

Calling all audit committee directors and company secretaries – are you prepared for the upcoming significant changes to terms of reference for audit committees?

One of the biggest impacts from the new UK Corporate Governance Code 2024 ("UK Code 2024") and supplementary Corporate Governance Code Guidance ("CGC Guidance") will be on audit committee terms of reference and what the audit committee focuses on with respect to the external audit, something which seems to have slipped under the radar of many.

### **Things taken away**

The CGC Guidance incorporates previous published FRC guidance on Board Effectiveness, Audit Committees and Risk Management.

Not all of the items in the previously issued guidance, especially those relating to audit committees, was transferred across to new CGC Guidance. This was done purposefully with the intention of simplification.

The Chartered Governance Institute model terms of reference for audit committees, which many companies use as a basis for the terms of reference for their own audit committees, contain a significant number of items derived from the FRC Guidance on Audit Committees which now no longer appear in the CGC Guidance.

### **Things added**

A new requirement under Principle 25 of the UK Code 2024 states that audit committees should follow the Minimum Standard. This focuses heavily on the audit committee's role in reviewing the effectiveness of the external audit process and contains a number of new items such as the audit committee should satisfy itself that the quality of the audit is of a sufficiently high standard supported by evidence and be able to justify how the committee arrived at its conclusion.

The Chartered Governance Institute has confirmed that they will be issuing updated model terms of reference for audit committees later in the year. In the interim in the images below is a rough approximation of the items that will be removed (in red) and added (in green) as a result of these changes.

### **Next steps for Company Secretaries and Audit Committee directors**

- Keep a close eye out for when the Chartered Governance Institute publishes its updated model terms of reference for audit committees.
- Any changes to the audit committee terms of reference should be discussed and tabled for approval as early as possible within the next financial year.
- Template agendas and the timetabling of when the audit committee undertakes the various items stipulated within its terms of reference during the financial year will need to be updated.
- Audit committee directors should give consideration as to the approach and evidence they wish to obtain to evidence the effectiveness of the external audit and how effective oversight is achieved throughout the year.
- Extra time should be allocated to drafting the audit committee report section of the annual report in the first reporting cycle as there will be a number of content changes.