Restoring trust through an Audit and Assurance Policy

A practical guide to developing an Audit and Assurance Policy

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Trust and confidence are critical to enhancing the business environment and help make the UK an attractive destination for foreign investment and world leading as a capital market. In that context, the increasing volume of information that companies publish matters more now than ever and it is the duty of boards and audit committees to make sure that stakeholders not only have the right information to base their decisions on but that it is reliable.

Stakeholders are more frequently making decisions based on both financial and non-financial information in annual reports. Over the last year there has been unprecedented focus from investors, consumers and wider society on ESG related issues and their importance with respect to an organisation's longer term strategic planning, with users of this information demanding much more transparency and consistency.

Following their consultation on 'Restoring trust in audit and corporate governance' the Government (BEIS) is to introduce a statutory requirement for Public Interest Entities (PIEs) that have 750 or more employees and £750m or more annual turnover to publish an Audit and Assurance Policy every three years, with an annual report on changes.

There are many reasons why we think an Audit and Assurance Policy is important, which we have outlined below. We've also spoken to a number of organisations, audit committees and other stakeholders who see the clear value it would bring to the reliability of their reporting and their governance process. In this guide we explore in detail how companies might approach developing an Audit and Assurance Policy, in particular the 'Assurance Map' element and what the outcome might look like. Of course, every company's Audit and Assurance Policy will be specific to its individual facts and circumstances and this is just one possible approach that we hope you will find helpful. We have also issued a summary version of this guide, which can be found **here.**

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Why the Audit and Assurance Policy is important

- Not all reported information is based on well developed reporting standards, or subject to the same level of process and controls in relation to data gathering and application of judgement, and so may be less reliable. Having an Audit and Assurance Policy will significantly help boards and audit committees assess the reliability of that information and highlight where more work may be needed.

- It will facilitate enhanced communication and coordination within the company as it brings together different functions with a common goal (such as risk management, sustainability and internal audit) and streamlines audit committee reporting from these functions.

- It will enable richer conversations with stakeholders on the risks the company faces and the mitigations in place. Bringing together broader views on the challenges facing the company and the usefulness and reliability of reported information.

- It will substantially improve trust in the corporate reporting system by forcing companies to assess the effectiveness of their overall risk and assurance model, which will, in turn, deliver more value to the business and greater confidence that its risks are being managed and its reported information is reliable.

- An Audit and Assurance Policy will effectively be the 'anchor' for a number of other important areas of reporting and governance including the company's approach to internal controls over financial reporting, resilience and fraud.

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Section 1: An Audit and Assurance Policy

Setting the scene

Trust and confidence are critical to enhancing the business environment, and in helping to make the UK an attractive destination for foreign investment and world leading as a capital market. In that context, the reliability of the increasing volume of information that companies publish matters more now than ever.

Stakeholders are more frequently making decisions based on both financial and non-financial information in annual reports. Not all reported information will be based on well developed reporting standards, or be subject to the same level of process and controls around data gathering and application of judgement, and so may be less reliable. This information also often includes metrics linked to management and executive remuneration, making them more open to the possibility of bias.

It is therefore key that companies are clear with themselves, and with their stakeholders, as to the level of confidence they can demonstrate in that information.

The growing importance of Environmental, Social and Governance (ESG) reporting and assurance

Over the last year there has been unprecedented focus from investors, consumers and wider society on not only climate change, but on broader ESG related issues and their importance with respect to an organisation's longer term strategic planning. Now, more than ever, there is increased awareness of, and scrutiny over, non-financial/ESG reporting measures disclosed by organisations, with users of this information demanding much more transparency and consistency. We are also seeing organisations downstream in the supply chain seeking to understand how ESG risks are managed; they require confidence in the reported information as this impacts their own reporting. This also extends to banks and asset managers in their capacity as lenders and institutional investors.

The demand for some form of assurance over non-financial measures is also increasing. A recent study we conducted indicated that 63% of the FTSE 100 obtained some form of independent assurance over their non-financial data. Our recent global investor survey also indicated that 75% of investors surveyed think it's important that reported ESG-related metrics are independently assured. The Audit and Assurance Policy is a very valuable way for companies to understand and assess their assurance needs and those of their stakeholders in this increasingly important area of reporting.

