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On the board agenda – half year 2019

June 2019

Contents

Introduction

Dear Board Member,

This half year update is a timely summary of the areas for board focus in 2019 as we enter the second half of the year. There is much that is new to address:

- The 2018 UK Corporate Governance Code applies for the first time this calendar year, with its focus on company purpose, values and culture
- Many companies are seeing change in board composition this year as the new rules around longevity of Chair appointments take effect
- The evidencing of board decisions against the wider context of the directors' duty set out in section 172, and reporting against this in the annual report
- The UK's desire to lead on climate change policies will enhance the focus on the climate change impacts of business models and will stimulate calls for additional reporting from companies – indeed the European Commission will shortly clarify that they consider that the existing requirements under the EU non-financial reporting directive (now in its third year) covers the recommendations of the TCFD – so companies need to ensure they are prepared for the sharper focus on climate reporting this year
- And of course the UK is still grappling with its relationship with the EU, leading to uncertainty for businesses, meaning that scenario modelling for those companies affected remains essential to test resilience

In addition, there is a consensus building around some areas arising from the various inquiries into the audit market which will affect directors:

- All directors will likely fall into the supervisory regime of the new regulator, the "Audit, Reporting and Governance Authority", not just those who are members of the accountancy profession
- The new regulator will include for the first time this year the corporate governance sections of annual reports in the company corporate reporting review regime and is likely to challenge harder on other front half disclosures, so audit committees may wish to pay extra attention to verification procedures and balance, and perhaps also consider the formation of a disclosure committee

- Some form of reporting by directors on internal controls is likely to emerge in the UK both to reinforce a board's responsibility for management of risk and financial reporting, and also to enhance the control environment at companies - the question boards should ask now is what does this mean for us, and how can we get ahead?

- There will be increased focus on the effectiveness of audit committees, and enhanced focus on the key roles of the Chair, the Audit Committee Chair, the CEO and the CFO

As you plan your board and audit committee agendas for the remainder of 2019, we hope you find this publication useful. Our "deep dive" on these topics "On the Board Agenda 2019" remains available on our website here. Do get in touch with your Deloitte partner or email our governance team if you want to discuss any of these matters further.

Yours faithfully,

William Touche
Vice-Chairman
Leader, UK Centre of Corporate Governance
June 2019

Executive summary

Areas of focus for your half-yearly report

This chapter is a reminder of current "hot topics" for listed companies for 2019 interim reporting. We focus on:

- IFRS 16 Leases
- Disclosures regarding Brexit
- Principal risks

Workforce engagement

A key feature of the 2018 UK Corporate Governance Code is the focus on workforce policies and practices and the development of a specific workforce engagement mechanism for the board. In this section we present the results of emerging practices we are seeing based on disclosures in the 2018/19 annual reports.

Looking forward to the annual report

This section addresses a few tips and reminders for areas you may wish to build into the audit committee agenda during the remainder of 2019 working towards your next annual report, helping you to assess how advanced you are in your implementation journey and which areas may require additional focus. These include:

- The new 2018 UK Corporate Governance Code
- The longer term viability statement
- Internal controls
- New reporting requirements on section 172 and CEO pay ratio
- Audit committee reporting
- Non-financial information and climate change

Reform of the FRC, corporate reporting and the audit market – a status report

There continues to be a large volume of activity and there will be further consultations and reports published in the remainder of the year. This section sets out the current position (correct as at the start of June) and explains what is expected to happen over the coming months.

Areas of focus for your half-yearly report

Preparing your half-yearly financial report
This chapter is a reminder of current "hot topics" for listed companies for the 2019 interims season.

Hot topics this interim

Area of reporting	Points for your agenda
New accounting standards – IFRS 16 Leases	IAS 34 "Interim Financial Statements" requires companies to give a description of the nature and effect of a change of accounting policy since the last annual report. Therefore with regard to the implementation of the IFRS on leases, as the regulator has reminded us with previous implementations of significant new standards, annual reports should include: • **Quantitative disclosure** to be accompanied by informative and detailed explanation of the changes, tailored to the company's specific circumstances and transactions; • Any **key judgments** made by management in applying the new concepts and methodologies that are introduced by the new standards to be clearly explained; and • An **explanation of how** the transition has been implemented. We expect that the disclosures each company produces will depend on the complexity of the industry sector and the company's own activities. Disclosures should be clear, concise, company-specific and should focus on the areas of change – so for IFRS 16, an area of focus could be how the revised definition of a lease applies to the company's significant contracts to use, or take the output from, physical assets. When comparative information will be changed in the annual financial statements due to retrospective application of IFRS 16 (if that option is chosen), the comparative information provided in interim financial statements should likewise be restated with appropriate, quantitative disclosure and an explanation of those changes. It is well worth the audit committee's time to consider the quality of the disclosure in the interim report and seek the views of the external auditor. Audit committees will wish to know if the auditor has done sufficient work at the half year so that further restatement at the full year is avoided.

