

# Governance and audit reform: Two important developments

## KPMG Board Leadership Centre

**Two important developments occurred on 7 November. First, the Audit Bill did not feature in the Kings Speech. Secondly, the FRC issued a policy update on their recent consultation on certain revisions to the UK Corporate Governance Code.**

### The Kings Speech

As expected, the Audit Bill did not feature in the Kings Speech, so we are unlikely to see any primary legislation to modernise the regulation of audit, corporate reporting, and governance until after the General Election (which must take place before late January 2025 and is expected to happen in 2024). The now delayed legislation was set to introduce an amended PIE definition and establish the Audit, Reporting and Governance Authority (ARGA) – the new regulator with wider and stronger powers over corporate reporting and company directors.

Labour's position, should they enter Government, is that they have publicly committed to the creation of ARGA. Shadow business secretary, Jonny Reynolds, has been reported as saying he would be keen to bring forward the Audit Bill but that it would be unlikely to feature in the first session of a Labour Government's Parliament.

### FRC Policy update

Shortly after the Kings Speech, the FRC issued a [Policy Update](#) noting that while they were disappointed that the Audit Bill had not been prioritised for the next Parliamentary session, they were pleased that as recently as the 16th October the Government restated its continued commitment to reform and bringing forward legislation when Parliamentary time allows.

More significantly, the FRC provided an update on their recent consultation on the proposed revisions to the UK Corporate Governance Code.

Considering their dual objectives to enhance trust and confidence in governance whilst also supporting UK economic growth and competitiveness, the FRC considers the right balance at the current time is to take forward only a small number of the original 18 proposals set out in the consultation and to stop development of the remainder.

- There will be a small number of changes that streamline and reduce duplication that were overwhelmingly supported by stakeholders in the interests of reducing burdens.

- The main substantive change concerns revisions to the original proposal on internal controls. The FRC's decision has been informed by stakeholder feedback to ensure a more targeted and proportionate Code revision. *"This includes allowing more time for its implementation and ensuring the UK approach clearly differentiates from the much more intrusive approach adopted in the US"*.
- The FRC will not take forward the remainder (over half) of the original proposals. These include those relating to the role of audit committees on environmental and social governance and modifications to the existing code provisions around diversity, over-boarding, and committee chairs engaging with shareholders. Several other proposals will also not be taken forward as a result of the [Government's recent decision to withdraw its Statutory Instrument](#) relating to an audit and assurance policy, reporting on distributable profits and resilience statement requirements.

The final version of the Code – the 2024 UK Corporate Governance Code – is now expected in January 2024.

Notwithstanding the above, as part of their ongoing oversight duties, boards should continue to consider:

- the integrity of narrative reporting, including sustainability reporting
- the diversity of gender, social and ethnic backgrounds, cognitive, and personal strengths when making appointments to the board
- whether each director has sufficient time to undertake their role effectively
- the prospects of the company and its resilience over the medium and longer term
- their assurance needs and plan accordingly.