SELECTING YOUR AUDITOR

A GUIDE TO TENDERING THE EXTERNAL AUDITOR APPOINTMENT FOR PRIVATE COMPANIES

APRIL 2018
1. INTRODUCTION

This guide has the following sections:

1. Introduction
   - Why it is a good idea for a private company to tender its audit
   - Purpose and who this guide is for

2. Summary of the audit tender process
   - Why and when to tender
   - Company – auditor relationship
   - Auditor independence
   - Key assessment criteria
   - The tender process

3. A step by step guide - detailed questions on audit tendering

1.1 Why it is a good idea for a private company to tender its audit

It is a statutory requirement for a company to ensure that its financial statements are audited1 (unless eligible for small company audit exemptions2). Whilst there are no legislative requirements for private companies to tender their audit, there are some very good reasons why it should be considered:

- It is good business practice to periodically tender for the supply of many goods and services – this applies to audit as for other any other significant purchase. It is in the company’s interests to be satisfied that the service it is paying for is fit for purpose and gives value.

- If the audit service provider has not been rotated for a long time, the risk of over-familiarity and potential for conflicts of interests increases which could have a negative impact on audit quality.

- A fresh approach and new perspective can provide new insights and observations.

- The experience of tendering audits in public companies has largely been positive with the benefits outweighing the costs.

- It is important to have a good quality audit so directors need to make sure that the company is getting what it should from its auditors. A tender may help.

A quality audit can benefit the business:

- A good audit helps to ensure the company complies with legislation and directors are kept abreast of changes in accounting standards, tax regulations etc. which could impact the business.

- The auditor brings professional scepticism, critical appraisal and a questioning mind which can highlight issues in the business that are an opportunity or are an area of risk to be managed. They can also identify potential misstatements due to error or fraud.

- The auditor provides independent, professional judgement:
  o evaluating the effective operation of procedures and controls,
  o identifying control failures, and
  o providing independent assurance to shareholders.

- Constructive/management challenge strengthens governance and reduces the opportunity for ‘group think’.

- Auditors have cross-lateral experience from providing services to a varied client base which offers:
  o a professional and informed sounding board,
  o the ability to question existing practices (are they right, can they be improved?),
  o an external perspective on the business model and management attitudes,
  o the opportunity to understand comparative practice.

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1 The statutory requirement for regulation of audit is laid down in the EU Audit Directive which is then adopted by the UK government department BEIS and implemented through the Companies Act 2006. Refer to the Companies Act 2006 from section 475 and right of members to require an audit section 476.

2 Audit exemptions are available for small companies, qualifying subsidiaries and dormant companies per the Companies Act 2006 (sections 477-481).
1.2 Purpose and who this guide is for

This guide aims to help the directors of a private company tender their audit services. It explains what factors drive a successful tender process and shares experience to help directors apply good practice.

A more proportionate tendering approach for private companies (compared to public interest entities) is the basis for this guide. While it is focused on medium to larger private companies, smaller entities can also adapt it to suit their circumstances. Larger private companies may seek to apply good practice for public interest entities (PIEs) which are subject to additional regulatory requirements please refer to ICAS Audit Tender Guidance for PIEs.

Audit committees and equivalent in private companies
Audit committees may not always exist in a private company. For some private companies it may be the board of directors, others may establish a project committee as a sub-set of the board who are responsible for audit tendering and evaluation. In this guide, we use the term audit committee to include equivalent arrangements e.g. a sub-committee of the board and ‘directors’ to include audit committee members or their equivalent, as appropriate.

2. SUMMARY OF THE AUDIT TENDER PROCESS

A well-managed tender process avoids unnecessary time and costs.

The following aspects of a tender process are explained:

- Why and when to tender
- A balanced company - auditor relationship
- Auditor independence
- Key assessment criteria
- Tender process: evaluation and award
- A step by step guide - detailed questions

2.1 Why and when to tender?

It is good practice to ensure that the audit is fit for purpose and offering value, tendering is a means to achieving this – see more on why it is a good idea for a private company to tender its audit in section 1.1.

