



2023 FTSE350 audit committee survey

KPMG Audit Committee Institute

Foreword



As the current spate of corporate governance and audit reforms start to become a reality, audit committee practices and the future of audit are at an inflection point.

Uncertainty and disruption are intensifying pressures on the risk and control environment in new and unexpected ways. ESG matters (including the increasing importance to investors), new disclosures around operational resilience and fraud, and the proposed board statement on the effectiveness of internal control and risk management systems are leading audit committees to question their existing procedures and the assurance they receive.

Encouragingly, our survey results show that most FTSE350 audit committees view their company's risk management processes as sophisticated or keeping pace. But their confidence is muted by concerns over the whether their current reporting provides stakeholders with a robust description of any significant internal control weaknesses and deficiencies.

We hope this survey report helps spark robust conversations with your audit committee, board, and management as you navigate the challenges ahead.

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2023 FTSE350 audit committee survey



What's inside

Highlights.....	4
Future assurance needs.....	5
The audit team of the future.....	7
Oversight of ESG related issues.....	8
Risk management and internal controls.....	9
Investor engagement.....	11

To gain a better understanding of how audit committee chairs are preparing for the forthcoming governance and audit reforms – including thinking about their future assurance needs, we surveyed 59 FTSE350 audit committee chairs in May and June 2023.

- 01** Many FTSE350 audit committee chairs (29 percent) plan to prepare and publish an Audit and Assurance Policy ahead of the regulatory timetable.
- 02** Engagement between audit committees and investors is infrequent and the Audit and Assurance Policy is unlikely to change this.
- 03** FTSE350 audit committee chairs are most likely to seek assurance from their external auditor over: the Directors' Remuneration Report; the Resilience Statement; the effectiveness of financial reporting controls; and any KPIs associated with the 'E' in ESG. Areas where they are less likely to seek assurance from their external auditor include: Cyber resilience; any KPIs associated with the 'S' in ESG; the effectiveness of operational and compliance controls; and culture.
- 04** The skills, expertise, and knowledge most valued in the audit teams of the future are: critical thinking and business acumen; professional scepticism; knowledge of corporate governance requirements and best practices; and communication skills.
- 05** Audit committees are heavily involved in overseeing ESG and sustainability disclosures, and with the proposed changes to the UK Corporate Governance Code expanding the audit committee's role to include oversight over the integrity of narrative reporting, including sustainability matters, many should anticipate even deeper involvement.
- 06** Risk management and reporting are generally viewed as strong, however views are split on how much work will be required for the board to include a declaration in the annual report on the effectiveness of the risk management and internal control systems as a whole (financial, operational and compliance) as proposed in the recent FRC Consultation on changes to the UK Corporate Governance Code.

Future assurance needs

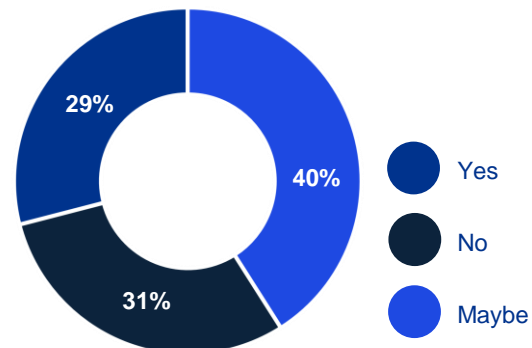
The Companies Act (Strategic Report and Directors' Report) (Amendment) Regulations 2023 look set to require – for UK companies with 750 or more employees and an annual turnover equalling or in excess of £750 million – publication of an Audit and Assurance Policy setting out how the company plans to obtain assurance over the information within its annual reports and accounts, including voluntary disclosures, over the next three years.

For FTSE350 companies, the new regulations will apply for accounting periods beginning on or after 1 January 2025, but nearly a third of audit committee chairs (29 percent) reported that they plan to publish an Audit and Assurance Policy ahead of the proposed application date.

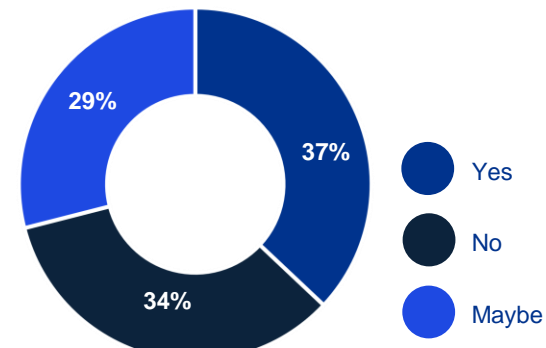
Over a third of boards (37 percent) could perceive a time where a single auditor provides an integrated opinion over the whole annual report and accounts (ARA), covering financial and non-financial information.

