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By email: acstandard@frc.org.uk

Dear Susan

Minimum Standard for Audit Committees

This is the submission by the Audit Committee Chairs' Independent Forum¹ ("ACCIF") in response to the consultation on the Minimum Standard for Audit Committees.

We welcomed the opportunity to discuss the development of the standard with you in September before a draft was available; we note that many of the matters we raised have not been reflected in this draft content.

We have already explained to you that we have strong reservations around the Competition and Market Authority's inquiry which was the source of this draft standard (despite the recommendations not being backed with substantial evidence). but understand that you have a task to complete to seek to drive more consistency around the approach to audit tendering and the oversight of auditors across the FTSE 350. We also note that you believe that most FTSE 350 audit committees are already operating with regard to tendering and oversight of audit quality (in their adherence to the UK Corporate Governance Code, the FRC's Guidance on Audit Committees plus other relevant guidance and the Statutory Auditors Regulations) as is envisaged in the draft standard, which does beg the question why this standard is needed when there is much other work to be done.

We support the investment of time and resources on initiatives and activities which will drive enhanced and sustained audit quality. Our concern here is that this draft standard cannot achieve that without there first being a much clearer and agreed understanding of what "audit quality" is. This is what Project Spring is trying to achieve and what, we believe, should be the current focus.

Your paper makes clear that there is very little new content here and, therefore, we struggle to understand what benefit is to be derived from the undoubted additional bureaucracy which will arise once this becomes enforceable. The one element which is new is around the focus on diversity in the audit market. This is an area where we feel there needs to be data to explain what is currently happening; where we are trying to get to and over what period; and the progress that is being made – we need to be able to understand how the market is moving and how the firms outside the Big 4 are responding before imposing such expectations on audit committees which they will not be able to meet given the capacity constraints currently existing in the audit market. And this is before any market levelling

¹ ACCIF was formed in October 2015, has over 200 members who sit on boards that represent 43% of the FTSE 100; one third of the FTSE 250; and many small caps, significant charities and public bodies.

measures or increased assurance of non-financial statement information which will only exacerbate this pressure.

In addition, we strongly believe that this issue is best dealt with in the ongoing Competitiveness consultation and subsequent follow up. If this is to proceed, there should initially be a comply or explain requirement to support the fact finding noted above and to provide a publicly available resource of information on companies' experiences with the firms outside the Big 4.

We have no issues at all with the development and issuance of more guidance around tendering and oversight of auditors but it is of significant concern that you are badging this as a 'Minimum Standard for Audit Committees' when it is only focused on one specific, and in the overall scheme of things relatively small, aspect of the audit committee's role and responsibilities, albeit a very important one, with no reference to either the risk management framework or internal controls over financial reporting, nor to Internal Audit as a key element of both. To have a standard that omits these may lead to 'minimalist' Audit Committee Chairs ignoring these critical elements. It is also important to note that in most situations audit tenders only arise every ten years.

We also have no issue with being regulated so long as that regulation is both proportionate and effective. At the present time, it is very unclear as to who will undertake this and how it will be done. There is a real danger that this adds no value, adds cost and diverts regulatory resource which could be better applied on more substantive matters, e.g. facilitating learning to improve audit quality from real issues that have emerged. Any standard looking at audit quality and tendering needs to recognise that balancing considerations of cost and effectiveness are enduring responsibilities of Audit Committee Chairs.

Conclusion

ACCIF supports the overall objective of levelling the playing field on activities undertaken by audit committees to enhance audit quality, indeed that is one of the *raison d'être*s of our organisation, but also believes that a Minimum Standard of this nature is not the place to start. The debates around audit quality through Project Spring ² in addition to the other FRC initiatives around the AQR process, the use of Audit Quality Indicators and the response to your competition paper all need to be concluded first.

Issuing this material as a newly badged package of guidance on audit tendering and oversight of the audit process would seem an appropriate step forward in the meantime together with a concerted effort to gather data to create an annual debate on tendering experiences. By engendering such a debate, we believe you will encourage continued opening up of the audit market as companies will want to get on the right side of this much in the same way as has been happening with board diversity.

Any minimum standard for audit committees should have the aim of ensuring that audits are cost effective and that efficiency in conducting an audit should be judged on an agreed definition of audit quality.

We are planning to run our own survey of ACCIF members on their recent tendering experiences and will be happy to share the results of that with you.

² a combined perspective on enhancing audit quality from the joint workings of ACCIF, leading audit firms and the FRC

Should you have any questions in relation to this submission, please contact me (jocklennox@gmail.com) and we can organise a call or meeting.

Yours sincerely



Jock Lennox – Chairman
On behalf of the ACCIF board