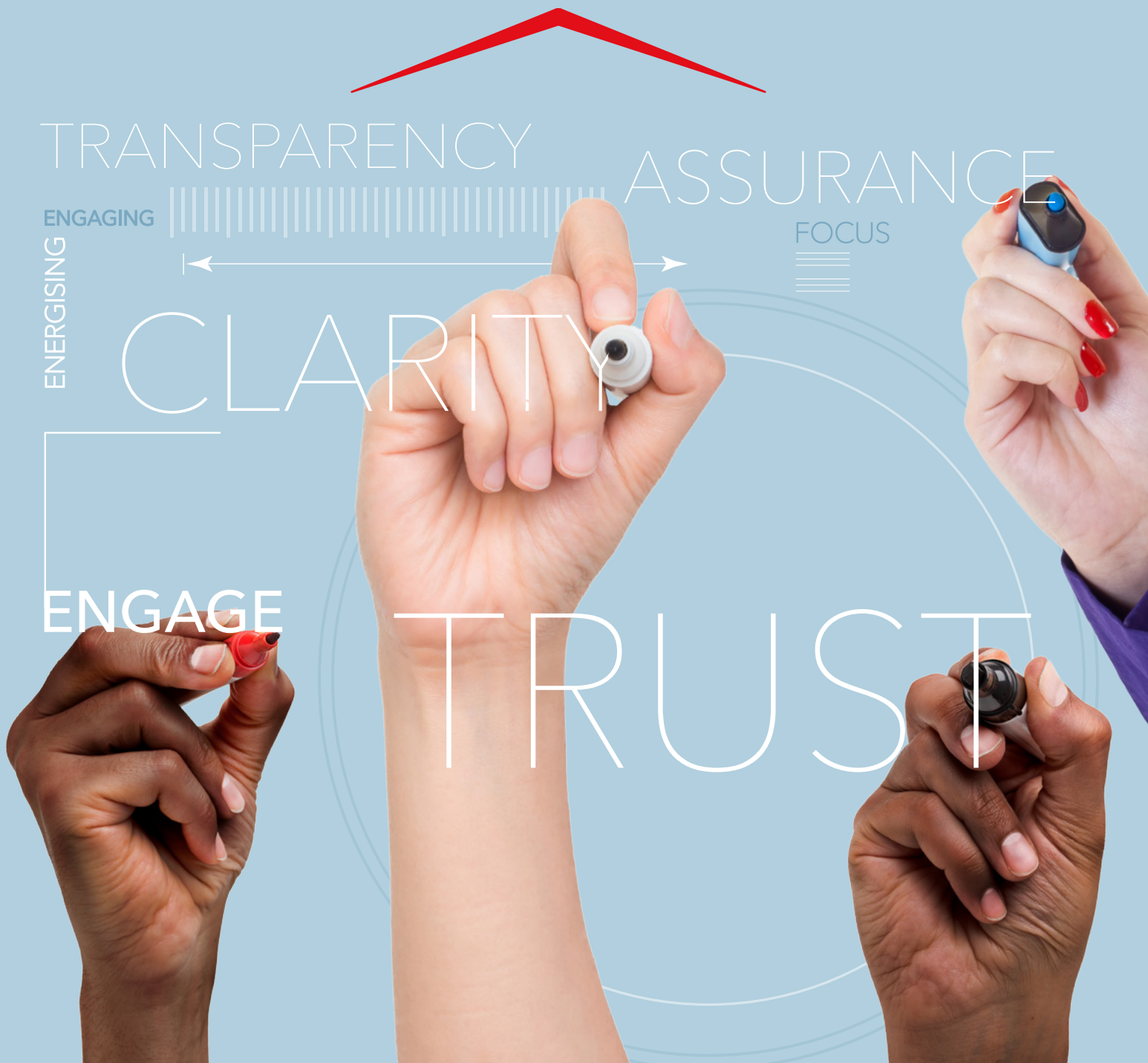


Developing a meaningful Audit and Assurance Policy

EXECUTIVE SUMMARY



The thirst for information about corporates has never been greater. Nor has the diversity of stakeholder concerns and expectations, matters on which they are seeking insights and data with potential to enlighten. Information that companies are either required or choose to disclose ranges far and wide: from metrics on environmental, social and corporate governance (ESG) matters, through cyber risk, to audited financial statements. All of this can be individually, and collectively, complex and interconnected, making it difficult for users to weigh the significance and credibility of the information without some knowledge of both the topic and the extent to which the information has been audited or assured.