Audit committee chairs were split evenly as to whether a single auditor providing an integrated opinion over the whole annual report and accounts would be beneficial to companies.

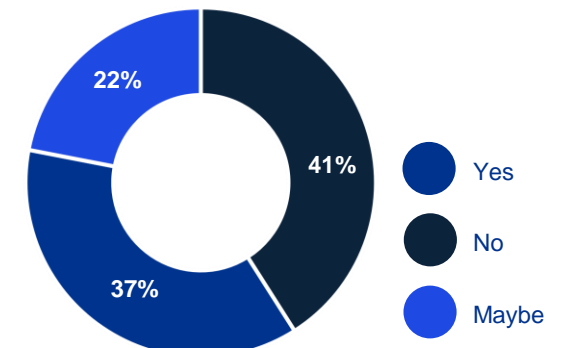
Do you plan to prepare and publish an Audit and Assurance Policy ahead of the proposed application date?



Can you perceive a time where a single auditor provides an integrated opinion over the whole ARA?



Will it be beneficial to the company to have a single auditor providing an integrated opinion over the whole ARA?



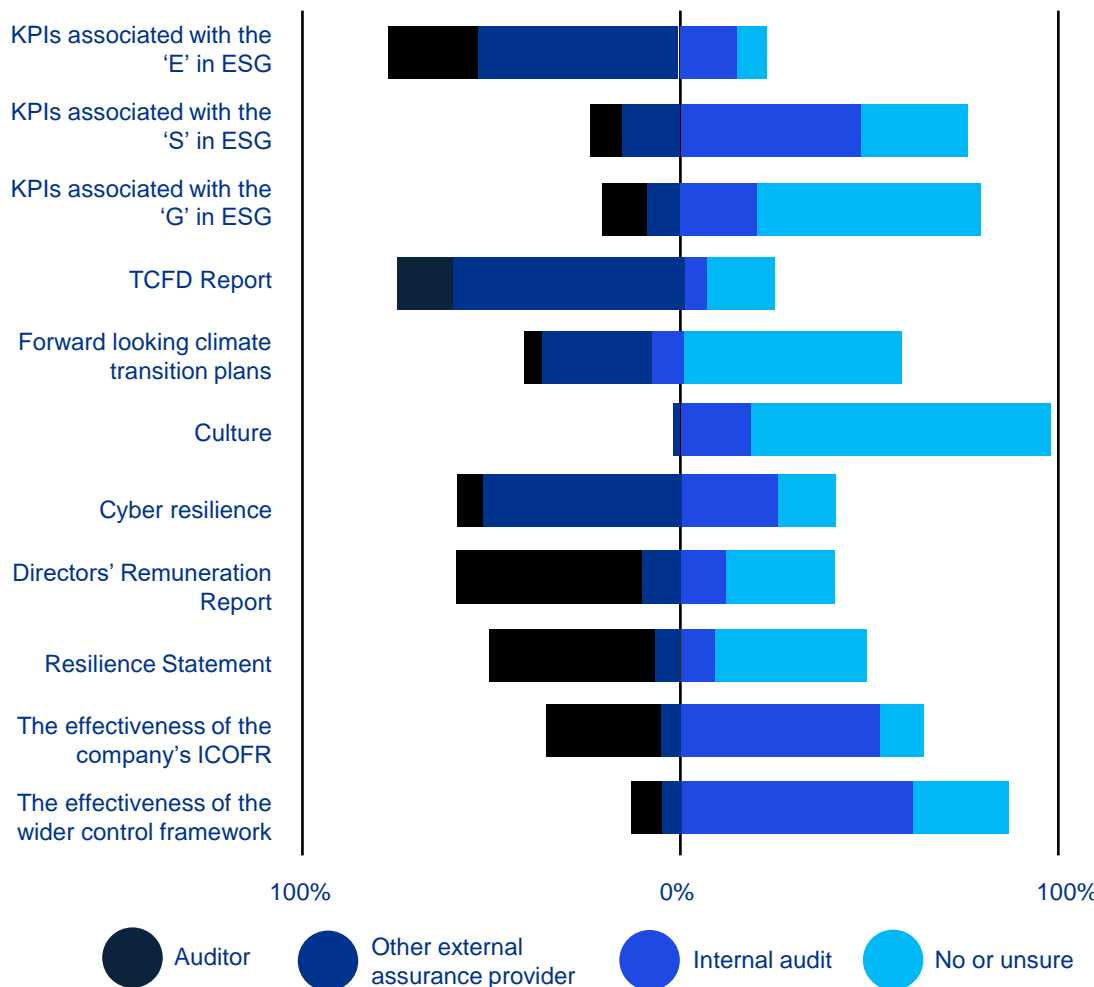


The areas where audit committee chairs are most likely to seek assurance from their external auditor are the Directors' Remuneration Report, the Resilience Statement (to be introduced via The Companies Act (Strategic Report and Directors' Report) (Amendment) Regulations 2023), the effectiveness of internal controls over financial reporting (ICOFR), KPIs associated with the 'E' in ESG, and TCFD reports.

By contrast, the areas over which audit committee chairs are least likely to seek assurance from their external auditor are: cyber resilience, the KPIs associated with the 'S' in ESG, the effectiveness of the wider framework of internal controls, forward looking climate transition plans, and culture. These areas were also ones over which audit committees favoured assurance from their internal audit functions.

There is very little appetite for any form of assurance over the company's culture. This is interesting given the significant contribution 'culture' makes to robust governance and the importance of aligning culture to a company's purpose, values and strategy. We also note that the proposed changes to the UK Corporate Governance Code look to boards to assess and monitor culture and report in the annual report on how effectively the desired culture has been embedded.

Over the next 13 years, do you anticipate getting assurance over any of the following, and from what source?

