Developing a meaningful Audit and Assurance Policy

A POLICY FOR PROGRESS

Contents

Audit and Assurance Policy Report

Executive Summary

The thirst for information about corporates has never been greater. Nor has the diversity of stakeholder concerns and expectations, matters on which they are seeking insights and data with potential to enlighten. Information that companies are either required or choose to disclose ranges far and wide: from metrics on environmental, social and corporate governance (ESG) matters, through cyber risk, to audited financial statements. All of this can be individually, and collectively, complex and interconnected, making it difficult for users to weigh the significance and credibility of the information without some knowledge of both the topic and the extent to which the information has been audited or assured.

Now, ICAEW recommendations in this report (see Call to action), and the extensive outreach and evidence gathering process (see Dig deeper) on which they are based, suggest that introducing an 'Audit and Assurance Policy' could render corporate information more informative: augmenting the understanding, utility and value of audit and assurance activities, enabling them to be driven by the needs and expectations of key users, and making them more a ccessible in order to facilitate more appropriate resource decisions.

Energising engagement

ICAEW strongly believes in the benefits of energising corporate engagement with the audit consumer, empowering the primary user – the shareholders – to influence audit and assurance provision where they perceive value.

With this objective in mind, an enhanced role for shareholders in the commissioning of assurance, coupled with a more proactive role for audit and risk committees, has much to commend it. This view is reinforced by Sir Donald Brydon's independent review into the quality and effectiveness of audit, which proposes (among other things) that the audit committee publish a three-year rolling Audit and Assurance Policy, to be put to an advisory vote by shareholders.

This ICAEW report explores how to achieve these objectives. It discusses structure and form, considers challenges to be overcome (see Critical concerns), makes recommendations and sets out actions that will be needed to achieve the sort of 'tailored, cost effective and proportionate framework for meaningful dialogue' that Brydon intended – and stakeholders want. Audit committee chairs, CFOs, heads of internal audit, external auditors and other providers of third-party assurance, regulators and other commentators, welcome such a Policy and the potential benefits it should create for a wide range of stakeholder groups (see Opportunity knocks).

Improving accountability

ICAEW believes that the Policy has the potential to improve accountability and clarify responsibilities. It offers an opportunity to create a comprehensive, coherent and integrated picture that captures how a company views its risks, system of internal control and risk management, risk cultures and behaviours, disclosed financial and non-financial information (including ESG measures), and regulatory requirements. It can clearly, and transparently, communicate the story of how a company verifies that the risks it is taking and mitigating are in accordance with its strategic objectives and risk appetite, regulatory obligations are being complied with, and information provided to users is fair and balanced.

The Policy will be a powerful vehicle through which to widen engagement and perhaps close perceived expectation gaps, communicating information in ways that make audit and assurance activities more accessible, meaningful and educational for a broad range of users. Consistent and inclusive language will be critical to support this as the terms 'audit' and 'assurance' are currently not well understood or defined consistently. Further work, outside of this initiative, is required to bring together the different views and create alignment. Presenting information in an engaging and interactive way will also be key to encouraging wider engagement. Web-based charts and reports that can be interrogated by users will make it easier for them to obtain information they consider important and relevant. Imaginative use of digital technology and data-driven tools will also be an important enabler in the creation of a much-needed single, but multifaceted lens on risk, disclosure and assurance.

An evolving story

Companies may need time to develop the Policy and to learn from the process of bringing all of the information into one place (see Decisions and choices). As enhancements may be made and new requirements identified, an evolutionary approach will be needed to provide space for companies to explain transparently their improvements.

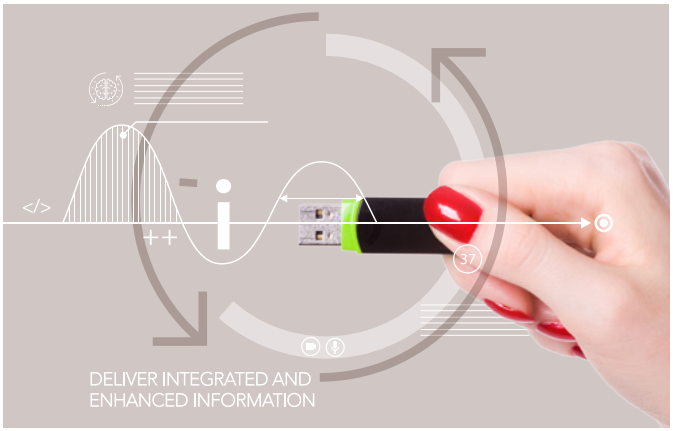
There is clear support for this Policy. It offers a real opportunity to improve trust and should be a central element in audit reform. It provides the impetus to redefine how audit and assurance are delivered, by whom, what they cover, and to what standards, igniting a debate about the roles of a wider range of existing and new providers, their competencies and potential contributions.

We should seize the moment, encouraging UK plc to fully engage and create their own models for reporting as soon as is practical.

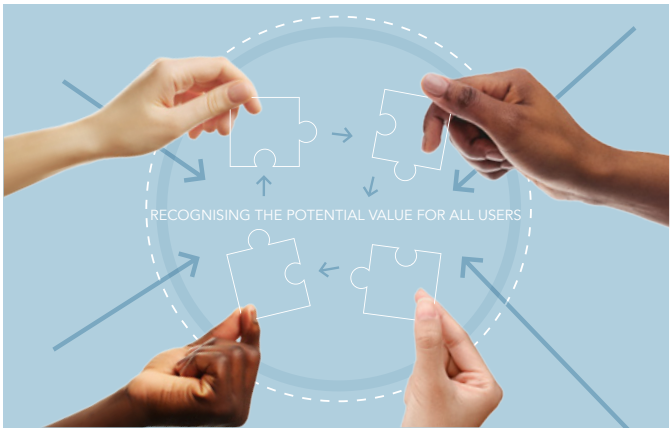
CALL TO ACTION

If the Policy is to fulfil its potential, UK plc will need to engage fully and follow the nine recommendations in this report.

1. We urge UK plc to **seize the moment** to create a Policy that builds on existing activities, rather than waiting for this to become mandatory. We emphasise the ongoing need for discussion that results in a consistent and inclusive language to articulate and describe audit and assurance. Improved definition will support the great value that this Policy has the potential to provide, improving internal decision making while providing insight to external users.

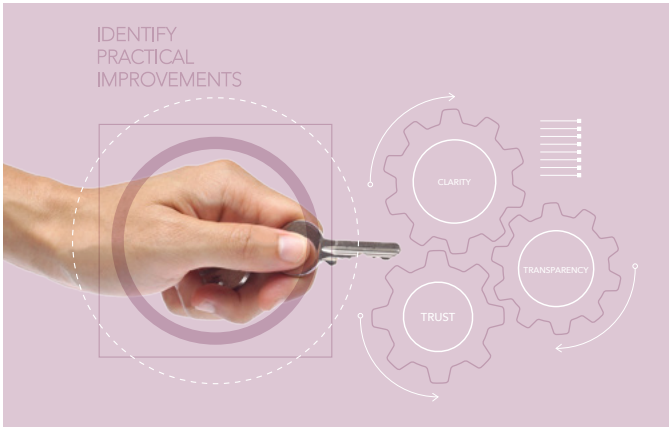


2. We encourage viewing the Policy as a mechanism to **deliver integrated and enhanced information** on the system of risk management and internal control and the audit and assurance obtained over risks, disclosed financial and non-financial information (including Environmental, Social and Governance (ESG) and culture), and regulatory requirements through effective signposting across all disclosures.



3. We support introducing the Policy as a requirement for Public Interest Entities, but with **encouragement for a broad range of companies and other organisations**, recognising the potential value for all users and in particular in providing clarity for regulators across many sectors. We recognise that this recommendation may require further consideration following the expected re-definition of Public Interest Entities as part of the Department for Business, Energy and Industrial Strategy's consultation on corporate governance and audit reform.

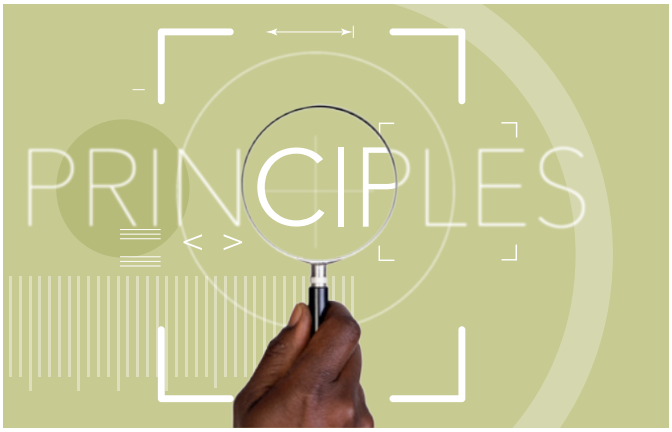
4. We encourage **audit committees to own the Policy** on behalf of the board, focusing on realising the full range of opportunities through clear, concise and comparable information; ensuring appropriate audit and assurance coverage of those matters of greatest concern to users; providing education to all parties; holding providers to the highest standards; and telling a story that drives value and builds trust.



5. We believe the Policy must **deliver clarity and transparency, avoiding boilerplate descriptions,** and evolve over time as improvements are embedded. Companies may initially need to prioritise aligning their understanding internally to learn, identify practical improvements, build capability, and evaluate gaps in their underlying audit and assurance provision.

6. We encourage a **cohesive and complete narrative covering all sources of audit and assurance** to indicate where and how directors get their comfort. Technology and data-driven techniques should be considered as a fully integrated element of the solution, delivering improved insight across all risks. Culture and behaviours must also be addressed.

7. We recommend **adoption of the proposals for a regularly updated Policy with a shareholder** vote. A comply or explain approach could be permitted to enable flexibility in the three-year plan if this timeframe is not appropriate to business circumstances. The advisory vote should drive proactive dialogue between shareholders and directors.



8. We support guidance and regulation with a **focus on underpinning principles, creating flexibility through a proportionate and pragmatic response,** alongside a limited number of minimum mandatory elements for comparability. This approach should evolve, recognising that many organisations will not have the information available immediately, and allowing for transparency in discussing how they are progressing.

9. We encourage **tailored, engaging and interactive reporting** that reflects the nature, scale and complexity of the company, with succinct summarised and integrated reports in the Annual Report. The full Policy should be accessible on the website, explaining the core principles in sufficient detail to enable users to evaluate the content and to engage in a meaningful discussion.

DIG DEEPER

This report reflects extensive research and evidence gathering, bringing together the perspectives of a broad range of participants and stakeholder groups, through a questionnaire, roundtables and interviews.

In our roundtables and interviews, most discussions concluded that any mechanism that encourages an active discussion of risk and the commissioning of audit and assurance should be seen as positive.

The terms audit and assurance are not consistently understood or defined. Audit may be taken to mean the external statutory audit or could include activities undertaken by internal audit and other providers. Assurance is defined explicitly when provided through the external audit profession, but there are many other sources of assurance available to directors.

We found widespread support for a framework describing how directors obtain comfort in fulfilling their stewardship obligations. One interviewee said that "the goal has to be to make organisations safer". Another commented that "this Policy should underpin the licence to operate for directors in the implementation of the strategy and business model".

Our research supported the proposal for a three-year rolling plan, aligned with a forward perspective on strategy and viability. There were a mix of views on both the benefits of a shareholder advisory vote, and the frequency with which this should happen.

76% of questionnaire respondents believe that the Policy could lead to increased trust in management and their actions and **61%** indicated that the Policy should improve engagement with stakeholders beyond shareholders.

Producing a policy will be more straightforward where the audit committee chair understands the risk and assurance environment. **83%** of questionnaire respondents believe this will require a more proactive approach by the audit committee.

Questionnaire respondents were asked what elements they felt should be covered within the Policy. The results indicate:

- **79%** believe internal assurance providers should be included, but just over half (**55%**) of these respondents believe this should be limited to specific identifiable functions, as opposed to broader management assurance;
- **80%** believe that the disclosures must indicate the levels and type of assurance provided;
- **62%** believe that the disclosures must include articulation of the quality standards associated with the audit and assurance activities; and
- **75%** would like to see the outcomes of audit and assurance engagements prioritised in the reporting.

72% of respondents to our questionnaire agreed that the Policy should be made available and/or sign-posted directly from an accessible part of the company's website.

77% of questionnaire respondents indicated that they believe the Policy will support regulators in fulfilling their supervisory role.

OPPORTUNITY KNOCKS

Evidence gathered for this report provided insights into many potential benefits an Audit and Assurance Policy could deliver. Eight significant areas of opportunity were identified:

- engaging a broad range of stakeholders;
- creating clarity over risk management and internal control systems;
- driving accountability and responsibility for risk and control;
- broadening the range of assurance providers and specialists;
- creating a single combined lens on risk, disclosures and assurance;
- improving the quality of audit and assurance provision;
- upskilling and educating all parties; and
- bridging perceived expectation gaps.

