



RHI MAGNESITA

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Sent via email to: [acstandard@frc.org.uk](mailto:acstandard@frc.org.uk)

To Whom It May Concern,

RHI Magnesita N.V welcomes the opportunity to comment on the FRC's Consultation: Audit Committee Standard published on 8 November 2022.

Please find enclosed RHI Magnesita N.V.'s response to the above consultation. We have responded to it as a UK listed company and hope that our viewpoint is constructive and helpful.

We are happy that our responses be made publicly available, without identifying information and we would like to be contacted when the consultation response is published.

If any further information or clarification is required, please let me know.

Kind regards,

Sally

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## **Introduction**

We support the investment of time and resources on initiatives and activities which will drive enhanced and sustained audit quality and the issuance of an updated Minimum Standard for Audit Committees (the “Standard”) by the FRC to drive a more consistent approach in Audit Committees (‘ACs’) performance in assessing external audit quality would be welcomed.

## **Overall comment on approach**

However, we do feel there are higher priority items in the space of UK Audit Reform, both for the FRC and for companies, such as ourselves, to be focused on at this present time and find this new Standard does not add sufficient value to issuers, given the currently high levels of compliance in the FTSE 350 with Audit tendering. Furthermore, your paper states there is not much new content, (“The vast majority of the draft Standard’s content already exists in other FRC publications”) which begs the question of what is expected to be achieved through this additional bureaucracy and risks losing the goodwill of those who can assist in delivering audit reform.

We feel the rather specific focus of the Standard on Audit tendering runs the risk of reducing emphasis on critical elements for the AC, such as the risk management framework or internal controls over financial reporting, and on Internal Audit. Whilst audit tender is a vital item for the AC, in the grand scheme of things it is a relatively small aspect of the AC’s role and responsibilities, occurring only every ten years for most, and to focus on this only, may reduce the effectiveness of ACs, with certain companies who already ‘shy away’ from governance, taking the opportunity to ignore the other critical elements of an AC’s remit.

We can understand the aim of this Standard is to achieve greater diversity in the Audit market, which we support, but note there are other approaches which could generate diversity without reducing focus on other matters that are important for ACs to consider. Collated annual data on audit tenders conducted in the FTSE 350 would help show how the market is moving and the ability of smaller audit firms to respond to increased demand. We as a Company would find visibility of such annual tender data and experiences outside of using the Big 4 to be useful when next embarking on an audit tender. We feel it would encourage continued opening up of the audit market which will benefit companies and their stakeholders through diverse sources of external audit. We would be interested to engage auditors outside of the Big 4, and such data would be a comfort and support as we develop our tender approach.

We are unsure if the FRC is already clear what level of diversity is desirable in the audit market and before taking such concrete steps with this Standard, feel there should be greater clarity on the desired position and over what timeframe. Imposing expectations on the AC to adopt stringent approaches to audit tender when there is insufficient capacity in the audit market is potentially detrimental to the overall progress and engagement with the topic.

## **Comments on the Provisions**

To provide comment on specific provisions of the draft standard we would note:

1. Provision 8. We agree with the intention and spirit of this provision and we support that the AC should oversee the tendering process of all audit firms. However,

there is no guidance available for ACs to assist them in providing a 'fair and objective consideration' of the audit tender. We would welcome further guidance on conducting an objective audit tender.

2. Provision 9 provides the criteria for the external auditor selection which should be based on quality, including independence, challenge and technical competence, rather than price or perceived cultural fit. We agree that the criteria provided should drive the selection process, however, the evaluation of such criteria during the tender process is influenced by the tender process itself. The audit firms generally involve the most senior members of their team during the tender process; those that would be the *face* of the audit and that would interact with senior management and AC. However, the technical competence, the challenge and the quality are fundamentally supported by those auditors with less audit experience who are responsible for completing the operational audit. These individuals are exposed to the underlying company processes, procedures and middle management and are the ones that can identify and challenge accounting judgements, control gaps and process improvements. Thus, it is challenging for ACs to make a reasonable conclusion only on the basis of the tender. The assessment of the quality, objectivity, independence, technical competence criteria can only be judged during the audit process. 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; a definition which is missing currently, in our view.
3. Provision 19 – We agree with the requirement to review and discuss with the auditor the annual report from the FRC on the auditor. We believe that certain accounting and auditing issues arise in other jurisdictions where the standards of quality, supervision and oversight are different to those in the UK. Hence, we believe that the external auditor should be required to present to the AC a summary of both public and internal reports in those jurisdictions where the Company operates and that are in the scope of the group audit. Furthermore, we believe that when an audit partner who is involved in the audit of the Company is subject to internal quality reviews of their work, the results should be notified to the Company and presented to the AC. The AC would have a more balanced understanding on the overall quality of those responsible of the audit.

## **Conclusion**

We support the overall objective to enhance audit quality and increase diversity in the market but unfortunately do not feel that that this Standard will make a meaningful contribution to these matters.

The debates around audit quality, the definition of Audit Quality and use of Indicators, and the response to the FRC competition policy paper, would benefit from being aligned and concluded before issuing such a Standard.

As mentioned above, guidance on audit tendering, along with a concerted effort to gather data on annual tenders to generate conversation amongst companies and their networks on audit tenders would be helpful.