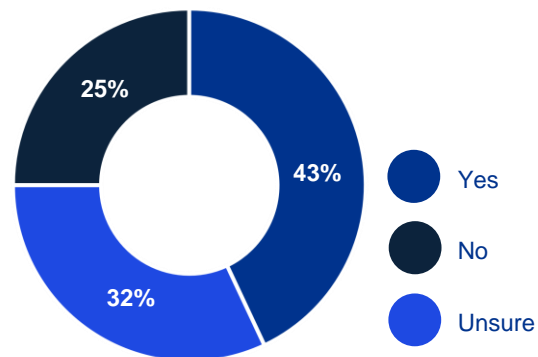


The audit team of the future

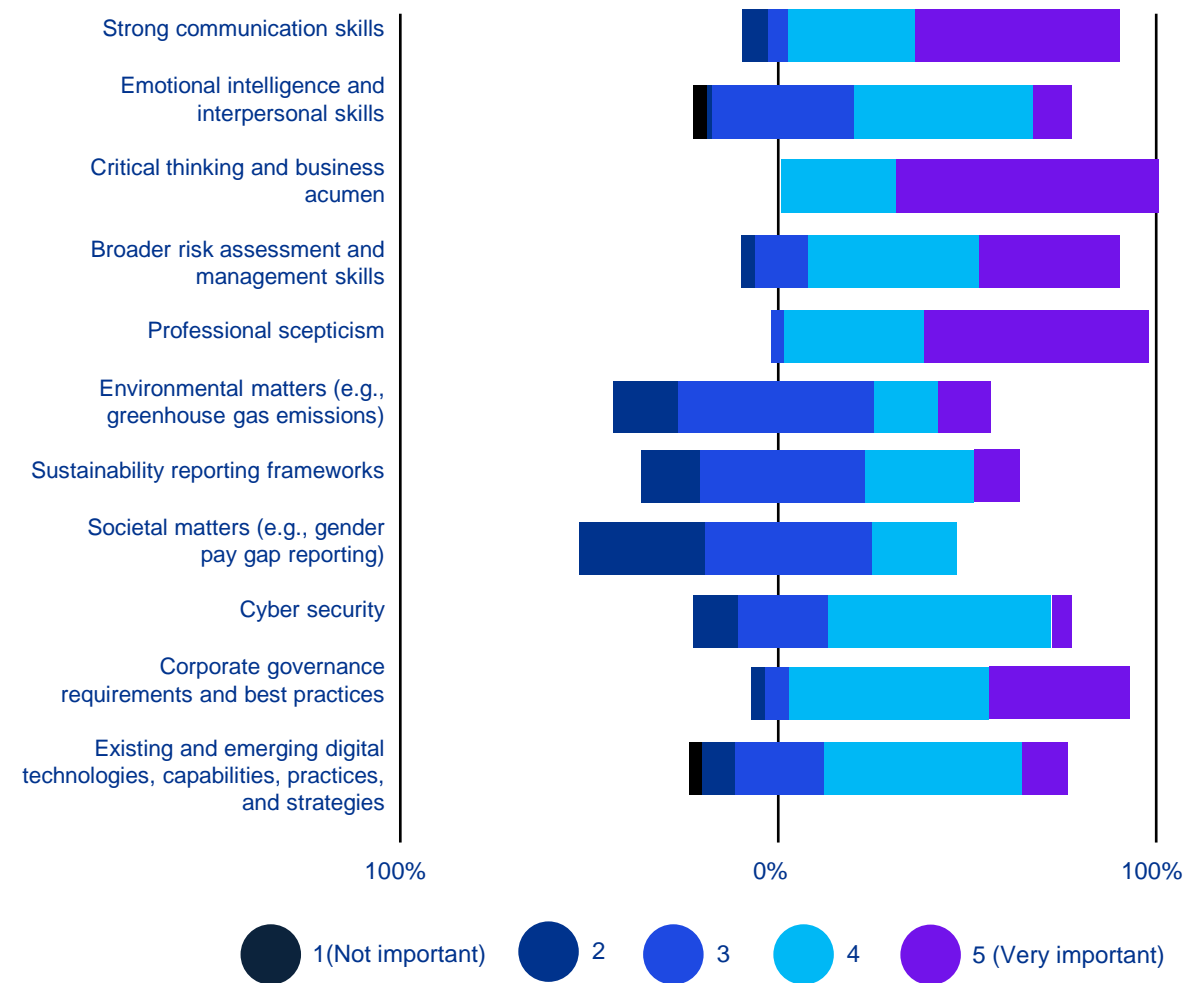
The skills, expertise, and knowledge most valued in the audit teams of the future are: critical thinking and business acumen; professional scepticism; knowledge of corporate governance requirements and best practices; and communication skills. Of lesser importance are knowledge and expertise in digital technologies; sustainability frameworks; environmental matters; and societal matters.

Forty-three percent of those surveyed considered that the skills, expertise, and knowledge referred to in the chart opposite were currently available within the Big 4 audit firms.

Are the skills, expertise and knowledge [listed in the chart opposite] currently available in the Big 4 audit firms?



What do you think will be the skills, expertise, and knowledge in the audit team of the future?

