



Financial Reporting Council

Consultation Document

Audit Committee Standard

November 2022

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Summary and issues for consultation

1. The Competition & Markets Authority (CMA) [Statutory Audit Services Market Study Final Report](#) (2019) made a number of recommendations. One of these was that the Financial Reporting Council (FRC) “should have the power and a requirement to mandate minimum standards for both the appointment and oversight of auditors”. The regulator should also have powers to monitor compliance with these standards and take remedial action in the event of non-compliance. In practice this would entail the setting of minimum standards for Audit Committees, as these are responsible for external auditor appointment and the oversight of the external auditor once in place.
2. The CMA commented that Audit Committees have a vital role in selecting and managing the performance of external auditors to ensure that auditors maintain professional scepticism, challenge management, and thus deliver high quality audits. However, the CMA found that while some Audit Committees are effective in selecting and overseeing the activities of auditors, there is significant variation in the performance of Audit Committees within the FTSE 350, and that selection and oversight of auditors is not always sufficiently focused on quality.
3. The CMA noted that various standards for how Audit Committees should behave already exist, including through the UK Corporate Governance Code, the FRC’s Guidance on Audit Committees, the EU Audit Regulation and the Companies Act 2006, but concluded that these might lack sufficient statutory force to ensure Audit Committees are consistently focused on audit quality. The CMA concluded the regulator should, therefore, have a set of enforcement powers that do not exist in the existing governance framework.
4. In 2021 the Government issued a White Paper, [Restoring Trust in Audit and Corporate Governance](#). The White Paper proposed the creation of a new regulator (Audit, Reporting and Governance Authority (ARGA)) which would have a wider range of powers than the FRC. Amongst the responsibilities envisaged for ARGA was oversight of Audit Committees, along the lines of the CMA recommendation.
5. This new oversight power was confirmed – with one major change¹ - following the consultation responses to that White Paper. [The Government Response](#) (May 2022) stated that:

“The Government therefore intends to proceed with giving ARGA the power to set minimum requirements on audit committees in relation to the appointment and oversight of auditors.”

6. Currently the FRC has no specific power under UK law to set standards for Audit Committees. Most of our work in this area is done via the [UK Corporate Governance Code](#). Where the Listing Rules mandate compliance with the Code’s principles, companies operate a comply or explain approach to the provisions.:-

¹ The original proposal to grant the regulator power to place observers on Audit Committees was dropped

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7. The Government's focus, like that of the CMA, is on companies in the FTSE 350 index. Although ARGAs has yet to come into being, we intend to introduce a Minimum Standard for the Audit Committees of companies within the FTSE 350 to follow on a comply or explain basis for now. This should hopefully help to smooth the transition to the Standard when the necessary legislation is passed.
 8. As the decision to introduce minimum requirements for Audit Committees has already been taken by Government in accepting the CMA's recommendation, this consultation focuses on the content of the Standard rather than whether it should exist at all. The vast majority of the draft Standard's content already exists in other FRC publications including [the Corporate Governance Code](#) and related guidance. We expect that most FTSE 350 companies are already following the requirements of the Standard if they are following the Code and best practice.
 9. Aside from the Code, relevant FRC publications related to Audit Committees can be found on the FRC's website at <https://www.frc.org.uk/auditors/audit-assurance/audit-committees>. The key FRC documents include Guidance on Audit Committees, Best practice guide to audit tendering, and an Audit Quality practice aid for Audit Committees.
 10. The Standard is applicable to all UK incorporated companies with a Premium Listing on the London Stock Exchange and which are included within the FTSE 350 index.
 11. Audit Committees have a wide and evolving suite of responsibilities which are detailed in the Corporate Governance Code and associated guidance. The Standard is not intended to replace this material and Audit Committees should continue to follow them on a comply or explain basis.
 12. Instead, the Standard highlights only those Audit Committee responsibilities that relate to the external audit. It is these responsibilities that fall within the scope of the CMA's original recommendation and the Government's subsequent White Paper.
 13. In line with the expectations of the CMA and Government, the Standard focuses on:
 - The appointment of the auditor and the tendering process associated with that appointment;
 - The ongoing oversight of the audit and the auditor;
 - Reporting on the work the Audit Committee has done in respect of the audit and on compliance with this Standard.
 14. We would stress that the majority of the text in this Standard is taken from existing FRC publications including the UK Corporate Governance Code, Guidance on Audit Committees and Audit Tenders: Notes on Best Practice. Where new text is included, it is primarily to reflect the Government's focus on diversity in the audit market.
 15. As set out in existing FRC publications such as the Guidance on Audit Committees, there are obligations relating to Audit Committees' role in relation to external audit in existing legislation. This includes Parts 3, 4 and 5 of The Statutory Audit Services for Large Companies Market

Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the requirements of Chapter 2 of Part 16 of the Companies Act 2006 as inserted by the Statutory Auditors and Third Country Auditors Regulations 2016 on the appointment of auditors to public companies that are Public Interest Entities.

16. There may be updates to the content of the Standard in future as the Government's plans for reform and necessary changes to legislation to create ARGA progress. For example, the Government Response set out that the Government believes the most appropriate way to encourage shareholder engagement with audits is to include appropriate provisions in the Audit Committee requirements that ARGAs will have the power to put in place. The Government set out that those powers will need to be somewhat wider than those proposed in the White Paper to allow the new audit committee requirements to cover the ability for shareholders to consider and respond on the audit plan and to consider the risk report. The changes would also enable greater engagement with the auditor at the AGM of the company.

Do you have any comments on the draft Standard?

How to respond

Comments on the questions set out in this consultation document are requested by **8 February 2023**. Responses should be sent by e-mail to acstandard@frc.org.uk

Or in writing to: Susan Currie
Financial Reporting Council
8th Floor, 125 London Wall
London EC2Y 5AS

Please note that it is advisable to send your response electronically. All responses will be acknowledged.

We expect to make responses publicly available on the FRC website (www.frc.org.uk) unless respondents specifically request otherwise. If you send an e-mail response which includes an automatically generated notice stating that the content is to be treated as confidential, you should make it clear in the body of your message whether you wish your comments to be treated as confidential. We will process your personal data in accordance with UK data protection legislation. Please see our privacy policy².

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² <https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc>



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