CRITICAL CONCERNS

There are some challenges inherent in the proposal for a Policy. During our research respondents recognised that implementation will not necessarily be straightforward and that it will be critical to:

- avoid bureaucracy and cost that creates limited value;
- invest in engagement with shareholders;
- avoid the misleading of users, who may struggle to understand some of the definitions;
- simplify and create clarity, even in complex environments;
- provide evidence of quality and accountability;
- build and develop new capabilities; and
- avoid undermining competitiveness and confidentiality.

DECISIONS AND CHOICES

For those preparing the Policy there will be decisions and choices to be made and there are a number of questions they may need to consider:

- how broad is the range of underlying activities that audit and assurance should focus on?
- through what lens should we structure our report: principal risks, financial and non-financial metrics, compliance requirements?
- how broad is the range of audit and assurance providers?
- how do we report on very different audit and assurance outcomes in a comparable way?
- how do we create meaningful alignment with our risk disclosures?

CHAPTER 1
Background and approach

In its 2019 thought leadership report on User-Driven Assurance[1], ICAEW's Audit and Assurance Faculty noted the importance of energising engagement with the audit consumer and proposed a fresh way of thinking about assurance, directed by the needs of the primary user – the shareholder. We advocated an enhancement of the part played by shareholders in the commissioning of assurance, a more proactive role for audit committees, and more transparent reporting of the framework of audit and assurance.

The Brydon Report[2] reinforced this proposal with its recommendation in section 10 that the audit committee publish a three-year rolling Audit and Assurance Policy (the Policy), to be put to an annual advisory vote by shareholders, for approval at the Annual General Meeting (AGM).

We urge UK plc to seize the moment to create a Policy that builds on existing activities, rather than waiting for this to become mandatory. We emphasise the ongoing need for discussion that results in consistent and inclusive language to articulate and describe audit and assurance. Improved definition will support the great value that this Policy has the potential to provide, improving internal decision making whilst providing insight to external users.

Context

ICAEW's Audit and Assurance Faculty commissioned this report to consider these proposals in the context of ICAEW's five goals for audit reform[3]. These goals include a focus on "on demand audit extras", encouraging an interactive approach. We advocate an enhancement of the part played by shareholders in the commissioning of assurance, alongside a more proactive role for audit committees as the agent of the directors in owning the audit and assurance landscape. The Brydon Report recommended a discretionary approach to extend the scope of the statutory audit and invite shareholders to comment on the information and risks they wish to have audited or assured. In a speech at an ICAEW Audit and Assurance Faculty event on 14 February 2020, Sir Donald Brydon asked why shareholders would not demand extensions to the existing audit and assurance provision. Shareholder concerns may be diverse: fraud, aggressive tax planning, cyber-security, the use of data, climate change, to name a few. Why would we not encourage discussion on how the directors get their comfort that these issues are being managed appropriately?

Objectives

The objectives of this project are to:

- Capture how companies currently consider risk mitigation and assurance;
- Educate readers on existing practices, evidencing that many of the reporting requirements within the Brydon Report recommendations reflect current activities;
- Consider the potential benefits and value of a Policy;
- Make recommendations as to how the desired benefits might be realised;
- Consider the associated risks in the implementation of a framework and how these might be mitigated;
- Provide guidance on the form of reporting that might be appropriate;
- Gather perspectives on the specific requirements implicit within the recommendations; and
- Inform the ongoing debate and prioritisation of issues emerging from this proposal.

At present, we are only aware of one company that has attempted to develop a Policy, so we do not include specific examples in this report. However, we intend to evaluate examples as they emerge and make them available for consideration.

In chapter five, we consider which companies might be required initially to prepare a Policy, while noting that the opportunities and challenges resonate across many organisations, including those in the public sector. We do not make specific reference to issues impacting only on this sector. There is a strong believe in the opportunities created by this Policy, but a sense also that it must evolve, whether that be across sectors, across companies of different scale, or within individual companies as they identify gaps in their current audit and assurance provision.

Approach and evidence gathering

We consulted with a wide range of participants to provide a balanced perspective on the views of stakeholder groups that could inform our recommendations. This included the use of a questionnaire, completed by 71 individuals. The breadth of their roles and sectors is illustrated in the appendix. In addition, as indicated in the appendix, we sought the views of a cross-section of specialists and experts through four roundtables and 10 interviews. In particular, we are grateful to Sir Donald Brydon for contributing his thoughts several months on from publishing his original report, and in an environment where so much has changed in our understanding of dynamic risk and control.

The Brydon Report intended to create a relevant, cost effective and proportionate framework to facilitate a dialogue with shareholders on the provision of audit and assurance. The Policy is one element of this dialogue. As we outlined in our report on User-Driven Assurance, there are many areas on which directors and managers can choose to obtain assurance. Building out from the audit of the core financial statements, there is a growing belief that audit and assurance should be more comprehensive and informative. With this in mind, we believe the Policy should be developed and tailored by the directors to reflect the risks and strategy of their organisation, avoiding standardisation and boiler plate descriptions. It must be clearly owned by the audit committee and provide a window into their thinking and deliberations.

This report outlines how these objectives might be achieved. It encourages companies to seize the initiative in a manner that is proportionate to their scale and complexity, taking the opportunity to articulate how audit and assurance benefits the organisation in a way that supports better internal decisions, as well as creating valuable insights for external users.

[1]In 2019 ICAEW's Audit and Assurance Faculty launched a series of Future of Audit thought leadership essays which explore issues key to the debate on audit reform. All published reports are available here

[2]The Brydon Report was the result of The Independent Review into the Quality and Effectiveness of Audit, published in 2019: Find out more

[3]On 23 March 2020 ICAEW CEO, Michael Izza, outlined ICAEW's five goals for audit reform: Find out more

Interaction with existing requirements and broader Brydon Report recommendations

This project is focused solely on the opportunities, challenges and recommendations in implementing the Policy. There are many risk and assurance activities that occur today within companies, with associated reporting and disclosure requirements, that will need to interact with the Policy. Chapter two sets out these existing practices and requirements. Further, the Brydon Report made a number of recommendations, in addition to the proposal for the Policy, that are intrinsically linked, but which are not specifically considered in this report.

These include:

- The requirement for a UK Internal Controls Statement with attestation by the CEO and CFO;
- Increased reporting on the role of internal audit;
- Increased disclosure in the report of the external auditor on the work undertaken by directors to prevent and detect material fraud;
- An obligation for the external auditors to report on any significant signals that might evidence increased risk and concern;
- Improved disclosure on culture, and any disconnect between the culture claimed by the company and that observed by auditors;
- Replacing the existing statements of going concern and viability with an enhanced Resilience Statement; and
- A requirement for Alternative Performance Measures, and any Key Performance Indicators used for calculating executive remuneration, to be subject to audit.

Defining audit and assurance

In chapter four we discuss one of the more significant challenges associated with the Policy: the wide variation in understanding of what is meant by "audit" and "assurance". The Brydon Report, in section 5.4.3, states that there is "widespread confusion between the terms assurance, the audit and statutory audit". The report calls for the Audit, Reporting and Governance Authority (ARGA) to determine "a framework for all corporate auditing, whether of financial statements or of other information" and, in doing so, to be "mindful of the interaction with the International Auditing and Assurance Standards Board (IAASB) Assurance Framework".

In its User-Driven Assurance report, ICAEW also references the definition of assurance provided by the IAASB International Framework for Assurance Engagements. In our evidence gathering, around half of questionnaire respondents recognised this definition, with these respondents generally being individuals working in internal finance roles. Certain external users of the Annual Report and Accounts, providers of non-financial third-party assurance, and individuals undertaking various forms of internal assurance activity have concerns over whether the definition adequately captures all types of non-financial assurance activity. An alternative definition is provided by the International Institute of Internal Auditors (IIIA), with a focus on the provision of internal assurance. In the absence of a clear definition, we include as a recommendation a principle that companies should disclose clearly their interpretation of these terms, in order that users are able to accurately interpret the information.

Within this report we do not set out to resolve the questions arising from the differing definitions, but instead we seek to provide clear analysis and guidance on the requirements and opportunities associated with the Policy. As such, we outline below how we use the terms within this report, without proposing that these may take the form of definitions for the future:

- **Audit** incorporates all activities designed appropriately to provide a high level of confidence in the management of risks within a company, its directors, and in the information that they have a responsibility to report, including, but not limited to, the financial statements. As such it may include activities of both a financial and non-financial nature.
- **Statutory audit**, also referred to as external audit, is the audit primarily of financial statements performed by external auditors working within external audit firms, in accordance with relevant standards.
- **Internal audit** incorporates audit and wider assurance activities performed under the leadership of a head of internal audit reporting directly to the chair of the audit committee.
- **Assurance activities** relate to processes designed to assess risks and underlying processes, and to provide conclusions on the extent to which risks are being managed and mitigated in line with the organisation's appetite for risk. There will be different levels of assurance, and in some cases terms such as "limited" or "reasonable" assurance may be used to describe the scope of work that has been performed. Assurance may be positive, providing a perspective that supports, or does not support, the underlying information and data, or it can be negative in asserting that the evidence collated has not suggested that there is an inherent problem.

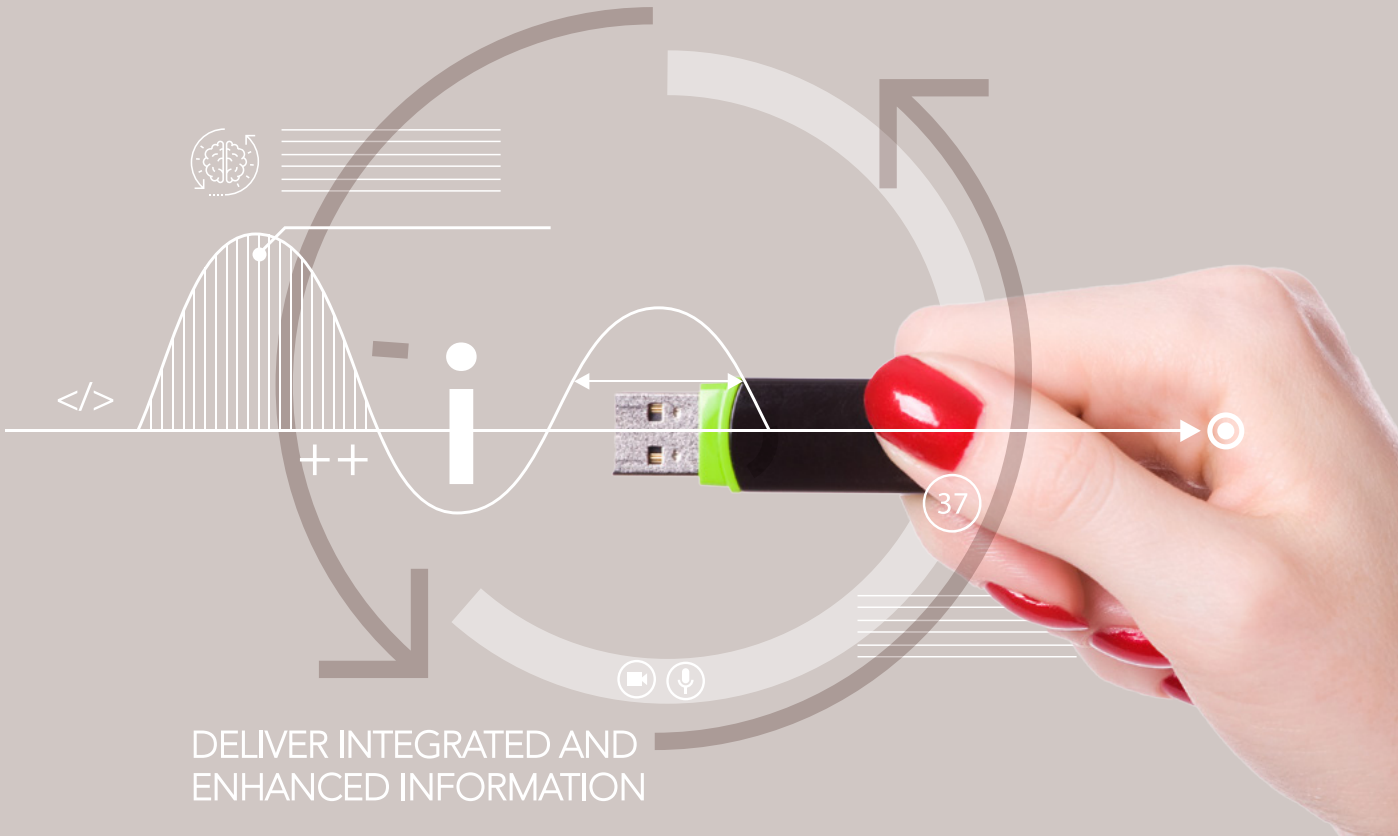
CHAPTER 2

Existing risk and assurance practices and requirements

The Policy presents an opportunity to mesh together existing disclosure requirements, alongside valuable enhancements and improvements, with signposting that enables directors to tell the story of where they obtain comfort that risks are being taken and mitigated in accordance with their appetite, that regulatory obligations are being complied with and that information provided to users is accurate, fair and balanced. This will build on activities already in place, to varying levels of standards and quality, providing greater transparency and visibility of the systems of risk management and control. It will also help to educate a wider group of stakeholders.