The challenge for boards and audit committees

Boards and audit committees have a responsibility for all of the information published to stakeholders. A key part of this responsibility is the need to ensure that stakeholders are able to assess the relative risk of a company's activities and business model by having robust and relevant reporting, with appropriate processes and controls in place so that this reporting can be trusted.

The challenge for boards and audit committees is to be able to transparently and reliably communicate relevant information about their businesses, including the risks they face, and to help stakeholders understand the extent to which they can have confidence in that information.
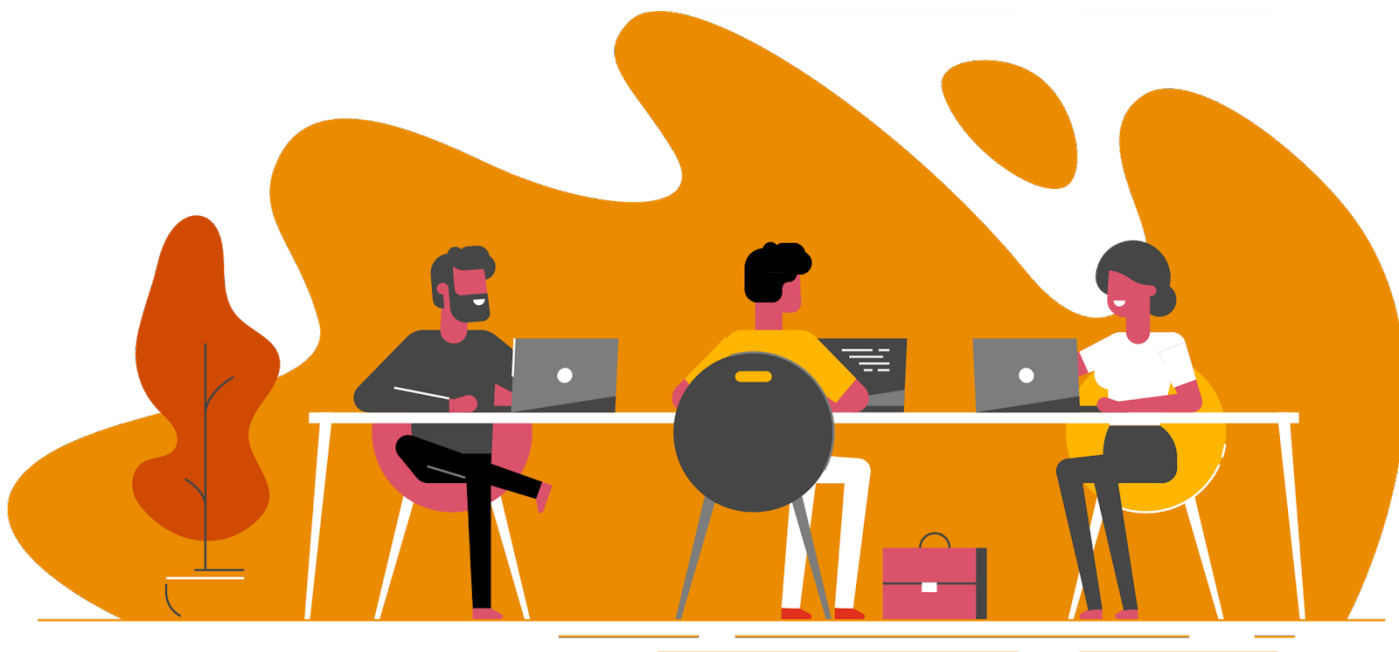
What is an Audit and Assurance Policy?

As described above, an Audit and Assurance Policy is a way for a company to set out more clearly how much the information it reports has been scrutinised. There are many ways an Audit and Assurance Policy could be structured. We don't yet know exactly what the final requirement will look like, but in their consultation, BEIS said it would include:

- An explanation of what independent assurance the company intends to obtain in the next three years in relation to the annual report and other company disclosures beyond that required by the statutory audit. This would include an explanation of what independent assurance, if any, the company plans to obtain relation to:

  - The company's Resilience Statement, in whole or part, and other disclosures related to risk; and

  - The effectiveness of the company's internal controls framework.

