

## ***Draft Minimum Standards for Audit Committees***

A public consultation issued by FRC in November 2022.

Comments from ACCA to the FRC  
8 February 2023  
Ref: TECH-CDR-2028

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ACCA welcomes the opportunity to comment on the proposals issued by the FRC.

The ACCA Global Forums for Audit and Assurance, and for Governance, Risk and Performance have considered the matters raised and their views are represented in the following.

## EXECUTIVE SUMMARY

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*“Restoring trust in audit and corporate governance means ensuring the quality and accuracy of the information that companies are reporting. Good guidance and support from an improvement-minded regulator will play a vital role in helping companies achieve and demonstrate high standards. Alongside this, we will ensure that all of the main parties who play a role in financial reporting can be, and are, held to account if they fail to fulfil their responsibilities.”<sup>1</sup>*

We commend the FRC for their progress in developing the Standard for Audit Committees (‘the Standard’) in draft. We support the approach of the FRC in being pro-active in developing this draft guidance, in line with the Government’s requirements and in advance of the passage of legislation to provide for the creation of the Audit, Regulatory and Governance Authority (ARGA). Audit Committees (AC) are an essential element of the overall corporate reporting ecosystem. A minimum standard which builds on existing guidance but provides further clarity with regard to the AC’s role with regard to external audit is to be welcomed.

We note in our detailed comments the scope for more clarity around the extent and application of the Standard. We also highlight the opportunity for improved presentation and linkage to broader FRC guidance to Audit Committees. We have provided a suggestion on suitable presentation in the areas for specific comments section below. We believe this will allow for improved clarity and accessibility by clearly showing new and existing guidance side-by-side which should help the users of the Standard and specifically in training new AC members who can familiarise themselves more quickly.

We note the roadmap provided by the FRC outlined in their Position Paper, Restoring Trust in Audit and Corporate Governance, and in their 3-year plan the proposed next steps in supports of the Government’s reforms as they transition into the Audit, Reporting and Governance Authority (ARGA) when legislation allows. ACCA remains committed to playing its part in beneficial reform to audit and corporate governance arrangements in the UK.

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<sup>1</sup> Restoring trust in audit and corporate governance Government response to the consultation on strengthening the UK’s audit, corporate reporting, and corporate governance systems – BEIS – May 2022:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1079594/restoring-trust-in-audit-and-corporate-governance-govt-response.pdf)

## AREAS FOR SPECIFIC COMMENT:

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### ***Scope and Authority of the Standard***

The Standard is clear in its preamble that, assuming that primary legislation is introduced to bring ARGA into being, the requirements of the Standard would, subject to the appropriate powers being provided in the legislation, become mandatory. In practice, the requirements spelled out in the Standard with regard to the Audit Committee (AC) responsibilities covered are articulated using the word “should” rather than “shall”. We would suggest that, in finalising the guidance, the FRC should consider how best to articulate the mandatory requirements being placed upon Audit Committees and their members so that there is no room for ambiguity over whether the contents of the Standard are firm requirements or guidance on best practice.

The Standard is likewise clear that it addresses very specific AC responsibilities relevant to the appointment of, engagement with and oversight of external auditors and their associated activities. It is therefore silent on a range of other considerations relevant to the proper functioning of an AC, such as composition, skills, experience etc. To avoid confusion, therefore, we suggest that FRC consider a clearer title for the Standard that signposts its specific scope (e.g. Appointment of and Engagement with External Auditors - Minimum Standard for Audit Committees). Alternatively, more comprehensive standards which take in a broader range of requirements for AC could be considered.

We welcome the focus on all UK incorporated companies with a Premium Listing on the London Stock Exchange which are within the FTSE350 index, where the perceived and actual risk is greatest. A clear and simple definition in our view achieves the principle of proportionality in the market. We also agree that good governance practice should be encouraged amongst those who aspire to join the FTSE350 index in future, as early as possible to give sufficient time to prepare for the future, and that the Standard should be seen as an example of good governance that other bodies may wish to apply.

### ***Presentation - format, overlap & accessibility***

On a point of detail, it would be helpful to see publications relating to ACs grouped under a single ‘Audit Committee’ heading on the FRC website (similar to those shown along the blue bar on the website which currently includes ‘Investors’ and ‘Directors’ among others).

