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By email to: acstandard@frc.org.uk

For the attention of Susan Currie

7 February 2023

Dear Ms Currie,

Proposed Minimum Standard for Audit Committees

PricewaterhouseCoopers LLP (We) welcome the opportunity to respond to the FRC's consultation on the proposed minimum standard for audit committees (the consultation).

We are committed to audit quality and, in our view, audit committees play an important role in ensuring that audits are of a high quality. So we are pleased that the FRC is moving forward with the Government's recommendation that it develops a mandatory, minimum standard for audit committees in relation to their responsibilities for tendering and monitoring the external audit.

We agree with many elements within the proposed minimum standard, including the following:

- the emphasis on the important role audit committees play in ensuring the quality of the audit, and in particular, ensuring that they "*create a culture which recognises the work of,and encourages challenge by, the auditor*";
- The mandating of these responsibilities rather than implementing them on a comply or explain basis, which will lead to greater accountability by audit committees; and
- Seeking opportunities to improve engagement with shareholders on the scope of the audit, which is a positive step forward.

We do have some observations, outlined in summary below and in more detail in the appendix, which we believe could help the FRC to achieve its policy objectives. Our goal in sharing these is to aid the successful development and application of the standard.

In sharing our views, we are conscious of the other areas of reform that seek to address similar issues; consideration will need to be given to how the minimum standard for audit committees will fit into the overall UK Corporate Governance regime, without creating overlap or duplication. Different requirements and guidance will be relevant for different populations of companies, so a clearly defined application road map will be helpful. This includes existing requirements for audit committees in the UK Corporate Governance Code (the Code), proposed new corporate reporting regulations (i.e. the proposed Audit and Assurance Policy), the CMA Order on the statutory audit market (2014) and DTR 7.1.

Scope
The standard is focused on the important audit committee responsibilities relating to the external audit. We believe there is also an opportunity to widen the scope, reflecting the critical role that audit committees play in corporate governance. Examples include their approach to considering the internal control environment, the direction and supervision of internal audit, and responsibilities in relation to the annual reporting process. It may be that this standard represents a first stage in the development of a suite of standards for audit committees and boards on their broader responsibilities. If that is the intention, it would be helpful to have the position clarified.

Application
We recognise that the standard has been developed in response to an original recommendation by the CMA and relates primarily to the FTSE 350. However, given the recent focus by the FRC on competition in the broader Public Interest Entity (PIE) market in its policy paper on '*Competition in the audit market*', consideration might be given to making the standard mandatory for a broader population of companies, potentially all listed companies or all PIEs. This would help to ensure consistent application across a broader range of companies and help to simplify the populations that have to apply varying requirements and guidance (see below).

Format and content
As the draft standard has largely been developed using text taken from existing provisions in the Code or FRC guidance, it could be read like guidance rather than a standard. The language might be open to interpretation and audit committees may struggle to apply the requirements consistently. Greater clarity and specificity would help provide confidence in the users ability to comply with the requirements. In the appendix we have identified specific areas in relation to structure, approach and language where a design consistent with that used for auditing standards, including splitting the standard into “requirements” and “application material”, may help to clarify requirements for audit committees.

Requirement to explain the application of accounting policies
We note that this requirement appears to be new. We are supportive of audit committees explaining how they are applying accounting policies in their report but believe that much more clarity will be needed about what this means in practice, including the expected scope and depth of the explanation.

Objective
The proposed standard would benefit from greater clarity about the overriding objective of the standard, i.e. whether it is principally to support audit quality, or to ensure there is diversity in the audit market - something that is not always simultaneously achievable. Where there are multiple objectives, it may be helpful to identify which is the priority.

Our more detailed comments on the proposed standard are included in the appendix to this letter.

We hope our comments are helpful and if you have any questions or require any further information, please do not hesitate to contact me at hemione.hudson@pwc.com.