- A description of the company's internal auditing and assurance processes. This might include how management conclusions and judgements in the annual report and accounts can be challenged and verified internally, and whether, and if so how, the company is proposing to strengthen its internal audit and assurance capabilities over the next three years.

- A description of what policies the company may have in relation to the tendering of external audit services (for example, whether the company is prepared to allow the external company auditor to provide permitted non-audit services).

- An explanation of whether, and if so how, shareholder and employee views have been taken into account in the formulation of the Audit and Assurance Policy.

Whatever the actual structure of an Audit and Assurance Policy, most key will be that it is transparent about the company's approach to determining how it has ensured the information it reports is reliable. The BEIS requirement that the Policy includes a description of the approach to assurance specifically over resilience and internal controls reporting highlights the fact that the consequences of inadequate reporting or processes in these areas could be particularly significant for the future of a company.

The role of assurance

The provision of assurance (whether from internal or external sources) can aid confidence in a company's reported information and wider risk environment – it provides challenge to the reporting process to ensure the information is completely and accurately captured and transparently reported. In some instances, assurance is required by regulation, but in many other areas it can be commissioned at the company's discretion and therefore judgement is required to determine if and where additional assurance may be needed. There is no 'one size fits all' approach; the context of each company is unique and boards should respond accordingly.

Not all reporting requires fully independent assurance; in some cases a review performed by an internal audit function may provide the desired level of confidence. However, in other instances the importance of the subject matter to stakeholders may drive the need for a company to consider obtaining a level of independent assurance that demonstrates a recognition of that significance to stakeholders.

Considerations for boards and audit committees when establishing an Audit and Assurance Policy

Some elements of an Audit and Assurance Policy will, necessarily, be quite granular, for example the 'Assurance Map' that we cover later in this paper. However, there will be a number of higher level elements and policy decisions that will be important to establish up front and maintain throughout the process. These include:

Establishing governance and ownership responsibilities

It will be essential to establish, up front, the governance process around an Audit and Assurance Policy and who 'owns' its development and updating, including ensuring the right resources are dedicated to its implementation. Consider the following:

- We would expect a number of functions within the business to be involved with an Audit and Assurance Policy, for example: risk management, finance, internal audit, sustainability and compliance functions. The extent of their involvement will depend on the size and structure of the company – although we would typically expect that after initial investment in the assurance mapping process, the ongoing resource need will reduce.

- Ultimate ownership and approval would be by the board, typically through the audit committee. Consideration will need to be given as to the timing and frequency of when an Audit and Assurance Policy is updated, reviewed and approved. This will depend on a number of factors, including the size and complexity of the company, but at least annually would most likely be sensible and perhaps at a higher level at the half year or quarter ends.

- Consideration should also be given to ensuring the board/audit committee has adequate time to input into the process up front, making sure they are part of the decisions process around the information to be included and the assurance needed.

Establishing a shared understanding of the purpose of an Audit and Assurance Policy and how it will work

Creating a robust and useful Audit and Assurance Policy will not necessarily be a quick process (although time spent may reduce in subsequent years as the process is embedded). Therefore it is important that all parties involved in an Audit and Assurance Policy should understand from the audit committee, up front, the reasons for its development, the process for development and how it will be used. It is also important that it is started/updated in a timely manner and not left to the latter stages of the corporate reporting cycle when it is too late to properly think through the potential complexities.

Understanding stakeholder expectations

Investors, regulators and other stakeholders are placing increasing importance on company reporting beyond financial statements. In order to have a basis for confidence in the integrity and reliability of the reported information, it is reasonable to suggest that users would want to understand what scrutiny, if any, has been applied to information presented to them. Stakeholders will have different needs and expectations when it comes to company information. So it will be important when developing an Audit and Assurance Policy to establish a way to consider the views of a wide range of stakeholders including investors and employees. This could be done through direct engagement, perhaps at investor days or the AGM, or with a representative group.

