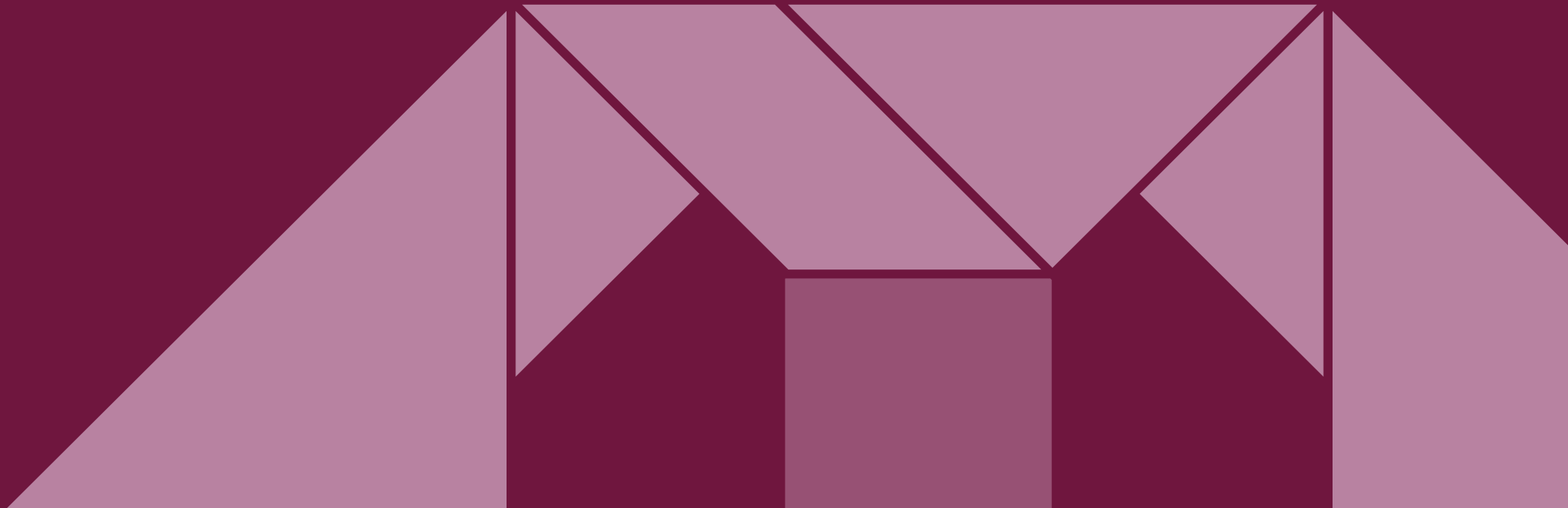


AUDIT & ASSURANCE DIALOGUE:

Ensuring Robust & Reliable Information for All Stakeholders



Investors seek robust safeguards to ensure the accuracy and transparency of a company's corporate information. Although much of the broader governance reform agenda has been retracted, revisions to the UK Corporate Governance Code on audit, risk and internal controls remain and there is still a need to ensure an effective corporate/investor dialogue on audit and assurance.

The question that we set out to address in this dialogue:

How can we establish a robust framework that instils confidence in the reliability and accuracy of corporate information, benefiting both investors and corporates alike?

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Highlights of this Dialogue

AUDIT AND ASSURANCE

What Is the Key Principle?

Integrity emerged as the linchpin of this dialogue, underscoring its fundamental role in the audit and assurance processes. The discussion centred on how to ensure confidence in the reliability of corporate information through a better understanding of assurance and transparent high-quality dialogues to develop enduring trust for the benefit of investors and corporates.

What Did We Discover?

Educating Investors: As annual reports are long and complex, the roundtable emphasised the value of proactively providing investors with deeper insights into the responsibilities undertaken by Audit Committees and their Chairs. A focused programme would enrich

investors' existing knowledge and address key investor issues to foster a more nuanced and comprehensive understanding of these critical functions.

Building Investor Confidence: It was felt that success in illuminating the roles and functions of Audit Committees could set the stage for heightened investor confidence. If actions can be taken to build a shared and comprehensive understanding, investors will be better equipped to assess the value and reliability of audit and assurance processes, establishing a solid foundation for meaningful conversations when needed.