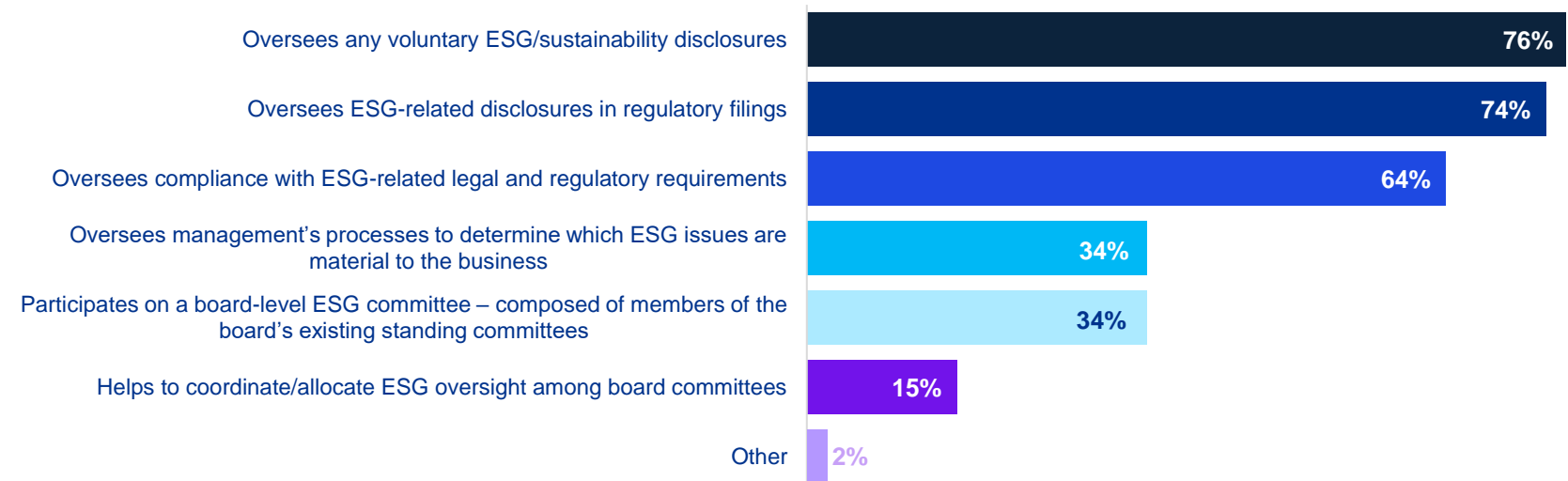


Oversight of ESG related issues

A majority of survey respondents (76%) said that their audit committee oversees voluntary ESG/sustainability disclosures; 74 percent oversee ESG-related disclosures in regulatory filings; 64 percent oversee compliance with ESG-related legal and regulatory requirements; 34 percent report that they oversees management's processes to determine which ESG issues are material to the business; and 34 percent also participate on a board-level ESG committees – composed of members of the board's existing standing committees.

Proposed changes to the UK Corporate Governance Code that expand the audit committee's role to include oversight over the integrity of narrative reporting, including sustainability matters – along with the SEC's climate disclosure proposals and the European Union's Corporate Sustainability Reporting Directive – will likely increase the audit committee's workload and oversight responsibilities and potentially require greater coordination with other standing committees.