Area of reporting	Points for your agenda
Disclosures regarding Brexit	In the half-yearly report, companies are expected to disclose significant events and transactions that caused changes in the financial position and performance of the entity since the end of the last annual reporting period. They are also expected to disclose significant changes in estimates. The half year narrative report must also include an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements. At this stage there is no agreed deal between the EU and the UK and the withdrawal date has been delayed until 31 October, meaning that for June interims, there will likely be no clarity on whether there will be a deal prior to the period end. However, some new information may emerge before your interim report is signed – it is worth noting that the European Council will meet regarding Brexit in June. With critical decisions and implementations so close at hand, directors will need to mention Brexit and explain what assumptions have been built into their forecasts, especially regarding liquidity and cash flows. Assumptions need to be made to allow Brexit scenario risks to be quantified, and considered in combination with the other principal risks. Due to the uncertainty, business planning will likely involve management running several scenarios which can be refined and finalised as critical milestones change or pass. Where sensitised forecasts show a short term impact on liquidity and cash flows, going concern should be examined with rigour, as should the carrying values of assets. Even after the half year date, it should also be borne in mind that IAS 34 requires disclosure of non-adjusting post balance sheet events where the effect is material.
Principal risks disclosure	Most companies remember that the half-yearly report must include a description of the principal risks and uncertainties for the remaining six months of the financial year. This is usually done by a short summary of each risk set out in the previous annual report. Where risks and uncertainties have changed since the annual report, a full description of the new principal risks and uncertainties should be given. In addition to considering the risks of Brexit (above), this is an opportunity for boards, supported by their audit and risk committees, to revisit the risk landscape and assess whether there are any newly identified risks that need to be disclosed to shareholders. It is a good opportunity to think about emerging risks as required by the new Code.

Area of reporting	Points for your agenda
Principal risks disclosure (continued)	Most companies remember that the half-yearly report must include a description of the principal risks and uncertainties for the remaining six months of the financial year. This is usually done by a short summary of each risk set out in the previous annual report. Where risks and uncertainties have changed since the annual report, a full description of the new principal risks and uncertainties should be given. When directors are considering priority areas in respect of risk disclosures, key current issues include: • Brexit • Climate change • Cyber risk and data protection • Technology resilience - technology failure can cause considerable difficulty and raise attention of Government, regulators and other stakeholders.

Checklist of actions – your half yearly report

IFRS 16 Leases – is appropriate disclosure provided?

Disclosures regarding Brexit – are planning scenarios keeping pace with the current Brexit position and is there appropriate consideration of events post the half year end date?

Principal risks – has there been a comprehensive and recent review of the principal risks, including an assessment of emerging risks?

Looking forward to the annual report

Areas for your agenda during the rest of 2019
This section addresses a few tips and reminders for areas you may wish to build into the board and board committee agendas during the remainder of 2019 working towards your annual report, helping you to assess how far advanced you are along the implementation journey and what areas may require additional focus.

The disclosure changes required by 2018 legislation and the new 2018 UK Corporate Governance Code come into force for years commencing on or after 1 January 2019. As such, for annual reports published early in 2020, there is a considerable sense of expectation around the disclosures companies might make to achieve transparency and improve trust in business.

Area of reporting	Points for your agenda
2018 UK Corporate Governance Code	Companies are focusing on key areas of implementation to ensure the new Code is fully embedded and to be ready to include appropriate disclosure at the year end. Some of the areas of focus we have been discussing with directors at the Deloitte Academy include: • Establishing company purpose • Monitoring & assessing culture • The Section 172 statement • Workforce engagement • Board composition & independence • Board evaluation • Identifying emerging risks We have provided a checklist of the key new disclosures under the 2018 Code in the Appendix.

Area of reporting	Points for your agenda
Viability statements – prospects	As highlighted in the FRC Financial Reporting Lab's report on Risk and Viability Reporting published in October 2018, the FRC envisages a two stage process for the longer term viability statement, with separate narrative on each aspect. The first being the longer term prospects of the company and the second being the directors' reasonable expectation of viability over a period of their assessment. It is expected both by investors and by the FRC that the period over which directors assess the longer term prospects of the company should be considerably longer than the period for the viability assessment. Examples of longer term prospects statements include Equiniti, Informa, Howdens Joinery Group.
Viability statements – Brexit	In its Annual Review of Corporate Governance and Reporting, published in October 2018, the FRC called for directors to be specific about how Brexit risk challenges company business models. The FRC has called for a clear explanation of the impacts to sensitivity analyses on cash flows and whether Brexit uncertainties impact statements on viability, and even potentially on the company's position as a going concern. The agreed extension for the UK's departure from the EU gives a final leave date of 31 October. However, this could well change again. Boards should confirm that management teams are staying up to date with Brexit risk planning and continuing to update their analysis. Remember, Brexit should be included into scenario planning in forecasts in the same way as other principal risks, rather than relying on uncertainty or an assumed final deal as a reason to leave it out of sensitivity analysis altogether. Key impacts need to be recognised and assumptions made and quantified, to be able to identify any real challenge to viability Our Governance in brief on this topic is available here. Examples of viability statements including some detail on Brexit include Crest Nicholson, Wm Morrison Supermarkets, Spectris.

