



# Getting real value from the audit tender process

**Audit Committee Institute** part of  
KPMG Board Leadership Centre



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# Choosing the right audit firm

Choosing the right auditor for your organisation is essential – it'll help to make sure you get the best out of the process and allow you to reap the material benefits of an audit for your business.

It's true that the audit process is there to make sure your business is compliant, and if it's done well, it should keep disruption to a minimum. But it's also a chance to take a close look at how you're doing things now, to see what could change and to understand how you can use the process to make your business more efficient. It could save you time and money in the long run, so you need an auditor that knows how to fine tune the process to your needs. That's what we mean by getting real value from the audit tender process.

## What you need to do as an Audit Committee

Making the recommendation to the board on the appointment of the statutory auditor has for many years been a fundamental Audit Committee responsibility. Nevertheless, the recent EU Audit Reforms introduce legally binding requirements in relation to audit tendering and rotation for Public Interest Entities (PIEs) that for many Audit Committees will represent a significant change to their role. Specifically, unless the company qualifies as a small or medium-sized company or is a company with reduced market capitalisation, the Audit Committee must *inter alia*:

- ensure that the tender process does not in any way preclude the participation in the selection procedure of non-Big 4 firms;
- ensure that tender documents are prepared that allow the invited auditors to understand the business of the audited entity;
- ensure that the audit proposals are evaluated in accordance with the predefined non-discriminatory selection criteria and that a report on the conclusions of the selection procedure is prepared and validated by the Audit Committee;
- identify in its recommendation to the Board its first and second choice candidates for appointment and give reasons for its choices; and
- ensure that the company is able to demonstrate to the competent authorities, upon request, that the selection procedure was conducted in a fair manner.

As Audit Committee members, you are responsible for initiating and supervising the audit tender process and for recommending the best auditor to suit the needs of your business. We've put this guide together to help you approach the tender process in a way that makes it a really worthwhile exercise – one that delivers lasting benefits for your organisation.

## Finding the right balance

Getting the balance right in your audit tendering process is really important – it'll help you to become more efficient and it can also help you keep down the time and cost of the audit process itself. Finding the right firm, one that's experienced in your sector, understands your needs and knows your business can give you a head start.

Getting the balance right in your audit tendering process is really important – it'll help you to become more efficient and keep down the time and cost of the audit process itself



# The approach

This is what a typical tender process looks like.  
We've added some key points around how to get the best from it.



## How many?

- Consider who to invite. The tender process must not preclude the participation in the selection procedure of non-Big 4 firms.
- Ensure firms are independent or able to obtain independence confirmation.
- Acknowledge the existing auditor, if it's useful, seek their collaboration and input.
- Understand the benefit of change for both you and them. Keep a positive relationship with the current auditor.
- Consider how various firms in audit and non-audit roles may shuffle. What's likely to change? How do you benefit from any potential movements in both audit and non-audit service providers?



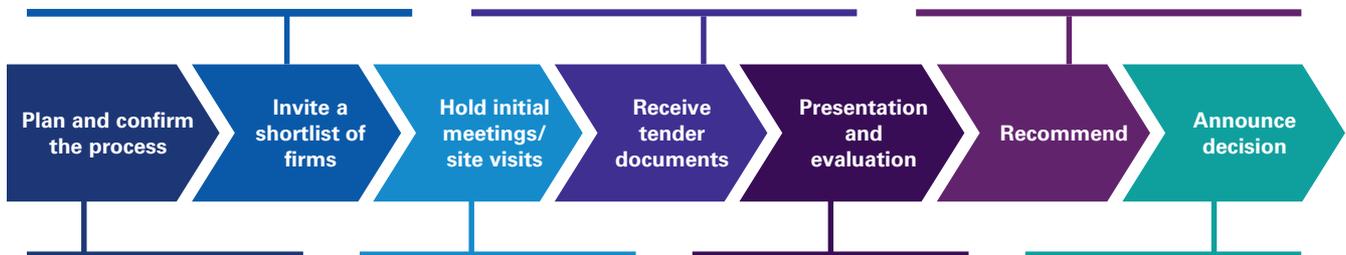
## Document or not?