It is important to understand the existing landscape. A small number of current or former CFOs that we engaged with commented that much of the content of the proposed Policy is already disclosed. Companies are required to have appropriate systems of risk management and internal controls, and directors must assert that they operate effectively. Details of these activities are outlined below. However, while many companies have systems in place, and there is already information on the risk and assurance agenda within the Annual Report, it is widely dispersed and does not create a coherent picture.

We encourage viewing the Policy as a mechanism to deliver integrated and enhanced information on the system of risk management and internal control and the audit and assurance obtained over risks, disclosed financial and non-financial information (including ESG (Environmental, Social, Governance) and culture), and regulatory requirements through effective signposting across all disclosures.



Principles-based requirements

The UK Corporate Governance Code 2018 (the CGC) provides a framework for good corporate governance as the foundation for long-term sustainable success. Premium listed companies, whether they are incorporated in the UK or elsewhere, must follow its principles. These principles are accompanied by detailed provisions described as "comply or explain" requirements. Companies are allowed to deviate from provisions as long as they explain how they have followed the relevant principles in a different way. Premium listed companies are required to make a statement that includes any such explanations and enables shareholders to evaluate how the principles have been applied.

Principle D of the CGC requires boards to ensure effective engagement with, and participation by, stakeholders. The CGC makes direct reference to section 172 of the Companies Act 2006, which requires directors to promote the success of the company for the benefit of its members as a whole. In doing so they must "have regard to" the likely consequences of any decision in the long term and consider a range of stakeholders including employees, suppliers, customers, the community and the environment. Under the UK Stewardship Code[4], investors have a responsibility to engage constructively through an "apply and explain" approach and report on departures from recommended practice.

In respect of risk, audit and assurance, the CGC includes three core principles[5]:

- The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements;
- The board should present a fair, balanced and understandable assessment of the company's position and prospects; and
- The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Evaluating current risk, control and assurance practices

The risks that organisations take to deliver their strategy and purpose will depend on individual circumstances, sector influences, and strategic objectives.

Risks include: those that arise as a result of business activity that must be mitigated to the lowest acceptable level; those that must be embraced within the boundaries of risk appetite in order to deliver appropriate upside return; and those that occur as a result of the external environment, for which appropriate responses must be considered. We believe the Policy should actively promote a better understanding of risks and the relationship between risks and returns. Not all risk is bad. In fact, companies must embrace risk in order to deliver their strategic outcomes and must be clear on how they create an appropriate underpinning culture that supports these outcomes.

Companies should have appropriate systems of risk management and internal control in place to evaluate the range of risks, together with associated controls and other mitigating activities. Directors must determine the level of assurance they require in order to have comfort that risks are being managed appropriately in line with their statements of risk appetite. The assurance can take different forms depending on who is providing it, and the nature of the risks and controls that are subject to assurance.

Disclosures in the Annual Report and Accounts, whether financial or non-financial in nature, will be intrinsically linked to the manifestation of risks. There is understandable focus at present on Environmental, Social and Governance (ESG) reporting. Such reporting is aligned with the desire to manage risks that could have a significant detrimental reputational impact on the company, while ensuring that the company is focused on the upside potential of purposeful and responsible business interactions.

System of risk management and internal control

Companies should have an existing framework to underpin their system of risk management and internal control. One example is the COSO framework[6], typically manifested through a "three lines of defence" approach. The framework considers internal controls in relation to three objectives: operations; reporting; and compliance. Companies assess their controls using five components:

- Control environment, including the organisational structure, culture, ethics and people practices;
- Control activities;
- Risk assessment;
- Information and communication; and
- Monitoring.

The three lines of defence describe the approach taken to ensuring that these activities operate to mitigate risks in accordance with the directors' appetite and tolerance level:

- First line of defence consists of those individuals, supervisors and managers who perform and oversee the control activities;

- Second line of defence involves monitoring that the control activities have been undertaken in the way in which management intends, either through specific independent functions, such as regulatory compliance teams, or through reviews performed by management; and
- Third line of defence consists of assessment and assurance by an objective function independent of the management team, primarily internal audit, but there may be other providers, reporting directly to the audit committee or the board.

External audit firms will sometimes refer to their statutory audit activities as a fourth line of defence. This activity is performed explicitly for the shareholders: directors and management must have confidence in their own internal systems. They must assess the effectiveness of the system of risk management and internal control independently from the view taken by the external auditors and include their assertion in the Annual Report.

The IIIA produced a paper in July 2020[7] proposing that the language of defence be removed when describing the three lines to make it clear that these activities should enable management to take appropriate risks to deliver the right strategic outcomes, as well as minimising those risks where the appetite is low. This drives more appropriate focus on both creating and protecting value. The Policy should provide an opportunity to describe how this is being realised.

Expectations of audit committees

The Financial Reporting Council's (FRC) Guidance on Audit Committees[8] states that audit committees should consider the level of assurance received over the system of risk management and internal control to determine whether it is sufficient to enable the board to satisfy itself that it is operating effectively. They should make an assertion of the effectiveness of the system in the Annual Report. This guidance covers the need for an internal audit function, the necessary oversight of the function where it exists, and the detailed requirements for oversight of the statutory audit process. The audit committee is clearly responsible as an agent of the directors for ensuring that the various audit and assurance providers are working effectively together, ensuring appropriate coverage, but avoiding duplication.

The Quoted Companies Alliance produced Guidance for Audit Committees[9] that provides further detail on the roles and responsibilities as they relate to risk management, internal control, and the relationship with auditors and assurance providers. It states that "members should deliver robust and relevant challenge to management, the external auditors and others in a balanced manner". The report goes on to comment on operational culture saying that the audit committee must "ensure constructive engagement and mutual respect, and promote a culture of integrity, respect and transparency".

Enterprise risk management

Companies must assess their risks on an enterprise-wide basis and report in the Annual Report on how they achieve this. Risks include strategic, operational, compliance, reputational and financial risks. They will typically be identified and assessed by managers across the organisation and then consolidated, assessed and evaluated centrally. Each risk is considered in relation to its impact and likelihood of occurring. Impact will often be measured as the financial consequences, but may also include measures of incidents in areas such as safety. Risks are assessed initially at their inherent or gross level, before any mitigating actions are in place, and then the impact of the control activities is considered to derive a residual or net outcome.

Control activities must be identified in relation to how they mitigate risks. We consider both the design effectiveness and operating effectiveness of the controls when monitoring them through the lines of defence. This enables effective reporting to the management and directors. Particular focus is paid to risks associated with financial reporting, as well as other areas where compliance is critical, including fraud, data protection, security and safety.

When taken together, reporting on the risks and associated controls enables management and the directors to evaluate whether they are comfortable with the nature and extent of the risks they are taking, and to identify appropriate remediation, allocating resources where required.

[4] Principle 9 of The UK Stewardship Code 2020 requires investors to engage with issuers to maintain or enhance the value of assets: Find out more

[5] Section 4: principles M, N and O of the UK Corporate Governance Code 2018 provide the principles underpinning audit, risk and internal control: Find out more

[6] The Internal Control Integrated Framework of the Committee of Sponsoring Organisations (COSO) of the Treadway Commission was last updated in 2013: Find out more

[7] The UK and Ireland's Chartered Institute of Internal Auditors is a member of the global International Institute of Internal Auditors which produced the discussion paper in July 2020 on the Three Lines Model: Find out more

[8] The primary guidance and requirements for Audit Committees was issued and last updated by the Financial Reporting Council in 2016: Find out more

[9] Quoted Companies Alliance's Audit Committee Guide 2019: Find out more

Role of internal audit

Companies are not required to have internal audit functions, but if they do not there must be disclosure within the report of the audit committee to explain how alternative assurance is obtained.

In practice, larger companies choose to have a function of some form. Internal audit functions should meet the requirements established in the FRC Guidance for Audit Committees and the internal audit Code of Practice[10] and associated standards, overseen in the UK by the Chartered Institute of Internal Auditors (CIIA). This means the function will be established with a primary reporting line to the chair of the audit committee, who has responsibility for ensuring that the function has a charter, annual plan, appropriate resources, methodology and quality standards. They are also directly responsible for the appointment and performance management of the head of Internal Audit. There are different approaches used to resource functions, with third-party resources often engaged to bring technical skills and expertise.

Internal audit develops a risk-based plan focused on prioritised enterprise-wide risks. The plan will typically outline the detailed audit expectations for the first 12 months and will provide a rolling indication of the risks and processes that will be considered over a cycle of up to three years. Audit plans should be dynamic, taking into account emerging risks, so it would be expected that the plan will change, sometimes by as much as 30 to 40% within the year. Most audits take the form of an assessment of the risks associated with the underlying process or activity, testing of the design and effectiveness of associated control activity using a range of techniques, and reporting on whether the risk that is being taken is appropriate to deliver the strategy while operating within the agreed risk appetite. Internal audit reports will often be colour coded using a red, amber, green system to indicate the extent of weaknesses identified during the audit.

Increasingly, internal audit uses data analytic techniques to underpin real-time and continuous assurance, working alongside management to provide feedback and insight that can be addressed dynamically and immediately. The Internal Audit Code of Practice also requires functions to provide assurance over the culture and behaviours across the organisation, something that was widely discussed in the roundtables we hosted to develop this report.

The audit committee will receive reports detailing the assurance activity that has been undertaken, the findings, risks associated with the findings, and management's responses and actions. The report of the audit committee is required to summarise the material matters identified.

Current disclosure requirements

The Annual Report and Accounts must be "fair, balanced and understandable". This is important as it underpins trust with shareholders and creates a requirement for the directors and auditors to specifically consider the information presented as a cohesive whole. The Policy will be one element of the broader disclosures related to the system of risk management and internal control, as well as providing comfort over the financial and non-financial information provided throughout the report. Effective signposting will be required to deliver clarity and transparency.

The Annual Report, the front part of the Annual Report and Accounts, must include:

- Review of the principal and emerging risks, including mitigating actions and risk appetite;
- Assessment of going concern, including any material uncertainties;
- Assessment of the prospects and viability of the company over a defined period, linked to the principal risk disclosures, and including qualifications and assumptions;
- Audit committee report discussing the process for the annual review of the effectiveness of the risk management and internal control systems, and the committee's oversight of the external and internal audit functions; and
- Extended report of the external auditor detailing the results, findings and significant matters identified during the statutory audit process.

The FRC has invited comments on a discussion paper on The Future of Corporate Reporting[11]. The fundamental principles are consistent with the proposal for a Policy, which would fit comfortably within the public interest and/or business reporting as proposed in the discussion paper. The public interest report is proposed to enable users to "understand how the company views its obligation with regards to public interest, how it has measured its performance against these obligations and to provide information on future prospects". The FRC's proposed framework focusses on attributes that are consistent with the recommendations in this report: accessibility; connectivity; consistency; transparency; relevance; comparability; brevity; comprehensiveness; and usefulness.

[10] The Chartered Institute of Internal Audit published the Internal Audit Code of Practice in January 2020, following the precedent set through the earlier version for financial services companies only: Find out more
[11] The FRC's discussion paper on The Future of Corporate Reporting was released for comment in October 2020: Find out more

CHAPTER 3

Who should apply the Policy and for whom should the benefits be realised?

While the Policy should be articulated through the lens of shareholders and their needs and expectations, there is an opportunity, aligned in the UK with the implementation of reporting under s172 of the Companies Act 2006, to meet the needs of broader stakeholders. The Brydon Report proposals focus on Public Interest Entities (PIEs). However, we encourage a broader range of companies and other organisations to provide information voluntarily to bring greater transparency and clarity on a wide range of issues. This will also support regulators in fulfilling their supervisory role through the provision of assurance information in a combined manner.

We support introducing the Policy as a requirement for Public Interest Entities, but with encouragement for a broad range of companies and other organisations, recognising the potential value for all users and, in particular, in providing clarity for regulators across many sectors.

We recognise that this recommendation may require further consideration following the expected re-definition of Public Interest Entities as part of the Department for Business, Energy and Industrial Strategy's consultation on corporate governance and audit reform.

