

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

Emailed to: acstandard@frc.org.uk

8 February 2023

Dear Susan Currie,

Re: Draft Minimum Standard for Audit Committees

This letter is written by the 100 Group Main Committee and is intended to speak on behalf of the Group as a whole. The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses.

We believe that a foundation of the strength and resilience of British business is the leading governance framework that we operate under in the UK.

We see the implementation of the recommendations from the recent BEIS consultation 'Restoring trust in audit and corporate governance' as a great opportunity for differentiation when focussed on the areas of priority as identified by Kingman, Brydon, and the CMA, and we are pleased that efforts are being made to implement recommendations in a number of areas.

In responding to this proposal in particular, we would like to note that the views expressed are informed by the plural roles that many of our members perform – as well as leading the finance function for FTSE100 companies, many of our members also sit on or chair Audit Committees of similar sized businesses. However, in seeking to speak on behalf of the membership as a whole, the final position is necessarily focussed on the perspective of the finance leads.

Overview

The audit committee plays an important role in the protection of shareholder interests in relation to the external audit. When operating effectively they robustly challenge both management and auditors, supporting the delivery of high-quality audits.

Given our membership comprises almost exclusively of FTSE100 listed businesses who already apply the Corporate Governance Code guidance on auditor oversight, we do not see a significant impact from the proposal as it is currently drafted. Our member companies have highly functioning Audit Committees, comprised of individuals with suitable experience and qualifications, most of which undertake independent audit committee effectiveness reviews, and in general we welcome the opportunity to see this commitment to governance formalised and regulated.

Having said that, we do believe that the standard, as drafted, could do with some refinement. In particular, we would like to see wording removed where it is not specifically aligned to Audit Committee responsibilities, for example references to topics such as 'audit market diversity' and 'public interest'. While we understand that Audit Committee activities have influence outside of the business, it cannot be the responsibility of individual or collective Audit Committees to deliver market change.

Comments

Oversight of Auditors and Audit – paragraphs 15 and 16

While we see the importance of the role of the audit committee in overseeing the quality of the external audit process and welcome the suggestions for how suitable evidence might be obtained, we feel it is important to make clear that it is not the role of Audit Committees to audit the auditor, the responsibility for which lies with the regulator through its Audit Quality Review Processes.

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

Engaging with shareholders – paragraphs 4 and 22

As we have commented in the past, we do not support the need for additional shareholder engagement on the subject of the audit. It is our view that shareholders already have ample opportunity to engage through existing mechanisms and in practice our members have experienced limited engagement from investors specifically on audit and assurance related matters. We are of the view that the AGM remains the appropriate place for interventions of this sort and suggest that the need to 'engage with shareholders on the scope of the external audit', and the need to disclose where 'shareholders have requested that certain matters be covered in an audit and that request has been rejected, an explanation of the reasons why', should be removed from the proposal.

Tendering – paragraph 14

We would propose that the final sentence of paragraph 14 be removed, i.e. 'The Audit Committee should remind eligible firms that refuse to tender that they may as a result be ineligible to bid for non-audit services work'. While it is the Audit committee's responsibility to appoint the external auditor it is not within their remit to unduly influence any non-audit services appointment process. We believe that all tenders, whether for audit or no audit services, should be determined based on their own merit. There are already strict regulations and parameters around permitted services and fee ratios for the appointed company auditor, and so an audit committee seeking to restrict the participation of another audit firm in any non-audit services tender would likely have a detrimental and unwelcome impact on the competitiveness of any such process.

We would also propose the removal of the requirement to ask of audit firms 'how such action is in the public interest'. It is our position that Audit Committees must act in the interest of their own stakeholders in performing their role and while this may include a subset of the public, the wider 'public interest' is the remit for other bodies and so should not form part of the standard.

Market diversity and market opening measures – paragraphs 4 and 11

While we agree that individual Audit Committees are responsible for ongoing monitoring of firm independence with the aim of allowing for sufficient firms being in a position to tender when the time comes, they cannot have any responsibility for overall 'market diversity' nor 'market opening measures which may be introduced'. In our view, both references to this topic should be removed from the draft.

We hope that you find these comments useful and we thank you for the opportunity to share them with you. We would be happy to discuss them in further detail if you saw a benefit in such an opportunity.

Yours sincerely,



Margherita Della Valle,
Chairman of the 100 Group