More than simply a disclosure - integrating risk and assurance

An Audit and Assurance Policy is an opportunity for companies to reconsider the effectiveness of their overall risk and assurance model. For example, while many companies have strong governance and assurance over their key business risks, new risk areas such as cyber and climate pose different challenges and often are not subject to internal or external assurance.Taking a more holistic view of risk and assurance activities should deliver more value to the business and greater confidence that its risks are being appropriately managed.

An integrated risk and assurance model helps companies to ensure that assurance activities are focused on areas of greatest risk; that they are adaptable to the changing risk landscape; and that assurance type, coverage, depth, and quality are all fit-for-purpose with no duplication or gaps. Technology and data have also become important pillars in the provision of effective assurance.

An effective integrated risk and assurance model is underpinned by a robust risk management framework and an understanding of risk appetite and will employ a range of internal and external assurance providers to deliver confidence that controls and other risk mitigation activities are working as expected.

Section 2: 5 steps to developing an Assurance Map

What is an Assurance Map?

As described above, a key purpose of an Audit and Assurance Policy is to consider the company's approach to obtaining independent assurance in relation to the annual report and other company disclosures. One way to do this is through an Assurance Map that enables companies to outline their most important reported information and 'map' this to the form of assurance provided over it, either directly or through assuring the controls and process in place to ensure the information is reliable and the risks mitigated.

An Assurance Map would allow the audit committee and the board to view in one place the form of assurance they are obtaining over reported information, including key risks and to therefore reassess whether the assurance they receive is sufficient. We expect this to be particularly useful where new principal risks or other risks are identified which need audit committee attention.

However, there are a number of other benefits to the process, including:

- Refreshing the thinking around risks and reported information, for example, refocusing on whether reported information is fair, balanced and understandable.

- Enhancing communication and coordination within the company as it brings together different functions with a common goal (such as risk management, sustainability and internal audit) and streamlines audit committee reporting from these functions.

- Enabling richer conversations with stakeholders on the risks the company faces and the mitigations in place. Collecting broader views on the challenges facing the company and the usefulness and reliability of reported information.

- As noted in the previous section, aside from being a way to make sure reported information is reliable, it is also a way to develop or enhance an organisation's risk and assurance framework.

An Assurance Map is not a new idea but to date has not been widely used in practice. Some regulators, such as Ofwat, have previously required their regulated companies to perform a type of assurance mapping.

Ofwat published the Company Monitoring Framework (CMF) in 2015 to ensure that customers and wider stakeholders can trust the information that water companies publish. Over the last five years it has focussed on ensuring that the data water companies publish is accurate, and that customer and stakeholder views are taken into consideration.

Forms of assurance – Lines of Defence

When we talk about "independent assurance" in the context of an Audit and Assurance Policy we mean independent from the organisation, i.e. provided by an external assurance provider.

However, in building an Assurance Map to support the Audit and Assurance Policy, we think all different forms of assurance, independent as well as those within the company, could be taken into consideration, as all contribute to the reliability of the company's reported information.

Transparency over the nature and extent of assurance will be key.