Triggers for retendering may arise from the following:

(a) A significant change in the scale or geographical reach of the business e.g. known or expected strategic/operational changes to the business such as significant acquisitions or disposals or significant planned changes to an entity’s IT system.

(b) Changes of key personnel in the company or audit firm e.g. the Finance Director, Audit Committee Chair (or equivalent) or Audit Engagement Partner may trigger a need for an audit tender (for example, where it impacts on independence).

(c) An unsatisfactory review of the incumbent auditor’s performance.

(d) A very long relationship with the audit firm that is starting to raise concerns about over-familiarity and independence.

(e) Concerns around the effectiveness of the audit – the audit approach may need refreshing to reflect new developments such as the increasing use of data analytics.
(f) Motivation to test the market to make sure the service being offered is the most appropriate for the company, or

(g) Motivation to review the value for money of the current service offering, subject to audit quality not being compromised.

If the company is part of a group, there may be other entities and international legislative requirements to comply with if they operate overseas.

The timing of when to tender is important. Appropriate planning is critical for the success of the process so it should be included on the audit committee’s forward agenda. For example, it helps to schedule a tender well ahead of year end to allow planning, handover and stock counts to be arranged. Typically, a good time is soon after the prior year audit is signed off.

Directors should report to shareholders to keep them informed about when the company plans to tender and when formal tendering commences, as the auditors work for the shareholders and the shareholders might welcome the opportunity to engage with the company.

It is good practice to periodically reassess and challenge what is an appropriate frequency for tendering. There should be sufficient time for a professional client/auditor working relationship to be developed and optimised. The first year may involve a familiarisation period for both client and auditor - this investment is beneficial for both parties in subsequent years.

For those who adopt fixed auditor rotation terms, the perceived benefits of regular rotation include:

- maintaining objectivity,
- avoiding complacency,
- promoting audit independence, and
- creating a more competitive market.

2.2 Company – auditor relationship

A good working relationship between the audit committee/equivalent, finance director, the finance team, and the auditor can take time to develop and is generally a pre-requisite for a high-quality audit. The ideal relationship between each can be represented as an equilateral triangle where there is balance and professional respect without dominance. This means that the relationship between the external auditors and the audit committee has to be as strong as the relationship between the external auditors and the finance director/finance team.
Maintaining oversight

Although a formal audit committee may not exist, it is recommended that the board/sub-committee replicates some of its functions to maintain appropriate oversight of how effectively audit responsibilities are discharged including:

(a) Monitoring audit effectiveness, efficiency and the ongoing relationship between the auditors and the company
An annual assessment of the qualification, expertise, resources and independence of the external auditors and the effectiveness of the audit process should form part of this process.

(b) Developing a policy on the provision of non-audit services
If these are significant it can cause potential independence issues for the auditor, so a Board approval policy is usually required. This should detail the services which can be carried out by the auditor and approval limits, such as:
- A level that management can authorise (fairly low),
- A level requiring audit committee chair authorisation and if he/she believes appropriate, the views and approval of the full audit committee/equivalent can be sought.

(c) Awarding and monitoring non-audit services
This should comply with the policy (where it exists) and meet ethical standards for non-audit services – see section 2.3 Auditor independence in this guide and the FRC’s Ethical Standard 2016 section 5.

2.3 Auditor independence

The interest of the user of financial statements is paramount. Auditors have a duty to act objectively. Conflicts of interest can influence (or be perceived to influence) the auditor’s judgement or actions and threaten objectivity which may reduce the effectiveness and the quality of the audit.

It is expected that directors/audit committees take an active role to check that their auditors meet their professional ethical duties regarding integrity, objectivity and independence, and perform effectively.

Objectivity and independence of mind are crucial drivers of audit quality. Meeting audit independence requirements is an important criterion when it comes to deciding which firms should be invited to tender.

