

Chapter 7

Corporate governance

7.1 Audit committees

Audit committees and their functions

- 7.1.1** **R** An *issuer* must have a body or bodies responsible for performing the functions set out in **■** DTR 7.1.3 R.
- 7.1.1A** **R**
- (1) A majority of the members of the relevant body must be independent.
 - (2) At least one member of the relevant body must have competence in accounting or auditing, or both.
 - (3) The members of the relevant body as a whole must have competence relevant to the sector in which the *issuer* is operating.
- [**Note:** article 39(1) of the *Audit Directive*]
- 7.1.2** **G** The requirements for independence and competence in accounting and/or auditing may be satisfied by the same members or by different members of the relevant body.
- 7.1.2A** **R** The chair of the relevant body must be:
- (1) independent; and
 - (2) appointed by the members of the relevant body or by the administrative or supervisory body of the *issuer*.
- [**Note:** article 39(1) of the *Audit Directive*]
- 7.1.3** **R** An *issuer* must ensure that, as a minimum, the relevant body must:
- (1) monitor the financial reporting process and submit recommendations or proposals to ensure its integrity;
 - (2) monitor the effectiveness of the *issuer's* internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting of the *issuer*, without breaching its independence;
 - (3) monitor the statutory audit of the annual and consolidated financial statements, in particular, its performance, taking into account any

findings and conclusions by the Financial Reporting Council under article 26(6) of the *Audit Regulation*;

- (4) review and monitor the independence of the *statutory auditor* in accordance with paragraphs 2(3), 2(4), 3 to 8 and 10 to 12 of Schedule 1 to the *Statutory Auditors and Third Country Auditors Regulations 2016* (SI 2016/649) and article 6 of the *Audit Regulation*, and in particular the appropriateness of the provision of non-audit services to the *issuer* in accordance with article 5 of the *Audit Regulation*;
- (5) inform the administrative or supervisory body of the *issuer* of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the relevant body was in that process; and
- (6) be responsible for the procedure for the selection of *statutory auditor(s)* and recommend the *statutory auditor(s)* to be appointed in accordance with article 16 of the *Audit Regulation*.

[Note: article 39(6) of the *Audit Directive*]

- 7.1.4 **R** [deleted]
- 7.1.5 **R** An *issuer* must make a statement available to the public disclosing which body carries out the functions required by **■ DTR 7.1.3 R** and how it is composed.
[Note: article 39(4) (part) of the *Audit Directive*]
- 7.1.6 **G** An *issuer* may include the statement required by **■ DTR 7.1.5 R** in any statement it is required to make under **■ DTR 7.2** (Corporate governance statements).
- 7.1.7 **G** In the *FCA's* view, compliance with Provisions 14, 24, 25 and 26 of the *UK Corporate Governance Code* and following the statement of good practice set out in paragraph 63 of the 'Guidance on Board Effectiveness' published by the Financial Reporting Council in July 2018 will result in compliance with **■ DTR 7.1.1 R** to **■ DTR 7.1.3R** and with **■ DTR 7.1.5R** except as regards disclosing how the body which carries out the functions required by **■ DTR 7.1.3R** is composed.