



Financial Reporting Council

# Feedback Statement and Impact Assessment

## Audit Committee Minimum Standard

May 2023

---

# Table of Contents

	<b>Page</b>
Executive Summary	2
Introduction and Background	3
Explanation of Key Changes	3
Summary of Responses	4
Impact Assessment	6

---

## Executive Summary

- I. This paper sets out the Financial Reporting Council (FRC)'s revisions to the draft Minimum Standard for Audit Committees. The revisions are the result of our Consultation on the proposal to issue a Minimum Standard for Audit Committees which ran from 8 November 2022 until 8 February 2023.
- II. The consultation followed the FRC's position paper (July 2022) where we set out how we would support the Government's reforms for audit and corporate governance as the FRC transitions into the Audit, Reporting and Governance Authority (ARGA). As part of the reforms, the Government intends to give ARGA the power to set minimum requirements for Audit Committees in relation to the appointment and oversight of the external auditor. This follows a recommendation by the Competition and Markets Authority (CMA) in its [audit market study](#).
- III. In our position paper, we said we would develop, initially for use on a voluntary basis, a Minimum Standard for Audit Committees setting out expectations on how Audit Committees should work to address the issues raised by the CMA. Issuing the Standard at this stage should help to smooth the transition for companies to when the necessary legislation is passed to create ARGA and provide it with powers to make the Standard mandatory.
- IV. We received 37 responses to our Consultation. This included responses from preparers/corporates, investors, trade associations, audit firms/practitioners and the professional accountancy bodies, and members of the public. We also held some informal discussions with stakeholders prior to and during the consultation period.
- V. The consultation asked a single question requesting comments on the draft Standard. The responses provided valuable feedback and we are grateful for stakeholders' contributions. In light of the feedback, we have made a number of changes to the draft. These changes seek to provide clarification and additional detail where relevant. There are no substantive amendments to the text.
- VI. The Standard will take effect immediately and will operate on a comply or explain basis until such time that ARGA is created with the power to mandate compliance.
- VII. Updates to the content of the Standard may be required in future as the Government's plans for reform and necessary changes to legislation to create ARGA and its powers progress. Further consultation on any changes would be undertaken, as necessary.

---

## Introduction and Background

1. The purpose of the FRC is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them.
2. One of the FRC's strategic objectives is to create a more resilient audit market through greater competition and choice. As the buyers of audits, Audit Committees have an important role to play in the functioning of the market. In our competition policy paper (December 2022), we set out that, to achieve a well-functioning, resilient market, the selection and oversight of external auditors by Audit Committees needs to be focused on quality.
3. The consultation concerned the issue of a Minimum Standard for Audit Committees of FTSE 350 companies covering their responsibilities for the external audit. As the decision to introduce minimum requirements for Audit Committees in relation to the external audit has already been taken by Government in accepting the CMA's recommendation, this consultation focused on the content of the Standard rather than whether it should exist at all.
4. The draft Standard was comprised of text from other FRC publications including the FRC's UK Corporate Governance Code, Guidance on Audit Committees and Audit Tenders: A Guide to Best Practice. This was intentional; the Standard is intended to consolidate existing material into a coherent document.
5. To support the consultation we undertook various stakeholder engagement activities prior to and during the consultation. This included holding some roundtables and informal meetings with Audit Committee Chairs, corporates, professional bodies, the Department for Business and Trade (formerly BEIS) and the Prudential Regulation Authority.

## Explanation of Key Changes

6. We have made relatively few changes to the Standard issued for consultation. We would stress that there is very little that is new within the Standard – the bulk of the text was taken from existing FRC publications – but we have made some amendments to provide clarification and additional information, where relevant.
7. The title of the Standard has been amended to better reflect its focus, which is solely on the role of Audit Committees in relation to the external audit.
8. We have also expanded the section on the Audit Committee's role in relation to oversight of the external audit and the auditor. Linked to this we have highlighted the importance of Audit Quality Indicators.

