

Draft minimum standard for audit committees

KPMG Audit Committee Institute

The Financial Reporting Council (FRC) has launched a [consultation on its draft proposal for a minimum standard for audit committees](#). This follows the Government's response to its consultation on 'Restoring Trust in Audit and Corporate Governance', which set out its intention to give the Audit, Reporting and Governance Authority (ARGA) statutory powers to mandate minimum standards for audit committees in respect of the appointment and oversight of the external auditor.

It is the FRC's intention is that the Standard will increase performance across audit committees in the FTSE350, ensuring a consistent approach and supporting a well-functioning audit market.

As the decision to introduce minimum requirements for audit committees has already been taken by Government, this consultation focuses on the content of the Standard rather than whether it should exist at all.

The Standard addresses only those audit committee responsibilities that relate to the external audit.

- 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 the Standard.

The vast majority of the draft Standard's content is taken from existing FRC publications including the 'UK Corporate Governance Code', 'Guidance on Audit Committees' and 'Audit Tenders: Notes on Best Practice'. However, new text has been included primarily to reflect the Government's focus on diversity in the audit market.

Following the consultation, the plan is for the standard to be available to committees on a voluntary basis by the end of 2023, ahead of the planned legislation that will make the standard mandatory.

Scope and authority

This Standard will be applicable to audit committees of FTSE350 companies with a Premium Listing on the London Stock Exchange. It should be read in conjunction with the 'UK Corporate Governance Code' and the 'FRC Guidance on Audit Committees' – which will still apply.

Assuming primary legislation is passed to bring ARGA into being, the Standard would, subject to the appropriate powers being provided in the legislation, become mandatory. Companies in scope are encouraged to begin to apply the Standard as soon as they are able.

Companies which are not within the FTSE350 will not be required to apply the Standard. However, some companies, such as those which aspire to join the FTSE350 and/or those subject to mandatory audit firm tendering and rotation, may wish to adopt the Standard voluntarily.

The Standard

Most FTSE350 audit committees will, to a degree, already be following much of the draft Standard's content as it draws heavily on existing best practice guidance. However, as currently drafted, some of the Standards allow for a great deal of leeway (as does the FRC's 'Guidance on Audit Committees') and whether ARGA will be able to enforce compliance is a moot point.

Other provisions, primarily introduced to encourage diversity in the audit market, extend an audit committee's current duties and potentially stray into board decision making and business judgements. For example, the Standard requires that the audit committee should remind eligible firms that refuse to tender for the audit that they may as a result be ineligible to bid for non-audit services work.

Responding to the consultation

The FRC is seeking the views on the draft standard, particularly from the FTSE350 companies to whom the standard will apply. The consultation will run until 8 February. Respondents should submit their comments to acstandard@frc.org.uk by that date.

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