Area of reporting	Points for your agenda
Internal controls	In his Independent Review of the Financial Reporting Council, Sir John Kingman recommended considering a strengthened framework around internal controls in the UK. BEIS intends to consult on this in due course. In order to get on the front foot with this, we recommend that boards look closely at their internal control systems over business and financial risk, the oversight and assurance activities over those systems and the related disclosures in the annual report. As a first step boards should demonstrate what they have done to identify and assess the risks, challenging management to ensure business risk and financial risk is thoroughly understood. In particular a useful focus would be on where material decisions are taken and analysing the control framework around these and what could go wrong? The second step is to explain how the control framework deals with those risks and how the effectiveness of the overall structure of controls is monitored and reviewed. For example, how does the board get assurance that controls work in the same way at the various different operations within the group – is there a minimum controls framework? Finally, boards should explain how the different levels of assurance work within the business to ensure the controls framework is operating as designed. Discussions of the role of the internal audit function and the external auditor will be valuable here.
Legislative change – s172(1) Statement	For periods commencing on or after 1 January 2019, large companies (listed and unlisted) will need to make a s172(1) statement about how the directors have performed their duty under s172 of the Companies Act. All companies that follow the UK Corporate Governance Code, regardless of size or country of incorporation, will also be expected to make a similar statement. We will shortly be issuing a briefing for Directors on the new s172(1) Statement. Overall, we believe that the Section 172(1) Statement represents an opportunity for companies to differentiate themselves and to make clear that robust and well-informed decision-making is at the core of the business. Boards will need to ensure that directors of subsidiaries are briefed on this matter.

Area of reporting	Points for your agenda
Legislative change – directors' report requirements	For periods commencing on or after 1 January 2019, all companies (listed and unlisted) with more than 250 UK employees will be required to make a statement in the Directors' Report summarising how the directors have engaged with employees and taken account of their interests. Large companies (listed and unlisted) will need to make a statement in the Directors' Report summarising how directors have engaged with suppliers, customers, and others in a business relationship with the company. A key challenge is to capture completeness in large groups. Therefore if not done already, now is the time to identify which companies and subsidiaries will need to comply with these requirements.
Legislative change – CEO pay ratio	For periods commencing on or after 1 January 2019, all quoted and UK registered companies with more than 250 employees will be required to publish the ratio of their CEO's "single figure" total remuneration to the median, 25th and 75th percentile total remuneration of their full-time equivalent UK employees, on a group-wide basis by reference to UK employees only. It can be complex to gather the information for the new disclosures and there are three different methodologies contemplated in the legislation, which companies may need to assess before reporting for the first time. Boards may wish to do a "dry run" on 2018 data, to ensure the computational processes are understood (as they are complex) and to consider carefully both internal and external messaging prior to publication. It should be remembered that not only is the CEO pay being disclosed but rates by quartile for employees as a whole in the UK. Again, if planning for this has not yet been addressed, this is a key action for the second half of the year.

Area of reporting	Points for your agenda
Legislative change – statement of corporate governance arrangements	For periods commencing on or after 1 January 2019, the largest private companies (more than 2,000 employees OR a turnover of more than £200 million and a balance sheet of more than £2 billion) will need to report on their corporate governance arrangements. If they have not already adopted a corporate governance code, companies may wish to discuss whether to adopt one in order to make reporting more straightforward by describing how the relevant principles have been applied. One option is the Wates Principles, a set of six high level principles of corporate governance.
Audit committee reporting	Given the ongoing reviews and proposed reforms to the FRC, corporate reporting and the audit market, it is clear that scrutiny of the role and activities of audit committees is set to increase. Pending the precise implementation detail, we recommend that audit committees pay particular attention to their supervision of internal controls and the quality of work of internal and external audit. There are a few areas where investor expectations have increased and where consideration could be given to additional commentary in the audit committee report: • Where the audit committee challenged management and the outcome of this challenge • Areas where the audit committee observed that the auditors challenged management; and • Whether the audit committee asked the auditors to look at specific areas, the reason for doing so, what work the auditor undertook and the outcome of that work. In addition, given the high likelihood of increased focus on internal controls, perhaps some form of UK Sarbanes-Oxley regime (see above), audit committees should take the opportunity to perform a deeper review this year of activities in this area – practices may have built up over many years and assurance oversight may require new energy. A useful resource for audit committees is recent guidance jointly released by the FRC and the Institute of Chartered Accountants in England and Wales (ICAEW), to assist smaller listed and AIM quoted companies. A practical guide for audit committees on improving financial reporting was published in May 2019 and includes some helpful and thoughtful tips and questions on a range of areas of financial and non-financial reporting, which audit committees can use to discuss these topics with management.