Yours sincerely,

Hemione Hudson
UK Head of Audit, PricewaterhouseCoopers LLP

Appendix 1 - Our detailed comments on the proposed standard

Paragraphs in proposed standard	**Our comments (numbering refers to the equivalent paragraph in the proposed standard)**
Scope and Authority	
1. This Standard is applicable to Audit Committees of companies with a Premium Listing on the London Stock Exchange, and which are included within the FTSE 350 index. It should be read in conjunction with the UK Corporate Governance Code and the FRC Guidance on Audit Committees. 2. Assuming primary legislation is passed to bring the Audit, Reporting and Governance Authority (ARGA) into being, the Standard would, subject to the appropriate powers being provided in the legislation, become mandatory. Companies within scope are encouraged to begin to apply the Standard as soon as they are able. 3. Companies which are not within the FTSE 350 index are not required to apply this Standard. However, those companies which aspire to join the FTSE 350 may wish to do so in order to minimise disruption in the event that they succeed in doing so. Even where a company has no plans to grow to that size, if it is subject to mandatory tendering and rotation of audit firm appointments, it may wish to apply the Standard anyway – the provisions are examples of good governance.	1. Transitional provisions will be helpful to provide guidance for companies as they move in and out of the FTSE 350. Also, clarity would be helpful around the words in paragraph 1 - '*read in conjunction with…the UK Corporate Governance Code and FRC guidance*' - as to whether the requirements of the standard supersede these other materials or whether audit committees will have to report on their application of the various requirements under both the minimum standard and the Code. Consideration should also be given as to whether reference is made to the expected new regulation for the Audit and Assurance Policy, as that will also contain requirements in relation to the external audit that will be for a broader population of companies. 2. Clarity will be needed, as and when the standard becomes mandatory, regarding how it will be enforced and what will be the consequences of non-compliance. 3. We see benefits in mandating the proposed standard for a much broader population of companies, for example all premium listed companies (to align with the application of the Code) or all PIEs. This would ensure consistent application across a broader range of companies and could help simplify the populations that have to apply the many different pieces of guidance. This would also be consistent with the recent focus by the FRC on competition in the broader Public Interest Entity (PIE) market in its policy paper on 'Competition in the audit market'.
Responsibilities	
4. Audit Committees are subject to both the UK Corporate Governance Code and other guidance, and legislation. This Standard focuses on the following Audit Committee responsibilities: - requiring that the company manages its non-audit relationships with audit firms to ensure that it has a fair choice of suitable external auditors at the next tender and in light of the need for greater market diversity and any market opening measures which may be introduced; - conducting the tender process and making recommendations to the board, about the	4. As noted above, greater clarity may be given to help ensure that audit committees are clear about which requirements are applicable to them and which take priority, particularly as large elements of this standard will duplicate other existing provisions and guidance. This is reinforced by the language in paragraph 4 where it references "other guidance and legislation" without clarifying what this is. In our view, there is an opportunity to include within scope other important responsibilities of the audit committee. For example, in relation to internal controls and the annual reporting process - holding the executive directors to account, and considering whether the annual report as a whole is fair, balanced and understandable. First bullet

appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor; - where appropriate, engaging with shareholders on the scope of the external audit; - ensuring that the external auditor has full access to company staff and records; - inviting challenge by the external auditor, giving due consideration to points raised and making changes to financial statements in response where appropriate reviewing and monitoring the external auditor's independence and objectivity; - reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements; - developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required; and - reporting to the Board and the members of the company on how it has discharged its responsibilities with respect to the external audit. 5. The Audit Committee's responsibilities for oversight of the audit, and for the audit tender process, are discussed in more detail below.	● While there is nothing to suggest the first bullet is the most important bullet, the ordering could lead to that conclusion and, therefore, the assumption that the audit committee's primary responsibility is to facilitate market reform. ● Clarity would be beneficial in relation to what '*fair choice*' of '*suitable external auditors*' will actually mean in practice and would make the standard easier to apply consistently and enforce. ● '*In light of the need for greater market diversity and any market opening measures which may be introduced*' - rather than including the rationale in the actual requirements, it may be helpful to have this wording in a 'recital' at the start of the standard, particularly given the market opening measures are, as yet, unspecified. Third bullet ● It is not clear why it is only in situations '*where appropriate*' that the audit committee engages with shareholders on the scope of the external audit. As with the other bullets, we believe this would be more effective to be worded as a requirement (or at a minimum, supplemented with a set list of situations where this shall occur). We would also suggest that further detail is included in terms of what this engagement may involve. Potentially this could be included in application material.
Tendering	
6. Public Interest Entities (PIEs) are currently required to put their audits out to tender every ten years, and to rotate auditors at least 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.	6. It could be confusing as to why the rules for PIEs are being described here, given this is a standard for only FTSE 350 companies. As noted above, the standard would benefit from greater clarity around the relevant populations, requirements and sources. The text in paragraph 6 should also note that PIEs are required to rotate their auditors "at least" every 20 years. 7. We believe that careful consideration and balance is needed when asking directors to act in the 'public interest' by helping to ensure greater diversity in that audit market, alongside discharging their fiduciary responsibilities as directors to act in the interests of the

