



Changing auditors

Pulse survey into the principal risks and benefits of changing auditors

Audit Committee Institute part of
KPMG Board Leadership Centre



Regular audit tendering and rotation is now a reality. During our recent series of ACI Technical Updates we took the opportunity to explore the perceived risks and benefits of changing the external auditor with around 150 audit committee members.

The greatest perceived benefit of 'new' auditors is (by far) the 'provision of fresh insights into the business' (87% of respondents). 'A new perspective on existing accounting judgements' was the second most cited benefit (45%) followed by 'increased audit quality' (24%) and 'greater sector experience' (21%). The most frequently cited downside risks were the potential for 'reduced understanding of the business' (66%), 'increased disruption of the business' (46%); and 'a disruptive change of view on existing accounting treatments' (42%).

1 Two-thirds of respondents were concerned that incoming auditors would – At least initially – Have less knowledge of the business than the firm they were replacing. This concern was arguably more than matched by those recognising the potential for greater sectorial expertise (21%) and fresh insights into the business (87%).

Forty-six percent perceived 'increased business disruption' to be one of the principal risks of auditor change.



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While relatively few respondents identified 'audit quality' as a principal risk/benefit of auditor change, almost three times as many respondents cited the potential for increased audit quality as those citing the risk of reduced audit quality.

3 Notwithstanding the fact that the new audit tendering and rotation requirements were largely driven by investor concerns, very few respondents identified the potential 'impact on investor sentiment' as a principal risk/benefit of auditor change.



Similarly, relatively few respondents considered the 'impact of auditor change on the provision of non-audit services' to represent a significant risk or benefit. Of course, this does not mean that auditor change will not have a significant impact on non-audit services. Any change of auditor needs to be considered in parallel with the list of prohibited non-audit services (and other independence considerations), the 'cooling-in' period for certain prohibited non-audit services and the new 'fee cap'.

5 Almost half of the respondents cited the potential for a fresh perspective on existing accounting judgements as a principal benefit of auditor change, although interestingly almost as many were concerned that auditor change might introduce 'a disruptive change of view on existing accounting treatments'. This nervousness that an extended debate with new auditors around key historical accounting judgements might be onerous for management and the audit committee is understandable given the relatively limited experience of auditor change in the UK. However our experience is that detailed transition plans for auditor change have ensured this concern has not been borne out in practice.



Relatively few respondents cited an increase/decrease on audit fee as a principal risk/benefit of auditor change. This is consistent with our experience of over 120 FTSE350 audit tenders since March 2013 where audit fees have remained broadly flat.

Our publication [Audit Reform](#) sets out many of the considerations for audit committees seeking to comply with the new 'tendering and rotation' requirements – In particular, how audit committees might approach the new prescriptive requirements relating to the audit tender process itself. You might also be interested in the [Twenty Five Insights](#) on audit tendering and rotation arising from our recent ACI breakfast.

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