Auditors can provide other services to share their knowledge and expertise with clients, subject to independence requirements. Access to additional services can help some companies address skills or knowledge gaps. This may also be a factor to consider in auditor selection. However, there is a balance regarding the scale and type of non-audit services which can be provided to avoid over reliance on the auditor and the potential erosion of independence.

As part of the decision on which firms to invite to tender, the need to assess whether a firm is sufficiently independent will apply to those firms currently supplying non-audit services to the company. Key questions include:
- Do the firms satisfy the necessary independence requirements for the firm to tender, and
- How do you ensure that they stay independent during the tender period?

All audit firms should have processes in place as part of their own quality controls regarding the procurement of non-audit services to ensure that the objectivity, integrity and independence of the auditor is not threatened. Audit firms also need to adhere to the Financial Reporting Council (FRC) Ethical Standard (2016) which contains the principal rules on auditor independence in the UK3, including the identification and assessment of threats and safeguards. Some audit firms may also need to meet the independence requirements of regulators in other jurisdictions if group entities operate outside the UK.

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3 FRC Ethical Standard Section 2 details the requirements on financial, business, employment and personal relationships. For some entities, the independence requirements will also include those of regulators based in other jurisdictions.
Threats could include:

- Familiarity (long tenure, auditor connections with the company/staff),
- The proportion of the fee for audit and/or non-audit services and risk of financial dependence on the client,
- Auditor taking on management responsibility,
- Potential impact of non-audit service on the financial statements, and
- Any potential for self-review.

Some threats can be managed (where feasible) by applying appropriate safeguards. Further details are in the Financial Reporting Council (FRC) Ethical Standard 2016.

A long tenure and connections with the company, whether financial or otherwise, may increase the risk of over-familiarity, conflicts of interest and diminish the auditor’s ability (actual or perceived) to be able to exercise independent judgement and challenge. This is inconsistent with the principle of auditor independence.

Care is also required to ensure that when appointing a new director or member of the senior management team, the appointment does not impact (or is perceived to impact) upon the independence of the auditors. This will include the perceived influence of audit firm alumni in the senior management team, or any relationship between the auditor and members of the audit committee/equivalent.

**Independence - overarching principle**

“...free from conditions and relationships which would make it probable that an objective, reasonable and informed third party would conclude the independence of the firm or any covered person is compromised.”

Source: FRC Ethical Standard 2016


2.4 Key assessment criteria

Objectives for retendering + audit quality drivers = key assessment criteria.

To ensure the process is fair and competitive, tender documents should state the selection criteria for assessing proposals and access to information on the company should be equally available to all bidders.

A key objective of the audit is to provide stakeholders with confidence that the company’s financial statements can be relied upon. Audit quality has to be at the heart of the selection criteria.

Assessment is likely to consider 5 main areas as shown below.

- **Cost & value – quality first at a fair price**

  **Cost does not always equate to value.** Whilst cost is likely to be a factor in the decision the prime focus should always be on quality as it is critical that the company obtains the most appropriate auditor for its needs and directors meet their duties to shareholders.

  Placing undue emphasis on price is not recommended – this is likely to achieve a false economy by undermining the prime objective of audit procurement, being to source high quality audit services for a fair price. Too much downward pressure on fees can reduce the ability to operate effectively and ultimately reduces the choice of suppliers. Competition is one aspect of a healthy market.

At the heart of the assessment criteria must be “audit quality”. The overriding objective of undertaking an audit tender should be to seek to ensure that the organisation has the most appropriate auditor for its needs.

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4 A formal definition is provided by the FRC “The auditor’s objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes the auditor’s opinion.”

Description of the auditor’s responsibilities for the audit of the financial statements
b) Audit quality

Key assessment criteria may include the following:

(i) Audit quality - the effectiveness of the audit process

The firms should be asked to explain the audit approach that they will adopt and illustrate how they believe this best meets the needs of the organisation.

The proposed audit approach should demonstrate an understanding of the business, its sector, any key specialisms, major risks and how the auditor will respond to those risks. There is a balance however. Focusing on solely identical sector experience can mean missing out on good practice and insights from other sectors.