What is your audit committee's role in the oversight of ESG related issues?



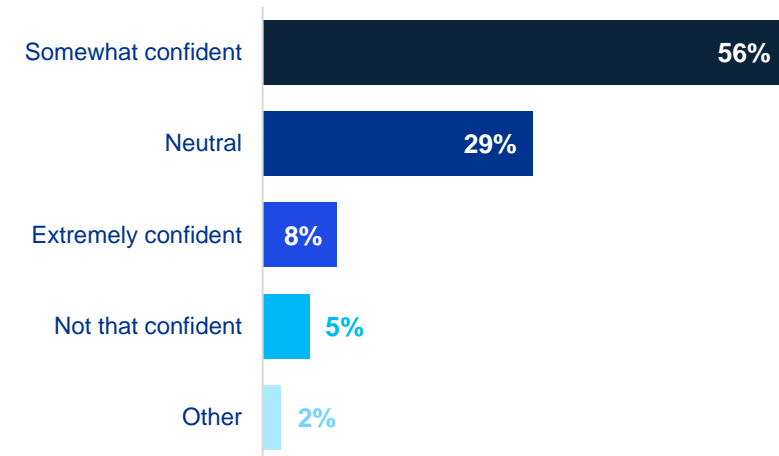
Risk management and internal controls

Risk management and reporting are generally viewed as strong. While 95 percent of FTSE350 audit committee chairs said that their company's risk management and reporting capability was either "sophisticated" or "keeping pace with the risk environment", only 8 percent were extremely confident that the audit committee provides investors, regulators and other external stakeholders with a robust description of any internal control weaknesses and deficiencies encountered during the year.

How would you describe the company's risk management and reporting capability?



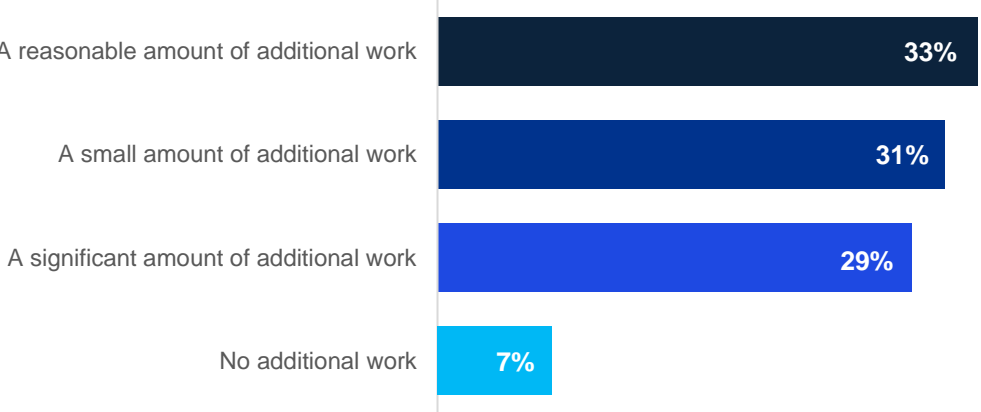
How confident are you that your audit committee currently provides stakeholders with a robust description of any significant internal control weaknesses and deficiencies?



