Audit Reform and the evolving role of Audit Committees

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Company Secretary
William Hill PLC
Key Takeaways

Tender:
- Lots of good advice and guidance out there – make use of it!

Audit Committee:
- Keep the Audit Committee well-briefed on key developments and the tender process. Start early and continue the process
- Composition of the Committee is part of a wider process for Board composition

Groupwide impacts:
- Think laterally about how you engage with audit firms, making sure key internal stakeholders understand implications of audit tendering
- Manage a comprehensive process for planning and monitoring Non-Audit Services (NAS)
- Articulate your NAS processes as part of a wider policy on the independence of the external auditor
## Audit Committee support: A busy period for 2016 / 2017 (1)

<table>
<thead>
<tr>
<th>Area</th>
<th>Action Completed</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composition of the Audit Committee</td>
<td>Reviewed and updated composition to ensure relevant sector experience (UK Corporate Governance Code April 2016)</td>
<td>✓</td>
</tr>
<tr>
<td>Activities of the Audit Committee</td>
<td>Reviewed and updated terms of reference e.g. enhanced oversight of the Internal Audit function (2016 FRC updated guidance for the Audit Committee)</td>
<td>✓</td>
</tr>
<tr>
<td>Reporting of the Audit Committee</td>
<td>Reviewed emerging trends and best practice on prior reporting season (e.g. on significant financial issues)</td>
<td>✓</td>
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<tr>
<td></td>
<td>Reviewed new reporting elements, such as enhanced interaction with the FRC Audit Quality Reviews (2016 FRC updated guidance for the Audit Committee)</td>
<td>✓</td>
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Audit Committee support: A busy period for 2016 / 2017 (2)

<table>
<thead>
<tr>
<th>Area</th>
<th>Action Completed</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Updated FRC UK Corporate Governance Code and guidance</td>
<td>Reviewed changes to strengthen auditor independence (prohibitions certain engagements that could result in a conflict of interest)</td>
<td>✔️</td>
</tr>
<tr>
<td>Risk, Internal Control and Viability</td>
<td>Re-checked and re-assessed various scenarios and assumptions, particularly on the viability statement</td>
<td>✔️</td>
</tr>
<tr>
<td>Reporting disclosure</td>
<td>Briefing, discussion and review of key changes in reporting disclosure, e.g. Alternative Performance Measures, additional transparency on tax strategy reporting</td>
<td>✔️</td>
</tr>
<tr>
<td></td>
<td>Briefing on the new more comprehensive report of the external auditor</td>
<td>✔️</td>
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## Audit Committee support: A busy period for 2016 / 2017 (3)

<table>
<thead>
<tr>
<th>Area</th>
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<tbody>
<tr>
<td>Reporting disclosure</td>
<td>Reviewed FRC letter (Oct 2016) to all Audit Chairs and CFOs on key developments for 2016 annual reports – considered impact on our reporting</td>
</tr>
<tr>
<td>Non-Audit Services (NAS)</td>
<td>Reviewed and updated NAS policy as part of the policy on the independence of the external auditor (CMA Order and EU Legislation).</td>
</tr>
<tr>
<td>Other guidance</td>
<td>Reviewed ecoDa / PwC Guidance for audit committees issued in June 2016</td>
</tr>
<tr>
<td>Risk and viability reporting</td>
<td>Outcome awaited of FRC Lab review of reporting on risk, viability, key judgements made etc</td>
</tr>
</tbody>
</table>
Audit Committee support: A busy period for 2016 / 2017 (4)

<table>
<thead>
<tr>
<th>Area</th>
<th>Action Completed</th>
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</thead>
<tbody>
<tr>
<td>UK Corporate Governance Code</td>
<td>FRC announced in February it will undertake a ‘fundamental’ review of the Code</td>
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Audit Reform - Key Impact Areas

Audit Committee composition

Audit Tender

Auditor Objectivity
Audit Committee Composition

Considerations:

• UK Corporate Governance Code: “The audit committee as a whole shall have competence relevant to the sector in which the company operates.”
• Early discussion held with Nomination Committee in the context of overall Board composition
• Agree meaning of “… competence relevant to the sector …” and map against current composition and succession plans
• Nomination Committee thought more holistically in the context of overall Committee composition and succession planning for Committees
Outcome:

- Two new NED appointments with significant industry experience:
  - Former Executive Director, Ladbrokes
  - Former Chief Operating Officer, Betfair

- A more bespoke induction programme to cover the Audit Committee was undertaken
Audit Tender

• There is lots of advice and guidance out there – make use of it!