Promoting Quality Dialogues: The desired outcome is not just informed investors but the initiation of high-quality corporate/investor conversations, as wanted and needed. Audit Committee Chairs are open to being readily

available to be held to account, but neither investors nor companies see value in simply adding yet one more round of meetings to already crowded agendas. The focus should be to ensure that dialogues are substantive, meaningful, necessary and relevant, not simply routine.

What's Next?

- Confirming investors' confidence in Audit Committee Chairs to represent their interests and recognise their openness to discussions and communication sets the stage for mutual understanding. This paves the way for increased collaboration and effective oversight.
- Further collaboration to enhance investor education regarding audit and assurance best practices and the audit committee's oversight of those.
- There is a clear need to proactively build relationships to enhance understanding and come together to discuss significant issues. By establishing dialogue, relationships can strengthen, ensuring a solid foundation for collaboration when needed. An established dialogue can serve as a crucial transmission mechanism that has been lacking in the investor-company relationship.
- Opportunity for collaboration on ESG reporting and how it impacts financials, audit and assurance: For example by establishing a working group comprising investors, Audit Committee Chairs and key sustainability representatives to navigate uncertainty and change, developing mutually beneficial approaches.

Overview of the Current Market Landscape

The dialogue with Audit Committee Chairs is much less established than other stakeholder dialogues. With increasing focus from regulators and wider stakeholders there is a need for further development and understanding in this relationship.

Maturity: There is a recognised gap in the maturity of this dialogue, indicating the potential for substantial improvements in communication and collaboration between investors and audit committees.

Challenges and Opportunities: The under-established nature of this dialogue presents challenges in terms of building understanding, but it also offers significant opportunities to enhance transparency, align expectations, and foster trust in financial and non-financial reporting processes, audit and assurance.

Audit committees face increasing challenges to achieving high-quality information amid a landscape of escalating regulatory demands. Collaboration between Audit Committee

Chairs and investors is critical to ensure that the output meets the expectations and requirements of investors and other stakeholders, especially regarding understanding the impact of ESG reporting and sustainability matters on the financials. This requires efficient solutions and alignment of interests amidst regulatory revisions and evolving governance standards.

Both investors and companies widely acknowledge the critical role of audit in fostering trust within capital markets, serving the public interest, and maintaining confidence in the reliability of corporate information.

“

From my perspective, the role of audit is about promoting trust within capital markets and serving the public interests. There is no doubt about that, and I think investors and corporates all agree on its importance.”

- VP Responsible Investment, Asset Manager

The relationship between Audit Committee Chairs and investors exists within a dynamic market landscape characterised by evolving regulatory frameworks – including UK corporate governance and stewardship codes, changing investor expectations, and intense scrutiny of corporate governance practices.

It is important to consider the entire ecosystem and understand the objectives of stewardship, governance, and audit, how they intersect and complement each other. Clarifying the different roles and expectations associated with these processes lays the groundwork for more meaningful dialogue and collaboration. Currently, despite its importance, the dialogue between Audit Committee Chairs and investors remains underdeveloped compared to other stakeholder interactions.

However, a key challenge in the dialogue between Audit Committee Chairs and investors lies in determining the optimal level of communication and engagement. Neither investors nor companies necessarily require or seek regular communication, but

efforts could be made to establish more open lines of communication, so that they are available for use when necessary. Audit Committee Chairs are eager for investors to better understand their role and are open to conversation.

From an investor perspective, while audit is acknowledged as vital, it doesn't receive daily attention due to a general trust in the audit process. Investors generally expressed satisfaction with the level of engagement with companies and indicated that engagement is preferred on an as-needed basis rather than a regular occurrence. Investors typically assume that the numbers presented in financial reports have undergone rigorous review and auditing, trusting in their accuracy and fairness.

However, this trust is not unconditional, as any lapses in audit quality can have significant consequences. Hence, investors often focus on the overall quality of the board, believing that a strong board will help ensure the delivery of effective audit processes. Despite the importance of audit,

Overview of the Current Market Landscape

particularly in relation to understanding a company's risk profile, unless specific concerns arise investors tend to focus time on areas that are newer or less regulated. There is a valuable role in investment organisations for accounting specialists to work closely with portfolio managers to help them gain additional insights from audit committee reports and annual report disclosures.

“

Investors as a whole do not engage with the issue of the audit, and with the audit committee, as much as they should do.”

- Senior Investment Manager, Asset Owner

The relative under-establishment of this dialogue presents both challenges and opportunities. An interesting development which is driving knowledge and awareness is that many investors are expanding their knowledge and capabilities as they undergo the internal audit and assurance process for their own ESG and stewardship reporting.

