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**Susan Currie**  
**Financial Reporting Council**  
**8th Floor, 125 London Wall**  
**London**  
**EC2Y 5AS**

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

Dear Susan,

**Draft Minimum Standard for Audit Committees: consultation response**

The Chartered Institute of Internal Auditors (Chartered IIA) welcomes the opportunity to contribute our views to the Financial Reporting Council (FRC) consultation on the Draft Minimum Standard for Audit Committees.

The Chartered IIA UK and Ireland represents approximately 10,000 internal audit professionals in organisations spanning all sectors of the economy. We are the only professional body dedicated exclusively to training, supporting, and representing internal auditors in the UK and Ireland. Having been awarded our Royal Charter in 2010, over 2000 of our members are now Chartered Internal Auditors and have earned the designation CMIIA. About 1000 of our members hold the position of head of internal audit and the majority of FTSE 100 companies are represented among our membership. We are proud to champion the contribution internal audit makes to good corporate governance, strong risk management and a rigorous internal control environment leading to the long-term success of organisations.

As an organisation that has been broadly supportive of the audit reform agenda, we fully support the FRC in the development of a Minimum Standard for Audit Committees for the appointment and oversight of external/statutory auditors. However, as well as focussing on improving the effectiveness of Audit Committee oversight of external/statutory audit, we believe it is also important for the FRC to support measures that help to improve Audit Committee oversight of internal audit. While this may not be within the scope of this new standard as it is specifically focussed on external/statutory audit, we would like to see the oversight of internal audit adequately addressed in other relevant FRC codes and guidance regarding the responsibilities of the Audit Committee.

The Chartered IIA is happy to discuss any of the comments included in the response. We are also happy for our response to be published and made publicly available on the FRC website.

Your sincerely,

**Anne Kiem OBE**  
**Chief Executive**



## **Draft Minimum Standard for Audit Committees: consultation response**

### **1. Audit Committee's responsibilities regarding internal audit as well as external audit**

As is acknowledged in the consultation document Audit Committees have a wide and evolving range of responsibilities. Indeed, the Audit Committee is primarily there to oversee the entire activities and business functions within the company as allocated by the main Board. Typically, this includes financial and other reporting, risk management, internal controls, ethics and compliance, hotline/whistleblowing, and investigations. External audit is there to assist the Audit Committee, with their statutory role being to provide assurance to the Board/Audit Committee that the annual report and accounts offer a 'true and fair' view of the financial position of the business. A key part of the annual report is the determination of going concern. This should go beyond pure financials.

However, as well as external audit, the Audit Committee is also responsible for and assisted in executing their duties by internal audit. The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. As such, internal audit has a wider remit to independently audit both the financial and non-financial risks of the business. It is good practice that the Chief Audit Executive has a primary reporting line to the Chair of the Audit Committee, and we know this is not always currently the case in practice. The key responsibilities of the Audit Committee in relation to internal audit are set out in Sections E, F and G of the Chartered IIA's Internal Audit Codes of Practice<sup>1</sup>. Our Internal Audit Code of Practice is regarded as an industry benchmark for good practice internal audit. It was developed with the support and involvement of the Financial Reporting Council in 2019/2020, and its publication was welcomed by Sir Donald Brydon and Sir Jon Thompson.

While we fully appreciate and understand that this standard has been developed to specifically address the Audit Committee's responsibilities regarding the appointment and oversight of statutory/external auditors, the Chartered IIA believes it is equally important for the FRC to address the Audit Committee's responsibilities regarding the effective oversight of internal audit.

The Audit Committee's responsibilities regarding the oversight of internal audit are just as important as its responsibilities for the oversight of external audit, if not more so. Stronger internal audit, underpinned by effective Audit Committee oversight, must be recognised as part of the solution to the audit, governance and control weaknesses that have been brought to light over recent years following a series of high-profile corporate collapses, including Carillion in 2018. Many of these corporate collapses were not only characterised by accounting weaknesses, but also weak risk management, governance, and internal control.

Therefore, if the Audit Committee's responsibilities for the oversight of internal audit are not within the scope of this new standard, then it is vital that this is sufficiently addressed in other relevant FRC codes and guidance. This should include strengthening the provisions regarding internal audit in the UK Corporate Governance Code, making it crystal clear that all premium listed companies must establish and maintain an internal audit function that reports into the Chair of the Audit Committee (as per recommendations 22 and 27 on reporting lines in our Internal Audit Code of Practice). It would also be helpful to ensure there is appropriate emphasis on the Audit Committee's responsibilities for internal audit in the 'Guidance for Audit Committees' and 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'. The Chartered IIA would welcome the opportunity to work with the FRC in further developing relevant codes and guidance to ensure this issue is addressed in due course.

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<sup>1</sup> <https://www.iaa.org.uk/media/1691066/internal-audit-code-of-practice-report.pdf>

## 2. Proposed name of the standard

At present the proposed name 'Minimum Standard for Audit Committees' could suggest that these are the minimum standard/s for Audit Committees full stop, and this could create confusion for stakeholders. Greater clarity can be achieved by being clearer and naming the standard Minimum Standard for Audit Committees regarding the appointment and oversight of external/statutory audit. As you acknowledge the standard highlights only those Audit Committee responsibilities that relate to external audit, so that must be crystal clear in the name given to this standard.

## 3. Clarity that this standard refers only to external/statutory audit

Throughout the wording of the standard, to provide greater clarity for stakeholders, it would be beneficial if the standard could wherever possible explicitly refer to external/statutory audit or the external/statutory auditor. At present there are quite a few references throughout the document where the wording only refers to 'audit' or 'auditor'. This tweak to the wording will help to reinforce the message that the standard only relates to the Audit Committee's responsibilities in appointing and providing effective oversight of the external/statutory auditor. It would be helpful if the FRC could adopt the same approach in other documents.

## 4. Providing evidence of the effectiveness of external/statutory audit

In recommendation 16 of the standard, which relates to the evaluation by the Audit Committee of the effectiveness of external audit, we believe there could be value in stipulating who is qualified to obtain, collate, and independently verify such evidence to support this exercise. The Chartered IIA believes that such evidence gathering could be performed on behalf of the Audit Committee by the internal audit function, or an independent external party could be identified to do this work. This will help ensure the integrity, quality and independence of the evidence gathering exercise.

## 5. Tendering / rotation rules

The current drafting of the standard in recommendation 6 refers to the external/statutory auditor rotation rules as stipulated in the Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR 2016). While not strictly within the scope of this consultation we would like to use this opportunity to express our support for strengthening the existing external/statutory auditor rotation rules as we set out in our response to the Independent Review into the Financial Reporting Council on external/statutory auditor procurement<sup>2</sup>.

This could be achieved by making it mandatory for major companies in the UK to be obliged to put their external audit contract out to tender more frequently. Potentially as little as every 5 years (instead of the current 10-year rule required under SATCAR 2016) and rotate auditors at least every 10 or 15 years (instead of the current 20-year rule required under SATCAR 2016).

A further advantage of such a measure could be to create greater turnover in the external/statutory audit market – ensuring that external audit contracts of premium listed companies come up for renewal on a more regular basis, resulting in a more competitive and dynamic market. This could support the FRC's stated aim of ensuring greater competition in the external/statutory audit market and help improve external/statutory audit quality. This is an issue that we believe has been largely overlooked in the audit reform debate thus far.

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<sup>2</sup> <https://www.iaa.org.uk/media/1690530/independent-review-of-the-financial-reporting-council-response-on-auditor-procurement-final-091118.pdf>