Now, ICAEW recommendations in this report (see [Call to action](#)), and the extensive outreach and evidence gathering process (see [Dig deeper](#)) on which they are based, suggest that introducing an 'Audit and Assurance Policy' could render corporate information more informative: augmenting the understanding, utility and value of audit and assurance activities, enabling them to be driven by the needs and expectations of key users, and making them more accessible in order to facilitate more appropriate resource decisions.

Energising engagement

ICAEW strongly believes in the benefits of energising corporate engagement with the audit consumer, empowering the primary user – the shareholders – to influence audit and assurance provision where they perceive value.

With this objective in mind, an enhanced role for shareholders in the commissioning of assurance, coupled with a more proactive role for audit and risk committees, has much to commend it. This view is reinforced by Sir Donald Brydon's independent review into the quality and effectiveness of audit, which proposes (among other things) that the audit committee publish a three-year rolling Audit and Assurance Policy, to be put to an advisory vote by shareholders.

This ICAEW report explores how to achieve these objectives. It discusses structure and form, considers challenges to be overcome (see [Critical concerns](#)), makes recommendations and sets out actions that will be needed to achieve the sort of 'tailored, cost effective and proportionate framework for meaningful dialogue' that Brydon intended – and stakeholders want. Audit committee chairs, CFOs, heads of internal audit, external auditors and other providers of third-party assurance, regulators and other

commentators, welcome such a Policy and the potential benefits it should create for a wide range of stakeholder groups (see [Opportunity knocks](#)).

Improving accountability

ICAEW believes that the Policy has the potential to improve accountability and clarify responsibilities. It offers an opportunity to create a comprehensive, coherent and integrated picture that captures how a company views its risks, system of internal control and risk management, risk cultures and behaviours, disclosed financial and non-financial information (including ESG measures), and regulatory requirements. It can clearly, and transparently, communicate the story of how a company verifies that the risks it is taking and mitigating are in accordance with its strategic objectives and risk appetite, regulatory obligations are being complied with, and information provided to users is fair and balanced.

The Policy will be a powerful vehicle through which to widen engagement and perhaps close perceived expectation gaps, communicating information in ways that make audit and assurance activities more accessible, meaningful and educational for a broad range of users. Consistent and inclusive language will be critical to support this as the terms 'audit' and 'assurance' are currently not well understood or defined consistently. Further work, outside of this initiative, is required to bring together the different views and create alignment. Presenting information in an engaging and interactive way will also be key to encouraging wider engagement. Web-based charts and reports that can be interrogated by users will make it easier for them to obtain information they consider important and relevant. Imaginative use of digital technology and data-driven tools will also be an important enabler in the creation of a much-needed single, but multifaceted lens on risk, disclosure and assurance.

An evolving story

Companies may need time to develop the Policy and to learn from the process of bringing all of the information into one place (see **Decisions and choices**). As enhancements may be made and new requirements identified, an evolutionary approach will be needed to provide space for companies to explain transparently their improvements.

There is clear support for this Policy. It offers a real opportunity to improve trust and should be a central element in audit reform. It provides the impetus to redefine how audit and assurance are delivered, by whom, what they cover, and to what standards, igniting a debate about the roles of a wider range of existing and new providers, their competencies and potential contributions.

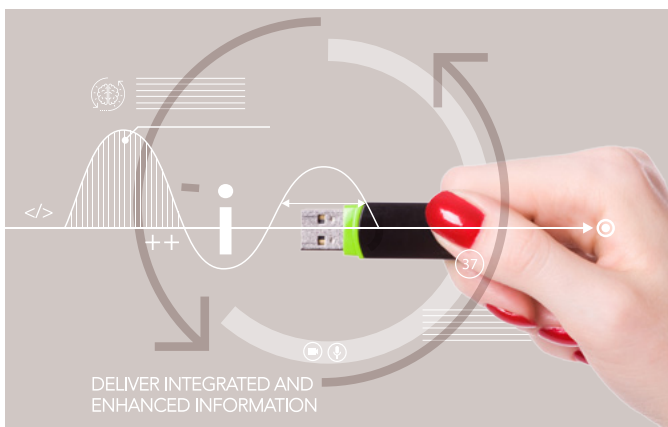
We should seize the moment, encouraging UK plc to fully engage and create their own models for reporting as soon as is practical.