So, while there may be initial hurdles in terms of building understanding, there are significant opportunities to strengthen transparency, align expectations, and build trust in financial and non-financial reporting processes, audit, and assurances of both companies and investors.

Key Takeaways

- Clarifying roles and expectations can enhance dialogue and collaboration between the parties.
- While it is crucial to delineate the boundaries of this relationship, neither investors nor companies feel the necessity for regular dialogue but are seeking to establish stronger connections.
- The nature of dialogue between Audit Committee Chairs and investors requires deeper understanding. It's clear that engaging in dialogue surpasses a desire for more disclosures as it provides invaluable insights and perspectives inaccessible through disclosure alone.
- While audit is crucial, investors don't always focus on it given broad based trust in the process.
- The under-establishment of this dialogue presents opportunities for alignment and improvement.

Audit & Assurance Myths

Before delving into key challenges, what works well and actions, it's important to 'bust' some of the myths that we uncovered specific to this dialogue to help set a clear framework for a more productive dialogue.

Myth: Investors Are Indifferent to the Audit and Assurance Processes

Reality: Investors operate under the assumption and trust that audit and assurance processes are conducted with precision and in compliance with rigorous standards. While they may not require a regular dialogue on audit matters, they are interested in maintaining an open line of communication, and are prepared to engage when necessary.

Myth: Audit Committee Chairs Are Reluctant To Engage With Investors

Reality: No, many Audit Committee Chairs recognise the importance of investor engagement. While investors may not feel the need for regular engagement, ensuring they have access when necessary is crucial. To further strengthen this connection, companies should proactively communicate the availability of Audit Committee Chairs for discussions. Additionally, there's an opportunity for companies to play a more active role in educating investors about key matters. Audit Committee Chairs take their responsibilities seriously, understanding that dialogue and transparency are pivotal for building trust.

Improving Understanding Between Companies & Investors

ESTABLISHING A FOUNDATION

In preparing for this roundtable, it became evident that the absence of an established dialogue between investors and Audit Committee Chairs underscored the significant benefits to be gained by investors hearing directly from Audit Committee Chairs about their roles and responsibilities. Recognising that trust and transparency underpin this relationship, taking time to delve into intricacies before moving forward was a crucial and valuable step.

In all four dialogues, one overarching theme is that companies and investors alike are overwhelmed by the influx of reporting requirements and requests, both compulsory and voluntary, which has escalated over the years due to expanding requirements and increasing stakeholder demands. Companies face challenges with resources and capability to deliver and investors face a mounting challenge of insufficient time to thoroughly review the abundance of information presented.

Audit Committee Chairs: Role and Responsibilities

The Audit Committee Chair is responsible for leading the activities of the audit committee and facilitating effective communication and collaboration among committee members, management, external auditors, and other stakeholders. The responsibilities of audit committees have been steadily increasing, necessitating a proactive approach to anticipate and understand forthcoming changes and challenges.

Typically, Audit Committee Chairs have long-established executive careers, combining technical expertise, leadership skills, industry knowledge, and professional conduct. They also fulfil the requirement for recent and relevant financial expertise, ensuring effective oversight and financial integrity within the organisation.

Audit Committee Chairs serve as independent non-executive directors on the board, bearing significant responsibilities in addition to chairing the audit committee. When there are new appointments, investors should scrutinise the selection of the Audit Committee Chair, their skills, experience, background, ensuring alignment with their expectations for robust challenge and oversight. If necessary, shareholders retain the right to vote against appointments that do not meet their standards. Upon appointment, Audit Committee Chairs seek trust and the latitude to effectively carry out their duties.

“

Let us do our jobs, and show us a degree of trust, because you've appointed us to do it.”

- FTSE100 Audit Committee Chair

Key Takeaway: Audit Committee Chairs are committed professionals with extensive experience and steadfast dedication, mindful of the best interests of shareholders in their roles.

Relationship Between Audit Committee Chair, Auditor and Management

The relationship between the Audit Committee, auditors, and management is critical in ensuring effective governance, transparency, and accountability within an organisation. Each party plays a distinct role in ensuring the integrity of corporate reporting and the effectiveness of internal controls.

