NORGES BANK
INVESTMENT MANAGEMENT

Department for Business,
Energy & Industrial Strategy
1 Victoria Street
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UK Audit and Corporate Governance Review

We refer to the consultation "Restoring trust in audit and corporate governance" launched by the Government of the United Kingdom, and we welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with assets valued at GBP 930 billion as of 31 December 2020, of which GBP 62.6 billion was invested in UK equities and bonds of UK issuers. We regard the protection of minority shareholders through strong audit and corporate governance practices as necessary to safeguard and promote the fund's long-term financial interests.

We are a global investor in more than 9,000 companies, and company accounts are central to our investment analysis. Deficient audit quality poses financial risks to investors and undermines trust in financial markets. In order to provide assurance that investments are protected, audits should go beyond attesting nominal compliance with applicable accounting standards and also confirm that the accounts provide a true and fair representation of a company's financial health. We are therefore encouraged by the broad ambition expressed in this consultation regarding the purpose of audit and support the proposal that auditors should consider relevant director conduct and wider financial information in reaching their judgements. We also welcome the introduction of a set of audit principles applicable to auditors outlining the expected behaviours and culture.

Company reporting beyond the statutory audit, including on Alternative Performance Measures and Key Performance Indicators, can influence executive pay and inform investment decisions. We welcome the proposal to introduce an Audit and Assurance Policy ("Policy") to provide more transparency regarding the assurance underpinning of such reporting. We also support the ambition to strengthen shareholder engagement on audit matters. A Policy statement published every three years could provide us with a valuable starting point for direct engagement with our investee companies.

In accordance with our Global Voting Guidelines, we will consider voting against individual audit committee members or against the re-appointment of the auditor should we have fundamental concerns about audit quality and processes at a company.[1] Given the existing mechanisms to express concerns on audit and assurance matters, we question the added benefit of an advisory vote on the Policy. If such a vote were to be introduced, we would prefer a three-year publication and voting frequency, given that the Policy will provide a three-year outlook on a company's approach to audit and assurance. Further, it would be important to standardise the reporting against the required content of the Policy, enabling us as a minority shareholder in 367 UK-listed companies to make more informed voting decisions.[2] The Audit, Reporting and Governance Authority could contribute by providing a list of potential assurances, indicating their relative importance.

We expect our investee companies to have robust internal control systems and a thorough understanding of material risks to their business model. We support the proposal for a directors' statement about the effectiveness of internal control and risk management systems. We believe such a statement should be complemented by a report outlining the auditor's view on the systems' effectiveness as this would enhance investor confidence in a company's overall approach to risk management. It would be helpful to investors if both the directors' statement and the auditor's view would highlight any control issues identified.

Further, we welcome the resilience statement as an effort to enhance forward-looking disclosures regarding material risks facing the company, including sustainability risks. In our view, the resilience statement would be most useful if it could provide information on how material risks have been identified, mitigated and whether any residual risks remain, including but not limited to the common resilience issues listed in the consultation paper.

We expect companies to identify and include material short-, medium- and long-term climate change risks in a robust and integrated risk management framework, and to align disclosures with applicable reporting standards, in particular the recommendations by the Taskforce on Climate-related Financial Disclosures (TCFD).[3] We support efforts by regulators to enhance climate-related disclosures by issuers, and welcome the ongoing work of the UK Financial Conduct Authority (FCA) in this regard.[4] We recognise the potential impacts of climate-related risks on companies' profitability, and see the benefits of considering these factors in the resilience statement. For companies who already report in full alignment with the TCFD's recommendations, a reference to, or a summary of, the TCFD reporting in the resilience statement could be considered sufficient to avoid an undue reporting burden. Conversely, for companies who have yet to disclose in accordance with the TCFD recommendations, a discussion of climate risks in the resilience statement could serve as a starting point, although not a substitute, for further developing their TCFD-aligned reporting.

[1] NBIM (2021) Global Voting Guidelines.
[2] As of 31.12.2020.
[3] NBIM's Asset Manager Perspective sets out our views on Corporate Sustainability Reporting.
[4] See also NBIM's consultation response to the FCA's proposals to Enhance Climate-related Disclosures, 21 Sept 2020.

Company accounts are key to our investment decisions and should be free of fraud and material misstatements. While we recognise that no internal controls or audit can eliminate the risk of fraud, we support the proposed requirement for directors to report on the steps they have taken to prevent and detect material fraud. We believe such reporting will help strengthen directors' responsibility and accountability for fraud prevention. We also welcome the proposal that auditors should report on the steps taken to detect fraud and to assess the effectiveness of relevant controls in concluding on whether the directors' statement on fraud prevention is factually accurate. Such information will help us understand the nature and extent of the work performed with regards to fraud prevention and fraud risk mitigation.

On capital maintenance, we welcome clearer rules on what constitutes distributable reserves and thus can be paid out as dividends. Another element we support is the ambition to create more competition and resilience in the audit market, including the operational separation between audit and non-audit practices. Any steps to increase competition should be designed to contribute to the overall ambition of improved audit quality.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully,

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