Area of reporting	Points for your agenda
Non-financial information	Although a majority of companies are now disclosing a separate non-financial information statement in line with the Non-Financial Reporting Regulations, by no means are all doing so. Examples of separate non-financial information statements can be found in the 2018 Anglo American and Evraz annual reports. In the second half of the year, boards may wish to review the quality of the reporting on their due diligence on the separate components of the specified non-financial information. In considering the quality of disclosure, as a board, you could consider how you obtain enough information on the company's progress against policy objectives in each area, to assess whether the description of **due diligence** reflects your understanding, with a key focus on outcomes as required by the legislation, which is often overlooked.
Climate change	The European Commission's draft new guidelines for companies reporting on climate-related information, expected to be published in final form by the end of June 2019, establish that the European Commission considers the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) - including disclosures on governance, strategy, risk management, and targets and metrics - are already aligned with European law through the requirements of the Non-Financial Reporting Directive. In itself this will be a major piece of work for companies.

Insider information
In April 2019, the FCA issued a technical note on periodic financial information and insider information.

This clarifies that the requirement to disclose inside information under the Market Abuse Regulation (MAR) applies even when issuers are in the process of preparing periodic financial reports, such as the half-yearly or annual report. The precise criteria establishing what constitutes inside information are set out in Article 7 of MAR: at a high level, inside information is information that is sufficiently precise that the share price might move by a material amount.

Issuers are required to assess "on an ongoing and case-by-case basis" whether the information they hold is inside information. It is possible that information on financial results can constitute inside information and should not be assumed that information to be included in periodic financial reports will always or never constitute inside information.

It is not necessary for the ongoing assessment to be carried out by the board itself, although the board should ensure it is carried out by a sufficiently well-trained and knowledgeable individual or set of individuals, capable of exercising sound judgement.

Boards should ensure that their company has suitable processes in place to ensure they can submit evidence of the assessment process to the FCA on request.

Checklist of actions – preparing for your next annual report

The new UK Corporate Governance Code – has the board developed a clear plan to meet the new Code and how will the structure of the corporate governance statement need to change to reflect appliance of the new Code Principles?

The viability statement – is it clear in the disclosure how the board is assessing the longer term prospects of the company beyond the viability statement period and have scenarios been updated to reflect the latest position on Brexit (where appropriate)?

Internal controls – is there an opportunity to provide more comprehensive disclosure on the board's monitoring and review of the effectiveness of the internal control system and to use this exercise to highlight any areas of weakness in the systems and the oversight of them?

Internal financial controls – have we reviewed enough detail on the financial risk assessment and controls to really understand where material financial errors or frauds are most likely to occur?

New legislative reporting requirements – is the scope of each of these new reporting requirements clearly understood and has an exercise been undertaken to identify which group companies are going to need to provide these disclosures?

Audit committee reporting – is there scope to review and deepen the audit committee agenda in certain areas to address current hot topics, e.g. significant financial judgement and the effectiveness of internal controls?

Non-financial information – are all aspects of the NFR requirements covered in the disclosures, including the due diligence on the relevant policies?

Climate change – has your board discussed adoption of the recommendations of the TCFD as a framework for providing transparency of the board's governance of climate-related risks and opportunities?

Workforce engagement

Mechanisms for workforce engagement by the board – what are we seeing so far?
A key feature of the 2018 UK Corporate Governance Code is the focus on workforce policies and practices and the development of a specific workforce engagement mechanism for the board. In this section we present the results of practices we are seeing in the market based on disclosures in the 2018/19 annual reports.

For engagement with the workforce, one or a combination of the following methods should be used:

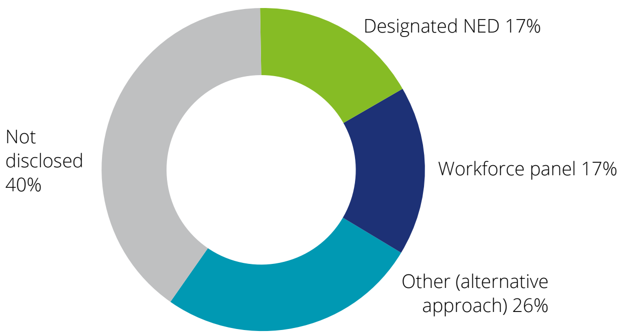
- A director appointed from the workforce;
- A formal workforce advisory panel;
- A designated non-executive director.

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

Code Provision 5

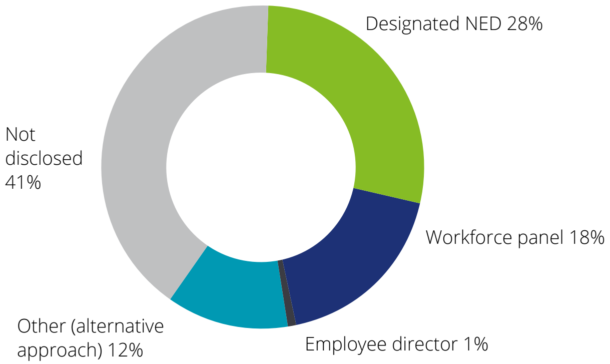
Many companies made reference to which mechanism they have selected in their 2018 Annual Reports. We have captured the following statistics based on a review of a sample of FTSE 100 and FTSE 250 companies:

FTSE 100 (based on c. 50 FTSE 100 December year end companies)