Experience of organisations with similar levels of complexity, not solely identical experience can be beneficial. Cross-sector experience has value and too tightly defined a requirement may reduce potential suppliers and therefore competition.

Capacity to undertake the work

Firms operating in the sector should be able to identify key partners, managers and field staff who possess the requisite skill sets to provide a quality service in the sector. They should be requested to identify a proposed team with the required sector skills and the ability to deliver the audit service in a timely manner.

Firms should have an appropriate training programme in place to ensure their staff meet all continuing professional development requirements and are aware of current issues facing the sector.

Geographic coverage, different industry operations and the firm’s network/ability to resource this should be considered if group entities exist or the business operates across various locations.

Understanding the major risks and how to respond

The auditor’s response to the identified risks would be expected to include:

- An assessment of materiality,
- How specific high-risk areas would be audited,
- The approach and scope of audits of other undertakings within the group, and
- The audit approach to systems, controls and IT processes.

Other questions for auditors may include:

- An explanation of their approach to innovation and the extent to which technology will be integrated into the audit approach (including, where relevant, use of data analytics),
- Use of scenarios to allow the auditors to illustrate their professional judgement - this might involve asking the prospective candidates to comment on the company’s accounting policies. Care is required to avoid opinion shopping – the objective is to illustrate sound judgement and understanding not to identify the lowest regulatory bar.

Comparing input measures such as audit hours as a driver of cost may not always be appropriate. The key question is audit quality and how this is achieved. Effective use of data analytics and technology are developments which some firms use that may reduce staff hours but increase efficient audit coverage and analysis.
(ii) The firm’s audit quality record

Firms are required to adhere to professional standards and guidance issued by professional bodies. While audit firms will be subject to external quality reviews by quality monitoring bodies they should also have internal quality assurance procedures in place. Firms should be able to provide details of both external and internal quality reviews and the actions put in place to address issues arising from the reviews.

The firm’s audit quality control arrangements should be assessed and audit quality review reports reviewed (where available). Audit quality review reports for larger firms are published by the FRC. Smaller firms are subject to monitoring/quality review by their professional body. These reports are not published but it can be helpful to discuss review findings with the lead partner.

The initial request for information from firms can include an explanation of how they ensure they comply with independence requirements as well as their approach to ensuring an appropriate ethical culture exists within the firm.

Audit firm and engagement lead compliance with regulatory standards

Audit is a regulated activity and there are restrictions on who can conduct an audit. Every firm conducting audit work must be registered with, and subject to supervision by, a Recognised Supervisory Body (RSB) of which ICAS is one (for others see the Register of Statutory Auditors).

Individuals responsible for signing audit opinions within each firm must hold a recognised qualification and the firm must apply for them to be approved by the firm’s RSB as a Responsible Individual (RI) via a rigorous vetting process. This includes detailed assessment of qualifications, audit experience and continuing professional development requirements. RI status is not portable and is linked to the firm. If the person moves firm, their RI status ceases and must be re-applied for in the new firm.

c) Access to additional services - the firm’s skills and experience and best fit with company needs

The entity may need to access additional specialists, expertise and non-audit services. A firm’s capability to supply these to meet knowledge/skills gaps in the company may be an additional factor.

The firm’s wider experience and understanding of key specialisms, systems, relevant cross-lateral experience, experience/ability to operate in certain jurisdictions and technical knowledge may strengthen the firm’s ability to provide useful insights and add value.

d) Company auditor relationship

Factors include the skills and personal qualities of audit partners and staff such as:

- Personal chemistry with the audit lead and ability to form a constructive working relationship,
- Mutual respect and the auditor’s ability to challenge, exercise professional scepticism and maintain integrity,
- The engagement lead and audit team demonstrate appropriate knowledge and experience,
- Effectiveness of communication and chemistry, and
- The lead partner’s audit quality and performance record (internal personal appraisals and references may be available).

Asking firms in person to explain briefly what their values are and their approach to business ethics can help to indicate likely fit.