The relationship between the Audit Partner, Finance Director, and the Audit Committee Chair was described as 'an equilateral triangle', where each party holds equal importance. Ensuring this balance demands proactive efforts

Improving Understanding Between Companies & Investors

ESTABLISHING A FOUNDATION

from Audit Committee Chairs to cultivate relationships rooted in trust and openness, facilitating effective collaboration and communications. It's crucial for Audit Committee Chairs to maintain the principle of "nose in, fingers out" to uphold independence and objectivity in their non-executive oversight role.

“

The Audit Committee Chair plays a significant role in fostering scepticism, a crucial aspect of the audit process. However, it's essential to recognise that audit oversight is a year-round endeavour. Building the right relationship between the Audit Committee Chair and CFO ensures that critical challenges are addressed, and judgment issues are debated, well in advance of the audit itself.”

- FTSE100 Audit Committee Chair

Key Takeaway: The Audit Partner, Finance Director, and Audit Committee Chair form an 'equilateral triangle,' which the Audit Committee Chair balances, through independence and objectivity.

Overview of What Is Covered in the Audit Committee Report and the Auditors' Report

There is a significant amount of time taken in preparing the Audit Committee Report and the audit opinion. These are two separate documents that need to be read together to understand where assurance has been achieved and how internal controls have functioned. There's frustration about the effort invested in reporting, detailing risk identification, testing procedures, and challenges encountered – and if these reports fail to meet the needs of investors, they become considerably less useful.

A recurring theme discussed was the challenges associated with the annual

report and accounts. Given the constraints of the written word and limited space, it's difficult to convey nuanced complexities without risking sounding overly dramatic or raising alarm bells, especially considering the key role of the auditor to 'challenge'.

“

There is only so much you are going to put in the annual report and accounts. It's difficult to capture the nuances of 'challenge' in a written document.”

- FTSE250 Audit Committee Chair

Furthermore, it's an iterative process, making it hard to comprehend from an external perspective or accurately document in written form. Often, the report provides a general understanding, but for insight into the degree of challenge, engaging in conversation with the Audit Committee Chair could be valuable to shed light on the complexities of

judgments, particularly regarding impairments and other significant matters.

Audit Committee Chairs acknowledge and recognise the challenges associated with reporting and would welcome engagement with investors to provide them with a better understanding of the processes involved.

“

I would encourage investors to really push for that line of communication with the Audit Committee Chair, because you are going to get a much better feel for whether someone is on top of something by having a conversation.”

- FTSE100 Audit Committee Chair

Key Takeaway: To understand nuances in the annual report, investors are encouraged to reach out to Audit

Improving Understanding Between Companies & Investors

ESTABLISHING A FOUNDATION

Committee Chairs, who are open to discussing and clarifying any queries.

Key Factors in Determining Audit Quality

There are many factors that determine audit quality such as the competence and independence of auditors, the effectiveness of audit processes and procedures, adherence to professional standards and ethical guidelines, robust risk assessment methodologies, the rigour of audit documentation and evidence gathering, the thoroughness of internal control evaluations, and the clarity and accuracy of audit reporting. Adapting swiftly and effectively to changes in the regulatory environment, along with fostering collaboration between auditors, management and audit committees, is essential for ensuring high quality audits.

“

What makes audit quality high or low is pretty simple. It comes down to processes and systems, areas where major firms like the Big Four are heavily investing, especially in technologies like AI, to automate audit elements. While machines can handle some tasks sensibly, they fall short in making effective judgments. Judgments require the expertise of someone who's done the job for 30 years, who can read a room of executive management. Non-executives bring their wide experience to bear in this regard.”

- FTSE250 Audit Committee Chair

Well-planned audits involve the appropriate use of technology, led by experienced people with the right skills, the right level of engagement at the right time with the company and the ability to

stand their ground and be brave on those occasions when they need to hold the line and exhibit moral courage on a particular treatment or issue.

These elements significantly enhance audit quality, and while they may seem straightforward individually, integrating them consistently and effectively is key. Investors, management, and non-executives all share responsibility in ensuring these elements converge to optimise audit outcomes.

Key Takeaway: Audit quality relies on a balance of process, technology and expertise with the challenge of consistently and effectively integrating them to produce high quality outcomes.

Better Understanding of How Auditors Have Challenged Management

Audit Committee Chairs play a crucial

role in capturing and understanding how auditors have challenged management throughout the audit process, enabling them to provide effective oversight and support to auditors as needed. This is something that investors are confident that Audit Committee Chairs do, but they have little understanding of the extent of that challenge and how much time they have spent on engaging on specific issues and the detail of the challenge.

