Trust through governance

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Dear Catherine

ICSA response to consultation on Enhancing Confidence in Audit: Proposed Revisions to the Ethical Standard, Auditing Standards, UK Corporate Governance Code and Guidance on Audit Committees

We welcome the opportunity to comment on the FRC's consultation on Enhancing Confidence in Audit: Proposed Revisions to the Ethical Standard, Auditing Standards, UK Corporate Governance Code and Guidance on Audit Committees.

As you know, the Institute of Chartered Secretaries and Administrators (ICSA) is the professional body that qualifies Chartered Secretaries, which includes company secretaries and is the professional body with primary responsibility, established in our Royal Charter, for leading 'effective governance and efficient administration of commerce, industry and public affairs'. Company secretaries have a key role in advising companies on their governance arrangements and for governance reporting. Our members are therefore well placed to understand the issues around the proposals for Enhancing Confidence in Audit, in particular the proposed Revisions to the UK Corporate Governance Code and Guidance on Audit Committees. However we think that the questions set out in the consultation document and appendices covering Revisions to the Ethical Standard and Auditing Standards are better addressed by the accounting firms that provide audit services and we have therefore confined our comments on those documents to points we made in our response to the FRC's consultation of December 2014 on the implementation of the EU audit directive and audit regulation.

1. SECTION 2: Ethical Standards

1.1 Questions 12, 13 and 14: Definition of listed entity

In our response to the FRC's December 2014 consultation we expressed a view that the more stringent requirements should not be extended to automatically include smaller companies quoted on markets such as AIM. We therefore support the proposal that the more stringent requirements should apply to listed entities with a market capitalisation of more than £100m.

1.2 Use of the term 'immaterial'

In our response to the December 2014 consultation we also agreed that, in relation to derogations being taken up, it was appropriate where the effect was 'immaterial'. We note that this term has been amended to '*clearly inconsequential*'. The document also refers to 'trivial and/or inconsequential' in a number of other places. It is our view that the term 'immaterial' is well understood, but what is meant by 'trivial' and 'inconsequential' should be clarified.

2. SECTION 3: Auditing Standards

2.1 Questions 21 and 22: document retention

In our response to the FRC's consultation of December 2014 we suggested a retention period of six years, which is the standard period for document retention, and seems to have been accepted by the FRC in the feedback document. However, we note that the revised ISQC proposal is a minimum of five years. On balance we think this is acceptable.

We agree that the document retention requirements should apply to all audit documentation.

3. SECTION 4: UK Corporate Governance Code

3.1 Revised UK Corporate Governance Code – Section C.3

We support the proposed amendments to Code Provisions C.3.1, C.3.7 and C.3.8. However, we note the deletion of the first sentence of C.3.7 and that the responsibilities of the audit committee in relation to the appointment of the auditor appear within the Guidance on Audit Committees under paragraphs 56 to 58. We think that, as the first sentence of C.3.7 has been deleted, it would be useful to for the Code to make reference to the Guidance on Audit Committees in the same way reference is being made to the retendering rules in the Audit Reform Implementation by BIS.

We are a little concerned by the deletion of this sentence, as we believe that this was a useful *aide memoire*, notwithstanding that it is now a formal requirement.

3.2 Question 25: Is an advisory vote on the audit committee report required?

No. We agree with the view expressed in the consultation paper that an advisory vote on the audit committee report is unnecessary as shareholders already have sufficient rights to express their opinion on the audit committee report and to remove members of an unsatisfactory audit committee.

4. SECTION 5: Guidance on Audit Committees

4.1 Question 26: Do you agree with the changes to the Guidance?

Yes. We support the Revised Guidance on Audit Committees but think it would be helpful to have the Guidance specifically referenced in the Code as discussed in 3.1 above.

We hope you find our comments helpful and would be happy to expand on any of these points should you wish to discuss them further.

Yours sincerely

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