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3 The monitoring of audit firms with public interest entity (PIE) clients is conducted by the FRC’s internal Audit Quality Review team. In the case of a small firm with 10 or less PIEs, the monitoring is conducted by the Recognised Supervisory Body (RSB), being an approved professional accountancy body. For ICAS see audit monitoring.

4 Some audit firms are required to publish annual Audit Firm Transparency reports which can provide some initial information on culture. However, this only applies to auditors of UK companies with securities admitted to trading on a UK regulated market. It highlights how the firms seek to ensure audit quality and compliance with the requirements of the UK Audit Firm Corporate Governance Code.
e) Effective communication

Firms should explain their approach to communicating with those charged with governance, management and the audit committee. The directors should assess the planned frequency of written and verbal communication so deadlines can be met and to ensure clarity of communication on technical issues.

Additional guidance for assessing audit quality

See the FRC Audit Quality – Practice Aid for Audit Committees.

2.5 The tender process

This section outlines practical tips and what to expect at each stage of the process.

Thorough planning and careful execution helps minimise the time and costs for both management and the audit firms.

Overall responsibility, control and decision-making lies with the audit committee/equivalent. All members of the committee need to be engaged on this issue, not just the chair.

The aim should be to conduct the audit tender at the time which will have least impact or disruption on the business.

It is good practice to evidence the audit committee’s/equivalent rationale for selecting their choice of audit firms.

What to expect at each stage of the process

Good practice tendering usually follows four stages.

- **Stage 1: Preparatory Work**
  - Establish a project committee/manager
  - Determine the timetable
  - Identify the list of firms to be invited to tender
  - Clarify the required skill-set of the Audit Engagement Partner
  - Evaluation

- **Stage 2: Audit Proposals**
- **Stage 3: Presentations**
- **Stage 4: Decision**

Establish a project committee

The audit committee is responsible for controlling the process but it is good practice to identify a project manager to ensure the project progresses as planned. Some activities may be delegated. Entity staff or external consultants may be engaged to support the audit committee with the process but responsibility remains with the committee. Smaller companies are likely to take a less formal approach.

Determine the timetable

The timetable should confirm:

- Key project planning dates,
- What information will be made available to candidates and how,
- What access will they have to management, and
- What access may they have to the incumbent auditor.

It is important to set the dates early. The Proposal Request (PR) should set out:

- The dates when a data room will be open (where it exists) for online access to information,
- When the management meetings will take place,
- When the tender will take place and closing date, and
- Availability of key contacts and audit committee members in the company.
Identify the list of firms to be invited to tender

The board/committee can try to tap into the knowledge of their group’s network. They may have knowledge of other audit firms through other services they provide to the company or through professional networks and other directorship appointments that they may hold.

Possible conflicts should be considered before identifying the tender list, such as the potential impact on audit independence of a firm currently providing non-audit services to the company or group entity, and whether they should be excluded from the invitation to tender. While the individuals providing audit and non-audit services may be different, a firm’s prior provision of non-audit services may lead to an actual or perceived loss of independence were the auditor required to comment objectively on the work of colleagues.

In preparation for the tender process the project manager can produce a questionnaire to help gather information from the firms directly.

A review of the firm’s independence should be carried out at this stage (see section 2.3 Auditor Independence).

Required skill-set – Audit Engagement Partner/Responsible Individual

The level of skills and experience required in the audit engagement partner or responsible individual (RI) will need clarified. This allows a discussion of the respective firms’ capabilities and any independence issues etc.

For smaller entities the RI might be a director. It is worth considering evaluating the team members as they are likely to be the key people the company’s staff will work with most often.

Evaluation

Audit committees need to decide on a means of fairly evaluating and ranking the prospective candidates against objectives. A scorecard ranking the key assessment criteria is sometimes used; management views should be incorporated before the final decision.

Proposal Request (PR)

All potential bidders should be treated equally to ensure a fair competitive process. The PR should seek to ensure a level playing field and the same background information pack should be available to all of the prospective firms. The firms should be asked to sign a confidentiality agreement prior to being provided with information about the entity.

