appointment.
8	Competition, choice and resilience in the audit market 	Legislation (new requirement for companies and new powers to ARGA)	FTSE 350	Headline: MSA in and potential for market share caps Competition measures Managed Shared Audit (MSA): All UK-incorporated FTSE 350 companies will be required by law to appoint a challenger firm as sole group auditor or, alternatively, appoint a challenger firm to conduct a meaningful proportion of its subsidiary audits within a shared audit. MSAs will be introduced on a phased basis.



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				<p>ARGA will have powers to:</p> <ul style="list-style-type: none"> ▶ Provide exemptions for particularly complex audits, according to a new framework developed in conjunction with Government. ▶ Define the boundaries of 'meaningful proportion' (based on legal subsidiaries including international ones). ▶ Operate a 'market share cap' either in case of significant firm collapse or where further intervention is necessary, post MSA. <p>Operational separation</p> <ul style="list-style-type: none"> ▶ ARGA will have powers to: <ul style="list-style-type: none"> ▶ Require an 'operational separation' of the largest firms. ▶ Increase transparency in the financial statements of the audit practice and remuneration policies on partners' pay. ▶ No mandatory separate profit pools within multi-disciplinary firms. ▶ The Government may consult to introduce regulations to deliver full structural separation of audit and non-audit parts of the business should operational separation fail in meeting its objectives. <p>Audit firm resilience</p> <p>ARGA will have powers to:</p> <ul style="list-style-type: none"> ▶ Monitor developments in the whole statutory audit market (rather than just the PIE audit market) by requiring information on firms' health and viability and enforce against non-compliance. ▶ Commission an expert review of audit firms, similar to a section 166 review under the Financial Services and Market Act 2000.
9	Supervision of audit quality   	New ministerial direction ⁵ to amend legal framework	PIE auditors	<p>Headline: PIE auditor registration and oversight to move over to ARGA. Publication of individual AQR reports will continue to require consent. The FRC needs to improve AQR process.</p> <ul style="list-style-type: none"> ▶ In line with the consultation proposals to provide more control over who audits the most significant entities, ARGA will determine eligibility and oversee registration of PIE auditors (firms and individuals). This will be effective from July 2022.

⁵ Ministerial Directions are formal instructions from ministers telling their Department to proceed with a proposal, despite an objection from their Permanent Secretary. The Permanent Secretary of a department writes to their Secretary of State expressing their concerns, seeking a direction. A Direction was given to the FRC on 17 June 2016 by the Parliamentary Under-Secretary of State, Baroness Neville Rolfe.



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				<ul style="list-style-type: none"> ▶ This responsibility currently rests with the Recognised Supervisory Bodies (RSBs) such as the ICAEW. RSBs will continue to determine appointment of statutory auditors of non-PIE entities.
		Non-legislative	Entities subject to AQRT scope	<ul style="list-style-type: none"> ▶ ARGA will continue to need to seek consent when publishing individual audit quality review (AQR) reports to safeguard from the publication of sensitive information about audited entities, other than when such information (not limited to AQRT reports) would be in the public interest. ▶ The responses to the consultation question on publication of AQRT reports also surfaced criticisms about the AQR process itself, both in terms of how it is carried out and what is reported. Accordingly, the Government is asking the FRC to look at non-legislative ways of improving the AQR process and to engage with investors and other users to improve the usefulness of information published on AQR. ▶ The FRC will also engage with AC Chairs to strengthen current guidance on how ACs report on AQRT findings in ARAs.
		N/A	N/A	<ul style="list-style-type: none"> ▶ The proposal to give ARGA power to require a UK group auditor to provide it with access to overseas component working papers has been dropped as the current arrangements are deemed adequate and allow the FRC to obtain such access without needing to rely solely on RSBs rules.
6.1	Audit purpose, scope and auditor liability 	ARGA led changes to various standards and guidance	All audits	<ul style="list-style-type: none"> ▶ Purpose of the audit: The proposals sought to introduce a new purpose statement for auditors. The Government has left this decision to be made by ARGA. ▶ Duty to consider wider information: The proposals sought to require auditors to consider wider information and directors' conduct in reaching their judgements. It is considered that ongoing improvements to audit standards, guidance and enforcement by the FRC, not legislation, was the most effective way to influence auditors' mindsets and behaviours. ▶ Wider assurance beyond financial statements: Despite support for this idea, the Government will leave the market (companies, directors, investors) to shape the development of a wider assurance services market, stimulated by the requirement to publish an AAP. The Government will monitor this market-led development to assess when regulatory oversight is needed as it considers it is currently premature to legislate to do this. ▶ Principles of corporate auditing: The proposals advocated specific audit principles to be introduced so that auditors can be sanctioned in cases where they have clearly