CALL TO ACTION

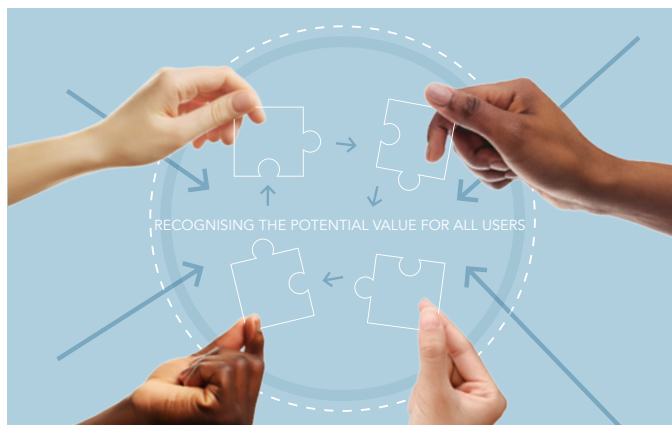
If the Policy is to fulfil its potential, UK plc will need to engage fully and follow the nine recommendations in this report.



1. We urge UK plc to **seize the moment** to create a Policy that builds on existing activities, rather than waiting for this to become mandatory. We emphasise the ongoing need for discussion that results in a consistent and inclusive language to articulate and describe audit and assurance. Improved definition will support the great value that this Policy has the potential to provide, improving internal decision making while providing insight to external users.



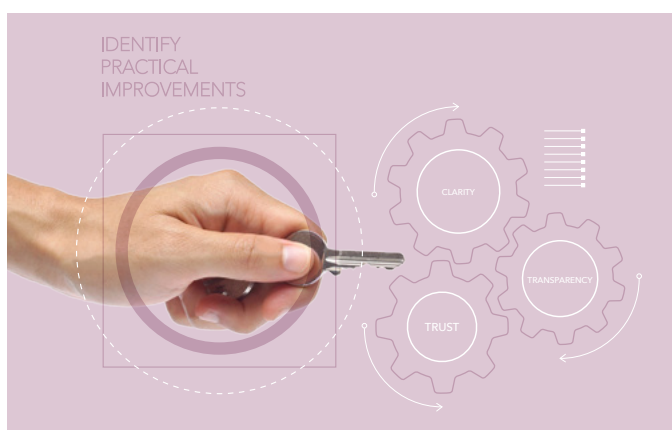
2. We encourage viewing the Policy as a mechanism to **deliver integrated and enhanced information** on the system of risk management and internal control and the audit and assurance obtained over risks, disclosed financial and non-financial information (including Environmental, Social and Governance (ESG) and culture), and regulatory requirements through effective signposting across all disclosures.



3. We support introducing the Policy as a requirement for Public Interest Entities, but with **encouragement for a broad range of companies and other organisations**, recognising the potential value for all users and in particular in providing clarity for regulators across many sectors. We recognise that this recommendation may require further consideration following the expected re-definition of Public Interest Entities as part of the Department for Business, Energy and Industrial Strategy's consultation on corporate governance and audit reform.



4. We encourage **audit committees to own the Policy** on behalf of the board, focusing on realising the full range of opportunities through clear, concise and comparable information; ensuring appropriate audit and assurance coverage of those matters of greatest concern to users; providing education to all parties; holding providers to the highest standards; and telling a story that drives value and builds trust.



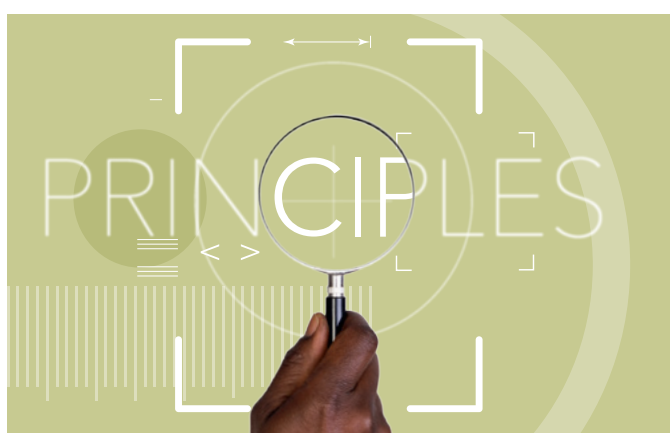
5. We believe the Policy must **deliver clarity and transparency, avoiding boilerplate descriptions**, and evolve over time as improvements are embedded. Companies may initially need to prioritise aligning their understanding internally to learn, identify practical improvements, build capability, and evaluate gaps in their underlying audit and assurance provision.



6. We encourage a **cohesive and complete narrative covering all sources of audit and assurance** to indicate where and how directors get their comfort. Technology and data-driven techniques should be considered as a fully integrated element of the solution, delivering improved insight across all risks. Culture and behaviours must also be addressed.



7. We recommend **adoption of the proposals for a regularly updated Policy with a shareholder vote**. A comply or explain approach could be permitted to enable flexibility in the three-year plan if this timeframe is not appropriate to business circumstances. The advisory vote should drive proactive dialogue between shareholders and directors.