• How up to speed is the Audit Committee on best practice for tendering? Start the education process early. Make sure they are also aware of the expectations of institutional investors (see Institutional Investor Committee paper (May 2014) which deals with transparency and shareholder consultation)

• Brief the Executive Committee also. Both the tender process and the transition to a new external auditor are major business impacts

• Make sure your tender timetable interacts with your corporate timetable. For example, consider providing a short update in the half-year results
Audit Tender

• Help the tender team use selective criteria which does not preclude audit firms outside of the ‘big four’. This could be a delicate balancing act with the legitimate audit requirements of the business. Educate the tender team that the selection process must withstand public scrutiny.

• Consider continuous briefings for the Audit Committee about audit firms. For example, prepare a summary of the AQR reports issued annually by the FRC on audit firms – compare performance etc against current incumbent
Audit Tender

Our journey (1):

• We looked at our own position – no kneejerk reactions
• Took our own circumstances into account. For example the Company listed in 2002, which provides additional transition time to switch auditor (up to 2023). No prior change in external auditor.
• Considered matters such as five year rotation timing of the lead audit partner (2019)
• Decided 2019 would be the best time to change external auditor
• Made a clear commitment to do so in the Annual Report. Hardly any negative shareholder reaction, despite the same auditor since listing
Audit Tender

Our journey (2):

• Have a clear view internally why we are going to tender (other than we have to!) For example, it is a chance to re-invigorate our audit approach

• Plan ahead for potential audit selection criteria. For example, use the output of the performance assessment of the incumbent (e.g. what improvements can be made to the audit process?) to help inform future tender criteria.

• Firmly manage the award of contracts to audit firms: we have enforced a policy which requires either the CFO or Company Secretary to approve any engagement of an audit firm which may participate in the next tender

• Don’t leave it to the last opportunity! Lots of good reasons such as we may inadvertently restrict the choice of firm or audit partner
Auditor Objectivity

Policy on the Independence of the External Auditor:
• Has this been reviewed and updated?
• Policy should be to a quality / standard to withstand public inspection / scrutiny

Tracking Non Audit Services (NAS):
• Do you know who currently undertakes NAS or Restricted Services in your company? Is this clear both at a PLC and subsidiary company level?
• Create a comprehensive process to monitor, track and approve NAS both from the incumbent auditor and audit firms who might tender in future
• Make sure the NAS policy is well socialised internally with key stakeholders (including Procurement). Embed internal reporting process e.g. include standing item on the Audit Committee agenda on NAS spend vs 70% rolling cap
Auditor Objectivity

Articulating Restricted Services:

• How well have you articulated and internally communicated restricted services? Make sure stakeholders understand that the availability of audit firms to tender is a priority.
• Consider embedding these into a wider policy on the independence of the external auditor.
• Embed a requirement for early confirmation of a conflicts check when dealing with a potential future external auditor. Make sure Procurement are part of this process as well as internal key stakeholders. This should form part of a wider long term strategy / policy for the procurement of professional services.
• Plan ahead. Create your tracking and monitoring process now as a potential future auditor might undertake restricted services on a long term basis.
Auditor Objectivity

Embedding Auditor Independence disclosure to the Audit Committee:

• Does your Audit Committee calendar include an update from the external auditor on ‘Communication with those charged with Governance’ – this requires the external Auditor to report on compliance with relevant ethical requirements on independence. Standards were revised in June 2016.
Going Forwards – An Outlook

- A more comprehensive managed process for NAS and use of firms which may potentially be our auditors in future
- Expect audit tenders to become more ‘industrialised’
- Monitor market trends in audit tendering: especially audits retained within the ‘big four’
- Deeper consideration on Board composition and succession planning
- Longer Audit Committee meetings!
Thank you

Any Questions?