Proportionality

The Brydon Report states that it should be open to shareholders to challenge the audit and assurance approach in order to maintain proportionality in the interest of the primary users and ensure that any costs incurred reflect the perceived value.

The concept of proportionality was important to commentators across all participant groups during our evidence gathering process, but at the same time a concept many felt would naturally be achieved. The larger, more diverse, and more complex the organisation is, the more information might be required to describe how the directors receive the comfort they require. A smaller and less complex listed entity, for example, should be able to tell this story much more succinctly, so long as there are not major control weaknesses.

Applicability and scope

The Brydon Report relates primarily to PIEs, but many commentators believe these proposals resonate more widely, certainly to Other Entities of Public Interest, as defined by the FRC. The extension of the definition of PIEs is likely to form part of the Department for Business, Energy and Industrial Strategy's consultation on the range of corporate governance and audit reform recommendations. With this in mind, our recommendation may require further consideration following the expected re-definition of PIEs.

Some third-party commentators and providers of assurance also referenced the Redmond Review on local authority audit and financial reporting[12]. In the executive summary the report discusses the need for considering all mechanisms for communicating in a way that achieves access for all communities, objectives that are very similar in nature to those underpinning the Policy.

The Policy could be a pragmatic and proportionate response to the needs of a wide variety of users across many organisations in sectors including, for example, charities and the public sector, but further discussion of the specific content will be required. There will not be a one-size fits all response. Proportionality, as discussed above, will be critical.

Regulatory oversight

77% of questionnaire respondents indicated they believe the Policy will support regulators in fulfilling their supervisory role. Regulators hope the Policy will provide a forum for discussing how companies meet their regulatory requirements. Interviewees from within companies believe that by providing this Policy regulators might be more able to look across the lines of defence to permit greater integration and reliance, with appropriate safeguards in place. It could drive efficiency and pragmatism in how assurance is coordinated. This would be welcomed particularly by companies that have individual entities regulated by the one of the financial services regulators, for example, but where the overall group is not primarily operating in the sector. Several retail, telecoms and utilities groups fall into this category.

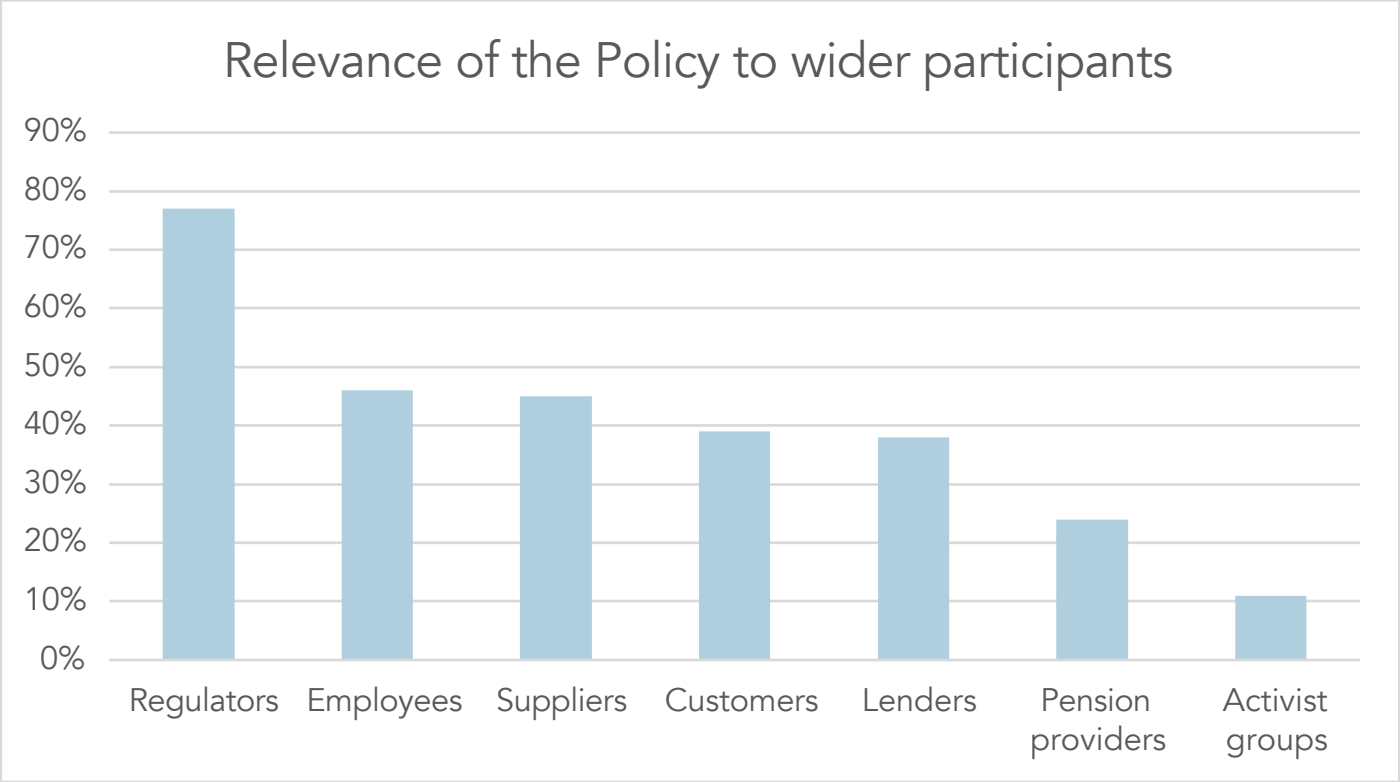
The benefit to this approach may well fall most significantly in other regulated sectors, where there is currently less assurance reporting accessible directly to the regulators, or in relation to broader issues such as data protection, cyber security or climate change, where directors may describe how they obtain their assurance and comfort that controls are designed and operating effectively.

Broader public interest value

In April 2019, at the launch of his call for views, Sir Donald Brydon stated that "the voice of the ultimate user has been curiously muted; yet in the rest of the world the consumer drives the evolution of product features". While the primary focus is on the shareholders, it should also be the case that anyone else reading the Policy will have a better view of the company. Information in the Annual Report and Accounts is already required to be audited or assured for a range of purposes and situations including financing arrangements, management compensation schemes, merger and acquisition earn-out provisions and supplier agreements.

S172 of the Companies Act 2006 recognises that stakeholders are far wider than investors alone. It is increasingly recognised that resilience and sustainability are driven by engaging employees, customers, suppliers and activist groups, and by addressing their concerns. The shareholder has an interest in ensuring the wider needs are addressed.

Our questionnaire supported the comments noted above in relation to the relevance of the information to regulators. Beyond this there was an equal spread of interest expressed in relation to the use of the Policy by stakeholder groups including employees, suppliers and customers.



The Brydon Report explicitly references the need for improved employee engagement, giving employees a voice, such that they can highlight risks and question assurance in the company. The Designated Director (or other mechanism) can then be the recipient of those inputs with an obligation on directors to respond to their requests.

We note also that if the Policy is adopted by a wider range of organisations, whether they be companies with significant debt funding, or organisations in the charitable or public sector, other users will become more significant. All participants agreed that there was a real opportunity to deliver user or market-driven assurance to build confidence and trust across all stakeholder groups.

[12]*The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, conducted by Sir Tony Redmond, reported in 2019:* *Find out more*

CHAPTER 4

Driving measurable value and benefits

Building on the Brydon Report's recommendations and its own work on User-Driven Assurance, ICAEW conducted a comprehensive evidence gathering process, including a questionnaire and a series of roundtables and interviews that indicated clear and widespread support for a framework describing how directors obtain comfort in fulfilling their stewardship obligations. One interviewee said that "the goal has to be to make organisations safer". Another commented that "this Policy should underpin the licence to operate for directors in the implementation of the strategy and business model".

Significantly, 76% of questionnaire respondents believed the Policy could lead to increased trust in management and their actions.

We encourage audit committees to own the Policy on behalf of the board, focusing on: realising the full range of opportunities through clear, concise and comparable information; ensuring appropriate audit and assurance coverage of those matters of greatest concern to users; providing education for all parties; holding providers to the highest standards; and telling a story that drives value and builds trust.

In addition:
- 89% believe the Policy will create greater visibility as to how directors get assurance over risks;
- 87% expect it to bring transparency over how risks are managed and mitigated;
- 87% think it will deliver clarity over which information is and is not audited or assured; and
- 83% believe it will clarify the roles of the audit and assurance providers with 78% expecting it to drive greater accountability in the provision of assurance.

We believe there are eight core opportunities for directors to strive towards when creating and documenting their Policy:

1. Bridging the perceived expectation gap

"If you have an expectation gap, you don't solve it by staying quiet. You take the opportunity to promote what you are doing and seize the opportunity".

The expectation gap between the confidence and assurance that the statutory audit currently delivers, and the understanding of shareholders and other users as to what is assured and the comfort it provides, is frequently discussed and has been at the heart of a number of recent reports, including the Brydon Report. All our discussions focused at some level on the question of whether the Policy could contribute to bridging this gap, noting that at the very least it provides a mechanism to facilitate discussion. While there is clearly a broader agenda to be addressed in relation to audit quality and other provider issues, the Policy offers directors the means to describe the role they see the external auditor playing, both through the statutory audit and other assurance activities they might be engaged in, and the assurance they get from wider activities. It provides the possibility to describe the assurance that shareholders should and should not rely on in relation to critical matters such as fraud and going concern.

The Policy will enable directors to talk more precisely about the coverage provided by the statutory audit and other activities. It may not be that more assurance is required, although in developing the Policy and the internal thinking that underpins it, gaps may well be identified. It will though highlight the difficult choices for directors in determining where to invest. It is always possible to obtain assurance of some form over the processes involved in managing risks or underpinning published information. Directors must make pragmatic choices based on feasibility and proportionality as to whether the assurance that is available really provides the comfort that they, or stakeholders, require. For example, it is always possible to audit the accuracy of information presented as APMs. It might well be desirable to see the statutory audit extended to cover such measures. However, the real concern is whether they are fair and appropriate measures given the purpose they are being used for (particularly where this impacts on remuneration and bonus arrangements). The Policy should enable meaningful discussion in different and more engaging ways that inform investors' decision-making processes.

2. Engaging a broad range of stakeholders

The Policy, as proposed in the Brydon Report, is primarily aimed at shareholders. However, consistent with s172 of the Companies Act 2006 and the FRC's recent discussion paper on corporate reporting, there is increasing awareness of the broader range of interest groups whose concerns will include, but go beyond, financial reporting and results.

61% of questionnaire respondents indicated that the Policy should improve engagement with stakeholders beyond shareholders. It offers a means of engaging with customers, suppliers, employees and activists, providing visibility as to how the board addresses the broader risks beyond financial, and how it seeks to obtain assurance that the information presented is trustworthy.

In order to deliver on this opportunity, it is critical that the Policy is written with the users in mind. If it is too long or written in a way that is only understandable by individuals within the audit and assurance profession, users will not engage. The critical points must be able to be explained in a single page summary without acronyms or assumptions.

3. Creating clarity over risk management and internal control systems

The Policy provides an anchor for revitalised conversations within companies about how their systems of risk management and internal control might be optimised. This should incorporate all aspects of the risk universe, beyond the financial disclosures. It requires directors, particularly those on the audit committee, to revisit the lines of defence to ensure they both protect and create value. Without internal clarity, it is hard to see how an appropriate Policy can be articulated.

The Policy provides directors with an opportunity to highlight the role of each of the lines of defence. It evidences where directors are confident in the actions of the first line, where they are requiring monitoring and oversight through second line functions and activities, and where they have commissioned third line assurance, alongside the statutory audit. It will become the first comparable integrated or combined assurance view that many organisations have created, internally or externally. Choices have to be made in directing scarce resources with the aim to create broader participation in the commissioning of assurance.

Through this we can hope that a positive cycle of improvement in the delivery of all elements of assurance might also emerge.

4. Driving accountability and responsibility for risk and control

The Policy should be clearly articulated and owned by the audit committee as the agent for the wider directors. Within the financial services sector, the Senior Managers and Certification Regime[13] has provided regulatory direction to clarify the accountabilities and responsibilities of all participants. Many commentators, particularly external observers and assurance providers, suggest that the Policy could underpin the extension of this focus on responsibility to companies in all sectors.

Regulators believe the Policy creates an opportunity to rebalance the relationship between management and shareholders to ensure that directors respond to what shareholders really want and need. Without a vehicle for shareholders to ask questions, this level of understanding cannot emerge.

One board director commented that "the real benefit of this exercise will be to force directors to really challenge themselves as to whether they have looked under the bonnet effectively and got the comfort they need over the mechanics of the company". Another stated that "if the audit committee chair understands the risk and assurance environment, producing a Policy will be straightforward, but if they do not, it will create the need to ask the appropriate questions". 83% of questionnaire respondents believe this will require a more proactive approach by the audit committee.