- c.60% of companies to date have disclosed how they will fulfil the Code requirement around "employee voice"
- "Alternative" approach is the most common route to date, typically involving developing and building on range of existing engagement mechanisms and enhancing channels of feedback to the Board

FTSE 250 (based on c. 80 FTSE 250 December year end companies)



- c.60% of companies to date have disclosed how they will fulfil the Code requirement around "employee voice"
- **"Designated NED"** route is most common in FTSE 250, which will be adopted by nearly 1/3rd of companies who have disclosed their approach to date

The disclosures in the 2018 Annual Reports have revealed an interesting range of approaches to complying with this provision. Here are some examples:

Workforce advisory forum	Taylor Wimpey has a National Employee Forum which was introduced by the board during 2017. The Forum builds on a continuing network of Employee Consultation Committees and consists of elected employees from a variety of geographic areas, site and office based disciplines and seniority across the UK business.
Shared responsibility amongst all non-executive directors	The Unilever Boards have decided to share the responsibility for workforce engagement amongst all Non-Executive Directors as a collective point of contact.
Designated committee responsibility	Smith & Nephew has designated its Compliance & Culture Committee as a whole with the responsibility for engaging with employees.
Chairman taking responsibility	Intu Properties has resolved that the Chairman will take on the designated non-executive role facilitated by existing employee engagement activities.
Taking an alternative approach	Standard Chartered's disclosure noted that, whilst a final approach has not yet been announced, the board had discussed the methods and alternative options and have chosen an alternative mechanism which it hopes will enable genuine engagement between the board and the group's global workforce.

Standard Chartered is one of many companies adopting an alternative mechanism where they believe this is most appropriate for their organisation. Code Provision 5 specifically allows alternative arrangements as long as these are explained in the annual report together with an explanation of why the board considers that they facilitate effective engagement. It is important to remember this latter part of the disclosure requirement to avoid negative commentary from proxy agencies.

As a reminder, here is what the FRC's Guidance on Board Effectiveness says about how 'workforce' should be defined. Flexibility of interpretation is permitted, companies should just ensure that they have fully explained the reasons for their approach.

> Communication and engagement will involve those with formal contracts of employment (permanent, fixed-term and zero-hours) and other members of the workforce who are affected by the decisions of the board. For example, companies should consider including individuals engaged under contracts of service, agency workers, and remote workers, regardless of their geographical location. Companies should be able to explain who they have included and why. Different sections of the workforce may have different interests and priorities and a combination of engagement methods may be necessary to ensure that a wide selection of views can be gathered.
>
> **Para 50 – FRC Guidance on Board Effectiveness**

For further guidance on the development of effective workforce and other stakeholder engagement mechanisms please refer to our publication Hearing the stakeholder voice. This guide is intended to help companies identify the key actions which they will need to take in order to implement and report on effective engagement mechanisms, as well as exploring the challenges they may face along the way. Fostering genuine and meaningful dialogue with stakeholders, which is embedded within organisational strategy and governance structures, if relatively new, will take time to become effective.

Checklist of actions – workforce engagement

Defining your 'workforce' – has an exercise been undertaken to determine the appropriate definition of the workforce for your organisation?

Engagement mechanism – does the chosen mechanism have a robust framework to implement it and has it been clearly communicated to the workforce?

Disclosure – will the disclosures make very clear why the chosen mechanism is believed to be effective? This could include any feedback received from the workforce on engagement activities.

Reform of the FRC, corporate reporting and the audit market – a status report

Status report
There continues to be a large volume of activity and there will be further consultations and reports published in the remainder of the year. The section below sets out the current position (correct as at the start of June) and explains what is expected to happen over the coming months.

Independent Review of the Financial Reporting Council

This review, led by Sir John Kingman, focuses on:

- The leadership, structure and funding arrangements of the FRC
- Audit regulation (including audit quality)
- Corporate reporting
- Enforcement – holding directors to account
- Stewardship
- Role of the regulator in avoiding corporate failure

Current status and next steps

Sir John Kingman presented 83 recommendations to BEIS in December 2018, which BEIS split into three categories:

- Can be delivered immediately
- Do not require legislation but are policy choices
- Require legislation which will be consulted on later

The FRC will be replaced by the Audit, Reporting & Governance Authority. A search is underway for the Chair and CEO of the new Authority. BEIS launched a twelve week consultation in March which closes on 11 June.

Further consultation on legislative options is expected in the autumn, with a consultation on amendments to the Companies Act 2006 expected in summer 2020.

Proposals of most significance to directors

Being taken forward immediately:

- Regulator's Corporate Reporting Review to cover the whole annual report plus public reporting of findings and related correspondence
- A new market intelligence function set up to identify indicators of corporate failure

Subject to consultation:

- Regulation of a wider range of investor information
- Review of the definition of Public Interest Entity
- Greater accountability of relevant directors (i.e. Chair, CEO, CFO & AC Chair)
- Board attestation on effectiveness of internal controls

Statutory audit services market study by the Competition & Markets Authority (CMA)

The CMA's market study focuses on:

- The scope and purpose of audit
- Audit firm incentives
- Choice & switching of auditors
- The resilience of the audit market
- Regulation of audit in the UK

Current status and next steps

The CMA presented its final report to BEIS on 18 April. It put forward four recommendations:

- Increased scrutiny of audit committees
- Mandatory joint audit for all but the largest companies in the FTSE 350
- Operational split between the provision of audit and non-audit services in the Big Four
- Five-year review of progress

BEIS must respond formally to the CMA within 90 days (i.e. by mid-July). BEIS is then expected to consult on the CMA's recommendations.

