



Corporate Governance snapshot:

Fundamental audit and corporate governance reforms proposed by UK government

In April 2021, the UK government published its long awaited consultation paper on audit and governance reform, Restoring trust in audit and corporate governance. If implemented, the proposals would lead to considerable changes to the way that companies approach their financial reporting, requiring additional processes and procedures to be put in place. Directors of companies will be particularly interested in the proposals to strengthen directors' accountability, with proposals to give the Audit, Reporting and Governance Authority (ARGA), the successor body to the Financial Reporting Council (FRC), greater powers to sanction directors for failures in connection with financial reporting.

Key proposals at a glance



Companies in scope

The government will bring large AIM companies and large private companies in scope of the new measures, and a number of existing audit related measures, including the requirements to rotate their auditors and put their audits out to tender for the first time.



Director accountability

The new regulator will have power to sanction the directors of all large companies for breach of their Companies Act 2006 duties in respect of reports and accounts, including the duty to approve accounts only if they give a true and fair view.



Audit process and internal controls

There will be new reporting obligations on both auditors and directors around internal controls and detecting/preventing fraud. The government is consulting on different options, including a regime similar in scope to the US's Sarbanes-Oxley Act on director attestation and auditor assurance on internal controls.



Review of annual reports

The FRC's corporate reporting review powers will be extended so as to enable the regulator to review the entire annual report. The ARGA will no longer need a court order to direct a company to make changes, rectify or restate its annual report and accounts.



Annual report and accounts

The going concern and viability statements will be replaced with a 'resilience statement', requiring directors to consider short term, medium term and long term threats to the company's resilience. A new Audit and Assurance Policy would be required in annual reports, explaining whether, and if so how, a company is planning to obtain assurance on its company reporting beyond its statutory audit. Main market listed companies will be required to put this policy to an advisory shareholder vote.



Dividends

Directors will be required to make a formal statement about the legality and affordability of any proposed dividend.



Audit market

FTSE 350 companies will be required to use a smaller "challenger" firm to conduct a "meaningful portion" of their annual audit as part of a "shared audit" regime.



Executive pay

Listed companies will be expected to be able to recover bonuses or share awards from executive directors if they have failed to protect customers' and employees' interests.

Further detail

We have published two briefings in which we discuss the proposals in more detail:

- To read more about the impact of the proposals on UK listed companies, [click here](#); and
- To read more about the impact of the proposals on large AIM and UK private companies, [click here](#).

We also spoke to the FRC's Kate O'Neill, Director of Stakeholder Engagement and Corporate Affairs, and Miranda Craig, Director of Strategy and Change, about the proposals. To listen to our podcast, please visit [SoundCloud](#), [Spotify](#) or [iTunes](#).

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