

**EBOOK**

# A guide to preparing for the UK Corporate Governance Reforms



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# Introduction

The UK Corporate Governance Code (“the Code”) has long been a beacon of effective governance for companies that adhere to its principles. Whether mandated by the Listing Rules or adopted voluntarily, the Code has consistently driven companies towards best practices in governance.

However, for the first time in half a decade, the Code is undergoing a transformation. These revisions are not mere tweaks but are poised to bring about substantial shifts in the obligations and responsibilities of firms.

## HIGH-LEVEL AIMS

The crux of the proposed changes revolves around:

- Establishing a more resilient and effective framework for risk management and internal controls.
- Laying down a more concrete foundation for reporting and validating the efficacy of the aforementioned framework during the reporting period.
- Broadening the purview of the board and audit committee to encompass comprehensive environmental, social, and governance reporting.
- Ensuring apt assurance in line with a company’s Audit and Assurance Policy.

## IMPLEMENTATION & SCOPE

The anticipated rollout of these changes is set for the first quarter of 2024. The reforms are expansive in their reach:

**Inclusion of More Companies:** The reforms will extend the Code’s jurisdiction to include certain non-FTSE 350 companies.

**Expanded Subject Matter:** In specific contexts, the term ‘financial’ will be supplanted by ‘reporting’. This subtle yet profound change underscores the significance of narrative reporting on strategy, principal risks, corporate governance, and environmental and social matters.

This e-book sheds light on the background and motivations driving these reforms, as well as highlighting the pivotal elements companies should be cognizant of as the legislation’s rollout looms. Readers will also learn about the transformative role of technology, not merely as a compliance tool but as a strategic asset in this evolving landscape.



## Background

Upon launching a consultation on the proposed revisions to the Code, Sir Jon Thompson, the outgoing chief executive of the Financial Reporting Council (FRC), remarked, “Good corporate governance is the bedrock of long-term company performance. It cultivates an ecosystem of trust, transparency, and accountability – all indispensable for nurturing long-term investment, ensuring financial stability, and upholding business integrity.”<sup>1</sup>

Though uncontroversial, this statement was important given several high-profile UK corporate collapses in the last decade. BHS, Carillion, and Patisserie Valerie were all brought down by factors at the level of governance, including significant failures in strategic risk management, oversight of financial statements, and internal controls.<sup>2,3,4</sup> These events underscored the need for a more robust corporate governance framework, and in 2018, the UK Government commissioned an independent review of the FRC<sup>5</sup>, the independent regulator responsible for setting the Code, with a particular focus on averting similar corporate disasters in the future.

By 2019, the Government sought public feedback on the review, which encompassed 83 recommendations. A standout proposal was the establishment of a new regulatory body – the Audit, Reporting and Governance Authority (ARGA).

Fast forward to 2021, the Government released a consultation paper titled “Restoring trust in audit and corporate governance.”<sup>6</sup> The subsequent year saw the Government’s response to the feedback<sup>7</sup>, which, while acknowledging suggestions for a more lenient approach, maintained that the proposed changes were paramount for the firms in question.

In the same year (2022), the FRC released a position paper detailing their support for the UK Government’s reforms, particularly the changes to the Corporate Governance Code. By 2023, the FRC further expanded on these changes through another consultation paper.<sup>8</sup>

The forthcoming sections delve deeper into these changes, offering insights and guidance for firms navigating this new terrain.

<sup>1</sup> <https://www.frc.org.uk/news/may-2023/frc-launches-consultation-on-revision-to-the-corporate-governance-code#:~:text=Sir%20Jon%20Thompson%2C%20CEO%20of%20the%20FRC%2C%20said%3A&text=%22Good%20corporate%20governance%20contributes%20to,financial%20stability%2C%20and%20business%20integrity>

<sup>2</sup> <https://www.cgi.org.uk/blog/bhs-the-ongoing-governance-debate>

<sup>3</sup> <https://www.ft.com/content/1958fb80-0fe6-11e8-940e-08320fc2a277>

<sup>4</sup> <https://www.cgi.org.uk/knowledge/governance-and-compliance/analysis/corporate-governance-carillion-collapse>

<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/767387/frc-independent-review-final-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf)

<sup>6</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf)

<sup>7</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf)

<sup>8</sup> [tps://www.frc.org.uk/news/may-2023/frc-launches-consultation-on-revision-to-the-corporate-governance-code#:~:text=Sir%20Jon%20Thompson%2C%20CEO%20of%20the%20FRC%2C%20said%3A&text=%22Good%20corporate%20governance%20contributes%20to,financial%20stability%2C%20and%20business%20integrity](https://www.frc.org.uk/news/may-2023/frc-launches-consultation-on-revision-to-the-corporate-governance-code#:~:text=Sir%20Jon%20Thompson%2C%20CEO%20of%20the%20FRC%2C%20said%3A&text=%22Good%20corporate%20governance%20contributes%20to,financial%20stability%2C%20and%20business%20integrity)



## Key Changes

### EFFECTIVE RISK & CONTROL MANAGEMENT

In the words of The FRC, as stated in the UK Corporate Governance Code consultation document, “The approach we are proposing...is designed to strengthen board accountability for the effectiveness of the risk and internal controls framework by confirming that the board has put in place and maintains effective systems that deliver the expected outcomes.”