Publishing information on assurance plans and monitoring them on a rolling basis will ensure that planned activities do take place, or where they do not there are relevant explanations. When a company is under pressure, and as a result risks are heightened, there may be pressure to reduce assurance activity. With the requirement to report on this activity, directors will have to consider carefully the potential consequences of reporting reductions in planned activity, and shareholders will be able to challenge whether decisions are really optimal.

5. Broadening the range of assurance providers and specialists

One audit committee chair, and former external audit partner, stated that "statutory audit is a very small amount of the assurance work we really get. It only covers financial reporting. The board takes comfort from a whole range of activities and the wider world does not understand this".

Many commentators across all participant groups, made the connection between these proposals and the desire for increased reporting on ESG measures, particularly as they relate to climate change and workforce priorities such as gender and ethnic indicator reporting. Companies are keen to seek assurance from a range of providers, to bring specialist skills and to optimally use internal expertise. They are considering a wider range of risks, resulting in an evolution of the nature of assurance demanded and who might provide it.

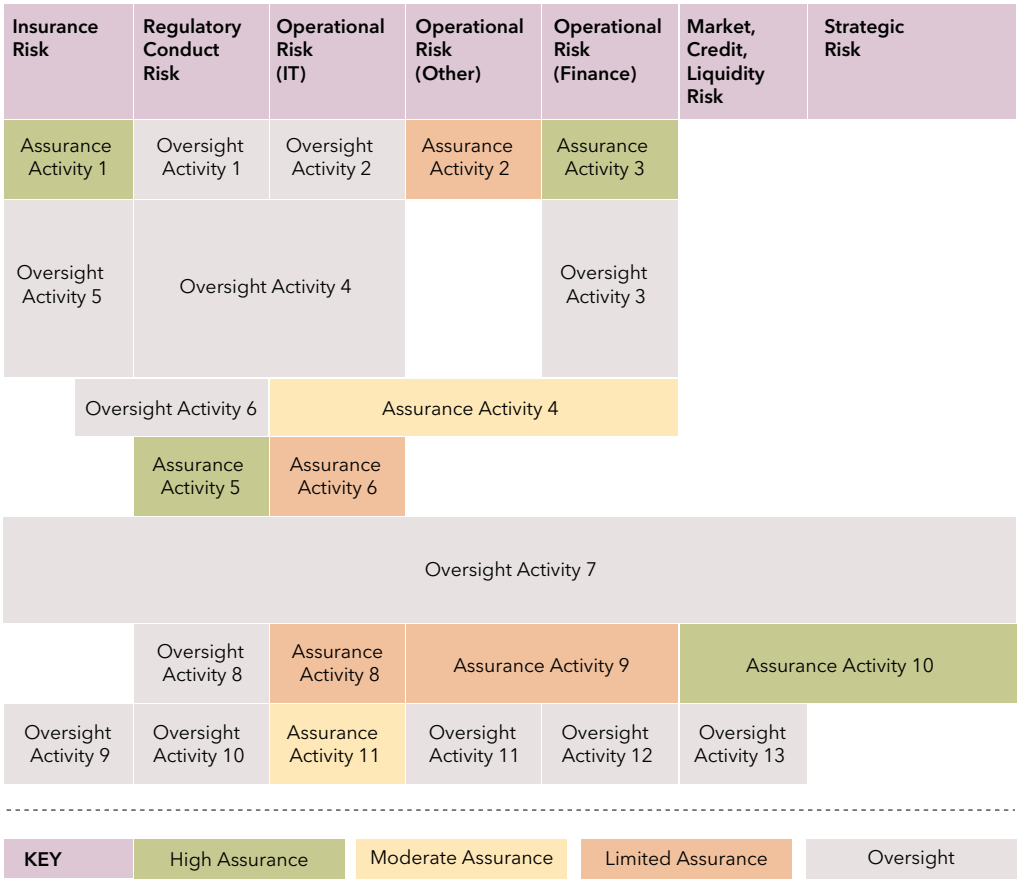
Companies already commission assurance, including external third-party assurance, over a wide range of risks and measures, but this is not consistently or comparably reported. The Policy will drive greater recognition of the broad range of activities, but will also call for improvements in quality and capability. It should stimulate debate on the roles of different providers, their competencies, contributions and the standards they operate under.

6. Creating a single combined lens on risk, disclosures and assurance

As described in chapter two, organisations already provide a lot of information on risks, controls and assurance. The best reporters do this well, but investors believe this is very inconsistent. The Policy has the potential to raise the bar and become a mechanism for the provision of clear and accessible information.

The benefits should be felt internally as well as externally through a common view on the risk agenda shared across all participants and functions. Tying together the risks and assurance activities enables management, as well as directors and shareholders, to take a broader risk lens and to contextualise the severe, but plausible risks and risk outcomes that could threaten the sustainability of the company. In a complex environment, there is a belief that this could create transparency and clarity.

[13] *The Senior Manager and Certification Regime (SMCR) applies to all Financial Services and Markets Act authorised firms and aims to foster accountability and restore confidence in the sector: Find out more*



One mechanism for achieving this that has wide support is the use of an assurance map. The example above was provided on an anonymised basis by a global insurance company. It illustrates how different assurance providers contribute to a picture that evidences the coverage directors receive over risks and information.

7. Improving the quality of audit and assurance provision

Audit and assurance should provide insight that enables management to better understand their business. At present, some directors view this as valuable, while for others it remains a compliance requirement. Many recognise that it is the threat of audit that actually drives improvement in the control environment. The Policy should contribute to bridging the gap between these views.

For management to recognise the value, the quality of audit and assurance activities must improve. There are many proposals within the Brydon Report and other ongoing consultations designed to drive improvements in the statutory audit. This Policy should help drive similar improvements in the quality of delivery of broader forms of audit and assurance. Directors have to be confident in the standards being applied and they should disclose information on this. This has the potential to be transformative. In particular, it creates an environment for internal audit to be recognised for its internal coordinating role, alongside the enterprise risk function. One third-party assurance provider said the "whole requirement of assurance needs a next generation focus to remain relevant".

8. Upskilling and educating all parties

Many commentators across all participant groups identified the need and the opportunity to upskill all parties, noting that there were significant inconsistencies across, and within, organisations. The opportunities include:

- Developing capabilities among investors to assess whether risks are really being mitigated and assured in line with their expectations;
- Increasing the understanding of directors in relation to what audit and assurance really delivers and the broader range of questions they could be asking;
- Improving the understanding of those involved in the statutory audit as to how the broad range of risks beyond finance are really considered by directors;
- Improving capability and quality among internal assurance providers, including internal audit; and
- Increasing the quality of discussion among all parties in relation to risk appetite through the lens of assurance and tolerable outcomes.

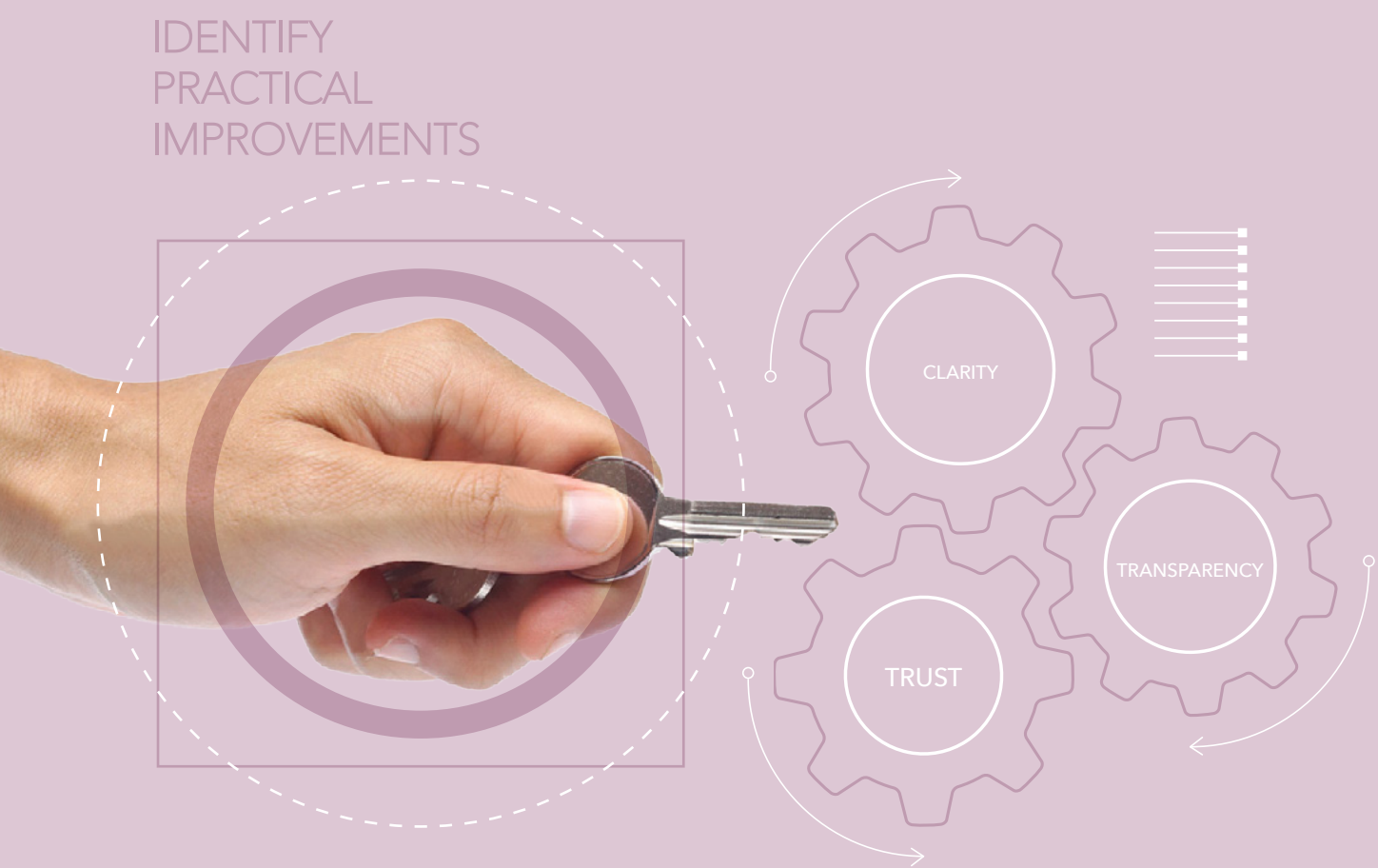
CHAPTER 5

Addressing concerns with pragmatic solutions

While acknowledging the value of the Policy, respondents expressed a number of concerns. To deliver value we must acknowledge these concerns and create solutions to overcome the inevitable challenges. This will not be straight forward for all companies. Regulation and guidance must be pragmatic, focused on public interest and facilitating greater trust.

The primary goal is not necessarily more assurance, although this may sometimes be required, but on honing and improving the existing picture. We will not have succeeded if the resulting Policies contain boilerplate disclosures, particularly if uncertainty in language means they mislead the reader. Instead, Policies must tell a story that is as simple as possible, relevant, succinct, coherent and inclusive. Recognising the challenges of engaging investors and the demands on their time, Policies must be engaging and interactive in style.

We believe the Policy must deliver clarity and transparency, avoiding boilerplate descriptions, and evolve over time as improvements are embedded. Companies may initially need to prioritise aligning their understanding internally to learn, identify practical improvements, build capability, and evaluate gaps in their underlying audit and assurance provision.



1. Avoiding bureaucracy and cost that creates limited value

Among the few commentators who did challenge the need for a Policy, the primary reason was their belief that it repeats existing disclosures, creating cost and further lengthening the Annual Report and Accounts. They are concerned it will not be adequately dynamic and relevant to individual companies. They believe that where companies are already obtaining appropriate assurance, in line with directors' duties, the need to explain themselves in this way simply adds bureaucracy.

The majority view remains that anything that enhances confidence in the Annual Report and Accounts and the business more broadly, is to be welcomed, but acknowledges that we need to be careful, in the words of one audit committee chair, not to "boil the ocean".

The Policy enables the description of risks to be anchored in actions that help users to understand how the company is really run. Where there are existing good practice disclosures, this additional requirement should signpost those reports, rather than creating repetition, with regulation focused on principles, as opposed to detailed rules. We discuss this further in chapter eight.

2. Engaging investors and shareholders

Perhaps the most frequently cited concern was whether shareholders would engage actively in a discussion around audit and assurance. There was concern among CFOs, audit committee chairs, heads of internal audit, and third-party audit and assurance providers as to whether investors really have sufficient professional understanding to form a view on the information. At the same time, it is acknowledged that investors are facing pressure to engage with companies on a broad range of additional issues. The investor community is not homogenous, but for most shareholders, most of the time, audit and assurance are not their primary focus. Do we understand what they are asking for, or indeed know what they are wanting to see? To realise the desired benefits of a Policy it is essential that a dialogue is created that generates reform.