Proposals of most significance to directors

Of most relevance to members of audit committees:

- Minimum standards for appointment and oversight of auditors
- Enhanced regulatory scrutiny on audit committee activities including increased reporting
- The possibility of observers from the regulator in audit committee meetings
- Possible mandatory joint audit for FTSE 350 with a requirement for one of the auditors to be a "Challenger Firm"
- Importance of the use of specialists should be high on the audit committee agenda – recognition that pricing will increase for specialists – beware of unintended consequences
- Impact on audit firm business model and resilience from an operational split, and long term attractiveness of the profession at senior levels

Independent Review of the quality and effectiveness of audit

Sir Donald Brydon was asked by BEIS to conduct this review, focusing on:

- The needs and expectations of stakeholders in relation to audit
- Scope of audit
- Provision of assurance
- Liability of auditors
- Communication of audit findings
- International engagement and cohesion

He has three supporting advisory groups in place: user-dominated, audit profession & technology.

Current status and next steps

A preliminary call for views was issued in April including 60 questions across a number of key themes, such as:

- Definitions of audit and its users
- The "expectation gap"
- Audit and wider assurance
- The scope and purpose of audit
- Audit product and quality
- Legal responsibilities of directors
- The communication of audit findings
- Role of audit in relation to fraud
- Auditor liability

The deadline for responses to this initial Call for Views is 7 June 2019. Sir Donald is due to report to BEIS by the end of the year.

The Brydon review is fundamental to the future of audit and wide engagement will be expected from and useful for Audit Committees.

The Future of Audit inquiry

This inquiry was set up by the BEIS Committee to focus on:

- The relationship between competition and quality in the audit market
- The proposals from the Kingman and CMA Reviews
- The impact of conflicts of interest (perceived or otherwise) on trust in audit
- The level of challenge in audit and the role of investors in ensuring audit quality
- Links to other corporate governance reforms

Current status and next steps

The BEIS Committee issued its final report to BEIS in April. It issued its recommendations under five key areas:

- Capital maintenance
- Role of directors
- The audit product
- Audit regulation
- The audit profession

BEIS is due to respond formally to the Committee within 60 days (during June 2019). Some of the BEIS Committee recommendations may be incorporated into the BEIS consultations on the CMA and Kingman recommendations expected later in the year.

Proposals of most significance to directors

- Accounting for and disclosure of realised profits and distributable reserves
- Greater accountability for all directors
- Strengthened internal controls framework
- Seven-year, non-renewable terms for auditors

Further reading:
Kingman Review – https://www.gov.uk/government/publications/financial-reporting-council-review-2018 and https://www.gov.uk/government/consultations/independent-review-of-the-financial-reporting-council-initial-consultation-on-recommendations

CMA market study – https://www.gov.uk/cma-cases/statutory-audit-market-study

Brydon Review – https://www.gov.uk/government/consultations/the-quality-and-effectiveness-of-audit-call-for-views

BEIS Committee – https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/inquiries/parliament-2017/future-of-audit-17-19/

Financial Reporting Council – current activity
The FRC itself continues with its own activity programme:

The Stewardship Code

The FRC published a consultation on the draft 2019 UK Stewardship Code in January 2019 which closed on 29 March 2019. A final version is due to be published in summer 2019.

The FRC and the Financial Conduct Authority (FCA) have also published a discussion paper on Building an effective regulatory framework for stewardship. The paper aims to advance the discussion about what effective stewardship should look like, expectations for financial services firms, and how this can be best supported by the UK's regulatory framework.

Future of corporate reporting

At the end of 2018 the FRC launched a thought leadership project on the Future of Corporate Reporting. The following broad themes are being considered by a diverse advisory group as part of the project:

Information needs of investors and other stakeholders

- The purpose of corporate reporting and the annual report
- Different forms of corporate communication
- The role of financial and non-financial reporting
- The role of technology
- The role of assurance

The aim is to publish a paper before the end of 2019 consolidating different aspects of the project.

Enhancements to the auditing standard on going concern

The FRC is proposing to strengthen the auditing standard on Going Concern, ISA (UK) 570.

The following changes have been proposed:

- Enhancing the risk assessment procedures and related activities
- Obtaining sufficient appropriate audit evidence
- Additional requirements in relation to the application of professional scepticism
- Assessing the viability of the entity in the context of going concern
- Additional auditor reporting and strengthened communication with those charged with governance

The draft standard can be found here. Comments are requested by **14th June 2019**.

The Financial Reporting Lab

The Lab has three major projects underway:

Digital Future: Structured experience
– the next phase of the Digital Future project is looking at the impact of Artificial Reality, Virtual Reality and Video on the preparation and use of corporate reporting.