The emphasis on robust risk and control management is evident in the proposed reforms. This section provides a closer look at the key changes:

#### NEW REQUIREMENT: DIRECTORS' STATEMENT ON INTERNAL CONTROLS

Companies will now be mandated to provide a clear directors' statement regarding the effectiveness of the firm's internal controls. This encompasses not only financial reporting but also a broader spectrum, including operational and compliance risks. The basis for this assessment must also be detailed.

The newly introduced Provision 30 will necessitate the board to affirmatively state whether the company's risk management and internal control systems remained effective throughout the reporting period and up until the approval of the annual report. Furthermore, any “material weaknesses” identified during the reporting period must be disclosed, along with the corrective measures undertaken.

A proposed definition for “material weakness” has been outlined as: “A fault, deficiency, or failure in the design or operation of the risk management and internal control framework, such that there is a reasonable possibility that the company's ability to identify, assess, respond to, or monitor risks to its strategic, operational, reporting, and compliance objectives is adversely affected.”

Additionally, the board will be required to elucidate the rationale behind its declaration. This should encompass details on how the effectiveness of these systems was monitored and reviewed during the period, along with any other pertinent information.

### UPDATED GUIDANCE: FRC'S GUIDANCE ON RISK MANAGEMENT:

Later in 2023, the FRC plans to release an updated version of its Guidance on Risk Management, Internal Control, and Related Financial and Business Reporting. This guidance will encapsulate the fundamental components of a risk management and internal control framework, which include:

- Risk assessment
- Control environment and activities
- Information and communication processes
- Processes for monitoring the ongoing effectiveness of these systems

The updated guidance will also detail instructions on how to report in alignment with the Code's revised stipulations.



## STATUTORY ANNUAL RESILIENCE STATEMENT

The UK Government's publication, 'Restoring trust in audit and corporate governance', unveiled plans to introduce a Resilience Statement. This new development carries significant implications for the UK Corporate Governance Code, especially when considering Provision 32 (formerly known as Provision 31) - the viability statement.

The Resilience Statement is designed to provide stakeholders with a comprehensive understanding of a company's resilience over the short, medium, and long term. It aims to ensure that boards are proactive in considering potential challenges and threats to the company's operations and financial position.

### Key Aspects of the Resilience Statement

#### Company's Current Position and Principal Risks

The board is tasked with a thorough evaluation of the company's current standing and the primary risks it faces. This assessment should be holistic, encompassing both internal and external factors that might impact the company's resilience.

#### Assessment of Company's Prospects

Within the annual report, the board must document how it has gauged the company's future prospects. This involves a forward-looking analysis, considering potential market shifts, economic trends, and other relevant factors.

#### Specified Assessment Period

The board should clearly define the timeframe over which it has conducted its resilience assessment. Furthermore, a justification for selecting this particular period should be provided, ensuring transparency in the board's decision-making process.

#### Company's Continuation and Liability Management

A pivotal component of the statement is the board's declaration on whether it reasonably anticipates the company to persist in its operations and address its liabilities as they come due throughout the assessment duration.

#### Qualifications and Assumptions

Any qualifications or assumptions made during the resilience assessment should be transparently highlighted. This ensures stakeholders are fully informed of the context and conditions underpinning the board's conclusions.





## INCREASED AUDIT & ASSURANCE POLICY DISCLOSURES

The landscape of corporate governance is evolving, with a heightened emphasis on transparency, especially in the realms of environmental, social, and governance (ESG) reporting. The board and audit committee are now entrusted with broader responsibilities, ensuring that reporting is not only expanded but also backed by appropriate assurance in line with a company's Audit and Assurance Policy (AAP).

### GOVERNMENT INITIATIVE: AUDIT AND ASSURANCE POLICY

The UK Government is poised to introduce an AAP specifically tailored for Public Interest Entities (PIEs).<sup>9</sup> This policy is designed to shed light on several crucial areas:

- **Internal Auditing and Assurance Arrangements:** PIEs will be mandated to detail their internal mechanisms for auditing and assurance, ensuring stakeholders have a clear understanding of the internal checks and balances in place.
- **External Assurance Proposals:** Beyond the traditional duties of statutory auditors, PIEs must elucidate their external assurance plans, offering a comprehensive view of the external checks they undergo.
- **Tendering of External Audit Services:** The policy will also delve into the company's approach to tendering external audit services, ensuring transparency in how these crucial services are sourced.

The FRC advocates that all companies adhering to the Corporate Governance Code should contemplate producing an AAP. This should be done on a 'comply or explain' basis, with the proposed legislation serving as a guideline for the content.

