

Proposed Revisions to the Audit Firm Governance Code

A public consultation issued by FRC

Comments from ACCA to FRC

18 November 2021

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Further information about ACCA's comments on the matters discussed here can be requested from:

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GENERAL COMMENTS:

ACCA welcomes the FRC's consultation on the Proposed Revisions to the Audit Firm Governance Code. We are pleased to see that the proposed 2022 Code includes new and amended Principles and Provisions which address with more clarity the higher risk that the audit firms (Firms) have as LLPs, of not adequately considering the needs of their stakeholders. More generally, we support the move to drive greater consistency across Firms on how INEs are embedded in governance structures – overall the proposed changes represent a sound evolution from the earlier position to leave Firms better placed to deliver, and to be seen to be delivering, against their public interest duties. We note that this revision should be considered as part of the wider audit quality eco-system with regulators, audit committees, company directors having a role to play.

We commend the FRC for moving forward with the Proposed Revisions to the Audit Firm Governance Code irrespective of the outcome of Business Energy and Industrial Strategy Department's (BEIS) recent consultation [Restoring trust in audit and corporate governance: proposals on reforms](#), but have noted a number of instances in our specific comments where the FRC will need to be mindful of the detail and progress of the reforms in implementing the updated Code.

SPECIFIC COMMENTS:

1. How appropriate do you feel that the revised purpose of the proposed 2022 Code is?

ACCA welcomes the proposed revised purpose of the proposed 2022 Code. More specifically, we agree that promoting audit quality should remain within the purpose of the Code. We also believe that being more explicit that Firms take into account the public interest in their decision making as stated in objective two should help to raise awareness of the Independent Non-Executives' (INEs) role among stakeholders. We also support the change in objective three being expressed in a more positive way and aligned with the purpose of the two overarching objectives of the FRC's monitoring and supervisory regime.

2. What are your views on the proposed thresholds for application of the proposed 2022 Code?

Overall, we agree with the proposed threshold for the Firms to apply the proposed 2022 Code once they audit 20 or more PIEs or if they audit one or more FTSE 350 companies. Nevertheless, we are mindful of the outcome of the BEIS consultation and the possibility of additional Firms coming within the scope of the proposed 2022 Code and the respective costs that this could incur for Firms moving in and out of the scope for application of the proposed Code.

3. Should the proposed 2022 Code apply to any firm that audits a FTSE 350 company? Please suggest alternatives.

Yes, in our view the proposed 2022 Code should apply to any Firm that audits a FTSE 350 company. In our view, Firms tendering to undertake audits of FTSE 350 companies should also be in scope and in a position to demonstrate compliance with the proposed 2022 Code and its objectives. This is particularly important given the proposals in the BEIS Consultation as it stands regarding the introduction of shared audits. This will ensure that if challenger Firms, other than those listed on page 10 of

the Consultation Document, tender for a FTSE 350 audit as part of a shared audit, they will also be required to comply with the proposed 2022 Code. This also aligns with the purpose of the proposed 2022 Code to promote audit quality.

4. What are your views on the proposed effective date of the proposed 2022 Code?

Overall, we agree with the proposed effective date of the proposed 2022 Code being for accounting periods beginning on or after 1 January 2023. Although we agree that the effective date should not be impacted by any developments arising from the Government response to the BEIS consultation, as mentioned in Question 2 above, we suggest the FRC remains mindful of the implications and the timing of the outcome of the BEIS consultation regarding the definition of PIEs.

5. What are your views on the priorities for engagement with investors, audit committee members and other external stakeholders and how could we encourage interaction with INEs?

We are supportive of the FRC's proposals to shift priorities for engagement between the Firms and stakeholders in the UK Stewardship Code and standards for audit committees. We also agree with the increased involvement of the INEs and that the Firm's management should demonstrate its commitment to the public interest via regular dialogue with them, as noted in Principle C of the proposed 2022 Code. We also consider that it is important for the Firm's management to embrace the input and challenge from the INEs.