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				<p>breached one or more of these. This idea has been dropped as it was considered that most of these principles already apply through existing audit and ethical standards. The FRC is encouraged to raise standards of auditor behaviour through its existing powers.</p> <ul style="list-style-type: none"> ▶ Auditor liability: Whilst the Government is keen to see increased innovation and competition in the audit market, it recognises the complexities in this area and hence will not make legislative changes at this stage.
6.1	Auditor reporting <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	FRC audit standards - ongoing improvements	All audits	<ul style="list-style-type: none"> ▶ The Government has asked the FRC to consider the proposals in the consultation for audit reports to be more useful and meaningful whilst ensuring they remain clear, concise and accessible. ▶ The recommendations for enhancing audit reports included suggestions such as incorporating graduated findings to enable users to understand the risks better; detailing information on how the audit had been conducted; specifying the number of hours spent on the audit analysed by level of seniority; etc
10	Strengthened regulator <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	Legislation	ARGA	<p>Headline: ARGA to be established with more powers</p> <ul style="list-style-type: none"> ▶ ARGA will be set up as a company limited by guarantee in line with the FRC's current status. The likely timing for ARGA to be established is April 2024 or after. ▶ Legislation will include provisions on governance and appointments of non-executive board members and provide powers to ARGA to raise a levy. ▶ There are new regulatory principles for ARGA to 'have regard to' as set out in paragraph 10.21 of the response and new duties have been established. ▶ ARGA will be issued with a remit letter at least once during each Parliament setting out what it should consider when exercising its policy-making functions. ARGA will need to respond to this remit letter. The letter and response will be published and laid before Parliament. ▶ ARGA will be required to produce an annual report, submitted to the Secretary of State and laid before Parliament. ▶ With regards to local audit, ARGA will receive a separate remit letter and required to report on it as a separate standing element of its annual report. ▶ ARGA will be given the remit in several other areas as referred to in the sections throughout this document. ▶ Opportunities and means to challenge ARGA's decisions will be clarified in legislation.



CH	Measure	Vehicle	Scope	Summary
5.2	Malus and clawback   	UK CG Code	Premium listed companies	Headline: further consultation on malus and clawback provisions to come <ul style="list-style-type: none"> ▶ The FRC will consult on how the existing malus and clawback Provisions in the UK CG Code can be developed to deliver greater transparency and to encourage consideration and adoption of a broader range of conditions in which executive remuneration could be withheld or recovered, beyond that of existing ‘gross misconduct’ or ‘material misstatements.’
6.1	A new professional body for a new corporate auditor   	Via RSBs	TBD	Headline: profession and ARGA to work together on improving auditor scepticism and broader skills <ul style="list-style-type: none"> ▶ This proposal has been dropped due to the lack of a sufficiently strong case. However, the Government expects changes within current structures – existing professional bodies will need to make substantial improvements to auditor qualification, training and skills over the next five years in order to deliver the higher levels of scepticism and insight recommended by the Brydon Review, and to further the development of audit as a profession distinct from accountancy. ▶ This work will be led by the professional bodies with input from audit firms and ARGAs. The regulator will work with the professional bodies to establish a suitable timetable.
3.4	Public interest statement   	N/A	N/A	<ul style="list-style-type: none"> ▶ The Government confirmed that it will not legislate at this time to create a new public interest statement reporting requirement. ▶ The Government and the FRC will keep under review whether, and if so how, the UK’s corporate reporting framework could provide a more holistic picture of how companies assess their impacts on the public interest.
3.3	Payments to suppliers   	N/A	N/A	<ul style="list-style-type: none"> ▶ This proposal has not been taken forward even though the Government continues to believe that there is a case for increased transparency over how large PIEs are performing on payments to suppliers at a consolidated group level, and that such summary reporting would benefit from greater attention by directors, including the AC. ▶ The Government has recently carried out a post-Implementation review of existing regulations in this area and is now planning to consult on whether those regulations should be amended to further enhance transparency and accountability in supplier payment reporting. That consultation will take account of responses to the White Paper proposal.



Appendix: New reporting requirements

New reporting requirement NB: The two columns alongside are not mutually exclusive – companies need to assess their position by reference to both criteria separately – premium listing and size	Current PIEs that are premium listed companies (Required by Listing Rules to apply UK CG Code ⁶)	PIE companies by virtue of size (750m/750) (Excludes PIEs that are not companies e.g., LLPs)
Explicit statement about the directors' view of the effectiveness of the internal controls systems (financial, operational and compliance systems) and the basis for that assessment.		
<ul style="list-style-type: none"> ▶ Disclosure of distributable reserves (based on new guidance on 'realised profits and losses to be issued by ARGAs), or a 'not less than' figure if determining an exact figure would be impracticable or involve disproportionate effort and a distribution policy. ▶ Explicit directors' statement confirming the legality of proposed dividends and any dividends paid in year. ▶ Narrative explaining the board's long-term approach to the amount and timing of returns to shareholders (including dividends, share buybacks and other capital distributions) and how this distribution policy has been applied in the reporting year. 		 The figure will be subject to audit. In the case of a UK group, the requirement to disclose distributable reserves applies to a parent company only.
Resilience Statement, including new requirements on risk reporting, mandatory explanation of assessment period and at least one reverse stress test. This will replace the UK CG Code requirements for a going concern and viability statements (although all companies subject to the UK CG Code will continue to provide a going concern statement under accounting standards and company law, irrespective of whether they are subject to the new RS requirement)	Existing Premium listed PIEs that do not meet the new size threshold (750m/750) may not be required (subject to a future consultation) to produce a viability statement.	
Triennial AAP and annual implementation report covering external assurance, internal assurance and external audit considerations and how stakeholder views were considered in determining the policy.		 This will not be subject to an advisory vote.
Steps taken by directors to prevent and detect material fraud.		 This will not be subject to any new specific audit requirements.

⁶ Some entities apply the UK CG Code voluntarily

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