- Provide workable timings for tenders to give their best response.
- Think about how the formats they use to respond – traditional hard copy document response vs alternatives such as soft copies.
- Keep RFP and allowed response size guidance short.
- Link tender document questions to the scorecard.
- Provide feedback to tenderers.
- Update decision scorecard criteria.



## Manage any differing internal points of view

- Use scorecard as a guide.
- Give consideration to both tangible and intangible scoring.



## Develop initial scorecard

- Workshop to align stakeholders – Audit Committee/Board/ executive management.
- Gain input from others and the existing auditor.
- Include tangible and intangible criteria.
- Prioritise and weight scorecard.
- Pre-tender evaluation.
- Keep scorecard flexible at feedback points.
- Share the scorecard with participants.
- Assign project management resource.



## Communication and data

- Be clear around what's involved in the project.
- Structured briefing to participants – 1 to many and 1 to 1.
- Workshops with tenderers.
- Involve executive management and AC.
- Create a data-room.
- Manage the relationship with the incumbent.
- Keep site visits well managed and efficient.
- Provide feedback.
- Update decision scorecard criteria.



## What is real?

- Consider alternatives to a formal presentation that will allow you to see what it's really like to work with prospective firms.
  - LP – interviews
  - Q&A
- Mark against decision scorecard criteria.
- What do the documents tell you?



## Now what

- Finalise any remaining commercial terms.
- Transition – allocate resources.
- Involve the incumbent.
- Consider any actions to be taken relating to changes to the services various firms will now provide (the service shuffle).
- When does independence start?
- Win/loss debriefs.

# Tendering – the myths

## **Myth 1 – You need three firms to create competitive tension**

While the EU Audit Reforms requires that the Audit Committee recommends two potential audit firms - a first and second choice candidate - together with the reasons for its choices, narrowing the field to two competitors early in the process reduces effort all round. It's possible to achieve a healthy level of competition with two firms, but it's important to address two key issues:

1. Do the two firms address your key criteria?  
First, run a tight RFI/EOI process. Keep to a small number of questions, say five, that address your key criteria. From this, reduce the list to the top two firms.
2. Ensure both firms are thoroughly independence cleared. Ensure that the selected firms can establish independence by the required date before narrowing down the field. Not doing so may result in a firm having to remove themselves from the process for independence reasons, which could mean losing the competitive environment.

Note, there is a risk to Audit Committee members (who may face a temporary ban of up to three years from being a Board member of a Public Interest Entity if found to be in breach of the new Regulation) and the process itself if the Audit Committee is unable to recommend a first and second choice if (say) one firm pulls out late in the selection process or subsequently proves to be an unacceptable choice.

## **Myth 2 – There'll be a level playing field**

Each firm has very different experiences and levels of established relationships. You can't have a complete like-for-like comparison.

Fairness is really important. Allow each firm the time, access and opportunity to build and present their best offering.

## **Myth 4 – There should be a clear winner**

If there's daylight between the firms then there's an easy decision, but this could also point to there not being enough competitive tension between those participating. Make sure you give each tenderer fair time and access to demonstrate their capability to meet your needs.

## **Myth 5 – There shouldn't be any feedback during the process**

As you progress, firms may raise issues that merit revisiting their performance against certain of the predefined selection criteria. Equally some predefined criteria may alter or become redundant as the group's circumstances change (e.g., the withdrawal from a geographic market or business sector). Some flexibility in this regard would – if handled transparently – be reasonable as ultimately it will ensure a fair process that leads to a better informed choice of audit firms.

Similarly, providing firms with feedback across the process will allow them to tweak their solution to be the strongest it can be for you. For example, if a team member isn't quite gelling with you, why not provide feedback? This allows the firm the opportunity to change that team member, meaning that you'll ultimately have a stronger team available to you.