One way to approach the different types of assurance is to use the Line of Defence model (LoD). A useful reference is the Institute of Chartered Accountants of England and Wales (ICAEW) definition of LoDs in their 2018 helpsheet on the subject[1]:
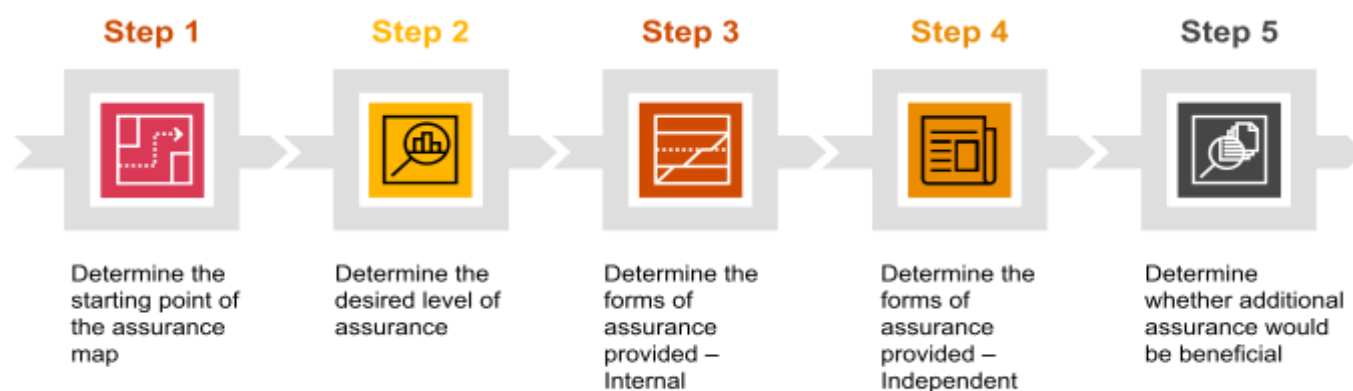
01	**1st LoD** – Management policies, control frameworks and controls and management review processes	**1st and 2nd Lines of Defence** Strictly speaking, activities in the 1st and 2nd LoDs may not be considered 'assurance' in the typical sense, but we believe they undoubtedly contribute to the overall governance and reliability of the reported information.
02	**2nd LoD** – Control self-assessment mechanisms e.g. risk reviews; compliance reviews; group legal; group insurance; board review process	
03	**3rd LoD** – Internal audit	
04	**4th LoD** – External audit and other independent assurance[*]	

[*]There is debate in practice as to whether external audit should be described as a line of defence; the ICAEW helpsheet has included it as such.

External audit and other forms of independent assurance

Reasonable assurance obtained through the statutory audit is well-known, but other types of formal assurance also exist. For example, ISAE 3000, the assurance standard broadly used for non-financial information, can be used to provide assurance over a wide variety of reported information such as climate related disclosures and also the effective operation of controls. Under an ISAE 3000 engagement assurance may be limited or reasonable. Limited assurance engagements result in a 'negative assurance' opinion, whereas reasonable assurance engagements are intended to result in a 'positive' assurance opinion. Consideration of which is required will be important. There are other 'standards' that could be used to provide a degree of assurance that might be relevant for an Assurance Map. This could include specific standards such as AA1000, a framework used by some other providers which focuses on sustainability and stakeholder engagement processes, however the commissioner of these types of assurance will need to be clear on their scope and depth.

5 Steps to developing an Assurance Map

Our five steps to developing an Assurance Map are summarised below and described in more details on the pages that follow.

Step 1	Step 2	Step 3	Step 4	Step 5
Determine the starting point of the assurance map	Determine the desired level of assurance	Determine the forms of assurance provided – Internal	Determine the forms of assurance provided – Independent	Determine whether additional assurance would be beneficial

[1] https://www.icaew.com/-/media/corporate/files/technical/audit-and-assurance/assurance/the-four-lines-of-defence-helpsheet.ashx?la=en

| Step 1 | Determine the starting point of an Assurance Map |

Determining the reported information that should be included in an Assurance Map could be quite challenging. As described above the focus would be on the annual report and other information a company reports to shareholders beyond the financial statements. However in these areas companies report a significant volume of information, all of which is important to different degrees to different stakeholders. It would be unrealistic to expect an Assurance Map to include every item of reported information. Instead, the company should develop a process to determine what information needs to be mapped.

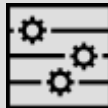**When considering information in the annual report, the following might help in that process:**

Principal risk disclosures	KPIs linked to principal risks	Information important to stakeholders and reputation	Additional content as suggested by BEIS
The principal risk disclosures in the annual report are, by their very nature, important reported information so should be considered for inclusion in the Assurance Map (BEIS suggests minimum content that includes 'disclosures relating to risk').	There are a number of critical disclosures a company makes which are not usually subject to external audit, such as key performance indicators (KPIs) and alternative performance measures (APMs), that should be considered for inclusion in the Assurance Map. The principal risks are also a good sign post to these important measures.	Reported information that might not link to a principal risk but is important to stakeholders or to the reputation of the company should also be considered. For example, ESG disclosures such as climate risk (although we are increasingly seeing this be included as a principal risk) or diversity data; KPIs that underpin executive remuneration.	There are certain pieces of reported information where BEIS have stated a company should explain its approach to obtaining independent assurance, so would be included: • The directors' reporting on the internal control framework; and • The Resilience Statement.