6. To what extent do you support the changes proposed in the areas of partner oversight and accountability to owners?

Overall, we agree with the proposed changes in these areas, as they allow for a clearer understanding and better communication to the external stakeholders about the roles, oversight and accountability of partners to owners. We support the proposal to place an explicit responsibility on boards for oversight and challenge of management, as noted in Principle B and the relevant provisions.

7. What are your views on the proposals to underpin connectivity with the global network and monitoring of its potential to impact the UK Firm? Do you have other suggestions for how this could be addressed?

We are supportive of the proposals in this area. We agree that the role of the INEs is important in this respect and are supportive of the addition in the Code which requires that INEs have access to what is happening at the global level of the firm and that they should be in a position to assess the potential impact on the UK Firm (Provision 9). Linked to this, we also agree that linkages with the global firm should be described clearly and substantively in the Transparency Report.

8. How supportive are you of the approach taken to people and culture in section B of the proposed 2022 Code? Please include any suggestions for how we could improve it further.

Overall, we are supportive of the approach taken to people and culture in section B of the proposed 2022 Code and the proposed emphasis on the long-term sustainability of the Firm and the increased role of INEs in this. As a global professional accountancy body with members and students working in audit practice and in senior finance roles in PIEs, we recognise that there is indeed a concern by Firms in maintaining the attractiveness of the profession as noted on page 16 of the Consultation Document.

This is a global issue and we therefore welcome the approach taken. Additionally, the current environment in light of Covid-19 creates further challenges regarding people and culture for Firms, so the updated emphasis here is welcome.

We agree with the content of Principles F, G, and H and provisions 10 to 19, but we suggest that the FRC should be mindful of the outcome of the BEIS consultation. For example, Provision 12 states that “a Firm should promote the desired culture and a commitment to quality work, professional judgement and values, serving the public interest and compliance with professional standards and applicable legal and regulatory requirements”, while explaining in a footnote that “standards” refers to the ethical and technical standards. This may need to be updated if the *Principles*, as suggested by the BEIS consultation, are implemented for the corporate auditor, and further considerations should be taken into account for this in Section B.

9. Are there any matters you believe we should include in section C that do not currently feature and/or can you suggest other improvements to how the proposed 2022 Code approaches operational matters and resilience?

Overall, we agree with the content included in section C. In more detail, we are supportive of the content of the new Principles I and K, with regards to the promotion of a focus on collecting data and sophisticated management information, and the setting of an expectation that Firms will be open to cooperate with the regulator, respectively. We also agree with the rewording of the Principle J which now clarifies that Firms should establish procedures to identify, assess and manage risk. Similarly, we agree with the rewording of the Principle L which now clearly states that Firms should establish policies and procedures to ensure the independence and effectiveness of internal and external audit activities and to monitor the quality of external reporting.

In our view the proposed 2022 Code should also encourage Firms that do not have operationally-separate audit practices to adopt the approach of establishing a partner-led audit quality committee to oversee initiatives to improve audit quality.

10. Do you think that the proposed 2022 Code is clear enough about the role INEs play in the Firms?

Yes, overall, we think that the proposed 2022 Code is clear about the role of INEs in the Firms. We are supportive of the increased attention to their role as part of the Firm’s Governance structure. Please also see our response in Question 11.

11. What are your views on the proposals for strengthening the status and role of INEs? Please include any suggestions for other ways to increase their impact and effectiveness.

Overall, we agree with the proposals for strengthening the status and role of INEs, with increased expectations on their commitment, and rights of access.

12. What are your views on the proposed boundaries between the responsibilities of INEs and Audit Non-Executives? Please give examples of any potential difficulties you foresee with what is proposed.

Overall, we agree with the proposed boundaries between the responsibilities of INEs and Audit non-executives, as outlined in Principles R and S and Provisions 40 to 42, respectively. We are supportive of the clarity provided in the proposed 2022 Code

with regards to the importance of establishing a principle of mutual reliance between INEs and Audit non-executives with a view to avoiding duplication (principle S).