The main aspects of the tender process should be included in the PR:

- the timetable and key dates e.g. submissions deadline,
- key contact details,
- expected deliverables from the firms, and
- the assessment criteria.

Communicating the assessment criteria better informs prospective firms to help them formulate their audit approach and submit an informed tender. The format of the PR and tenders should be ‘clear and concise’. Many request firms to limit the length of their tender documents (to around 20 pages) and also limit the number of appendices.
Informing bidders

Firms will need access to detailed information about the company to help them identify what they believe to be the key business and audit risks. This may be through providing relevant documents for inspection at specific times or by creating access to secure online data (a “data room”). Data rooms are increasingly common however may be less likely for smaller companies. They require controlled access and a main contact person for questions.

The availability and access to information should be the same for all firms tendering.

Information to be shared with bidders

This is a decision for the audit committee/equivalent but the information would normally include the following (not exhaustive – for further details see the checklist in section 3):

• Details of the entity i.e. group structure including geographic locations, business type and organisation charts, business/strategic plan and current/future budgets.
• Accounting information including statutory accounts, group reporting requirements and systems to help indicate the scale of audit work.
• Relevant audit committee and board papers.

Care is required not to overwhelm participants with too much information which could hamper knowledge building.

Meet management

The firms should be given the opportunity to meet with key personnel to allow them to gain a more comprehensive understanding of the entity and its business model, risks and internal controls. It also helps to strengthen the quality of submissions and tailor the service on offer. Meetings with local management at key sites may be required.

Submission and invitations to present

Following receipt and review of submissions, all, or a shortlist of firm(s) can be invited to present (stage 3).

Format and focus of presentations of service offerings

Formats vary from a formal presentation, to going through the submissions already received, to a question and answer session. The audit committee/equivalent should be clear upfront with the firms as to what is expected. The entire audit committee/equivalent should attend the presentations, usually with some members of the management team, e.g. the Finance Director and the Financial Controller. Board members can be invited.

The focus of these sessions should be on how the firms would:

• intend to conduct the audit,
• deal with difficult judgemental issues, and
• communicate with management and the audit committee/equivalent.
Larger companies may decide to set the audit firms a technical challenge. These can be considerably varied but tend to focus on matters relating to an accounting or auditing issue and/or ethics and independence issues. The firms could also be asked to provide their views on the company’s accounting policies and possibly other key matters stated in their most recent financial statements. The objective is to hear different views and ascertain competence - it is not a case of choosing the auditor with the lowest regulatory bar.

The audit committee should be briefed on findings and conclusions of any publicly available inspection/monitoring reports to support their assessment of the bidders. For larger audit firms this would include the audit firms’ Transparency Reports and the FRC Audit Quality Review.

**Selecting attendees from the audit firms**

Depending on the company’s circumstances and needs, the involvement of specialists may help to inform an assessment. For example, audit partners responsible for IT, other specialists and more junior members of the team might provide a broader view, although too many people can become cumbersome. Decisions can be influenced by the perception of the quality of staff supporting the RI so the audit manager and in some cases audit in-charges can be useful attendees.

**Fees**

The audit committee/equivalent should be responsible for audit fee negotiations. Some organisations analyse the fee quotes and brief the audit committee on the issues arising before the presentations are made. They can then challenge the firms as to delivery of audit quality (if there is a low quote) or ask them to justify a higher than expected fee (for example: what additional assurance arises from the higher fee, do they believe the prior auditors did not deliver the quality audit that they will deliver etc.).

Some organisations may shortlist the preferred firm before considering the fee. This helps focus the decision to appoint based on quality and expertise rather than price. Some use separate envelopes for the bid and fee to help focus the decision more on quality rather than price. In this approach the fee is negotiated after the decision is made on which firm to appoint.

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<thead>
<tr>
<th>References</th>
<th>Recommendation and approval</th>
<th>Feedback to bidders</th>
<th>Engagement letter</th>
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**References**

References for the audit firms can be requested and should be taken up for the firm it is planned to award the audit to.