In this section, the relevant corporate governance publications should be grouped and listed clearly. Within the body of the Standard, we suggest extracts from other FRC publications could be shown in either colour-coded or highlighted boxes referencing their source document to clearly show areas of overlap with other guidance. This would have the benefit of allowing the users to cross reference with the publications they may already use and to clearly see different versions. We include an example below showing a sample section of the Standard colour-coded and referenced to the following documents:

- the UK Corporate Governance Code<sup>2</sup> shown in green,
- FRC publication on ‘Audit Tenders Notes on Best Practice February 2017’<sup>3</sup> shown in a blue, and
- FRC publication ‘Guidance on Audit Committees September 2012’<sup>4</sup> in red.



*conducting the tender process and making recommendations to the board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;*



*Public Interest Entities (PIEs) are currently required to put their audits out to tender every ten years, and to rotate auditors every twenty. The tendering process should be led by the Audit Committee and not by the entity's executive management. This includes initiating a tender process, influencing the appointment of an engagement partner, negotiating the fee and scope of the audit, and making formal recommendations to the board on the appointment, reappointment and removal of the external auditors. Audit Committees may, of course, make use of the entity's employees for research and evaluation.*



*FTSE 350 companies should put the audit services contract out to tender at least once every ten years, to enable the audit committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms. So that there is time to undertake an effective tendering process, and to allow shareholders to provide input to the process should they wish, the company should announce its intention in advance of the commencement of the tendering process.*

## **Tendering**

We are all aware that measuring audit quality remains challenging, so providing examples of ‘what good looks like’ and the typical audit quality indicators (AQI) at a firm-level will prove helpful. Recent FRC guidance on AQIs is very informative in this respect.

The publicly reported firm-level AQIs planned to be available from Summer 2025, including prior years’ comparisons, as gathered by the pilot programme, will enhance the information available to ACs to consider audit quality. We believe that firm-level AQIs will provide further detail on both quantitative and qualitative (in the form of supporting narratives) sources of information which should be used in ACs’ discussions and assessment of the audit quality.

<sup>2</sup> <https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

<sup>3</sup> [https://www.frc.org.uk/getattachment/53c85956-d712-47d2-989f-2f8eff42be29/Audit-Tenders\\_notes-on-best-practice-Feb-2017.pdf](https://www.frc.org.uk/getattachment/53c85956-d712-47d2-989f-2f8eff42be29/Audit-Tenders_notes-on-best-practice-Feb-2017.pdf)

<sup>4</sup> [https://www.frc.org.uk/getattachment/9ac07916-ea56-4027-864a-11ef9bfa24e4/Guidance-on-Audit-Committees-\(September-2012\).pdf](https://www.frc.org.uk/getattachment/9ac07916-ea56-4027-864a-11ef9bfa24e4/Guidance-on-Audit-Committees-(September-2012).pdf)

### **'Challenger firms' and the role in encouraging market diversity**

Paragraph 14 of the Standard deals with circumstances where few firms have tendered for an audit, and it includes the statement that "...*the Audit Committee should ensure that it has not excluded other firms from tendering without good reason to believe that they would not be able to perform a high-quality audit*". The inclusion of references to 'challenger firms' ensures the AC is aware of their presence in the market and helps keep the dialogue open between the stakeholders in the audit market and maintaining awareness of their existence in advance of the audit market opening measures intended to be used (such as managed shared audits). The openness of ACs to tenders from 'challenger firms' will clearly be an important component to the likely success of whatever "market-opening" steps the FRC or ARGA implement in due course to help build market diversity.

What is less clear, though, is what the FRC consider as 'good reason', and this is especially important given that, in due course, ACs can expect to be held accountable for their performance against the Standard. We, therefore, encourage the FRC to give further thought to additional guidance or requirements in this area so that ACs can be assured that they are operating reasonably and within the spirit and the letter of the Standard.

### ***Further scope for minimum standards relating to the assurance of non-financial information and alignment with global developments***

We have noted the FRC's broader support of international developments around sustainability reporting and related assurance by the ISSB, IAASB, IESBA amongst others. Whilst it may not be a matter for this set of the Standard, we recommend that the FRC consider at the right time the important role of the AC regarding the quality of and assurance over published sustainability information and whether additional standards, requirements or guidance in this area would be helpful.