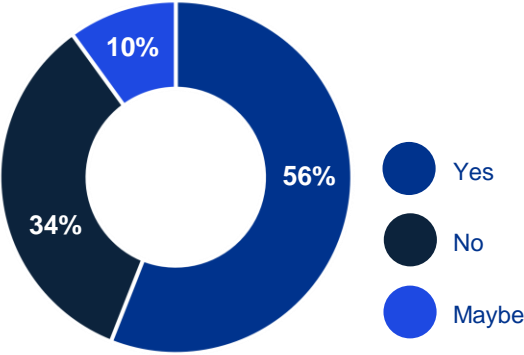
This relative lack of confidence in reporting on internal control weaknesses suggests that many boards/audit committees will have to enhance their current processes in order to comply with the recent proposed amendments to the UK Corporate Governance Code – and in particular the proposal that boards both declare whether the company’s risk management and internal control systems are effective, and include a description of any material weaknesses or failures identified.

When asked whether additional work would be required in order for the board to include a declaration in the annual report on the effectiveness (or otherwise) of the risk management and internal control systems as a whole (financial, operational and compliance), audit committees were split as to whether it would require a significant amount of additional work, a reasonable amount of work, or a small amount of work.

How much additional work will be required for the board to include a declaration in the annual report on the effectiveness of the risk management and internal control systems as a whole – financial, operational and compliance?



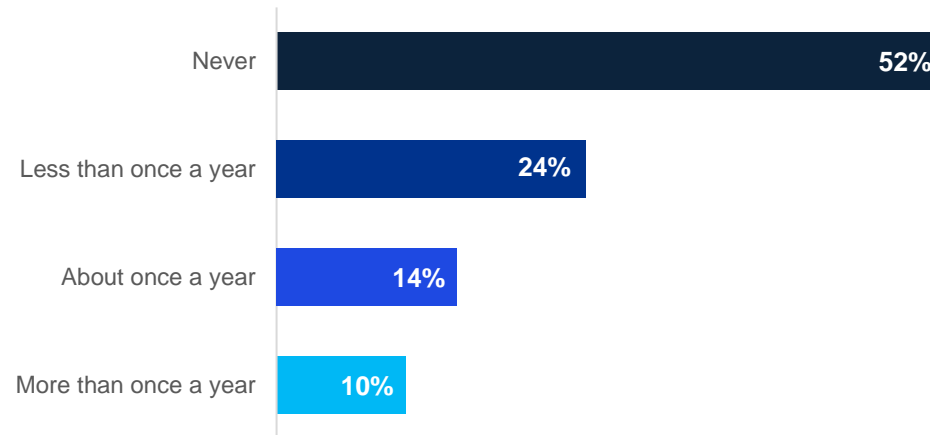
Do you think there should be an explicit standard (like COSO or equivalent) against which boards should evaluate the effectiveness of their material controls?



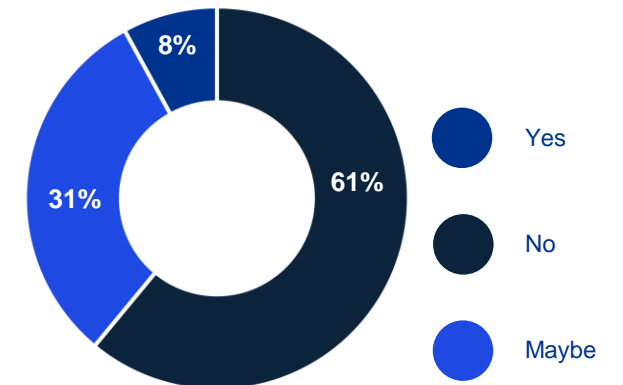
Investor engagement

Audit committee / investor dialogue is infrequent with over three-quarters of FTSE350 audit committee chairs reporting that they engaged with investors less than once a year, if at all. When asked whether the Audit and Assurance Policy (to be introduced via The Companies Act (Strategic Report and Directors' Report) (Amendment) Regulations 2023) would drive better engagement with investors, the majority of those responding thought not. Only 8 percent thought the Audit and Assurance policy would drive better engagement.

How regularly do you engage with investors in your role as audit committee chair?



Do you think the Audit and Assurance Policy will drive better engagement with the investor community?





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