

8 February 2023

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Dear Susan

Minimum Standard for Audit Committees

Many thanks for the opportunity to provide comments on the draft Standard. We have set out our detailed points on the draft in the Appendix to this letter. We acknowledge that the draft Standard has addressed the specific recommendation arising from the Competition & Markets Authority's inquiry but would like to make the following observations:

Title

We suggest amending the title of the Standard to make clear that it is only covering the audit committee's role *in relation to audit tendering and oversight of the audit process*.

Enforcement

The key objective of the standard is that it becomes enforceable yet the draft contains no information on how that enforcement will take place by the FRC.

Audit quality

It would be helpful if the proposed Standard could set out a bit more guidance on how audit committees are likely to be judged by the FRC and, if audit quality is the key objective, how the audit committee can be put in an informed position to be able to assess this; after all, the audit committees only receive from the auditors their reports produced for the committee, the firm's transparency report and the FRC's inspection reports.

There are a number of other ongoing initiatives around audit quality, e.g. the review of the AQR process, the development of Audit Quality Indicators and Project Spring with the Audit Committee Chairs' Independent Forum. The concept of audit quality is going to continue to evolve and so it will be helpful to recognise this evolution, to ensure that this standard allows for flexibility and not too "locked in" to current perspectives.

As part of the assessment of audit quality, we believe that there should be more emphasis in the 'Oversight of Auditors and Audit' section on what the audit committee needs to do to encourage robust and effective systems and the provision of high-quality information for the auditor to audit, i.e. the role of management.

If you would like to discuss any of our comments in more detail, please do not hesitate to contact either myself or Tracy Gordon (trgordon@deloitte.co.uk).

Yours faithfully

A handwritten signature in black ink, appearing to read 'SR', with a long horizontal flourish extending to the right.

Shauna Robinson

Lead Partner Audit & Assurance Public Policy

APPENDIX

Scope & Authority

Paragraph 1 – there is inconsistency between this paragraph and paragraph 10 of the consultation document. The latter references that the Standard will only be applicable to UK incorporated companies within the FTSE 350. The draft Standard states that it is applicable to all FTSE 350 companies.

Responsibilities

Paragraph 4 – the first bullet would be more effective if the two concepts of consideration of the provision of non-audit services and the need for market diversity were separated.

Paragraph 4 – the third bullet states “where appropriate, engaging with shareholders on the scope of the external audit”. It might be helpful to provide illustrative examples of circumstances where FRC considers it appropriate to engage? Without clarity on this point, it may be challenging for audit committees to know when they are expected to engage and when they are not, particularly since investors do not appear overly keen at present to engage except on specific topics or when things go wrong.

Paragraph 4 – the second bullet does not discuss the timing of the tender process. In our view, it would seem appropriate to suggest within the Standard that sufficient time is allowed for to run an effective process and to avoid situations where independence rules restrict choice.

Paragraph 4 – the eighth bullet references “ethical guidance”. Wording such as “applicable ethical codes, standards, laws and regulations” would better recognise the status of ethics.

Tendering

Paragraph 6 – in due course this will need to be amended to reference any new managed selection process introduced.

Paragraph 7 – the term “challenger” is included but no definition is provided. In paragraph 8 the term “non-Big Four” is used, so there is inconsistency as well as lack of clear definition.

Paragraph 8 – this paragraph says that the “selection criteria should be transparent” but it is not clear what that means (for example, just clearly articulated and communicated to participating firms), and whether the criteria need to be issued publicly, for example within the Audit Committee report in the Annual Report immediately after the tender?

Paragraph 9 – this paragraph states that “the choice of auditor should be based on quality, including independence, challenge and technical competence, rather than price or perceived cultural fit” – it is not clear whether this is setting out an order of priorities for selection characteristics or whether these elements (price and perceived cultural fit) should not be considered at all. As a matter of practicality, for many tender processes, where the field has been downsized to two good candidate firms, where teams display quality, independence, challenge, and technical competence, these last factors (price and fit) might be discussed. Clearly, in selecting one firm, the audit committee must clearly document all considerations.

Paragraph 9 – the final sentence of this paragraph references audit quality indicators published by the firms. It is unclear if this is intended to refer to the list of audit quality indicators set out in the FRC Feedback Statement published on 6 December 2022 or those currently published in the Transparency Reports issued by firms. It would be helpful if this were made clearer, and (regardless) if it also encouraged reference to the Transparency Reports. Firms typically write a lot of information about their approach to quality, and plans to address inspection findings – which should also be considered by the audit committee.

Paragraph 13 – this paragraph suggests running a price-blind tender. It is important that the audit committee has full visibility of the full scale and scope of an audit and the resources proposed to be used by the bidding firm. A price-blind tender can risk restricting visibility of key indicators. There should be a focus on factors such as hours of senior time, use of specialists etc.

Paragraph 14 – what is the definition of “eligible audit firm”?

Paragraph 14 – the final sentence of this paragraph appears to be a threat and could be seen as impairing the independence and objectivity of the audit firm. We suggest that this should be expressed in a different way.

General point on tendering - There does not appear to be any reference to the nature and quality of the tender documentation to be made available to bidders. The CMA Order states “in preparing its tender documents, [companies] must have regard to the need to ensure that tender documents allow Bidders to understand its business and the type of Statutory Audit to be carried out”.

Oversight of Auditors and Audit

Paragraph 16 – the first bullet states that the audit committee should document and evidence occasions where the auditor has challenged management. We suggest that this is reframed to say that the audit committee should request that the report by the auditor should clearly articulate the material areas where they have challenged management.

Paragraph 16 – in the fifth bullet there is reference to an audit being subject to review by the FRC. It would be helpful if “or other regulator” was added to require the audit committee to consider overseas inspection findings (if relevant) and, in the case of a new IPO, any pre-IPO inspection by the relevant RSB. Paragraph 19 also needs to allow for other regulators.

Paragraph 16 – in the sixth bullet there is reference to “those subject to audit”, this could do with clearer explanation. We assume that this is a reference to members of management; it may be helpful to set out which sorts of roles should be considered.

Paragraph 21 – this paragraph states “Details of how effective oversight [of the audit] has been achieved throughout the year should be documented and the Audit Committee should consider reporting on this where appropriate”. It is unclear in what circumstances it would not be appropriate to report on how effective oversight has been achieved throughout the year and also it would seem better to have the second part of this paragraph (without the “where appropriate”) in the reporting section of the Standard. We also suggest that the words we have added above be inserted to clarify what is being requested.

Reporting

Paragraph 22 – the second bullet calls for the audit committee to include a report on the application of the entity’s accounting policies, this would seem to be calling for a wholesale repeat of the accounting policies note in the financial statements? Isn’t there something more nuanced here, focused on areas of tailoring to the entity, which explains the audit committee’s consideration of the appropriateness of the critical accounting policies and the disclosures of significant judgments and estimates?

Paragraph 22 – the fourth bullet is missing the bullet point and also there does not appear to be a requirement to disclose the name of the audit partner and their length of their tenure, which is currently required.