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7 February 2023

Dear Susan Currie,

### **GC100 Comments on the Draft Minimum Standard for Audit Committees**

I am writing on behalf of GC100.

GC100 is the association for the general counsel and company secretaries of companies in the UK FTSE 100. There are currently over 125 general counsel and company secretary members of the group, including representatives from over 85 of the UK FTSE 100 companies.

Please note that, as a matter of formality, the views expressed in this letter do not necessarily reflect those of each and every individual member of GC100 or their employing companies.

GC100 is generally supportive of investing time and resources on initiatives and activities which will move forward the objectives set out in the Government response to audit and corporate governance reform in May 2022.

However, GC100's view is that the focus should be on the plan for how all the required elements of the reforms will come together as a whole, rather than focusing on one specific issue at this stage. GC100 notes that the FRC's Draft Minimum Standard for Audit Committees of FTSE 350 companies (the **Standard**) is only focused on tendering and the competitiveness of the UK audit market. The audit committee's role and responsibilities are much broader of course, for example, there is no reference in the Standard to either the risk management framework or internal controls over financial reporting. It would be more helpful to have a Standard that is comprehensive, even if this means it comes into being further down the line.

In the context of audit committees and their role, GC100 believes the priority should be working on how we move to a clear and agreed understanding of what 'audit quality' means before focusing on how audit committees enhance and sustain 'audit quality' through this minimum standard. GC100 is also mindful that the views of the audit community are key when deciding what 'audit quality' means.

In our response to the White Paper, Restoring Trust in Audit and Corporate Governance, GC100 noted that the perception that Audit Committees are insufficiently focused on audit quality was not correct. However, the Government decision was that a minimum standard is necessary.

Notwithstanding the above, GC100 does have certain observations and suggestion in relation to certain provisions of the Draft Minimum Standard. These are attached in **Appendix A**.

Thank you for the opportunity to share our views. GC100 would be happy to meet to discuss the views set out in this letter further if helpful.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Camelia Thomas', is centered on a light gray rectangular background.

Camelia Thomas  
**GC100 Secretary**

## Appendix A

### GC100 comments on specific provisions of the draft Minimum Standard.

#### Tendering

##### Paragraph 7

GC100 queries whether this is an appropriate place for the second sentence in relation to the audit market having sufficient resilience, capacity and choice. This is not something that is in the control of Audit Committees. All that Audit Committees can ensure is that, in relation to their own companies, they do not cause conflicts with firms such that there are insufficient independent firms that can be approached when the tender process arises. GC100 members, for example, review the firms performing non-audit services on a regular basis for precisely this reason.

In a similar way, Audit Committees are not responsible for ensuring there is adequate competition and choice among audit firms - this is for the audit market and audit firms themselves. Accordingly, the wording “in order to allow for adequate competition and choice in a subsequent tender” should be deleted.

From a practical perspective, a number of GC100 members’ experience when inviting “challenger” firms to participate in a tender process is that they are unwilling to do so. This may be for a number of reasons: for example, lack of capacity, manpower or experience in the sector. We would therefore note that providing for the tendering process not to preclude the participation of “challenger” audit firms may not necessarily increase uptake in the tender process by such firms. This can also happen with the big four firms, who may not take part in a tender process because, for example, they are already too exposed in the relevant sector. Capacity in the audit sector remains a difficulty.

##### Paragraph 13

In practice, it is unlikely that an Audit Committee would run a price-blind tender. While the quality of the tender proposal, including technical competence, independence and challenge demonstrated continues to be more important than pricing, it remains a factor. Pricing may also be more of a factor for smaller FTE 350 companies.

##### Paragraph 14

If eligible audit firms are unwilling to tender for an audit, in practice they will give their reasons for not wanting to participate in the process. However, it is not for the Audit Committee to make changes to persuade firms to participate in a tender process.

In our view, the sentence “The Audit Committee should also consider asking those firms how such action is in the public interest” should be deleted. This is not something for the Audit Committee. If such information is important to the FRC, perhaps eligible audit firms should be

asked to provide information to the FRC on how many tenders they have been invited to participate in, how many they have undertaken and the reason for the difference.

Consequential drafting changes are required to the last two sentences of paragraph 14 as a result of such deletion.

### **Oversight of Auditors and Audit**

#### Paragraph 15

The first sentence of this paragraph has no bearing and is not appropriate in the Draft Minimum Standard and so should be deleted.

#### Paragraph 16

The words “from those impacted by the audit/auditor” should be deleted from the end of the first sentence as the suggested approaches for obtaining evidence are set out in the subsequent bullets, which are both broader and clearer.

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