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By email to: acstandard@frc.org.uk

08 February 2023

Dear Ms. Currie,

FRC Consultation on Draft Minimum Standard for Audit Committees

Thank you for providing the opportunity for us to respond to the FRC in respect of the Draft Minimum Standard for Audit Committees (the 'DS'). We agree that a mandatory standard would provide clear and consistent expectations for firms, and feel that the proposed scope of the DS has been targeted appropriately. We appreciate the FRC's openness in sharing the proposals publicly through the development process.

On review of the DS, we agreed with, or had no specific comments on, much of the material included therein, which we felt to be generally fair and balanced. We have outlined below those areas where we had specific observations and where we felt we could contribute to the discussion.

Tendering – challenger firms (paragraph 7)

We welcome proposals that improve diversity within the audit market; however, we have concerns around the practical application of the expectations for involvement of challenger firms. Having recently undergone an audit tender process, our observation was that the primary barrier for challenger firms to take on the audits of larger or more complex companies is not due to issues of independence or of opportunity to tender, but rather the ability to meet the required audit quality standards as a consequence of insufficient resource or experience. Aware of these constraints and competitive disadvantages, challenger firms invited to tender may therefore preclude themselves from the process. This would mean that the overall goal of developing audit market diversity is not achieved and the issue of insufficient choice and competition at the challenger end of the audit market remains.

Tendering – level of Audit Committee involvement (paragraph 10)

Whilst we agree that all members of the Audit Committee should have the option to be involved throughout the tender process, we do not think it ought to be mandatory that the full Audit Committee should be required to be involved at all stages in the process, as implied by the wording in the DS. We would welcome further discretion for the Chairs of the Audit Committees to adapt the level of wider Audit Committee involvement to suit the needs of individual companies and the timings of their tender processes.

Tendering – optimising level of choice (paragraph 11)

We agree that forward planning is essential to optimising the level of choice within the audit tender process. However, in practice and in our recent experience, audit firms' ability or willingness to accept an invitation to tender may be affected by circumstances unrelated to independence or the way in which the tendering company has previously managed its relationship with the audit firm, and is therefore not within the tendering company's control. For highly regulated industries, where the regulators themselves rely on non-audit services of firms that also provide audit services as part of their oversight, the barriers to choice in a tender become more complex than the DS reflects. We would welcome more guidance to audit firms about standards expected when declining to participate in an audit tender.

Tendering – price-blind tenders (paragraph 13)

We agree with the spirit of this proposal, but given the Audit Committee's responsibilities to ensure audit quality and effectiveness, an audit fee which is lower than expected should also be considered an important piece of information to the tender panel, as it may indicate that the scope or expected level of quality has not been properly understood by the audit firm. A price-blind tender would remove bias, but could reduce the level of insight into the audit firm's ability to scope appropriately the level of work expected by the tendering company, particularly where these companies are larger and more complex.

Tendering – understanding unwillingness to tender (paragraph 14)

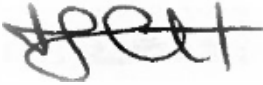
We agree with the intention of this proposal, although in our recent experience, if an audit firm simply says they cannot guarantee that they can conduct the audit whilst meeting expected quality standards due to resource constraints, the Audit Committee has very little basis on which to continue the tender process with that firm whilst still meeting its obligation to maintain audit quality.

Oversight of Auditors and Audit – evidence of audit effectiveness (paragraph 16)

Whilst we welcome the opportunity to receive a rounded view of feedback on the effectiveness of the external auditor as part of the annual effectiveness review, we note that there will be practical barriers to obtaining feedback from external sources that would need to be given suitable consideration in the final standard or any application guidance.

If you would find it helpful to clarify any of the points we have made in this letter, we would welcome the opportunity to discuss this with you. Also, for the avoidance of doubt, we are happy for the FRC to publish this response.

Yours sincerely,



Louise Britnell

Chief Financial Officer



Glyn Smith

Chair of the Joint Audit Committee