

Mr Jonathan Bravo
International Organisation of Securities Commissions
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By email: consultation-04-2018@iosco.org

9 July 2018

Dear Jon,

Consultation Report on Good Practice for Audit Committees in Supporting Audit Quality

The Financial Reporting Council (FRC) welcomes the opportunity to respond to IOSCO's consultation on its Good Practice Guidance for Audit Committees. As the UK's Competent Authority for Audit, our mandate includes: the setting of auditing, assurance and ethical standards; inspection of public interest entity audits; oversight of the profession as a whole through our delegation agreements with the UK Professional Accountancy Bodies; and, where it is in the public interest to do so enforcement action against auditors and professional accountants in business. The FRC also is responsible for setting the UK Corporate Governance Code and its associated guidance.

The FRC agrees with IOSCO as to the importance of audit committees in driving up audit quality and is supportive of the development of good practice material. The role of audit committees and the work they undertake exists in a complex legislative and regulatory landscape, and IOSCO's Guidance complements our own efforts to support audit committees in discharging their responsibilities – we provide a little more detail below, and hope that this assists IOSCO in the finalisation of its guidance once the consultation is complete.

In 2016, the EU Audit Regulation and Directive came into force – this brought into law arrangements that had previously (since 2012) been applicable through our Corporate Governance Code. For public interest entities, the audit committee is now responsible for running the tender process to appoint an auditor and making a recommendation to the Board of an entity. They are also required to report publicly on this and are responsible for leading the engagement with the auditor, robustly challenging the auditor to ensure the delivery of high quality work, agreeing the audit fee, and also pre-approving the provision of any non-audit services. Audit Committees also report through the annual report on the work they have undertaken each year to discharge their responsibilities. For those requirements that are now embedded in law, we believe that guidance is an important way to help audit committees navigate through their obligations and deliver them in a way that will command the confidence of those who use audited financial statements.

Our experience is that the audit committee having the statutory responsibility to lead the process through which an auditor is appointed and as a result being responsible for overseeing that relationship to ensure the delivery of high quality audit has spurred quality improvements. We have sought to support that process through the provision of Guidance for Audit

Committees¹ on the application of the UK Corporate Governance Code, which in turn supports the Financial Conduct Authority in monitoring compliance with the UK Listing Rules. We also developed an Audit Quality Practice Aid², which was designed to provide audit committees with a framework for engaging with their auditor to ensure that an audit is planned, executed and reported on in a way that demonstrates the application of a mindset which uses professional scepticism and sound judgment to deliver a high-quality and robust audit. Part of that assessment includes considering the mindset and culture of the audit firm and the resources that it has available to it to deliver a high-quality audit, something we have recently examined further in our thematic report on Audit Firm Culture³. That report emphasises that the role of audit committees is fundamental to ensuring that investors and other stakeholders can have confidence in the quality and independence of the audit work being carried out.

We believe the requirement for the audit committee to report publicly on how it has delivered on its remit is a powerful way of demonstrating to the users of financial statements how their needs from an audit perspective are being addressed.

Each year we carry out a survey of public interest entity audit committee chairs, to seek their view on the quality of audit they have experienced in the most recent audit cycle. This also allows us to seek the views of committees on any areas where they would welcome further guidance or support from the FRC, or from the other regulators that we work with. In the last year, we have developed our Audit Lab concept, focusing on audit committee reporting. Our Phase One report⁴ issued in December 2017 provided feedback on the views of audit committee chairs, companies, investors, representatives of audit firms, and officers from a professional body, and covered: questions to assist audit committee chairs and investors in engaging with audit committees and their reports; the role of audit committees and the development of their reports; appointment and tendering for an external auditor and the attributes that committees should seek; how to assess the effectiveness of the external auditor; and reporting on significant issues. We aim to take this work further through a Phase Two report later this year.

At the European level, the CEAOB is also looking into audit committee effectiveness in meeting the EU requirements – once the CEAOB's work is complete, the evidence that it generates should also be helpful to IOSCO. It will also be important, in finalising its guidance for audit committees, that IOSCO closely observes the IAASB's Quality Control project which includes the revision of ISQC 1. In assessing audit quality, and supporting the delivery of high quality audits, IOSCO's guidance will need to reflect the results of those developments being proposed by the IAASB.

¹ <https://www.frc.org.uk/getattachment/6b0ace1d-1d70-4678-9c41-0b44a62f0a0d/Guidance-on-Audit-Committees-April-2016.pdf>

² <https://www.frc.org.uk/getattachment/1738ea4e-167a-41e5-a701-f169e6b7e264/Audit-quality-practice-aid-for-audit-committees-May-2015.pdf>

³ <https://www.frc.org.uk/getattachment/2f8d6070-e41b-4576-9905-4aeb7df8dd7e/Audit-Culture-Thematic-Review.pdf>

⁴ https://www.frc.org.uk/getattachment/7f97f065-d912-4ca0-a96b-1f2fd4b0a565/LAB_Final.pdf

If you wish to discuss this response further, please contact Mark Babington, Deputy Director of Audit Policy on m.babington@frc.org.uk or on +44-20-7492-2323.

Yours sincerely,

A handwritten signature in black ink that reads "Melanie". The signature is written in a cursive style and is underlined with a single horizontal stroke.

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