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Date: 7 February 2023

Dear Susan

Consultation on Draft Minimum Standard for Audit Committees

We are pleased to have the opportunity to comment on the Draft Minimum Standard for Audit Committees ('the proposed standard'), which forms an important part of UK Audit Reform and of the responsibilities of the FRC (and in due course ARGA) in regulating Directors who can influence Audit Quality. We set out below our general comments along with more detailed comments on the specific contents of the standard.

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General comments

Overall, the proposed standard is written in the style of guidance, rather than as what one might expect from a standard. As a result, the content is quite high level, without clear measurable standards, making it difficult to see how the proposed standards can be enforced. The minimum standard could be significantly enhanced by introduced requirements for audit committees of a similar rigour to those which are applied to auditors such that the FRC (ARGA) can effectively hold Directors to account. It is disappointing to note that minimum standard does not appear to be as robust or wide reaching as the existing FRC Guidance on Audit Committees published in 2016. We set out below more details of those areas where the minimum standard could be enhanced to at least incorporate this guidance.

The scope of the proposed standards set out is very narrow with a focus only on the Audit Committee's interactions with external auditors. We believe that the standard should be renamed as "Minimum standard for Audit Committees in their interaction with external auditors". We urge the FRC to publish additional standards for Audit Committee's covering their wider responsibilities and relationships in due course. We also note that the standard is applicable only to FTSE 350 companies, which restricts the potential impact of the standard on improving corporate governance and enhancing confidence in the wider capital markets.

We are concerned about the following aspects of paragraph 14 which appear to be blunt tools aiming to improve competition and choice without a clear indication of how that aim will be achieved:

- the suggestion that Audit Committees should consider seeking to understand why firms are unwilling to tender and, particularly, asking firms how such a decision not to tender is in the public interest. We do not believe that it is appropriate for firms to be requested to justify why a decision not to tender for work is in the public interest.
- the statement that *"The Audit Committee should remind eligible firms that refuse to tender that they may as a result be ineligible to bid for non-audit services work."* We do not believe that this language is appropriate. It is not clear how such an approach would lead to an improvement in audit competition and choice and may place a burden on firms required to tender for audits when, in all likelihood, they may not be successful or where they have determined that they do not have the necessary sector expertise for example. The time and cost of tendering for FTSE 350 audits should not be underestimated. The standards should be drafted to require the Audit Committee to ensure that its procurement process encourages the greatest participation.

Detailed comments

We set out here more detailed comments on the contents of the proposed standard.

We note that there is no reference in the standards to consideration of audits involving more than one audit firm, which already exist in the FTSE 350 market, or of shared audit. We believe that the standards could be strengthened in this area without the need to anticipate any introduction of managed shared audit in the upcoming audit reforms.

Paragraph 11 – The reference to committees "managing their relationships" with audit firms to allow sufficient choice, presumably relates to ensuring that potential conflicts of interest arising from non-audit services are managed appropriately. The standard may benefit from being more explicit in this requirement.

Paragraph 16 – bullet point three refers to the auditor's "quality assurance systems". It would be more appropriate, following the adoption of ISQM1, to refer to the system of quality management.

Paragraph 17 – it is difficult to see how the Audit Committee can "satisfy itself that the quality of the audit" is of a high standard, without carrying out an audit quality review? Indeed, even audit quality reviews are caveated as not all aspect of an audit are reviewed. Committees will need clear guidance on how they can achieve this requirement which appears to set a very high bar compared to other requirements in the proposed standard to provide clarity on how this assessment may be determined.

Paragraph 20 – the standard may be enhanced by requiring regular (at least annual) meetings of the Audit Committee and Auditors without management present.

Comparison with the FRC Guidance on Audit Committees ('the guidance')

There are a number of areas included in the guidance which are not included in the proposed standard, or are more comprehensively and robustly covered in the guidance, including the following paragraphs:

- 60 – annual reporting to the Board by the committee and consideration of firm's transparency report;
- 61 – there is no content in the proposed standard relating to auditor resignation;
- 62 - evaluation of the risks to the quality and effectiveness of the financial reporting process
- 64 – the committee's role in reviewing the engagement letter and scope of the audit;
- 65 – the requirement for the committee to satisfy itself that the level of fee payable in respect of the audit is appropriate to enable a high-quality audit. This is a critically important role for the audit committee reflecting the need for proper remuneration to enable high quality.
- 66 – the requirements around non-audit services, including throughout the group, are stronger in the guidance than those included in the proposed standard;
- 67-69 – the committee's role in monitoring compliance with the ethical standard, independence and policies for the employment of former staff of the auditor;
- 72-74 – responsibilities in relation to approving non-audit services are more robust in the guidance; and
- 79 – assessing the effectiveness of the audit.

Further discussion

If you would find it helpful to discuss any issues in this letter, please contact David Herbinet, Global Head of Audit (david.herbinet@mazars.co.uk) or Paul Winrow, Partner, Head of Audit and Assurance Methodology (paul.winrow@mazars.co.uk).

Yours faithfully

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