When considering what other information reported to shareholders that might be included in an Assurance Map, this could be, for example, information such as half-yearly reports of listed companies, investor reports or information on company websites, for example on ESG. Disclosures that are in the annual report but outside of the financial statements are not audited but there is some assurance provided by the auditor that they are not materially inconsistent with the financial statements or the auditor's knowledge – an Assurance Map could be an important exercise to consider whether there is a need for more assurance over these broader company disclosures.

| Step 2 | Determine the desired level of assurance |

Once the reported information to be included in the Assurance Map has been identified, the next step would be to determine what is the desired level of assurance over that reported information and/or the controls and processes that support it. There is no magic formula – it will largely come down to the judgement and appetite of the board/audit committee. However, desired level of assurance could reflect:

How important the information is to stakeholders and how much reliance they place on information such as alternative performance measures or non-financial KPIs that underpin remuneration.	For reported risk information, the likelihood and severity of the risk and the potential impact it could have if the risk was not mitigated.	The potential reputational damage that could come if certain reported information is unbalanced or misleading.	The degree to which the information is capable of being independently assured.

Whether there are well established reporting standards and reporting processes that are mature and well controlled.	Whether there has been a history of error or restatement of the information.	Whether the information contains significant estimates or judgements and the extent to which it is consistent with published financial information.	Whether there are any concerns over the underlying data that supports the reporting (e.g. gaps/use of proxy information or estimates).

Step 3	Determine the forms of assurance provided – Internal

Once the desired level of assurance has been determined, the next step would be to determine the forms of assurance already being provided over the reported information.

A reminder about the 1st and 2nd LoDs – As described above, strictly speaking, activities in the 1st and 2nd LoDs may not be considered to be 'assurance' in the typical sense of the word, but we believe they undoubtedly contribute to the overall risk management environment and the reliability of reported information so these activities should be understood and considered as part of the development of an Assurance Map.

When determining the form of internal assurance provided, and based on the LoD model described above, the following steps may be useful.

01 Identify internal functions and assurance providers across the first three lines of defence.

02 Engage with the assurance providers to further understand assurance mechanisms – processes, people and functions – as well as the scope and frequency of assurance activities undertaken and degree of independence of assurance providers (even though they are still within the same company).

Assurance activities are considered to be tests of controls (such as continuous monitoring, spot checking and independent testing) or review of other procedures and activities performed to give stakeholders confidence that those activities are functioning effectively to manage risks.

03 Evaluate the adequacy of internal assurance provided in light of an assessment criteria, such as:
- Frequency and timeliness of assurance activity in relation to the likely occurrence of the risk;
- Whether the assurance activity addresses the relevant risks in full or partially;
- Degree of independence from the underlying function of the internal assurance provider; and
- Whether the activity included design and/or operating effectiveness testing.

Step 4 | Determine the forms of assurance provided – Independent

Next, would be to determine the form of independent assurance provided over the reported information, either as part of the statutory audit or other independent assurance activities. For the statutory audit over the financial statements, this should be more straightforward as it is done to a required assurance standard. However, as noted above, there is a broader range of possible independent assurance providers and other forms of assurance over information not in the financial statements that might be relevant for the Assurance Map. Here it will be even more important to engage with independent assurance providers to understand the scope and frequency of assurance activities undertaken and the form of assurance provided (as noted above, there are often different levels of assurance that can be obtained).

Step 5 | Determine if additional assurance would be beneficial

Once the forms of internal and independent assurance have been assessed, they would be compared to the desired level of assurance to see if additional assurance would be beneficial (or indeed if excess assurance is being provided). One way to do this would be to consider what the residual risk might be that the reported information is not reliable or risks not mitigated once existing sources of assurance are taken into account.

If it is determined that additional assurance would be beneficial, the next step will be to consider the form of that assurance and the appropriate provider. The following could be considered:

Without additional assurance, could it result in a material impact to the company – financially or reputationally?	Could strengthening of internal controls and/or assurance be provided internally, e.g. by internal audit?	Is 'Independence' important?
If assurance is to be independent, what is the extent of assurance required – limited or reasonable?	If the assurance is to be internal, will the assurance provider be objective or 'free from bias'?	What level of assurance do others in the same industry have over similar reported information/risks?

