

Findings of the FRC's Audit Committee research point towards audit sector reform

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The Financial Reporting Council (**FRC**) has just published the outcome of new research into the approach that Audit Committee Chairs (**ACCs**) take to audit quality. The findings suggest inconsistency among ACCs on what constitutes audit quality, and how it should be approached, which the FRC says *“lends weight to the proposals for reforms in the audit sector”*.

The FRC commissioned YouGov, a market research and data analytics firm, to undertake interviews with 54 Audit Committee Chairs (ACCs), who chair the audit committees of 73 companies. The purpose of the research was to assist in the FRC's work of supporting Audit Committees to drive high quality audits, and its findings will be used by the FRC both in their ongoing work, and in any further reforms it deems are required in the audit sector.

As the research highlights, the purpose of an audit committee is to act in the interests of investors and other stakeholders of a company in order to oversee the corporate reporting process. This includes overseeing the audit of financial statements, the appointment of an external auditor, and ensuring the independence of the appointed auditor and the quality of the audit by providing challenge.

The research cites the recent collapse of various high-profile companies, including BHS and Carillion, which have given rise to public and political concern over the quality of audit functions. In light of this, there have been various independent reviews over the past few years, which form important background for the FRC's research.

The main theme uncovered by the FRC is that *“ACCs have different views on, and approaches to, audit quality”*. This has the potential to lead to inconsistencies in how ACCs approach promoting audit quality within their businesses. Many ACCs suggested that they wanted to improve their understanding of what makes a good audit, leading the FRC to propose the introduction of a set of standards for Audit Committees.

The FRC also note that *“few ACCs mentioned regularly challenging company management as well as the auditors”* and that any challenges to the auditors occurred mostly in the planning stages and

were “*less apparent in relation to auditors’ judgments and findings*”. Mark Babington, Executive Director of Regulatory Standards for the FRC, commented that this has meant “*insufficient focus on challenge of management and professional scepticism*” within Audit Committees.

The ACCs interviewed also gave a range of answers on the outcomes they wanted to see from the recent audit sector reviews. One common desire, however, was for “*greater transparency of the issues when audits go wrong*”, so that ACCs can gain insights from previous examples of where audits have failed.

Comment

As the FRC note, the outcome of this research leads to the conclusion that the implementation of a set of standards for Audit Committees, or some other reform, could help to improve audit quality. ACCs should take this research as an opportunity to improve on their standards of audit quality, and ensure they keep abreast of any reforms that may impact the audit sector, which are triggered by this research.

This post was also written by Charlotte Farnsworth.

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