“

The reporting should help us as investors get a better feel for how the audit committee satisfies itself that it was a high-quality audit, which did what it needed to do. I would like to be able to see some of that for myself.”

- Senior Investment Manager, Asset Owner

This remains a difficult area to effectively capture and communicate within an

Improving Understanding Between Companies & Investors

ESTABLISHING A FOUNDATION

annual report. The Audit Committee Chair's responsibility is to help bring 'high-quality professional scepticism to the audit process. While every effort is made to convey the intricacies of this in reporting, the Audit Committee Chairs enthusiastically invite investors to engage in conversation. Through dialogue, investors can gain deeper insights and understanding, enabling them to grasp the nuances of the audit process more comprehensively.

Key Takeaway: The Audit Committee Chair's role is to encourage and support high-quality professional scepticism and challenge in the audit. While efforts are made to convey this complexity in reporting, they actively encourage investors to initiate discussions for deeper understanding.

Understanding the Wider Engagement the Audit Committee has within the Business

There is recognition by investors that the Audit Committee Chair is probably one of the busiest in terms of high commitment roles on a board because they must engage with the CFO, the external auditors, the finance function, as well as other parts of the business. There's an interest in understanding the wider engagement Audit Committee Chairs have within and across the business.

“*The thing I try to get an understanding of is how much an Audit Committee Chair and the audit committee as a whole get visibility within the firm, across all the different parts of the business.*”

- VP Responsible Investment, Global Asset Manager

Audit Committee Chairs often have regular one-on-one meetings with the CEO, CFO, CRO, CIO, heads of divisions, and other relevant stakeholders throughout the organisation. These interactions supplement those occurring during committee meetings. Additionally, many Audit Committee Chairs serve on other committees such as risk or sustainability, ensuring alignment across various governance functions.

A given for investors is 'making sure that the information is rigorous and right and accurate and reliable'. What's important to investors is that the board has the right management information to make the right strategic decisions.

“

It's hard to understand more about what the actual issue is with audit quality because that's quite a subjective thing. As an investor, I'm trying to understand how much an Audit Committee Chair is committed to get that issue resolved.”

- VP Responsible Investment, Global Asset Manager

Key Takeaway: Audit Committee Chairs' engagement with the wider business is crucial for gaining insights into the organisation's operations, risk management practices, and financial health, all of which contributes to informed decision-making.

What Investors Think

WHAT DO COMPANIES DO WELL?

- Audit committees that go beyond narrow assurance. Having an ex-CFO on the committee is highly valued because of their ability to ask nuanced operational questions and challenge management from a unique perspective. Additionally, industry or sector-specific experience is considered beneficial.
- Investors emphasise the collective skill and experience of the committee members while ensuring that tenure is appropriately managed. There's a growing interest in whether Audit Committee Chairs have formal training and how auditors transfer their expertise to committee members. These factors contribute to investors' confidence in the audit committee's ability to provide robust oversight and maintain financial integrity.
- There is a growing demand to delve deeper into how investors have confidence, regarding audit committee engagement levels and audit quality, although such thorough engagement is unlikely to be necessary for every company every year.
- There's a call for companies to structure their annual reports effectively, with a focus on the story and alignment. Investors stress the importance of consistency throughout the year, aligning with the strategy for investment decision-making.
- Alignment between the front and the back end is becoming increasingly important, for issues such as climate change. Some investors compare closely the risk disclosures, the Audit Committee Chair's letter and the report and financial statements, to check for consistency.
- Graphs illustrating the level of risk appetite based on both impact and probability are helpful to investors. For enhanced understanding, companies could highlight the timing of shifts in risk appetite and the specific factors influencing the mindset of the audit committee or the board as a whole that drive such changes.
- Transparent audit quality indicators, including things such as: insights on audit engagement levels, showcasing the depth of involvement from auditors, details on the amount of time spent by mid-level auditors on the audit process, assessments of whether auditors consistently receive information in a timely manner.

What Companies & Investors Think

SHARED CHALLENGES

Addressing the Regulatory Landscape

Audit committees play a crucial role in advocating for the quality of information necessary for organisational transparency and accountability. It's essential for Audit Committee Chairs and investors to collaborate effectively to understand and align their interests, ensuring that the organisation delivers the necessary information to meet regulatory requirements and investor expectations.