## **Myth 6 – Tendering firms don't need access to the Audit Committee chair/the Audit Committee chair will rubber stamp the decision.**

Allowing firms time and access to your organisation strengthens their ability to provide the most relevant and tailored service offering. Remember, only the Audit Committee can initiate and supervise the tender process and make the appointment recommendation to the Board.

# Step 1 – Identify objectives



Think about what you want to achieve before starting the process. Stakeholders may have different objectives so it's important to align each stakeholder well in advance to avoid later disruption to the process or decision making. It's often beneficial to hold a stakeholder workshop to identify and collate the objectives of the collective group. You may want to involve the existing auditor in this discussion where appropriate, to ensure you're covering all considerations.

#### **Give careful consideration to the services you need:**

- What's included in the tender? Should it include "the fund" as well as the corporate audit?
- Which services should be tendered at the same time? Are there potential benefits from tendering internal audit and expat taxation or other services at the same time as the external audit? Tendering a number of services simultaneously will increase the effort involved, but this could be marginal compared with conducting separate tenders for separate services over a number of years.

#### **Your objectives may include:**

- Improved audit quality and/or service.
- New ideas.
- New approach.
- Fee reduction.
- Testing the market.
- Rationalising the advisers in a group.
- Access to a wider range of experience.
- Better continuity.
- Responding to corporate governance best practice.

Agreeing objectives with key stakeholders well in advance will lessen potential for disruption throughout the process or during the decision making process.

# Step 2 – Plan the process

Planning is important. Not only to help achieve a successful outcome – it also ensures the process is as efficient as possible. Careful planning can help you to control the amount of time devoted to the exercise, while allowing firms the access they need to develop an effective proposal.

A poorly managed tender can create additional work through, for example, participants needing to clarify matters or seek additional information, duplicated effort by internal personnel or an inefficient decision making process. There's also the potential for significant management time to be diverted from their "real" job – managing the business.

## Appointing a project manager

Appointing a project manager could allow you to focus your efforts on assessing the firms and reaching the right decision for you based on your evaluation criteria.

The role of the project manager is to manage the process and be the direct contact with the participants.

## Setting the parameters

The project manager will need direction, so ensure that the parameters of the process are clearly defined. The following activities could help smooth the process and increase efficiency:

- Document the objectives of the tender.
- Clearly define clearly the scope of the work you're offering.
- Define the information to be made available to the participants and make it easily available to them.
- Establish a timetable for the process, which takes into account the commitments of both your senior executives and the financial management team.
- Consider access to the Chairman, Chair of the Audit Committee and other non-executives and directors as appropriate.
- Agree the composition of the selection panel and the decision making process and criteria that you'll follow.
- Decide on the scope of the written proposals you require and the format of the oral presentations.

For the firms to be able to develop the right approach, they need a good understanding of your business, your needs and your key personnel. This means providing them with an appropriate level of information and access to management.

## Designing the proposal process

Professional services tenders traditionally follow a standard structure:

- Invitation to tender – the organisation writes to the firms asking if they're interested in pitching for the work and are capable of delivering to headline needs.
- Site visits – the firms meet with key personnel to understand the business and its needs.
- Document – firms submit a document setting out their proposal. The company reviews the documents and can then draw up a shortlist.
- Presentations – selected firms present to a panel and answer questions.
- Appointment – the decision makers agree which firm they want to appoint, notify the firm and complete negotiations and contractual aspects.

Discussion and negotiation may continue throughout the process.

Increasingly, organisations choose to design tender processes that don't strictly follow the approach set out above. For example, you may choose not to hold formal presentations and instead host deep Q&A sessions developed specifically for each individual firm. This can reduce time and cut straight to the areas where you need most clarity.

## Timetable

The length of time you need for your tender will depend on a number of factors:

- The process you decide to follow.
- The number of firms you invite – the more you invite, the longer the process will take.
- Availability and other commitments of your personnel involved in the tender.
- Timing of existing Board and Audit Committee meetings.