Disclosures on the sources and uses of cash – this project focuses on good disclosure around the source and location of cash and liquid resources. The project will aim to report over the summer.

Climate and Workforce reporting – looking at how companies might meet the needs of investors on the reporting of climate and workforce. The aim is to understand how practice in these areas reflects the characteristics of good reporting identified through the Lab's suite of strategic reporting projects (business model, risk & viability and performance metrics).

Checklist of actions – Government reforms
Inputting your views – have you and your fellow board members considered responding to BEIS on any of these proposals? They are very keen to hear to the corporate voice.

Keeping pace with developments – have you signed up to receive our governance publications? We will provide timely and clear summaries of each of the developments as they unfold over the coming months. Please contact us at corporategovernance@deloitte.co.uk to sign up.

Appendix: Disclosure hot topics – a reminder for the board agenda

The UK Corporate Governance Code

Area of potential disclosure	Reference material – with clickable links where available	In the annual report? Y/N
Does the annual report explain the nature and quantum of the **work the board performed during the year** to implement the 2018 Code and the status of this work, together with any matters that are subject to ongoing focus?	2018 Code On the board agenda – Corporate governance reform	
Does the annual report (or other papers accompanying the resolution to re-elect directors) set out the specific reasons **why their contribution** is, and continues to be, important to the company's long-term sustainable success?	2018 Code Principle J 2018 Code Provision 18	
All companies (not just FTSE 350) applying the Code are now required to **re-elect directors** annually. Smaller companies may wish to draw this out in the annual report.	2018 Code Principle J 2018 Code Provision 18	
Is it clear from the annual report what the board considers the company's **purpose, values and strategy** to be? Has company purpose been articulated and communicated?	2018 Code Principle A 2018 Code Provisions 1&2 On the board agenda – Purpose – your company's "North Star"	

Area of potential disclosure	Reference material – with clickable links where available	In the annual report? Y/N
Does the board discuss how purpose, values and strategy are aligned to company culture and disclose the **activities the board takes to monitor culture**? Does the board describe how its **governance contributes to the delivery of its strategy**?	2018 Code Principle A 2018 Code Provisions 1&2 On the board agenda – Culture – understanding your reality	
Is it clear from the annual report that the board has put **effective mechanisms** in place to understand the views of the company's **key stakeholders**? Does the board identify which stakeholders it considers to be key?	2018 Code Principles D&E 2018 Code Provision 5 On the board agenda – Stakeholder engagement – your choices	
Has the board discussed who they consider to be part of their workforce and why, bearing in mind that this is a worldwide requirement and goes beyond employees? Is it clear from the annual report that the board has put **effective mechanisms in place to engage with the workforce** and what those mechanisms are (with particular emphasis on clear disclosure if this is not one of the three mechanisms described in Provision 5)?	2018 Code Principles D&E 2018 Code Provision 5 On the board agenda – Stakeholder engagement – your choices	
Is it clear from the annual report in what way the board's approach to **whistleblowing / speaking up** has changed from an audit committee led approach to a board led approach?	2018 Code Principle E 2018 Code Provision 6	
Is it clear whether **board composition**, including the **tenure of the chair**, met the requirements of the 2018 Code from the start of the year, or is there disclosure of any departures and an informative explanation, alongside how the board is planning to align to these requirements?	2018 Code Principle G 2018 Code Provisions 9-11, 19	

Area of potential disclosure	Reference material – with clickable links where available	In the annual report? Y/N
Where there is disclosure in the annual report regarding consideration of board directors' other appointments or time availability, is it clear that the board now has a responsibility to give **prior approval to new appointments**?	2018 Code Principle H 2018 Code Provision 15	
In nomination committee disclosures and disclosure of the approach to succession planning, has the **focus on diversity** in the new Code been taken into account? Does the report include the new disclosure of **gender diversity in senior leadership** (the executive committee and their direct reports)?	2018 Code Principle J 2018 Code Provision 23 On the board agenda – Diversity	
Has the board considered how it identifies **emerging risks** and how to disclose the procedures in place to identify these risks in the annual report? Has the board decided whether to disclose what the emerging risks are in addition to the process followed (this is not a requirement but some companies are already choosing to make this disclosure).	2018 Code Principle O 2018 Code Provision 28 On the board agenda – Internal audit – fit for purpose?	
Is the board satisfied with how it gains **internal assurance**? In the absence of internal audit, has the board disclosed how internal assurance is achieved, and how this affects the work of external audit?	2018 Code Principle O 2018 Code Provision 26 On the board agenda – Internal audit – fit for purpose?	
Does the remuneration committee report acknowledge the new Code's focus on **review of workforce remuneration and related policies**? Is there any discussion of new policies reflecting changes to the Code regarding length of long-term incentive award schemes, post-employment shareholdings, pensions and application of discretion?	2018 Code Principles P-R 2018 Code Provisions 33, 36-37 On the board agenda – Executive pay	