The Policy provides a platform to create a mechanism that facilitates engagement. It could transform expectations as to what assurance could be delivered, incorporating key risks, KPIs and strategic imperatives, well beyond current experience. Investors have a duty to engage and the proposed shareholder vote should underpin this responsibility. We believe that we cannot use the existing lack of discussion as a reason for not aiming for improvement.

3. Avoiding creating uncertainty through misunderstanding

Even among audit and assurance professionals, the terms "audit" and "assurance" are understood very differently. There is a real risk that this could result in misleading interpretation and false comfort being taken.

Among finance professionals and management audit is commonly used to mean purely statutory audit, with internal audit introduced as an something of an after-thought part way through a discussion. Other activities that may take the form of expressing an audit or assurance opinion or view are rarely mentioned. By contrast, the Health and Safety Executive would use the word audit to describe a wide range of first line activities.

Similarly, the word assurance as a professional concept does not have a universally agreed definition. There is a definition provided through the International Standard on Assurance Engagements 3000 (Revised) (ISAE 3000 (Revised), issued by the International Auditing and Assurance Standards Board, but this is not widely understood outside of the external audit profession, as evidenced by our questionnaire. It is also difficult to apply to assurance activities over the full range of non-financial risks where the appropriate activities may take the form of process and risk driven assessments[14].

The Oxford English Dictionary definition of assurance is "a statement that something will certainly be true or will happen" and references the synonyms of confidence, guarantees and promises. By contrast, within the audit and assurance professions we understand assurance to be a process whereby we form an assessment as to the effectiveness of controls in relation to a process, or form a view as to whether a statement is, or is not, appropriate, often within specific parameters.

In addition, some interviewees questioned whether this was really a "policy" or more of a framework. In order to fully understand the audit and assurance landscape on a rolling basis, it is necessary to explain the outcomes of existing activity. Therefore, the Policy should will consist of a description of the plans and activities to be undertaken in future periods in the context of known findings and issues, together with the processes and resourcing of their implementation.

[14]The IAASB is currently developing guidance for practitioners to 'enable more consistent and appropriate application of ISAE 3000 (Revised) to extended forms of external reporting (EER) and greater trust in the resulting assurance reports by users of EER.'

It will be important to engage in discussion to clarify the language and enable all participants to have a clear view of the reliance they can place on particular activities and outcomes. In the meantime, companies should describe their interpretation of the terms audit and assurance and, in considering the nature of activities undertaken, explain the purpose and outcomes.

4. Creating clarity in an environment of complexity

Sir Donald Brydon believes the greatest challenge in the implementation of the Policy is in avoiding boilerplating the disclosures. The Policy needs to promote meaningful and relevant discussion about how directors and management gain comfort that risks are being managed in accordance with their risk appetite. Too much guidance, alongside too many mandatory elements, will promote a boxticking culture that undermines the fundamental purpose.

Companies vary significantly in their scale and complexity. The larger and more diverse the company is, the more complex their audit and assurance footprint will be. We discuss in chapter three the question of which companies should be covered by this requirement, but it is clear that the largest and most diverse organisations will fall within the scope, so the focus must be on providing clarity. In regulated sectors there are a range of specific second line functions. Within the financial services industries these are clearly separable from the third line, with defined responsibilities. In other sectors, such as pharma, energy and telecoms, other decisions may be taken. Audit committees themselves find it difficult to navigate this picture and receive multiple reports. Creating a single integrated or combined picture is challenging, but there is positive support for using assurance maps more effectively.

One audit committee chair stated that "we take the opportunity in our risk management disclosures to be bespoke, and to talk about the unique factors associated with the companies we manage. If we try to introduce assurance reporting against all of the individual risks it will introduce too much complexity and might not really benefit users". There will be a careful line to tread in relation to avoiding undue complexity, while telling a simple, balanced and relevant story.

5. Building trust through objectivity, quality and accountability

To achieve the fundamental goals of building trust between management and investors there has to be clarity over accountabilities, and confidence in the quality of what is reported. There is a question as to whether further disclosure is required, or whether this is more about how directors exercise their duties and are held to account for doing so. Many disclosures are already required, albeit in a less cohesive manner, but the quality is highly variable. Yet there is rarely, if ever, robust regulatory intervention or enforcement resulting from poor disclosures or communications. Regulatory oversight and enforcement will be important to ensure that the proposal is adhered to and is implemented in a way that reflects how companies are managed.

The question of objectivity, quality and accountability extends to broader assurance providers. The only fully regulated providers of audit and assurance at present are the external audit firms. Internal audit is required to refer to the Internal Audit Code of Practice, but compliance is not regulated. Audit committees are required to undertake an External Quality Assessment over the effectiveness of internal audit at least every five years. Other audit and assurance providers, both third-party and internal, are not subject to direct professional oversight in the delivery of these activities.

It is essential for the audit committee to establish clear quality and objectivity expectations, to monitor compliance with these standards, and to disclose clearly how they have exercised this oversight. Over time, we should expect standards to emerge to underpin all activities, but in the meantime, it would be natural for internal audit, under the framework of the Internal Audit Code of Practice, to have a coordinating role and to report on the quality of assurance activities that are not subject to direct professional oversight.

ICAEW has consistently advocated an enhancement of the part played by shareholders in the commissioning of assurance, alongside a more proactive role for audit committees. In our report on User-Driven Assurance we suggested assurance of virtually any area of corporate activity is possible, but decisions need to be taken about feasibility and what is most important to the business. Shareholders should assume a shared responsibility for those decisions.

6. Education is required to improve capabilities

Across all participant groups it is clear that some degree of education is required, alongside new or improved capabilities. Those providing audit and assurance need to ensure they are fully aware of their roles within the wider risk and assurance universe, and that they can work to appropriate standards collaboratively with other providers. This includes ensuring external auditors have a broad perspective across all non-financial risks and internal functions.

For internal audit, this will mean fully adopting the requirements of the Internal Audit Code of Practice and the associated professional framework and standards established by the IIIA. For other internal assurance providers, it will be necessary to consider similar standards, with appropriate disclosures. Among directors, and particularly the audit committee, there are questions over whether there is adequate understanding of risks and controls, and whether the primary focus is unduly on financial reporting and accounting. This is exacerbated by the relatively common reporting line of internal audit into finance within companies that are not subject to financial services regulation.

There is also a need to educate investors and other stakeholders on interpreting risks and the different types of assurance available. ICAEW developed the Buyers' Guide to Assurance on Non-financial Information[15] in 2019 to address some of these questions. Clear communications are necessary, underpinned by a robust and rigorous risk and assurance framework. This is particularly the case where assurance activities result in an assessment of weaknesses and actions to be addressed that could easily be misunderstood by a wider audience.

7. Confidentiality and competitiveness

Concerns were raised about the potential confidentiality of assurance information in the context both of commercially sensitive information and activities or investigations undertaken for supervisory or regulatory purposes.

The potential for increased disclosure of assurance outcomes and significant matters of interest must be balanced with the need to protect the commercial interests of the organisation. This is a matter for the directors to consider carefully, using their professional judgement. There cannot be rules as directors must balance the need to build transparency and trust, with the requirement to protect the long-term interests of the company.

There may also need to be parameters in place to ensure that directors do not feel obliged to disclose matters that could undermine the regulatory or supervisory processes to the detriment of the wider market.

8. Avoiding a drive for substantially more audit and assurance

There is a concern about this Policy driving a desire for "assurance over every risk". In addition to the statutory audit, directors need to be able to take decisions over which risks and information they feel it is important to have additional assurance over, and where they will rely on the system of risk management and internal control to operate effectively.

The Policy should not become a tool that creates substantial new audit requirements, as noted in the Brydon Report. Proportionality is essential so that "cost is not created where shareholders and directors see no value in incurring it". Some CFOs and audit committee chairs are concerned that the accessibility of this information could result in a knee-jerk reaction from shareholders, demanding more without a full understanding of risk and the stewardship requirements. Management should not feel that they have to assure everything. This will require a sensible, grounded approach with appropriate engagement on both sides.

The flexibility inherent in the Policy should enable directors to make conscious choices around which assurance provider is best placed to give the comfort or advice they require. With greater clarity over the role of internal assurance providers, directors may feel they can set clear expectations of a capable and well-resourced internal audit function, alongside second-line capabilities.

[15] *ICAEW, in collaboration with the World Business Council for Sustainable Development, produced the Buyers' guide to assurance over non-financial information in November 2019: Find out more*

CHAPTER 6

Practical implementation challenges

We should not lose sight of the real challenges for preparers in implementing the Policy. There are some important questions to be addressed:

- How broad is the range of underlying activities that audit and assurance should focus on?
- What lens should we structure our report through: principal risks, financial and non-financial metrics, compliance requirements?
- How broad is the range of audit and assurance providers?
- How do we report on very different audit and assurance outcomes in a comparable way?
- How do we create meaningful alignment with our risk disclosures?

We encourage a cohesive and complete narrative covering all sources of audit and assurance to indicate where and how directors get their comfort. Technology and data-driven techniques should be considered as a fully integrated element of the solution delivering improved insight across all risks. Culture and behaviours must also be addressed.

In addition, to create real value the Policy must consider culture and behaviours, forward-looking information, and agility in the face of dynamic risk. Technology and data-driven tools should be developed to help provide a more agile response to these challenges.

We asked our questionnaire respondents which elements they felt should be covered within the Policy. The results indicate:

- 79% believe internal assurance providers should be included, but just over half (55%) of these respondents believe this should be limited to specific identifiable functions, as opposed to broader management assurance;
- 80% believe that the disclosures must indicate the levels and type of assurance provided;
- 62% believe that the disclosures must include articulation of the quality standards associated with the audit and assurance activities; and
- 75% would like to see the outcomes of audit and assurance engagements prioritised in the reporting.

We consider these responses in relation to the practicalities of implementing the Policy below.

Extent of assurance coverage

The Brydon Report indicates that the Policy should encompass activities beyond financial reporting, mentioning explicitly cyber risk and climate change. "This Policy provides the opportunity for companies to show how they are assuring the integrity of reporting, and handling of risk, whether required to do so by law or not".

Participants across all groups mentioned specifically cyber security and environmental risks as examples of risks that the assurance processes must cover, as well as information and KPIs related to broader ESG metrics. They believe this will create a more meaningful narrative for stakeholders, while acknowledging the inherent challenges in reporting on assurance activities that focus on identifying weaknesses in the design and operating effectiveness of controls, as opposed to providing a positive audit opinion. Directors will need to be prepared to acknowledge this, along with their plans for remediation and mitigation where weaknesses exist.

In addition, there will be activities that are broad reaching across a range of governance factors, particularly in considering how comfort is derived over the culture of the organisation and the manifestation of its purpose, values and ethics statements. There is a need to evaluate entity level controls; those controls that guide and provide top-down oversight across the organisation. Assurance activities that give directors comfort that these activities are delivering the required outcomes, such as periodic board performance reviews should also be captured. In bringing together these activities it would be helpful to reflect on how they relate to risk appetite and the delta between appetite and actual risk.

Incorporating both external and internal audit and assurance

The Policy must include all forms of assurance – external and internal. How this operates in practice varies greatly. Directors will need to take the opportunity to describe clearly how the interaction between external and internal sources of audit and assurance operates, and how their system of risk management and internal control works in practice. This should generate meaningful dialogue on the lines of defence, and how the quality and standards of control monitoring and oversight can be maintained. It should encourage companies to seek assurance from specialists and broaden the range of providers able to deliver this confidently.

At the same time, audit committee chairs, CFOs, regulators and other third parties urged that this should not result in a Policy that is driven from the perspective of the audit and assurance providers. It has to be about directors explaining what they are asking for, and what they believe users require. First line oversight and second line monitoring and control mechanisms are central to how companies are managed, so these should be incorporated in that explanation. The use of digital and data driven techniques to monitor activities should be encouraged and explained. One example mentioned by a head of internal audit was the use of data analytic programmes by retailers to analyse shops and customer activity and the use of sophisticated camera technology.

Independence and objectivity

It will be important to consider independence and objectivity to build trust. Stakeholders of all forms will want to know why directors feel the activities undertaken can be relied on, which frameworks they are using, and for activities in the first and second line, how they are holding individuals to account through appropriate certifications or other measures. There should be discussion of the consulting or advisory role of particular functions, relative to their assurance activities and approach. Further debate is required on how to establish broad and appropriate standards for all types of audit and assurance providers, both financial and non-financial, drawing on those applicable to external audit firms (including for example, the International Standards on Assurance Engagements) and those to internal audit functions (the Internal Audit Code of Practice and the associated professional framework and standards).