8. We support guidance and regulation with a **focus on underpinning principles, creating flexibility through a proportionate and pragmatic response**, alongside a limited number of minimum mandatory elements for comparability. This approach should evolve, recognising that many organisations will not have the information available immediately, and allowing for transparency in discussing how they are progressing.



9. We encourage **tailored, engaging and interactive reporting** that reflects the nature, scale and complexity of the company, with succinct summarised and integrated reports in the Annual Report. The full Policy should be accessible on the website, explaining the core principles in sufficient detail to enable users to evaluate the content and to engage in a meaningful discussion.

DIG DEEPER

This report reflects extensive research and evidence gathering, bringing together the perspectives of a broad range of participants and stakeholder groups, through a questionnaire, roundtables and interviews.

In our roundtables and interviews, most discussions concluded that any mechanism that encourages an active discussion of risk and the commissioning of audit and assurance should be seen as positive.

The terms audit and assurance are not consistently understood or defined. Audit may be taken to mean the external statutory audit or could include activities undertaken by internal audit and other providers. Assurance is defined explicitly when provided through the external audit profession, but there are many other sources of assurance available to directors.

We found widespread support for a framework describing how directors obtain comfort in fulfilling their stewardship obligations. One interviewee said that “the goal has to be to make organisations safer”. Another commented that “this Policy should underpin the licence to operate for directors in the implementation of the strategy and business model”.

Our research supported the proposal for a three-year rolling plan, aligned with a forward perspective on strategy and viability. There were a mix of views on both the benefits of a shareholder advisory vote, and the frequency with which this should happen.

76% of questionnaire respondents believe that the Policy could lead to increased trust in management and their actions and **61%** indicated that the Policy should improve engagement with stakeholders beyond shareholders.

Producing a policy will be more straightforward where the audit committee chair understands the risk and assurance environment. **83%** of questionnaire respondents believe this will require a more proactive approach by the audit committee.

Questionnaire respondents were asked what elements they felt should be covered within the Policy. The results indicate:

- **79%** believe internal assurance providers should be included, but just over half (**55%**) of these respondents believe this should be limited to specific identifiable functions, as opposed to broader management assurance;
- **80%** believe that the disclosures must indicate the levels and type of assurance provided;
- **62%** believe that the disclosures must include articulation of the quality standards associated with the audit and assurance activities; and
- **75%** would like to see the outcomes of audit and assurance engagements prioritised in the reporting.

72% of respondents to our questionnaire agreed that the Policy should be made available and/or sign-posted directly from an accessible part of the company's website.

77% of questionnaire respondents indicated that they believe the Policy will support regulators in fulfilling their supervisory role.

OPPORTUNITY KNOCKS

Evidence gathered for this report provided insights into many potential benefits an Audit and Assurance Policy could deliver. Eight significant areas of opportunity were identified:

- engaging a broad range of stakeholders;
- creating clarity over risk management and internal control systems;
- driving accountability and responsibility for risk and control;
- broadening the range of assurance providers and specialists;
- creating a single combined lens on risk, disclosures and assurance;
- improving the quality of audit and assurance provision;
- upskilling and educating all parties; and
- bridging perceived expectation gaps.

CRITICAL CONCERNS

There are some challenges inherent in the proposal for a Policy. During our research respondents recognised that implementation will not necessarily be straightforward and that it will be critical to:

- avoid bureaucracy and cost that creates limited value;
- invest in engagement with shareholders;
- avoid the misleading of users, who may struggle to understand some of the definitions;
- simplify and create clarity, even in complex environments;
- provide evidence of quality and accountability;
- build and develop new capabilities; and
- avoid undermining competitiveness and confidentiality.

DECISIONS AND CHOICES

For those preparing the Policy there will be decisions and choices to be made and there are a number of questions they may need to consider:

- how broad is the range of underlying activities that audit and assurance should focus on?
- through what lens should we structure our report: principal risks, financial and non-financial metrics, compliance requirements?
- how broad is the range of audit and assurance providers?
- how do we report on very different audit and assurance outcomes in a comparable way?
- how do we create meaningful alignment with our risk disclosures?

The ICAEW Audit and Assurance Faculty is the professional and public interest voice of audit and assurance matters for ICAEW and is a leading authority in its field. Internationally recognised as a source of expertise, the faculty is responsible for submissions to regulators and standard setters and provides a range of resources to professionals. It also offers practical assistance in dealing with common audit and assurance problems.

For more information on the faculty, the current work programmes and how to get involved, visit icaew.com/audit

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Founded in 1880, we have a long history of serving the public interest and we continue to work with governments, regulators and business leaders around the world. And, as an improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

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We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create strong economies and a sustainable future for all.

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