

Ms Catherine Woods
Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

16 November 2015

Dear Catherine

Enhancing confidence in Audit

Thank you for giving the Institute of Directors (IoD) the opportunity to comment on your consultation paper, *Enhancing confidence in Audit*, published in September this year. Issues of this nature are of considerable interest to the IoD and its membership and are therefore pleased to present our views in respect of your proposals.

About the IoD

The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 35,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 71% of FTSE 100 companies and 51% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 70%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies. IoD members' organisations are entrepreneurial and growth-orientated, and more than half (57%) export goods and services internationally

Overall response

- The changes proposed will further increase the profile and significance of the work of audit committees.
- These changes will place more emphasis on audit committees making their own enquiries on key matters rather than placing reliance on the work of the external auditor. This is welcome.
- The IoD believes that there is now helpful clarity on ownership of risk management and internal control, reinforcing that the board as a whole is responsible, and the audit committee's role is to provide support to the board to fulfil this function.

- We expect there could be some transition issues with certain requirements of the EU Regulation and Directive and we hope that proposals will be issued for comment soon.

In addition, we have provided a specific response to Qs 24 and 26 only as these are the most relevant to our membership; if you are require any further information about what we have said in this paper, please do not hesitate to contact the IoD.

Q24. Do you agree with the changes to section C.3 of the Code?

Yes. The IoD is satisfied with the proposed changes and agree that minimising further regulatory burden on listed companies is an important consideration when making further amendments to the Code, especially in lieu of the fact that the last consultation on the Code was in April 2014.

The proposed revision, that the board needs to “satisfy itself that at least one member of the audit committee has recent and relevant financial experience,” represents an obvious and welcome amendment. The IoD believes boards and their committees should have diverse and experienced members in place and this includes having members with relevant, technical understanding.

Q26. Do you agree with the changes to the Guidance?

We are broadly very supportive of the proposed changes to the Audit Committee Guidance. We do have some concerns about the readiness of companies to adapt to these changes and agree with the prevailing view within the audit profession that many companies still haven’t assessed the full implications. We trust that the FRC will work with companies to ensure everything is in place on or after the 17 June, when the changes are set to take place.

The Guidance has been changed to mirror the changes to the Code; especially in respect of ensuring audit committees have members with sufficient competency. This will not be an easy process. The recruitment of NEDs can be a complex and lengthy process and, with less than 9 months until these changes take effect, many entities will need to think about how and where they are going to find the non-executive directors to take up these roles across an increasing number of audit committees.

I hope you have found our comments helpful. If you require further information about our views, please do not hesitate to contact me.

Kind regards

A handwritten signature in black ink, appearing to read 'Oliver Parry', is centered on a light-colored rectangular background.

Oliver Parry
Senior Corporate Governance Adviser
Institute of Directors
Tel: 020 7451 3282
Mob: 07707929337
Email: oliver.parry@iod.com