

Ms Susan Currie  
Financial Reporting Council  
8th Floor,  
125 London Wall  
London  
EC2Y 5AS

**By email mail to [acstandard@frc.org.uk](mailto:acstandard@frc.org.uk)**

8 February 2023

Dear Susan,

### **FRC Consultation - Draft Minimum Standards for Audit Committees**

AICPA & CIMA, together as The Association of International Certified Professional Accountants, welcomes the opportunity to comment on the draft minimum standards for Audit Committees.

With over 80,000 CIMA members in the UK and, together with AIPCA, a combined strength of over 689,000 members and students worldwide, many of the Association's members have an interest in the development of best practice in corporate governance. There is an increasing focus on corporate governance around the world, and the global accountancy profession have an equal interest in the development of standards for audit committees in the UK.

We recognise that much of the content of the new draft standards are intended to codify best practice, and to that extent we have limited our comments to a few matters which we believe merit further reflection. We further recognise that the views of relevant Audit Committees and organisations, such as the Audit Committee Chairs Independent Forum, will have a critical role to play in helping to inform the FRC's next steps and final decision on best practice.

Against that background, and in the spirit of wishing to ensure that the UK sets standards which are pragmatic, fair, reasonable and proportionate, we make the following observations on the proposed draft code.

#### **Price Blind Tenders**

We agree that the choice of auditor should be made based on a number of key factors, including quality, independence, technical competence, capacity, a good working relationship and ability to challenge effectively. However, as others will have no doubt highlight in their own submissions, Audit Committees have a responsibility to select quality first at a fair price.

## **Driving audit market diversity**

Having regard to the final recommendations of the reviews undertaken by the Department for Business Energy and Industrial Strategy, and the Competition and Markets Authority Audit Market Study, the draft standard has a keen focus on maximising the conditions for meaningful participation by the “challenger” audit firms. It is right that their participation should not be precluded without good reason.

All firms that have the relevant capacity and capability and wish to participate in this sector of the UK audit market should be entitled to do so. To this end, the draft standard suggests that Audit Committees might seek to gain a better understanding of any impediment to a particular firm being unwilling to tender for the audit. That proposal appears fair and reasonable, and would enable all parties to have a clear understanding of any issues which might be relevant to the current tender and/or any future tender process.

In contrast, other aspects of Paragraph 14 raise concerns that we believe require further reflection. In the current regulatory environment, surely audit firms ought to be able to decide whether or not to tender for a particular audit without fear of repercussion?

The suggestion that Audit Committees should bring any further influence to bear on audit firms that are unwilling to tender (in the manner set out in Paragraph 14) is inappropriate. We would encourage the FRC to reflect on the proposals contained in this paragraph and give them further careful consideration so as to ensure that the final terms of the standards are both fair and reasonable for all parties.

We would question whether an audit firm is in some way bound by a public interest duty to participate in a particular audit tender process, as the current wording of Paragraph 14 might imply. That is a matter of choice for the audit firm having regard to a number of key considerations, including their existing portfolio, capacity and any regulatory considerations.

We would also encourage the FRC to reflect on whether a regulatory standard should expressly encourage Audit Committees to deem an audit firm that is unwilling to tender ineligible to bid for any non-audit services (or to otherwise remind them that a refusal to participate in the audit tender might carry such consequences).

If the long-term ambition is to drive audit market diversity, then firms may benefit from undertaking a non-audit service engagement in order to gain knowledge of a business (or a particular aspect of it) and build capability and capacity for a future audit tender.

The terms of Paragraph 14 as currently drafted would place an Audit Committee in an impossible position and may sit uneasily with the fundamental principles and behaviours of the accountancy profession, from which many Audit Committee members are presently drawn.

We hope our comments are constructive, and we look forward to seeing the revised and final text on its publication. In the meantime, please do not hesitate to get in contact if I can be of any further assistance, or if you wish to discuss any aspects of this letter in more detail. [Michelle.Mullen@aicpa-cima.com](mailto:Michelle.Mullen@aicpa-cima.com)

Yours faithfully



**Michelle Mullen**  
**Vice President, Global Advocacy**