This is particularly the case given that there is a sense that regulatory demands have been steadily increasing over the years, with new requirements continually added without any corresponding reductions elsewhere. While governance is essential, there's a need for a considered approach to maintain an effective work environment. The continual layering of regulations risks overwhelming individuals and organisations. With revisions to the corporate governance and stewardship codes it will be important for investors and companies to collaborate to come up with effective solutions.

Regulatory changes have unfolded rapidly creating uncertainty about the driving forces behind them and how to navigate interactions with different actors, government bodies and regulators in the UK. Initiatives like the Green Finance Initiative, Transition Plan Taskforce, and regulations for achieving Net Zero have evolved swiftly, placing the responsibility on companies to establish relevant processes, management and assurance mechanisms and investors are tasked with extracting key information and asking relevant questions, often with limited guidance or connectivity across the spectrum of regulatory changes.

As the market evolves and there's a demand for more non-financial data the question of greenwashing and evidence will become increasingly important. The imminent arrival of green taxonomies was referenced as a game changer. This will open up the debate about accountability and responsibility much more widely.

“

Audit committees are really important actors in helping to advocate for the quality of information that organisations need to deliver. And it would be helpful for both investors and companies to collaborate and align interests in navigating these challenges.”

- FTSE250 Audit Committee Chair

Navigating the Evolving Nature of ESG/Narrative Reporting/Assurance

Some Audit Committees are dedicating more time to ESG and sustainability matters as these issues become increasingly prominent. The current landscape demands a significant allocation of committee time due to the complexity and abundance of nuances surrounding ESG reporting. Audit Committees are monitoring the evolving landscape to ensure that organisations

are well-equipped to address these issues effectively. However, navigating this space poses challenges in discerning relevance and understanding the important aspects amidst the myriad of considerations.

Audit Committee Chairs recognise the importance and relevance of audit committees engaging with sustainability reporting, particularly regarding assurance. Practice tends to vary depending on the company's stage in its sustainability journey. Many Audit Committee Chairs also serve as members of the Sustainability or Risk Committees within their organisations to enhance understanding and connections. Looking ahead, cross-fertilisation between Board committees will be crucial to ensure a cohesive and integrated approach to sustainability reporting and oversight. There is unlikely to be any 'one size fits all' approach, the governance structure for oversight will depend on the organisation, the skills and expertise at the board level, and the maturity of the sustainability journey.

What Companies & Investors Think

SHARED CHALLENGES

“

What will be essential is to ensure alignment between committees throughout the year rather than having a disjointed approach where an ESG committee handles data throughout the year and then shifts responsibility to the audit or risk committee once annually.”

- FTSE100 Audit Committee Chair

As non-financial data becomes ever more important, the audit committee aims to ensure that processes and controls surrounding it are of the highest quality. Their expertise lies in applying rigorous financial skills to ensure completeness, consistency, and relevance in data and reporting and the ability to interpret complex standards. They emphasise the importance of these skills to provide the necessary challenge and the need for strong organisational structures, including the three lines of defence. It is also important to ensure that the management team possesses the appropriate skills.

“

Unless you are applying the same kind of rigour, you have a set of accounts which is really robust with 100 years of control and process done by accountants and then some flaky stuff done by people who've never had a background in internal control.”

- FTSE100 Audit Committee Chair

Investors see ESG as an integral part of a company's DNA and suggested that this should be considered at the strategic board level. Investors were open about ESG reporting oversight, not feeling it needs to be the sole responsibility of the audit committee. It was seen to be what's best for the company, because they all have different risks and issues. What was emphasised is the importance of clarity on why such oversight falls under a specific committee's jurisdiction and that it should be a board committee.

“

I don't feel ESG reporting needs to sit with the audit committee. Just tell us why you've decided that this should have received oversight from that particular committee, and we will consider whether we feel that is appropriate.”

- Investment Manager,
Stewardship and ESG, Asset Owner

External Assurance

The quality of external ESG assurance is emerging as a critical focal point within the reporting landscape. While there is a growing recognition of its importance, a significant portion of non-financial data remains unassured. This poses a challenge for both companies and investors, as the market for assurance is currently highly fragmented, ranging from major players like the big four accounting firms to smaller boutique agencies. The considerable variation in fees paid for assurance services, spanning from several thousand pounds to several hundred

thousand, further compounds the issue and highlights the lack of standardisation in the industry.