7. The tendering process must not preclude the participation of "challenger" audit firms without good reason. There is a strong public interest in audit market diversity and the market as a whole having sufficient resilience, capacity and choice. To support this, Audit Committees should ensure companies have a sufficient number of potential auditors that are independent, or capable of becoming so, in order to allow for adequate competition and choice in a subsequent tender. Tenders should also be conducted far enough in advance of appointment for firms to exit relationships which may cause a conflict of interest. 8. The selection criteria should be transparent and non-discriminatory. When considering the selection of possible new appointees as external auditors, the Audit Committee should oversee the selection process, and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process and that all tenders, including from non-Big Four firms, are given fair and objective consideration. 9. The choice of auditor should be made based on quality, including independence, challenge and technical competence, rather than price or perceived cultural fit. Public reports published by the FRC and where relevant overseas regulators on the quality of each firm's audit should be scrutinised as part of the process. Audit Committees should also review audit quality indicators published by firms. 10. All members of the Audit Committee should be involved throughout the tender process, not just attending the audit firms' final presentations. 11. A typical tender process may involve three or four audit firms. In some industries, however, there may be circumstances such as limited numbers of firms with the necessary expertise that make it difficult to identify more than two. Companies should manage their relationships with audit firms to allow them sufficient choice in a future tender and to take account of the need to expand market diversity and any market opening measures that may be introduced. 12. Audit Committees should submit two possible	company. Also, given the last sentence of paragraph 7 says *"Tenders should also be conducted far enough in advance of appointment for firms to exit relationships which may cause a conflict of interest"*, the reference to managing non-audit services in the first bullet under paragraph 4 might not be necessary. 9. In our experience, and from our discussions with audit committees, it is not necessarily the case that price is irrelevant. However, this is a point better answered by corporate respondents. We would suggest that audit committees be required to scrutinise audit firms' Transparency Reports where they will be able to obtain appropriate information and context in relation to audit quality measures, audit quality indicators and further information in relation to the system of quality control and culture. 11. It is reasonable to require that companies manage their relationships with audit firms to allow for sufficient choice in a future tender. However, more clarity is needed as to what '*take account of the need to expand market diversity*' means in practice. It is also not clear how this would interact with paragraph 9, which states that decisions should be based on audit quality and doesn't mention responsibilities for market diversity. 14. We expect corporate respondents will have perspectives but, in our experience, we anticipate significant practical challenges with making this a mandatory requirement including considering "*How such action is in the public interest"*. Public interest is conceptual, subjective and will be dependent on facts and circumstances and evolves over time. It is not clear how audit committees will be expected to judge whether or not an action is in the public interest, and certainly not in a consistent way market-wide. We also note that it is not typically within the direct remit of Audit Committees to determine the appropriate provider of non audit services. We are therefore not persuaded that incorporating this element of the current guidance into a formal standard is appropriate.