Additional assurance doesn't always have to come from the external financial statements auditor, but they are considered to be an independent source of assurance permitted under the ethical standard, which can be helpful given the increasingly integrated reporting when it comes to areas that impact both the front half and back half of an annual report.

However clear consideration of the permissibility of services and monitoring of compliance with any applicable fee cap will be required.

Illustrative example of an Assurance Map

This is an illustrative example of how an Assurance Map might be presented. Note that we have described the desired level of assurance as 'High, Medium or Low'. As we've explained above, there are a number of different forms of assurance and they are not necessarily categorised in this way, this is just an example. It will be up to individual companies to decide how to rate the assurance received and common practice may develop over time. Here, we have considered the first two lines of defence as either low or no assurance, the third line of defence (internal audit) as medium assurance and independent assurance as high assurance.

This is just an extract for illustrative purposes and so does not reflect all of the reported information (including all principal risks) that would most likely be included in the Assurance Map. It also focuses on disclosures in the annual report and not on any additional company disclosures that might be included.

	Annual report or other company disclosure		Risk response (1st and 2nd LoD)	Internal assurance provided (3rd LoD)	Independent assurance provided (4th LoD)	Additional assurance that would be beneficial and potential provider
	Principal risks and related KPIs in the Annual Report					
Non-financial and regulatory	**Environmental, Social and Corporate Governance (ESG) impact:** Unfavourable coverage regarding the company's ESG impact means that consumers take their custom elsewhere, leading to declining brand value and financial performance. **Related KPIs in annual report:** • Carbon footprint • Water usage • Waste to landfill rates	H	• Clear ESG Strategy signed off by the board • Policies and processes aligned to strategy • List of approved suppliers, manufacturers and contractors • Benchmarking against industry • External communication over steps taken	None	Other assurance provider performs limited assurance procedures over the reported KPIs	Additional assurance to be commissioned over reported information and KPIs from external assurance provider to a 'reasonable' assurance level Internal audit to also undertake a review of the internal policies and procedures around compiling ESG information
Operational	**Cyber:** A cyber attack or failure could result in system outage, disrupting the business and leading to major data loss and reputational damage.	M	• Specific IT policies in place • Internal controls over cyber risks • Disaster recovery plans • Routine system 'penetration testing' • Staff training over risks • The IT department issues a monthly report to the Board outlining any cyber issues identified in the period	Internal audit test the operating effectiveness of cyber controls on a sample basis throughout the year	None	None – Internal audit procedures considered sufficient to reach desired level of assurance
Financial	**Capitalised software:** Investment in capitalised software to support programme delivery may not be recoverable where it does not deliver on the investment. **Related KPIs in the annual report** • Return investments ratio • Carrying value and write offs of capitalised software	M	• Financial and IT controls over approval, acquisition and development of new software • Appropriate delegation of authority in place • Review of actual progress against projected plans • Annual impairment review	Internal audit test the operating effectiveness of controls on a sample basis throughout the year	External auditor reviews the operating effectiveness of key controls on a sample basis, and assess the recoverability of significant balances at the year end External auditor performs reasonable assurance procedures over the capitalised software balance in the financial statements, and limited assurance procedures over the related reported KPIs	None – internal and external audit procedures considered sufficient to reach desired level of assurance
	Disclosures and KPIs in the Annual Report not directly linked to principal risks but of importance to stakeholders					
Strategic	**Failure to innovate:** Failure to successfully invest, develop and deliver innovative products and services which meet the changing needs of consumers may inhibit ability to grow the business and impact financial performance. **Related KPis in the annual report** • Customer surveys • Effectiveness/impact of existing product portfolio	H	• Ongoing market research and surveys to understand consumer preferences and trends • Dedicated innovation team trialling new products to be launched in coming years • Diversification through acquisition of new business • Internal review of the continued impact of existing services (compared to competitors and previous years)	None	None	Independent assurance to be commissioned over the customer surveys Internal audit to test the data supporting the effectiveness/impact of existing product portfolio KPI
Non-financial and regulatory	**Gender and diversity KPIs in the annual report:** • Senior management headcount by gender • Board membership headcount by gender • Diversity of employees vs application pool • Diversity of employees at senior management level • Diversity of employees at Board level	M	• Clear objective signed off by the board for improving gender and diversity within the company, particularly in senior positions • Recruitment and progression policies in place to support this objective • Benchmarking against industry	None	None	Internal audit to undertake a review of the implementation of gender and diversity objectives in practice