Investors are seeking clarity regarding the different types of assurance available for non-financial data, underlining the need for clearer explanations to bridge the current confidence gap in this area. Striking the right balance in assurance providers is crucial. Currently there is a range from the four major audit firms to a multitude of smaller entities handling assurance on climate and other ESG factors. Investors envision a scenario where a select group of experts can proficiently handle all aspects of ESG assurance in a sophisticated manner.

“

The prevailing opinion is that the Big Four aren't yet very good and don't necessarily have the skill sets to provide adequate assurance over ESG metrics and non-financial information.”

- Head of Governance, Asset Manager

What Companies & Investors Think

WHAT DO INVESTORS DO WELL?

Overarching

- When companies sense that an investor is genuinely 'invested in the management team', fostering constructive conversations even during challenging times, a strong sense of support and trust emerges. This supportive dynamic allows for more open dialogue and enables the business to make informed and longer-term decisions.
- When investors act as effective 'non-executives', companies find themselves engaged in broader, more meaningful strategic dialogues. This engagement allows for a deeper understanding of each other's perspectives and long-term considerations for the company, fostering a relationship built on mutual learning and shared strategic vision.
- Providing clear messaging and reinforcement that it's acceptable to prioritise three or four issues relevant to their business, rather than attempting to cater to every stakeholder's demands. This targeted focus allows companies to streamline their efforts and allocate resources more effectively, fostering a strategic alignment with their core objectives.

Specific to this dialogue

- Investors who proactively reach out to speak directly with Audit Committee Chairs to build relationships and gain insight into their roles and responsibilities are highly valued.
- Investors that provide clarity on the questions they have and the issues they're concerned about enable the Audit Committee Chairs to better comprehend their perspective and address their concerns effectively.
- Clear discussion between investors and Audit Committee Chairs on broader issues helps transparency and enhances the quality of the interactions.

What Companies & Investors Think

WHAT DO COMPANIES DO WELL?

Overarching

- When companies prioritise clarity and transparency regarding their material issues and connect them to their overall strategy instead of solely focusing on compliance-driven reporting, it demonstrates a deeper understanding and confidence in their operations.
- Companies that anticipate and adapt to changing regulatory and reporting landscapes with a practical approach to disclosures and that seek clarity on investor preferences foster greater alignment and understanding.
- When companies invest effort in understanding investors' objectives, including diverse client demands and internal policies a more effective dialogue will result. Understanding whether investors are focusing on systemic risks or specific company issues and their underlying motivations and requests will ensure that information and actions are tailored.
- When companies connect and synthesise their reporting and communications in a strategically driven manner, integrating the importance of sustainability issues with financial performance, it results in consistent and coherent messaging that is more easily understood.
- Investors appreciate companies' increasing acknowledgement of the necessity of external assurance for sustainability data and value when companies remain adaptable and committed to learning and improving in this evolving area.

Specific to this dialogue

- When companies provide clarity on what they are doing above and beyond regulatory requirements.
- Board governance days, where companies make their Audit committee, and other committee chairs and the board chair available to speak to investors. The Audit Committee Chair could present on the key issues with an opportunity for investors to ask questions.
- When an Audit Committees puts out a letter once a year outlining the key changes they are making, this provides a clear understanding to investors and an opportunity to engage.

Actions for Companies & Investors

TOP TIPS FOR INVESTORS AND COMPANIES

Companies

- Ensure it is understood that Audit Committee Chairs are open and willing to engage with investors. Provide a direct line of contact through investor relations and/or the company secretary.
- Encourage Audit Committee Chairs to attend results presentations and make it known they are present and available to answer questions from investors.
- Audit Committee Chairs should occasionally join CFO roadshows post-results to provide additional insights and perspectives to investors, if there is a demand for this.
- Clearly communicate the governance and oversight structures when it comes to ESG and sustainability.
- Don't be offended if investors don't engage regularly but ensure that the lines of communication are available and open.

Investors

- Ensure that internal teams comprehend the significance of audit and audit committee reporting in providing deeper insights into the risk profile of companies.
- Take the initiative to understand more about the importance and status of internal controls, ESG assurance, and other pertinent issues.
- Take the time to scrutinise the appointment of Audit Committee Chairs, including their skills, experience, and the overall composition of the audit committee.
- Don't hesitate to engage with companies on key issues or areas where you seek further understanding, especially regarding what appears in their reporting.