The purpose of audit and assurance is to build, maintain and develop confidence. It is critical that the approach taken is pragmatic but reliable and is capable of being translated into practical actions that improve the systems of risk management and internal control. This will take some time to implement in full in many organisations.

Most internal audit and assurance providers prioritise their plans in response to the enterprise-wide range of risks, combined with specific regulatory obligations. Risks should themselves be derived from the strategy and business model, including the nuts and bolts of how the organisation really operates. Statutory audit also incorporates a risk assessment with more of a focus on the reported financial results and metrics. The Policy must combine these perspectives in a coherent and cohesive manner. It will need to explain how audit and assurance is organised to provide coverage across the full risk universe, while focusing detailed discussion on those risks considered to be principal risks.

Focus on risks, disclosures and regulatory obligations

It is important to note the difference between inherent risk (being the gross risk before any control measures are implemented), and residual risk (the net risk taking into account the existence and effectiveness of controls). Principal risk disclosures generally focus on residual risk, taking into account the strength and reliability of mitigating controls and activities. By contrast, the extent of audit and assurance activity will be focused on inherent risk, and the strength of the controls designed to mitigate the risk to the desired residual level. This takes into account both the design and operating effectiveness of the controls. Explaining this by reference to the reported principal risks may not be straight forward.

For this reason, an assurance map may be an appropriate element of the Policy. This could appear as a simple single-page overview within the Annual Report or it could be sign-posted and appear in a more interactive form on the company's website. PwC has produced guidance that explores the concept of an assurance map[16], including ideas for how it might look and work in practice.

In addition, there is a need to explain how the reported financial and non-financial information within the Annual Report and Accounts is assured, including the underlying processes and controls. This may require narrative reporting, incremental to the assurance map.

Forward focus embedding resilience

To meet user expectations there must be a significant forward-looking focus that enables shareholders and other stakeholders to form a view on the future performance and resilience of the organisation. The statutory audit incorporates some elements of forward-looking projections. There remains some scepticism about whether this Policy will add further colour. Increasing the credibility of forward-looking information was the least commonly selected benefit of introducing the Policy, with fewer than half of questionnaire respondents believing this was possible.

Just over half of respondents reported that the Policy would result in improved understanding of operational resilience. There is a renewed focus on resilience at present, given our understanding of how risks can materialise and companies are looking for ways to demonstrate the sustainability of their business models and approach.

Improving trust in the forward-looking elements of the Annual Report and other announcements should be a core objective of the Policy. It should provide a vehicle for directors to discuss how they consider operational resilience and the major severe, but plausible risks and risk outcomes to ensure that they have appropriate response plans in place. Building trust may take time, but it should remain a foundational objective as the Policy evolves.

Coverage vs outcomes lens

The deliverables resulting from audit and assurance engagements can take many forms. Statutory audit creates a clear outcome with an opinion (generally positive). Extended audit reporting has created a mechanism for the provision of additional detail, but this is still evolving. By design, most internal audit activity is focused on the assessment of risks to enable weaknesses to be prioritised and scarce resources allocated where risk is most divergent from appetite.

The majority of internal audit and assurance reports are unlikely to result in a positive opinion, instead highlighting weaknesses with material issues or matters. For this reason, it is going to be necessary to provide information on the range of outcomes of assurance activity to set the context for priorities over the coming three years. Users of the Policy will need education to interpret and be comfortable with weaknesses being highlighted, so long as it's clear that appropriate actions are being taken. This is all part of a strong system of risk management and internal control.

The importance of culture

The critical role that culture and behaviours play in organisational success and delivering the purpose of the organisation has become even more prominent during the COVID-19 pandemic. Culture is difficult to audit as it is subjective, but both external and internal auditors have been set clear mandates to focus on issues associated with behaviours and to find ways to report on their impact on the risk profile and resilience of companies.

There is a clear view that the Policy should provide greater clarity over how the directors consider and monitor culture, including avoiding issues such as the neglect of sensible processes, failures to conform with value expectations, complacency, and overly-dominant leadership.

[16] PwC: *Exploring the Assurance Map:* Find out more

CHAPTER 7

Timelines and engagement

Through our stakeholder outreach we found support for the proposal for a three-year plan horizon: 68% of questionnaire respondents agreed, stating most commonly that three years is best aligned with the forward-looking perspective on strategy and viability.

The Policy should be updated on an annual rolling basis to reflect changes in the risk profile and circumstances, while encouraging continuous learning and improvement in the audit and assurance plans. Where necessary, a more detailed explanation of the first 12 to 18 months could be provided with a general view on risk coverage beyond this, potentially aligned with the proposals in the Brydon Report for a Resilience Statement taking a short, medium, and longer-term view on risks. This also meets the expectations of regulators in the financial services sector.

We recommend adoption of the proposals for a regularly updated Policy with a shareholder vote. A comply or explain approach could be permitted to enable flexibility in the three-year plan if this timeframe is not appropriate to business circumstances. The advisory vote should drive proactive dialogue between shareholders and directors.

There was a finely balanced split of views between those who thought that all companies should use the same timeline (42%) and those who prefer to allow more flexibility (49%). A solution to this would be to set an expectation of three years, but allow directors to explain if they feel it is appropriate to report over a different timeframe.

Where differing views were expressed it was that a shorter time frame is better aligned with risk reporting and the underlying audit and assurance plans. Most companies are moving towards a shorter, more dynamic approach to internal audit and assurance, given the volatility in emerging risks. One head of internal audit described the concept of a three-year internal audit plan as being "very outdated". It would certainly be anticipated that there would be substantial changes reported each year through the rolling updates.

Shareholder advisory vote

The second element of the timeline is the call for an annual shareholder advisory vote.

In the Brydon Report this requirement is compared to the introduction of the vote on the remuneration policy occurring at least once every three years. The Brydon Report asserts that "this has increased the dialogue with investors and focused boards and remuneration committees towards greater clarity on the issues involved". This proposal created the greatest split in questionnaire opinions, with 58% of respondents agreeing to some extent, but the remainder being either neutral or against the proposal. One of the CFOs interviewed represented the views of some respondents in saying that the two-step process of a three-year plan, voted on every year, appears to be "overkill". Other CFOs particularly suggested that as this is so fundamental to the role of the audit committee that the vote to reappoint the chair of the audit committee can already be seen as a vote of confidence in their stewardship of such issues.

Some investors commented that they would prefer a less burdensome approach aligned with that for remuneration reporting, consisting of a vote every three years, or when there is a fundamental change in the approach within the Policy. In a dynamic environment it might be anticipated that the specific activities within the audit and assurance plans would evolve each year, so this would not constitute a fundamental change in approach. A change in approach might include changing the way in which audit and assurance programmes are delivered or changes arising from major disruptions impacting on the risk environment. If we succeed in encouraging greater engagement, shareholders would retain the ability to make more regular enquiries and to request assurance over specific issues of concern as they arise.

In the roundtables and interviews, most discussions concluded that any mechanism that encourages an active discussion of risk and the commissioning of audit and assurance should be seen as positive, although there is a risk that this could be seen as directors passing responsibility to the shareholders. Shareholders are more likely to engage with issues where they are being asked to express an opinion, albeit the nature and level of response will differ depending on the scale and type of company. Even limited engagement will raise awareness of the concepts and value of audit and assurance. The vote elevates the topic and makes it an issue requiring positive intervention and action.

Engagement of audit and assurance providers with shareholders

Aligned to this requirement, most respondents believe that some, or all, audit and assurance providers should be required to engage directly with shareholders, usually within the forum of the Annual General Meeting (AGM).

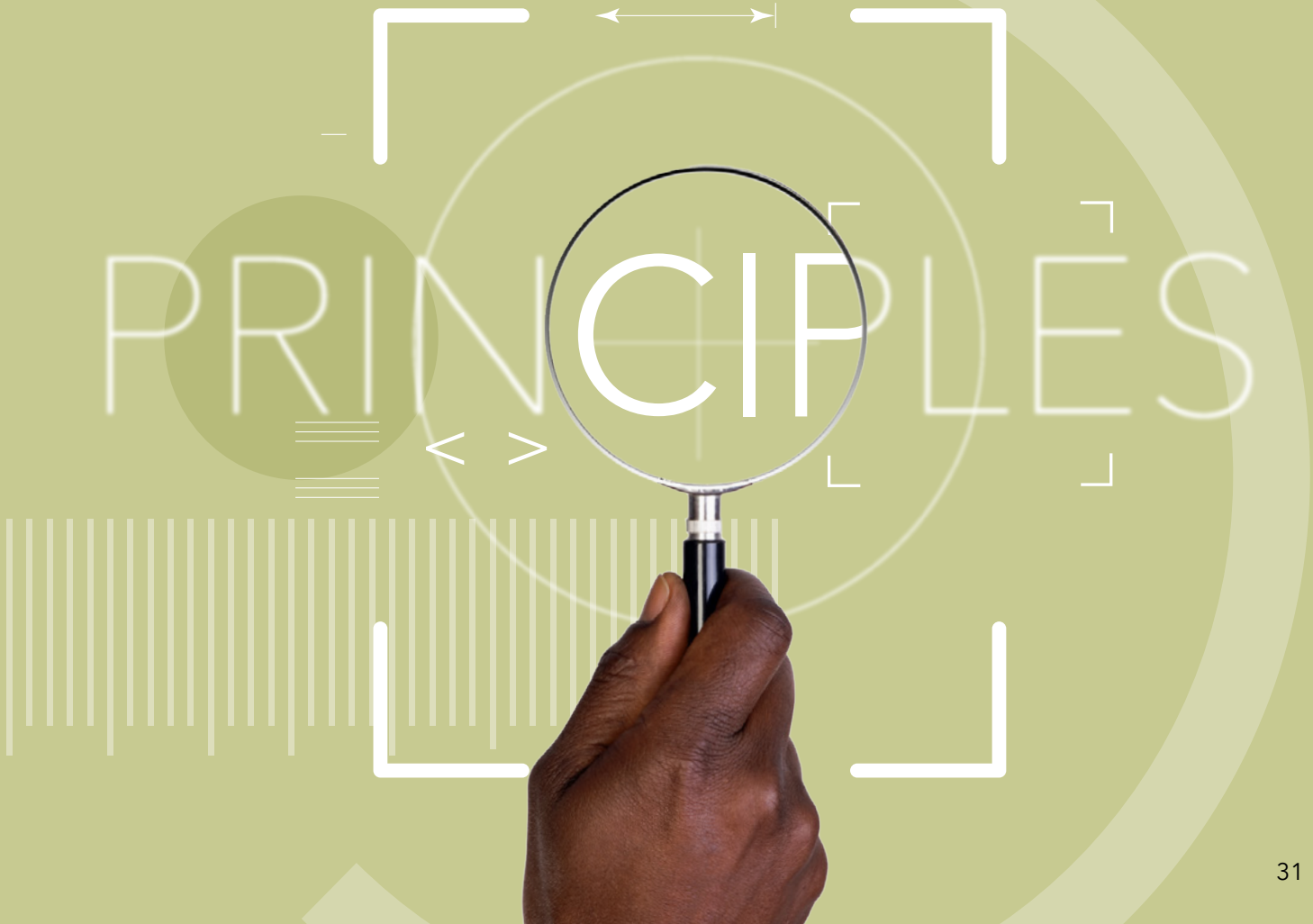
The most common view was that the external auditors, internal audit and any other significant providers of assurance should be present. Some commentators across all participant groups also raised the possibility of a separate annual assurance meeting specifically to consider these issues. Representatives of the investor community suggested that audit and assurance should become agenda items on the round robin discussions between major investors and companies. If there is an intention for auditors and assurance providers to be present at the AGM, the Policy should be circulated well in advance to encourage questions.

CHAPTER 8

Setting the requirements: principles vs mandatory elements

There is a strong preference for principles-based regulation rather than a rules-based, tick-box approach. However, there is also recognition of the need for consistency and comparability, with a framework to underpin key disclosures. For many companies this framework should reduce the cost of trying to develop disclosures without guidance. Our questionnaire suggested that there was not a clear single view on how this should be realised, with 46% favouring the inclusion of an assurance map, 38% the requirement for very specific elements of reporting, and 31% proposing a defined template for use in reporting.

We support guidance and regulation with a focus on underpinning principles, creating flexibility through a proportionate and pragmatic response, alongside a limited number of minimum mandatory elements for comparability. This approach should evolve, recognising that many organisations will not have the information available immediately, and allowing for transparency in discussing how they are progressing.