audit firm options for the engagement to the Board, together with a justified preference for one of them. 13. The Audit Committee should consider running a price-blind tender. 14. If some eligible audit firms are unwilling to tender for an audit, the Audit Committee should communicate with those firms to seek to obtain an understanding of why they are unwilling to tender and whether there is anything that could be done that might change that. The Audit Committee should also consider asking those firms how such action is in the public interest. In such circumstances, the Audit Committee should ensure that it has not excluded other firms from tendering without good reason to believe they would not be able to perform a high-quality audit. 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.	
Oversight of auditors and audit	
15. External audit is a public interest function. The Audit Committee is responsible for overseeing and assessing the entity's external audit and its auditors. It should work to create a culture which recognises the work of and encourages challenge by the auditor. The Committee should review and monitor the external auditor's independence and objectivity as well as the effectiveness of the external audit process. 16. The Audit Committee should obtain evidence of the effectiveness of the external audit and the auditor from those impacted by the audit/auditor. The following approaches may be suitable, and should be documented if used: - Evidence of occasions where the auditor has challenged management and the result of those challenges; - How the auditor has responded to its previous assessments of the audit quality and whether any concerns expressed by the Audit Committee have been addressed satisfactorily; - The auditor's own assessments of the quality of the audit, and its quality assurance systems more broadly; - Engagement level Audit Quality Indicators agreed with the Audit Committee against which the auditor will report on a regular basis;	15. The first part of this paragraph is valuable in describing the responsibility for creating the right culture. However, since the section does not set out specifically what is expected of audit committees in practice or how such expectations may be measured, we suggest it would be better suited to a 'recital' section as noted above. With regard to reviewing the independence and objectivity of the auditor and the effectiveness of the audit process, it should be clear when and how often this should be done. As above, there is a focus on responsibilities in relation to the public interest, but the audit committee's primary responsibility to shareholders isn't mentioned. 16. The list of '*approaches [that] may be suitable*' is an example of something that could be better included as application material to support the requirement, rather than as part of the requirement itself. Bullet 7: ● It may not be feasible to expect investors to be close enough to the audit to provide a view (especially in real time) on the quality of the audit. Or is this referring to investors' view of the overall quality results of the audit firm? Either way, more detail would be helpful on what is required. It will also be important to link this to other requirements around discussing the scope of the audit with shareholders (paras 4 and 22). 19. We suggest this also includes a requirement to review the audit firm's Transparency Report for context in relation to the FRC reports and audit quality more broadly.

- If the company's audit has been subject to a review by the FRC, the auditor's response to the findings and details of any action it plans to take in response; - Tailored surveys of a sample of those subject to audit to gain their perspective; - Feedback from external sources including investors. 17. The Audit Committee should satisfy itself that the quality of the audit is of a sufficiently high standard supported by evidence and be able to justify how the Committee arrived at its conclusion. 18. The Audit Committee should refer to the annual audit plan and to any commitments made during the tender process and consider whether these have been met. The Committee should consider whether the volume and type of resource (in terms of seniority and where relevant specialism) envisaged in the audit plan has been deployed. 19. The Audit Committee should review the FRC's annual report on the auditor. It should discuss the report with the auditor and obtain an understanding of how any issues identified are being addressed. 20. There should be regular open communication between the Audit Committee and the auditor, as well as with the entity's management. 21. Details of how effective oversight has been achieved throughout the year should be documented and the Audit Committee should consider reporting on this where appropriate.	21. To establish a formal documentation and reporting requirement, we suggest that the language in this paragraph would benefit from greater clarity, with phrases such as "where appropriate" avoided where possible. More detail would help about the purpose and audience for the reporting, the minimum content required to be reported, with potential examples given in the application material. We believe that this also needs to recognise that there are other reporting requirements around the review of the external audit, for example, in the Code, and how they interact with this requirement.
Reporting	
22. The annual report should describe the work of the Audit Committee as set out below, along with any other matters set out in the Corporate Governance Code. - the significant issues that the Audit Committee considered relating to the financial statements, and how these issues were addressed; - an explanation of the application of the entity's accounting policies; - where shareholders have requested that certain	22. Clarity would be helpful over how this annual reporting requirement interacts with paragraph 21 which describes reporting 'where appropriate'. Reporting '*any other matters set out in the Corporate Governance Code*' also needs to be more specific, for example, in relation to whether it relates only to audit matters and how the audit committee should approach potential overlaps. Bullet 2: ● In our experience, audit committees do not do this today other than where it would represent a 'significant issue' under the previous bullet. This bullet appears to require all accounting policies to be explained, which may not be proportionate and so clarity is needed about what this

matters be covered in an audit and that request has been rejected, an explanation of the reasons why; - an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of retendering plans; - where a regulatory inspection of the quality of the company's audit has taken place, information about the findings of that review, together with any remedial action the auditor is taking in the light of these findings; - in the case of a board not accepting the Audit Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Audit Committee explaining its recommendation and that of the board, and the reasons why the Board has taken its different position (this should also be supplied in any papers recommending appointment or reappointment); and - an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services. 23. If a tender process has taken place within the year, the Audit Committee should explain the criteria used to make the selection and the process followed. 24. The Audit Committee should report on the activities it has undertaken to meet the requirements of the Standard.	'explanation' would include, for example, a conclusion that they have been applied appropriately. 24. The language in the paragraph would benefit from being more precise about what specifically should be reported if this reporting is to be mandated, applied, measured against and enforced. Details of how the FRC will select and review reporting, how it will challenge companies and what will happen if companies do not comply.