---

# Summary of Responses

## Responses to the public consultation

9. The consultation included a single question: *Do you have any comments on the draft Standard?*
10. We chose not to ask multiple questions as part of the consultation. The majority of the Standard's text already exist as best practice which has been consulted upon in the past. We did however wish to understand the extent to which stakeholders consider the Standard as drafted to be a complete and accurate representation of the responsibilities of a FTSE 350 Audit Committee with respect to the external audit.
11. Many of the responses were broadly supportive of the draft Standard. Some offered comments on certain elements, and some provided detailed comments on the drafting. A number of respondents raised similar issues, as summarised below.
12. Some responses queried the **scope of the Standard**. Some suggested it should cover a wider range of the Audit Committee's responsibilities, such as internal audit, risk management and internal controls. Some argued it should apply to a wider range of companies i.e. to either all listed or all public interest entities' Audit Committees.
13. Others expressed disappointment that the UK was not adopting a version of the USA's Sarbanes-Oxley Act.
14. Some responses commented on the **language used in the Standard**, suggesting it read more like guidance than a mandatory requirement. In particular, some responses highlighted the use of "should" and "shall" and suggested using "must" instead.
15. Some responses covered **the role of the Audit Committee in relation to the external audit**. Some respondents questioned the extent to which all members of an Audit Committee need to be involved in the audit tender process. Others commented that the Standard included sufficient information on the tender process but noted that this process typically took place only every ten years whereas the Audit Committee's oversight of the external audit was continuous. They requested more information in the Standard on how best to fulfil the Committee's responsibility for oversight of the audit.
16. Although there was a recognition that **audit market diversity** was desirable, some respondents queried whether this was a public interest that Audit Committees should be expected to consider when selecting an auditor. Linked to this, some respondents expressed concern about the difficulty of maintaining a number of audit firms which are sufficiently independent to tender for an audit.

- 
17. Various other issues were raised but not by so many respondents. For example, a few respondents commented on whether the Standard was needed. A few also requested more information on the enforcement arrangements planned for breaches of the Standard.

## FRC responses

18. In response to the comments **on scope**, the Standard has been renamed to make it explicit that it applies only to the Audit Committee's responsibilities for the external audit. This focus on the external audit is in keeping with the Government and CMA's intentions. An Audit Committee's other responsibilities are and will continue to be covered by the Corporate Governance Code and related guidance.
19. The Government also intends that the Standard should apply, at least initially, to Audit Committees of FTSE 350 companies only. We are therefore not suggesting a wider application but other companies may wish to apply the Standard – the provisions are examples of good governance.
20. In relation to **language**, because the Standard's text is drawn from existing FRC publications and will apply on a comply or explain basis for now, we have kept the "should" formulation. This may change once the Standard becomes mandatory, and would be the subject of further consultation as necessary, including on its effective date.
21. On the **role** of the Audit Committee, it has long been the expectation that the audit tender process be the responsibility of the Audit Committee and the references in the Standard to this responsibility remain unchanged. Respondents asked for more text on the role of Audit Committees in relation to the oversight of the audit, and we have expanded this section with content from the FRC's Guidance on Audit Committees.
22. In relation to **audit market diversity**, we believe there is a strong public interest in this, and in the market as a whole having sufficient resilience, capacity and choice. While Audit Committees cannot directly control the supply of audits, they do - as the buyers of audits - influence supply, and they are crucial to ensuring auditors deliver high-quality audits. Audit Committees have an important role to play in realising a well-functioning audit market so we have left the text regarding market diversity unchanged.
23. On the various other issues raised, we have considered these and concluded no further changes are necessary. While we recognise that some stakeholders do not believe the Standard is needed, it should be noted that the Government has accepted the CMA's assessment of the audit market and its recommendation, and has set out its intention to give ARGAs powers to set a Standard for Audit Committees in relation to their role and responsibilities for the external audit. As the Standard will initially apply on a comply or explain basis there is no need for an enforcement process at this stage. Further details on enforcement will follow when the Standard becomes mandatory.

---

## Responses from additional stakeholder engagement performed

24. The additional engagement, which took place prior to and during the consultation, generated comments similar to those in the written responses. There were no additional matters raised.

## Impact Assessment

25. We consider the impact of the Standard on businesses to be minimal.

26. Its provisions are drawn from existing guidance and best practice so we anticipate Audit Committees in FTSE350 companies are familiar with these already and we do not anticipate any need for additional systems or new resource.

27. The Standard is to be followed on a comply or explain basis, for now, so if a company does not wish or is unable to apply a particular provision this can be dealt with via an explanation in the Audit Committee report.

28. The consolidation of existing guidance and best practice for Audit Committees in the Standard is intended to be beneficial to those applying it.



Financial Reporting Council

**Financial  
Reporting Council**

8th Floor  
125 London Wall  
London EC2Y 5AS  
+44 (0)20 7492 2300

[www.frc.org.uk](http://www.frc.org.uk)

Follow us on  
 Twitter [@FRCnews](https://twitter.com/FRCnews)  
or **Linked** .