**Recommendation and approval**

A recommendation and supporting rationale is given to the board⁷ and shareholders for approval.

The board will decide which audit firm should be recommended to shareholders for approval.

**Feedback to bidders**

It is helpful if feedback is provided to the bidding firms on their performance during the tender process with reasons why the successful firm was chosen and/or why they were not chosen.

**Engagement letter**

The auditor should provide an engagement letter which confirms the scope and responsibilities of the auditor and client to ensure that a full understanding exists on both sides. This should be reviewed, signed and returned to the auditor.

⁷ Further requirements on the appointment and removal of auditors of private companies see the Companies Act 2006 sections 485-488.
## Planning

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<td>1.</td>
<td>Has the audit committee formulated a policy for how often it would intend to put the company’s external audit out to tender and if so, has that policy been agreed at board level?</td>
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<td>2.</td>
<td>Have all relevant jurisdictional requirements been identified which may impact the company’s tender process e.g. operations in other countries in which the company has a presence?</td>
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<td>3.</td>
<td>Have the reasons for putting the audit out to tender been clearly debated and objectives established?</td>
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<td>4.</td>
<td>Has the most appropriate time in the year to undertake the tender process been confirmed?</td>
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## Tender Process Stage 1 – Preparatory Work

### Objective setting and project management

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<td>5.</td>
<td>Have the key assessment criteria (scorecard) been established on which the ultimate decision will be based? This should also be used to score each firm’s written submission and presentation and will include a list of necessary skills and services (subject to independence requirements) required of the auditors.</td>
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<td>6.</td>
<td>Has a project committee been established to oversee the tender process?</td>
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<td>7.</td>
<td>Has an appropriate individual been given responsibility for leading the tender process?</td>
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<td>8.</td>
<td>Has a timetable been prepared for the process, including providing adequate access for the firms to senior management, finance personnel and the audit committee? Is the timetable feasible given the likely demands on the time of senior personnel?</td>
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## Identifying potential firms

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<td>9.</td>
<td>Has consideration been given to seeking views from other appropriate parties, independent of the board, on which possible firms to include in the process?</td>
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<td>10.</td>
<td>Do you already use any of the firms selected to provide non-audit services? Their performance may provide an indication as to the suitability of the firm concerned.</td>
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<td>11.</td>
<td>Has an analysis been performed to ascertain which audit firms it would be appropriate to invite to participate in the tender process? Does this analysis include:</td>
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<td>a) Reputations of audit firms (including whether the subject of investigation and outcome)?</td>
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<td>b) Industry knowledge and expertise?</td>
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<td>c) Any past experience of audit firms?</td>
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<td>d) Financial stability, risk profile and litigation record?</td>
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<td>e) Any personal references?</td>
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<td>f) Nature and reach of auditor’s network?</td>
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<td>12.</td>
<td>Have the relevant firms signed a confidentiality letter prior to receiving information?</td>
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### Independence and conflict checking

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<td>13.</td>
<td>Have the board identified any independence issues that they may have with any of the firms being considered?</td>
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| 14. | Do any other potential conflicts exist, such as existing relationships, engagements with the company or regulatory or professional requirements, which could exclude a particular audit firm from the tender process?  
   If any such conflicts currently exist, will these still be an issue at the date the audit appointment is due to commence?  
   Has the company started to manage the work being awarded to those firms invited to tender so as not to create potential independence issues? |

### Skills and experience – assessing capability

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<td>15.</td>
<td>Do the audit firms identified have the necessary expertise of the sector(s) in which your company or group operates?</td>
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<td>16.</td>
<td>Does the company’s audit or other assurance requirements necessitate specialist skills (e.g. actuarial skills) and does each of the identified potential candidates possess these skills?</td>
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<td>17.</td>
<td>Have preliminary meetings been held with prospective firms to seek to get an understanding as to whether that firm has the capability to conduct the audit?</td>
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### Tender Process – Stage 2 – Audit Proposals

