

Annual General Meeting of the Audit Committee Chairs' Independent Forum

Monday 7th December 2020

Summary of activities during 2020 (by topic)

1. Engagement activities

- FRC
- Audit firm INEDs

2. Specific matters

- Internal controls over financial reporting
- Responding to COVID-19
- Climate change

3. Looking to the future

- Responding to the BEIS consultation
- Restructuring ACCIF for the future

Engagement with the FRC

During the year the Forum has established strong links with the FRC and there are now monthly meetings between the FRC's leadership team and Audit Committee Chairs. These sessions are open to all members and notes are circulated to members following these sessions. The following matters are examples of areas of the FRC's work discussed on these calls:

- Update on FRC transformation project
- Corporate reporting
- Responding to COVID-19 (see below)
- The new UK Endorsement Board
- Climate change
- Publication of AQR reports

There have been other specific points of engagement between the ACCIF Board and the FRC in relation to matters such as operational separation of the audit firms and the development of audit quality indicators. The FRC has also been kept fully informed about the progress of the Forum's work in relation to internal controls over financial reporting (see below) of which they have been very supportive.

Engagement with the audit firm INEDs

Representatives of ACCIF met with the INEDs of each of BDO, Deloitte, EY, Grant Thornton, KPMG and PwC in the period April to September 2020. In most, but not all, instances the INEDs were joined by some firm management.

The meetings were arranged to discuss the roles of the INEDs and ACCIF in the context of the reform agenda for financial reporting and auditing and more recently the impact of COVID-19. The meetings concluded that there is clear alignment of purpose between ACCIF and the INEDs. The meetings were open and discursive, were all virtual and were of one to one and a half hour's duration.

The agendas were along the following lines:

- Introductions
- Overview of ACCIF, the aims of the discussion and the overriding focus on the delivery of audit quality
- Current operating environment addressing the challenges of the pandemic
- Separation of the audit business

- Brydon and the future of audit
- Fees
- Wrap up and next steps.

All of the meetings were engaging with both parties stating that they had been valuable and that they should be held again in “six months” time. We will re-engage as part of our consideration of the BEIS consultation document.

It should also be noted that the ACC’s interest is ultimately in the production of quality audits by the audit businesses. As a result, the discussions were focused on the role of the INEDs in relation to the audit business rather than the firms as a whole.

The principal points noted by ACCIF were

- There is a concerted desire to improve audit quality and make each firm a good place to work
- The current measurement of audit quality through the AQR process is a blunt instrument; KPI’s on audit quality should be developed through the Audit Quality Forum (per Brydon)
- The INED roles vary by firm; although understandable, greater alignment around audit will facilitate greater understanding of the roles’ contribution to audit quality
- The INEDs need to be seen to be independent of management; the roles are at differing degrees of maturity at different firms
- The level of fines being levied by the regulator are causing some concerns and driving decisions about which markets certain firms are wanting to participate in, which is going against the general push for more competitiveness by the mid-tier firms
- The transparency report should be developed so that the INEDs provide substantive comments on their oversight of the audit firm’s policies and development including around audit quality and the measures that give them confidence they are being implemented effectively; this context setting will aid assessing quality at an individual company level

Internal controls over financial reporting

In his review of the quality and effectiveness of audit, Sir Donald Brydon acknowledged that the effectiveness of internal controls is clearly of great relevance to the reliability of a company’s financial (and potentially other) reporting and he put forward a recommendation for directors to report more meaningfully on their internal controls:

“The CEO and CFO provide an annual attestation to the board of directors as to the effectiveness of the company’s internal controls over financial reporting and that this attestation be guided by new principles on internal controls reporting to be developed by the Audit Committee Chairs Independent Forum and endorsed by ARGA.”

In response to this recommendation, earlier this year ACCIF circulated for comment a position paper on a proposed way forward for the UK (the consultation paper can be accessed from www.accif.co.uk/useful_links.html). The aim was to address Sir Donald Brydon’s proposal and to obtain the majority of the benefits of a Sarbanes-Oxley type attestation without all the corresponding costs. Our review led us to conclude that the existing ‘Financial Position and Prospects’ (FPP) procedures requirements from the Listing Rule 8.4.2(4) could be an appropriate and effective way of doing this.

Feedback was received from over 30 members and also 16 stakeholder bodies (including the professional bodies, the audit firms, the QCA and the Hundred Group). A summary of the feedback is available from www.accif.co.uk/useful_links.html. The feedback has been shared with both the FRC and the team at BEIS who are dealing with aspect of the Kingman and Brydon Reviews and meetings have been held with them to discuss. BEIS will reference the work of ACCIF in the forthcoming consultation paper and Sir Jon Thompson has repeatedly used public speaking platforms to praise the work which the Forum has done as a valuable contribution to the debate.

As a key stakeholder, the Forum sought to engage with the investor community in relation to our proposals. Our paper was shared with the Investment Association and ACCIF Board Members Jock Lennox and Chris Jones participated in a panel event organised by the Investor Forum which provided a good opportunity to gather views from this important stakeholder.

We now wait for publication of the BEIS consultation document before determining next steps.

Responding to COVID-19

At the peak of the pandemic many companies were trying to complete their year-end audits or issuing interim reports, the Forum engaged with members to understand what they were experiencing and the challenges being faced. A short survey of members was undertaken to gather views and the results were fed back to the FRC. The sentiment from the survey was that more needed to be done to achieve stronger communication between corporates and the FRC.

Later in the year we undertook a further survey to assess the extent of fee increases amongst our membership. There was a good response to the survey with over 40 companies represented and results were shared with members.

Climate change

In September, we ran an event in conjunction with [Chapter Zero](#) focused on the role of the audit committee in tackling the impact of climate change. The event brought together a panel comprising an audit committee chair, a CFO, an investor and an audit partner to discuss the key challenges facing companies. A summary of the event is available [here](#).

Recognising the ever increasing investor focus on this area and the rapidly moving regulatory landscape for climate-related financial disclosures, in the New Year the Forum will publish a paper to support Audit Committee Chairs in meeting their responsibilities. We hope that this will be the start of a constructive dialogue with members on this important topic.

Responding to the BEIS consultation on Kingman, Brydon and the CMA Reviews

We have established a steering group to oversee the development of the ACCIF response to the consultation and will be engaging with ACCIF members and stakeholders as part of this process.

Restructuring ACCIF for the future

Since it was founded in 2015, ACCIF has grown in both activity and influence and the forward workload continues to grow. There are now over 120 members representing approximately 40% of the FTSE350 plus smaller cap entities and not-for-profit organisations.

ACCIF has become an influential voice as a community seeking pragmatic change. We now feel the time is right to move the structure forward and to engage members more formally through a new structure comprising four Stakeholder Engagement Groups (Regulation, Assurance, Companies & Investors and Members) to support the work of the board.

Jock Lennox has informed the board that, after five years as Chair, he would like a new Chair to be appointed and board member Mike McKeon is leading that process. The constitution of ACCIF envisages the Chair role rotating every two years and now that ACCIF has been established it is appropriate to move into this cycle and to develop this Stakeholder Engagement Group structure.

Jock Lennox

On behalf of the ACCIF Board
7 December 2020