<sup>9</sup> [tps://www.icaew.com/insights/viewpoints-on-the-news/2022/jul-2022/the-new-definition-of-pie](https://www.icaew.com/insights/viewpoints-on-the-news/2022/jul-2022/the-new-definition-of-pie)



### **FRC'S INTRODUCTION OF AUDIT COMMITTEES & EXTERNAL AUDIT MINIMUM STANDARD**

The FRC's introduction of the Audit Committees and the External Audit Minimum Standard<sup>10</sup> in 2023 has spurred several proposed amendments to the Code. In particular, the FRC is now suggesting that provisions 26 and 27 be supplanted with a reference to this new standard.

The newly proposed standard mandates audit committees to:

- 1. Review Auditor Adherence:** Regularly review the auditor's adherence to the stipulated audit plan, ensuring that the audit progresses as planned.
- 2. Evidence Effectiveness:** Actively obtain evidence that underscores the effectiveness of both the audit and the auditor, ensuring that the audit process is robust and reliable.
- 3. Report Annually:** Produce an annual report that chronicles the work of the Audit Committee, highlighting significant issues encountered and addressed.
- 4. Ensure Audit Quality:** Take proactive measures to ensure the quality of the audit, backed by tangible evidence.
- 5. Lead Audit Tendering Processes:** Spearhead the audit tendering processes with an emphasis on quality and transparency, ensuring that the best auditors are chosen for the task.

<sup>10</sup> <https://www.frc.org.uk/news/may-2023/frc-publishes-minimum-standard-for-audit-committee>





# The Role of Technology in Corporate Governance

In today's digital age, technology plays a pivotal role in enhancing corporate governance, ensuring compliance, and streamlining processes. SAI360, a leader in the field, offers a suite of solutions tailored to the evolving requirements of the UK Corporate Governance Code.

## RISK AND CONTROL MANAGEMENT

With the new mandate for a clear directors' statement on the effectiveness of internal controls, technology emerges as a linchpin for effective risk and control management as well as proving it to regulators and auditors. SAI360's Internal Control software facilitates this through GRC and Regtech capabilities like automated control test scheduling and continuous control monitoring. Furthermore, the Enterprise and Operational Risk solution provides a holistic view of risk, spanning business units, processes, IT assets, and strategic objectives through connected GRC data aggregation.

The resulting visibility provide assurance to directors on the soundness of the risk frameworks before endorsing them through the statutory statement submission to regulators.

## STATUTORY ANNUAL RESILIENCE STATEMENT

The Resilience Statement necessitates a forward-looking assessment of a company's prospects. Here, technology can be a game-changer. SAI360's Business Continuity Management tool gathers preparedness data, escalates events, and tracks performance against KPIs, ensuring organisational resilience. Their Enterprise and Operational Risk platform further empowers data-driven decision-making, mitigating both anticipated and unforeseen risks.

## AUDIT & ASSURANCE POLICY DISCLOSURES

The introduction of the Audit and Assurance Policy (AAP) and the expanded ESG reporting requirements underscore the need for robust technological solutions. SAI360's Audit Management software champions a risk-centric approach, optimising audit resources, automating workflows, and centralising documentation. This ensures adherence to the Audit Committees and the External Audit Minimum Standard. Additionally, SAI360's ESG Metrics Management and Disclosure Reporting capabilities simplify data aggregation and centralise ESG reporting. This not only ensures timely disclosures but also facilitates the creation of audit-ready reports and executive dashboards, showcasing ESG performance and goal progression.

In essence, as corporate governance standards evolve, leveraging the right technology becomes indispensable. SAI360's suite of solutions exemplifies how technology can seamlessly integrate with governance requirements, ensuring compliance, transparency, and efficiency.



## Conclusion

In an era marked by rapid change and heightened scrutiny, the UK Corporate Governance Reforms underscore the imperative for companies to adapt, evolve, and uphold the highest standards of accountability and transparency. As the landscape of corporate governance shifts, the onus is on firms to not only understand these reforms but to proactively integrate them into their operational fabric. Technology, as showcased by solutions like those from SAI360, emerges as a crucial ally in this journey, bridging the gap between compliance and efficiency. For businesses navigating these reforms, embracing the right technological tools is not just about compliance; it's about fostering a culture of resilience, trust, and forward-thinking. As we look to the future, it's clear that the confluence of governance and technology will be the cornerstone of sustainable and responsible business growth.

## See What SAI360 has to Offer

SAI360 are GRC experts and a leading cloud-based solution provider for risk, control and more. Our modular approach allows you to take advantage of configurable solutions and quickly shape them to help you thrive in the evolving Governance, Risk and Compliance landscape. To learn more about the SAI360 platform and how we can advance your GRC goals, [contact us online](#) to set up a call with one of our representatives.



## About SAI360

SAI360 is the leading ESG cloud provider connecting GRC, EHS, Sustainability and Learning. Our SAI360 platform streamlines workflow and drives outcomes through flexible, scalable, and configurable modules. Our integrated approach sets us apart, helping organizations thrive, create trust, understand their impact, and achieve resilience for over 25 years. SAI360 is headquartered in Chicago, with operations and customers across the globe. Discover more at [sai360.com](https://sai360.com).