Realising the benefits from assurance mapping – giving confidence to the users of reported information

Trial the process

It can become complex quite quickly which can fail to get the right level of buy-in. It is best to trial the process with a specific element of reported information or risk and broaden it once adequate conclusions have been reached.

Get feedback on what you're doing

Consider discussing the Audit and Assurance Policy with stakeholders (including employees) on a trial basis to get their views and determine the process for how these might be addressed.

Simplicity and transparency

This will be key, especially when describing the form, strength and depth of assurance, in particular whether it is limited, reasonable or otherwise.

There will be different sufficient levels of assurance

Don't think there is a need to fill the assurance 'bucket' to the top.

Stakeholder management

It will be important to validate the results of assurance mapping with key stakeholders engaged with, and to be clear that the exercise conducted is to support enhancements to assurance rather than to audit or critique specific functions.

Make this a useful exercise

Keep it updated and use it to inform how internal and external assurance providers are directed rather than just as a tick box exercise.

Section 3: Other important elements of an Audit and Assurance Policy

BEIS' requirement for an Audit and Assurance Policy includes a number of other important elements of a company's assurance process. We've provided thoughts on these below.

A description of the company's internal auditing and assurance processes

BEIS requires that this include how management conclusions and judgements in the annual report and accounts can be challenged and verified internally. It is likely that much of this description may be covered in the Assurance Map discussed above.

This could result in an additional focus for many internal audit functions as, traditionally, the focus has been on the operational aspects of the business. It may also provide an opportunity for companies to explain the role of forums such as Disclosure Committees which are used to support, for example, the fair, balanced and understandable reporting requirements.

A description of what policies the company may have in relation to the tendering of external audit services

There are already a number of required disclosures in an annual report around the tender process a company goes through to select its external auditor. As part of the underlying reviews that culminated in the BEIS consultation, it was concluded by BEIS that there needed to be more focus on whether audit committees were selecting auditors on the right basis, or choosing based on 'chemistry' or 'cultural fit', and whether only the largest audit firms were being considered for the largest company audits.

Describing the external audit tendering process in an Audit and Assurance Policy would help to provide more transparency about how the audit committee makes its decision to select a particular auditor. It could also be used to describe their process for tendering all external assurance services, beyond the statutory audit, as a useful accompaniment to the Assurance Map.

An explanation of whether, and if so how, shareholder and employee views have been taken into account in the formulation of an Audit and Assurance Policy

An Audit and Assurance Policy could create a new incentive for shareholders and audit committees, and indeed other interested stakeholders such as employees, to proactively discuss the scope of assurance, increasing engagement with the audit process. Reporting and assurance of non-financial metrics in areas such as climate change could be a particularly important area of the Policy. The challenge will be finding an appropriate mechanism to have the discussion and gather views. For shareholders this could be the AGM or Investor Day (if there is one). For employees, it could be an employee forum. Other parties might be able to express views through the company website.

Whatever communication format is chosen, consideration will be needed of how and where the Policy is presented (perhaps as part of the annual report or on a separate page on the company's website) and how shareholders and other interested parties can be armed with the right resources to be able to understand and engage with this new information.

Throughout, however, it will be important that the process and the views expressed do not undermine the responsibilities and judgement of the directors of companies.

And finally…..

As we've outlined in this paper, there are many benefits to developing an Audit and Assurance Policy.

This is an opportunity to reconsider the integration and effectiveness of the company's risk and assurance model against its objectives, not only in relation to financial and non-financial reported information but also over broader business risks (for example, cyber, supply chain resilience, health and safety).