We believe that a flexible approach would be beneficial to enable reporting to be relevant and proportionate, and to encourage signposting to other disclosures through and beyond the Annual Report. We believe that companies should evidence how they have enshrined core principles within the Policy, alongside certain minimum essential disclosures. Our recommendations incorporate those of the Brydon Report, annotated as * below, with additional elements to reflect the potential opportunities and risks identified through this project.

Deloitte has produced a document setting out their proposals with a structure based around: a description of the policies for audit and assurance; an overview of how the activities are implemented; and a discussion of the outcomes and implications[17]. We recommend companies take a structured approach to tell a coherent story in relation to their decisions over audit and assurance.

Underpinning principles enshrined within the Policy

The Policy should:

- Enable users to interpret how the directors define audit and assurance activities and how they apply to the organisation and business model;
- Enable users to understand how the system of risk management and internal control operates, together with the critical accountabilities and responsibilities for risk, control and assurance, and how the directors have reached their conclusions over the effectiveness of the system;
- Tell the story of how the directors and management define the audit and assurance universe, and their decisions in implementing this, potentially through an assurance map;
- Explain where audit and assurance relate specifically to the evaluation of risks, and where they relate to the Annual Report and Accounts disclosures or other matters;
- *Signpost the wider risk reporting disclosures contained within the Annual Report, including the description of principal risks;
- Provide a perspective on how the audit committee interacts with the external and internal auditors, through details such as which meetings they attend, the information available to them and any other critical information required to understand these relationships;
- Provide a perspective on how the external auditors collaborate with providers of internal assurance, including the internal audit function, and the reliance they place on these activities;
- *Explain the different forms of assurance relied on by the directors in a way that assists users in interpreting the reports, their findings and the level of assurance they should place on them;
- Discuss the way in which evidence is assembled and evaluated against the objectives of the activities, including the identification of themes and root-causes;
- Enable users to understand the critical judgements taken in areas where assurance has not been obtained, and the underlying reasons for them;
- Provide insight into how the company uses technology and data-driven tools to support their audit and assurance outcomes; and
- Describe how culture and behaviours are considered through the assurance activities and the impact on the wider risk universe.

Minimum mandatory disclosures:

- A description of the audit and assurance providers, both external and internal;
- *An explanation of the process for appointing the external auditors, the work demanded of them and any conditions attached;
- *The total costs for the last financial year associated with the provision of identifiable audit and assurance activities, divided by the broad categories of expenditure and an indication of how this might vary during the rolling three-year period;
- *A description of materiality and significance in relation to both financial and non-financial risks, linked to the required disclosures of risk appetite;
- An assessment of the standards and quality assurance approach adopted in relation to the audit and assurance activities and providers included in the Policy;
- *A description of how the directors prioritise risks and controls (financial and operational) over which audit and assurance is obtained and the critical associated judgements;
- An explanation of which parts of the Annual Report and Accounts, or other public documents, including all financial and non-financial metrics, have been subject to audit or assurance, including specifically reporting on ESG;
- *An explanation of the approach taken to compiling the Resilience Statement (and/or Viability and Going Concern Statements) and the extent of audit and assurance;
- A statement of the assurance obtained over internal controls over financial reporting;
- A summary of the significant outcomes arising from audit and assurance activity;

[17] *Deloitte: Developing your company's Audit and Assurance Policy Find out more*

- An overview of the material matters arising from all forms of audit and assurance activities and the impact of the evaluation of the findings;
- A reconciliation of significant changes from the Policy that was previously reported; and
- An assessment of emerging risks where audit or assurance is being considered for the future.

We recommend that costs be disclosed based on known information related to the financial year that is being reported, with a discussion as to how the budget for future periods might evolve. This information is more factually based, but still enables a discussion as to whether there will continue to be appropriate investment over time.

As noted in chapter five, there may be some occasions when information is commercially sensitive, or when assurance activities have been requested by regulators where they might consider disclosure to be sensitive. In this instance the directors must form a judgement, but should seek to provide as much clarity as is possible within acceptable parameters.

There is strong support for an evolutionary approach with the requirements evolving over time, as has been the case in the assessment and reporting of viability. Companies should be encouraged to be courageous in presenting information and then responding to feedback, with a view to advancing the disclosures, rather than being shoe-horned into particular defined formats. We will gain greater visibility of what shareholders and other stakeholders really find valuable and insightful through experience.

CHAPTER 9

Reporting with impact

Most importantly, to realise the potential value in the Policy, companies should invest in creating a report that is compelling, tells the story clearly, and is visually engaging. The Policy forms one element of the disclosures that are required in relation to the system of risk management and internal control. It is critical that there is effective signposting between the disclosures to provide clarity and create a narrative that is easy to navigate. This is an opportunity to move away from the presumption of paper based two-dimensional reporting, to a more interactive approach that facilitates the concept of on-demand audit and assurance extras as described in ICAEW's goals for audit reform. Within the Annual Report, we believe companies should aim for a "view on a page", with further information available to drill down into if required.

We encourage tailored, engaging and interactive reporting that reflects the nature, scale and complexity of the company, with succinct summarised and integrated reports in the Annual Report. The full Policy should be accessible on the website, explaining the core principles in sufficient detail to enable users to evaluate the content and to engage in a meaningful discussion.

Where should the Policy be reported?

This requirement creates an opportunity for engaging and innovative reporting that allows interaction with users and the visualisation of critical information. The Brydon Report proposes that the Policy be included within the Annual Report as the CGC requires the directors to state that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable. The external auditors are required to report by exception if the directors' statements are materially inconsistent with their knowledge obtained in the audit. This concept is designed to create trust between shareholders and directors. Commentators across all participant groups note that the critical requirement is for an accessible report, available on a timely basis. Many comment that the Annual Report is already so long that few people read and digest it in full, so there is limited appetite for extending it further.

The solution could be a two-pronged approach, with critical headline information summarised in the Annual Report, where it is subject to the fair, balanced and understandable review. Additional, visually engaging detail to tell the story could then be available on the company's website. We understand from the experience of reporting under the Modern Slavery Act that when a company has to make a formal and approved statement, and report on the website, it attracts the attention of the directors and ensures a more comprehensive discussion.

The Brydon Report also proposes that risk reporting be made available earlier than the AGM in order to assist shareholders in forming views as to what they might expect to see or questions they may wish to raise. This may also be appropriate for the Policy.

Presentation formats

A number of tools and approaches, which are not mutually exclusive, might be used in creating the Policy including:

- Assurance map: Audit committee chairs in particular reported that this is a really useful tool to enable them to evaluate the picture of risk, control and assurance across the organisation. However, they also acknowledge that the maps can become highly complex in a company covering many processes, sectors and/or geographies, particularly where there are differing regulatory environments. This can mean it becomes too difficult to reproduce in a way that is effective in creating clarity for users.
- Extending the risk reporting: Preparers of the Annual Report, as well as internal audit and assurance providers, favoured incorporating information on the assurance approach adopted in relation to each principal risk within the existing tables. It will be important to ensure that the nuts and bolts of core control frameworks are not lost where the residual risk has been mitigated to a low level and the risks are not considered to be among the principal risks. In addition, there will need to be discussion of assurance over governance, culture, the financial and non-financial metrics and regulatory obligations.
- Embedding the reporting within the existing report of the audit committee: A number of CFOs particularly highlighted the existing disclosures required within this report and suggested this could be expanded to include the mandatory elements of disclosure, making clear the accountability of the directors for this report. In the interests of clarity, it is likely such an approach would then require more detailed information to be developed in a separate report.

72% of respondents to our questionnaire agreed that the Policy should be made available and/or sign-posted directly from an accessible part of the company's website. There was some support for the Policy to be an entirely separate report from the Annual Report, with around a quarter preferring this approach, particularly if it facilitates more direct engagement with a separate shareholder meeting.

Examples and templates

Only one company has, to our knowledge, developed a Policy and requested feedback from a variety of stakeholders, including its investors. We are grateful to the chair of the audit committee of Severstal for his involvement in this project. Within this report we include links to templates that may also be considered as examples in structuring Policies.

Severstal has published a report that follows the mandatory sections outlined in the Brydon Report through narrative disclosures developed by the chair of the audit committee. The resulting document is comprehensive in covering these requirements. It does not include an assurance map and has chosen not to embed assurance information within the risk report but this is signposted. The report is presented as a stand-alone document available on the website:

Find report here

CHAPTER 10

Conclusions

We should not underestimate the strength of support that exists amongst a broad range of participants for producing a Policy. It offers a genuine opportunity to improve trust and engagement as we continue to move forwards with the wider reform package for the audit and assurance profession. We urge companies to take the initiative and disclose at the earliest opportunity relevant information that provides insight into how the directors exercise their responsibilities.

The Policy should provide the impetus for redefining how audit and assurance are delivered, by whom, what it covers, and to what standards. It should ignite a debate about the roles of a wider range of existing and new audit and assurance providers, their competencies and potential contributions.

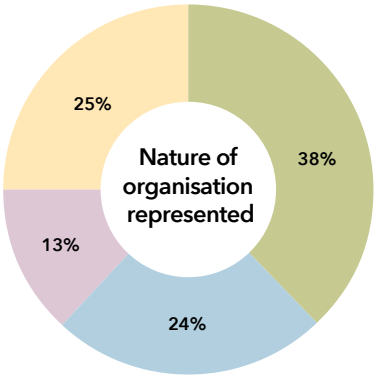
We should seize the moment, encouraging UK plc to fully engage and create their own models for reporting as soon as this is practical.

Appendix

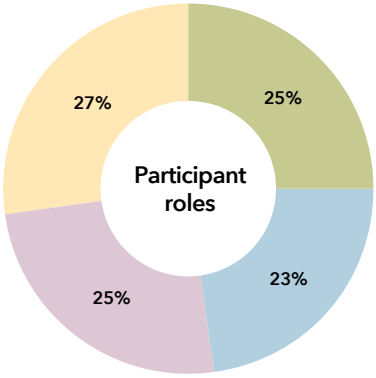
Participants in ICAEW project research

Questionnaire respondents

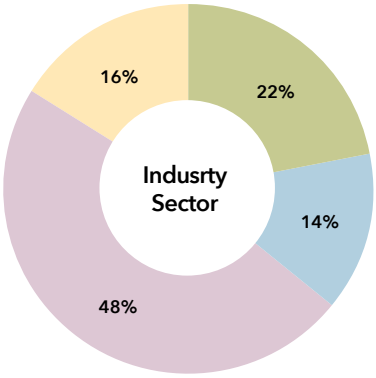
The following charts illustrate the breadth of roles and sectors that responded to the questionnaire and whose views are represented in the quantitative analysis provided throughout this report.



- Large listed companies
- Other companies, including PIE
- Public and third sector
- Advisors, assurance providers and users



- CFOs, finance and internal assurance
- External auditors
- Directors, including audit committee chairs
- Third-parties, including investors



- Financial services
- Highly regulated corporates
- Other corporates
- Public and third sector

Roundtables and interviews

We express our appreciation to the following specific participants and groups:
- Carolyn Clarke, Brave Consultancy
- Sir Donald Brydon
- Department for Business, Energy and Industrial Strategy
- Financial Reporting Council
- Chartered Institute of Internal Auditors
- Deloitte, EY, Grant Thornton, KPMG, Mazars, Protiviti, PwC
- Chairs of Audit Committees
- Heads of Internal Audit
- Chief Financial Officers

The ICAEW Audit and Assurance Faculty is the professional and public interest voice of audit and assurance matters for ICAEW and is a leading authority in its field. Internationally recognised as a source of expertise, the faculty is responsible for submissions to regulators and standard setters and provides a range of resources to professionals. It also offers practical assistance in dealing with common audit and assurance problems.

For more information on the faculty, the current work programmes and how to get involved, visit icaew.com/audit

---

There are more than 1.8m chartered accountants and students around the world and 186,500 of them are members and students of ICAEW. They are talented, ethical and committed professionals, which is why all of the top 100 Global Brands employ chartered accountants.*

ICAEW promotes inclusivity, diversity and fairness. We attract talented individuals into the profession and give them the skills and values they need to build resilient businesses, economies and societies, while ensuring our planet's resources are managed sustainably.

Founded in 1880, we have a long history of serving the public interest and we continue to work with governments, regulators and business leaders around the world. And, as an improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

ICAEW is proud to be part of Chartered Accountants Worldwide, a global network of 750,000 members across 190 countries, which promotes the expertise and skills of chartered accountants on a global basis.

We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create strong economies and a sustainable future for all.

*CAW, 2020 - Interbrand, Best Global Brands 2019

www.charteredaccountantsworldwide.com
www.globalaccountingalliance.com

ICAEW
Chartered Accountants' Hall
Moorgate Place
London
EC2R 6EA
UK
T +44 (0)20 7920 8100
E generalenquiries@icaew.com
icaew.com

Chartered Accountants Worldwide
Member

Global Accounting Alliance