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| 18. | Has the audit committee prepared a Proposal Request (PR) document which will allow all parties to tender on an equal footing?  
   The scope of the work being tendered needs to be clearly defined in the tender document. It should clearly set out the details of the tender process including the evaluation criteria to be used, the key contact at the entity and relevant dates. |
| 19. | Has the required content of the written proposals to be submitted by the firms and the maximum length been specified? |
| 20. | Does the PR explain the process by which those tendering can access information about the company including:  
   a) A schematic of the group’s structure, geographical locations and legal status of entities?  
   b) Financial performance?  
   c) Control framework?  
   d) IT infrastructure and strategy?  
   e) Internal audit structure, role and responsibilities?  
   f) Risk management processes?  
   g) Organisation structure charts?  
   h) Prior year accounts and other corporate information, as appropriate?  
   i) Accounting procedures manuals?  
   j) An overview of the financial accounting business systems, software, whether unified or disparate systems across the organisation/group, how managed, if monthly/quarterly reporting, etc?  
   k) Reporting procedures manuals?  
   l) Other relevant information (such as audit committee and board papers)?  
   Access to this information can be via an online secure data room. |
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<td>21.</td>
<td>Have the relevant audit firms provided a statement of independence and have they got policies in place to ensure they remain independent until the tender process is completed?</td>
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<tr>
<td>22.</td>
<td>Where time and cost constraints permit, have plans been made for the shortlisted firms to visit selected typical company or group operations?</td>
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<td>23.</td>
<td>Is there a process to enable the audit committee to receive feedback on shortlisted firms from other relevant managers in the company, where appropriate (e.g. management of any visited operations)?</td>
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**Tender Process – Stage 3 – Tender presentations**

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<td>24.</td>
<td>Has a list of questions been prepared for the final presentations?</td>
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<tr>
<td>25.</td>
<td>Will the shortlisted auditors be asked to comment on the company’s accounting and financial reporting manuals, consolidation pack and other relevant documentation used by all company or group operations?</td>
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<tr>
<td>26.</td>
<td>Has it been decided which personnel from the shortlisted audit firms should be invited to attend?</td>
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<td>27.</td>
<td>Consider, who from the company other than audit committee members should be invited to attend the face to face presentations – and have dates been reserved for them (the Finance Director and Financial Controller would normally be in attendance)?</td>
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<td>28.</td>
<td>Has it been ensured that the firms’ submissions and presentations will be assessed based on the key assessment criteria?</td>
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<td>29.</td>
<td>Are the people presenting to the audit committee those that will conduct the audit?</td>
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<td>30.</td>
<td>Have the following factors (in no particular order) been considered in making the final decision on the appointment of the auditors:</td>
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<tr>
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<td>a) Reputation and financial stability of the firms?</td>
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<td></td>
<td>b) Audit approach?</td>
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<td>c) Views of stakeholders, regulators and financiers, as appropriate?</td>
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<td>d) Previous experience and recommendations from others?</td>
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<td>e) Value for money?</td>
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<td>f) Reputation, personality, perceived quality, experience, enthusiasm, demonstrable interest in the company, of the key audit partners and staff?</td>
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<td>g) Depth of audit team expertise and technical back-up, including access to any necessary specialists?</td>
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<td></td>
<td>h) Business understanding?</td>
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<td></td>
<td>i) Industry expertise?</td>
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<td>j) Geographic service capability?</td>
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<td></td>
<td>k) Independence and objectivity?</td>
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<tr>
<td></td>
<td>l) Procedure for ensuring continuing independence and objectivity?</td>
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<td></td>
<td>m) The extent technology will be integrated into the audit approach?</td>
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<tr>
<td>31.</td>
<td>Has the audit committee properly documented its conclusions?</td>
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<td>32.</td>
<td>Have plans been made to notify shareholders of the decision?</td>
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**Points to note**

If the decision is made following a tender process to change the current auditor and appoint new auditors, then there will be various legal and procedural matters which will need to be addressed. This may involve seeking external legal advice. This should be undertaken once a decision has been made but prior to any public announcement.
ACKNOWLEDGEMENTS

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