Other 2019 hot topics

	Reference material – with clickable links where available	Satisfactory disclosure? Y/N
New accounting standards – Final activity and disclosures around implementing **IFRS 16 Leases** Periods commencing on or after 1 January 2019	Areas of focus for your half yearly report Closing Out 2018	
Viability statement – Have you described your **longer term prospects** over the business cycle in the manner requested by the FRC and investors, clearly separating this from the viability assessment?	Looking forward to the annual report	
Viability statement – Have you incorporated **Brexit** into both your assessment and your disclosure?	Looking forward to the annual report	
Strategic report - Companies in scope of the EU Non-Financial Reporting (NFR) Directive should provide a **separate non-financial information statement** within the strategic report, referring through to information on environmental matters (including the impact of the entity's business on the environment), employees, social and community matters, respect for human rights, anti-corruption and anti-bribery matters.	Looking forward to the annual report	
Strategic report - With initiatives such as the Task Force for Climate-related Financial Disclosure (TCFD) recommendations bringing **climate** further into the spotlight, boards should consider how to disclose the impact of their company's operations on the environment and how environmental matters may affect development, performance and position – remembering that the European Commission is likely to confirm that it believes that the NFR Directive (see above) mandates disclosure in this area. Note: investors are asking questions of auditors in this area as some do not believe current company disclosure is sufficient to meet existing requirements.	Looking forward to the annual report	

	Reference material – with clickable links where available	Satisfactory disclosure? Y/N
Strategic report – legislative change introducing **s172(1)** report; associated changes bringing in **stakeholder engagement disclosures** in the directors' report relating to employees and suppliers	Looking forward to the annual report	
Strategic report – With the issue of disclosure of **dividend policy and practice** gaining recent traction, companies are reminded to report clearly in one place their policies in this area. In particular some investors call for clear disclosure of **distributable reserves**. The Investment Association published a report in May 2019 calling for articulation of a dividend policy. When approving a dividend, directors should ensure that the profits used to distribute the dividend are justified by "relevant accounts". This is a requirement for directors under common law and fiduciary duties.	Closing Out 2018 Investment Association: Shareholder votes on dividend distributions in UK listed companies	
Executive pay – have you prepared to disclose your CEO pay ratio and assessed which methodology to use?	Looking forward to the annual report Investment Association letter on Principles of Remuneration for 2019	
Taxation – have you considered how you will communicate with investors regarding the impact of tax changes on your ETR?	On the board agenda – Taxation	
Cyber – there has been no let up during the past year in the number of actors in the cyber space looking to breach company defences. Disclosures are critical to inform investors and regulators about the level of focus the company puts on this area – and the amount of governance time and attention the board spends considering cyber risk.	Cyber risk reporting in the UK	

	Reference material – with clickable links where available	Satisfactory disclosure? Y/N
Data privacy – now that implementation of GDPR actions should be "business as usual", the board should be receiving suitable reporting on performance on data privacy. It's critical to keep this area under review and to ensure relevant people – including the board – receive up to date training. As companies introduce new operations, systems, or ways of working, it will be important to revisit data privacy policies and procedures.	A new era for privacy	
Payment practices – large companies report on their payment practices and performance on a Government website on a six-monthly basis. This is now receiving attention as the Chartered Institute of Credit Management has started quarterly reviews to determine which signatories to the Prompt Payment Code to remove or suspend. In addition, the Government has written to more than 10,000 of its suppliers, advising them of new rules that mean that suppliers who bid for government contracts above £5 million per year should be able to demonstrate by September 2019 that they are paying 95% of invoices within 60 days.	Governance *in brief*: Government focus on prompt payment practices	
Pay gap reporting – the second period of reporting has now passed, again with significant media attention. After a consultation proposing reporting on an ethnicity pay gap, some companies have started producing this information voluntarily and some have announced their intention to do so in the future. Further regulation in this area can be expected.	On the board agenda – Diversity	

	Reference material – with clickable links where available	Satisfactory disclosure? Y/N
Modern slavery – the Ethical Trading Initiative in conjunction with Ergon Associates has recently released a publication on managing risks associated with modern slavery. This includes sections on reporting and on engaging with stakeholders in addition to advice on the practical management of risks.	Managing risks associated with modern slavery	

Introduction
Executive Summary
Areas of focus for your half-yearly report
Looking forward to the annual report
Workforce engagement
Reform of the FRC, corporate reporting and the audit market – a status report
Appendix: Disclosure hot topics – a reminder for the board agenda
The Deloitte Centre for Corporate Governance
The Deloitte Academy

The Deloitte Centre for Corporate Governance

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The Deloitte Academy

The Deloitte Academy provides support and guidance to boards, committees and individual directors, principally of the FTSE 350, through a series of briefings and bespoke training. Membership of the Deloitte Academy is free to board directors of listed companies, and includes access to the Deloitte Academy business centre between Covent Garden and the City.

Members receive copies of our regular publications on Corporate Governance and a newsletter. There is also a dedicated members' website www.deloitteacademy.co.uk which members can use to register for briefings and access additional relevant resources.

For further details about the Deloitte Academy, including membership, please email enquiries@deloitteacademy.co.uk.

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