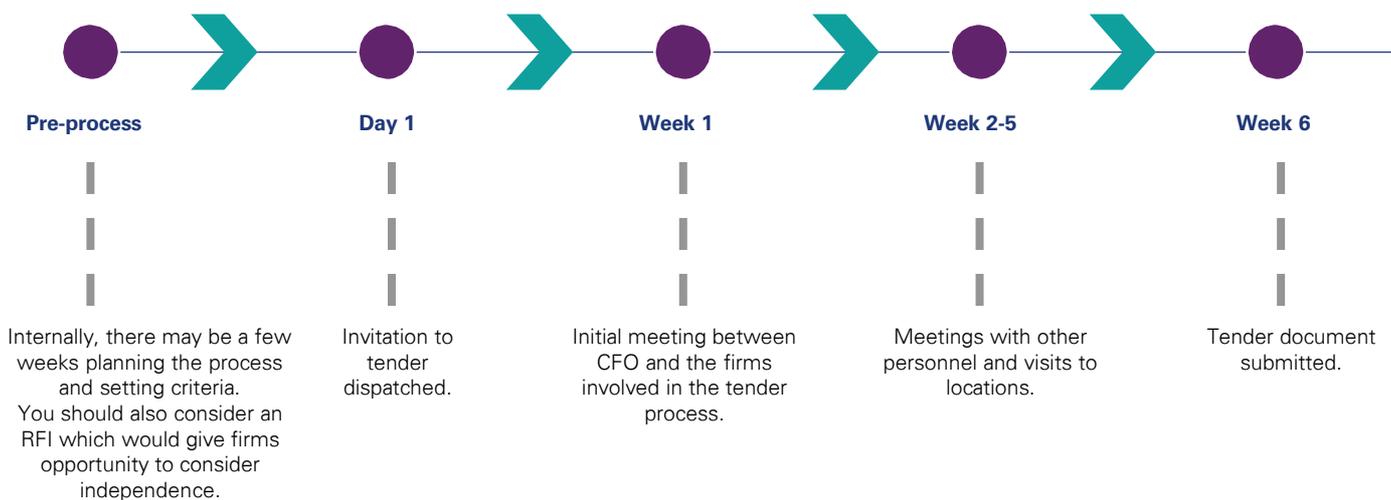
The timing of a tender can affect the ease of changing auditors and the efficiency of the process. Typically an audit tender process lasts between eight and twelve weeks from the time the invitation to tender letter is issued. However the timetable should be developed to accommodate the specific needs of your organisational requirements and objectives.

Remember that the ability of the firms to develop an offer tailored to your objectives and requirements depends on them being given reasonable access to management during the process. Balance this with the amount of time your organisation can commit.

Planning a tender process is very important and appointing a project manager is one way of improving the efficiency of the process.

As well as the timetable of your process it is also important to consider the timing of when you first connect with the market and subsequently run the process. This is particularly relevant for independence purposes as some firms might take longer than others to establish independence so it is important to factor in plenty of time for firms to work through what may be required to achieve independence. Of specific note, are the “cooling in” provisions, that prohibit internal audit services and certain design and implementation services in the year prior to the first period which will be subject to audit by the new auditor.

As an illustration, we ‘ve included a twelve week timetable below.



## Example timeframe for a twelve-week external audit process

## Selecting the invitee list

It's a good idea to invite only those firms that you know have the resources, infrastructure and coverage to be able to do the job.

If you're not sure which firms to invite, think about those that you, or other people in your organisation, already have a relationship with. You could ask for recommendations from:

- Other Board members.
- Current suppliers.
- Your own contacts.
- Other business networks.
- Other finance directors.
- Multipliers (bankers/lawyers).

If you have a concern about a particular firm that could disqualify it from being appointed, for example over a conflict of interest, it's better to resolve the issue before the tender gets under way.

The Audit Committee should be cognizant that the new EU Audit Reforms require that the tender process does not in any way preclude the participation in the selection procedure of firms which received less than 15% of the total audit fees from PIEs in the previous calendar year – effectively non-Big 4 firms.

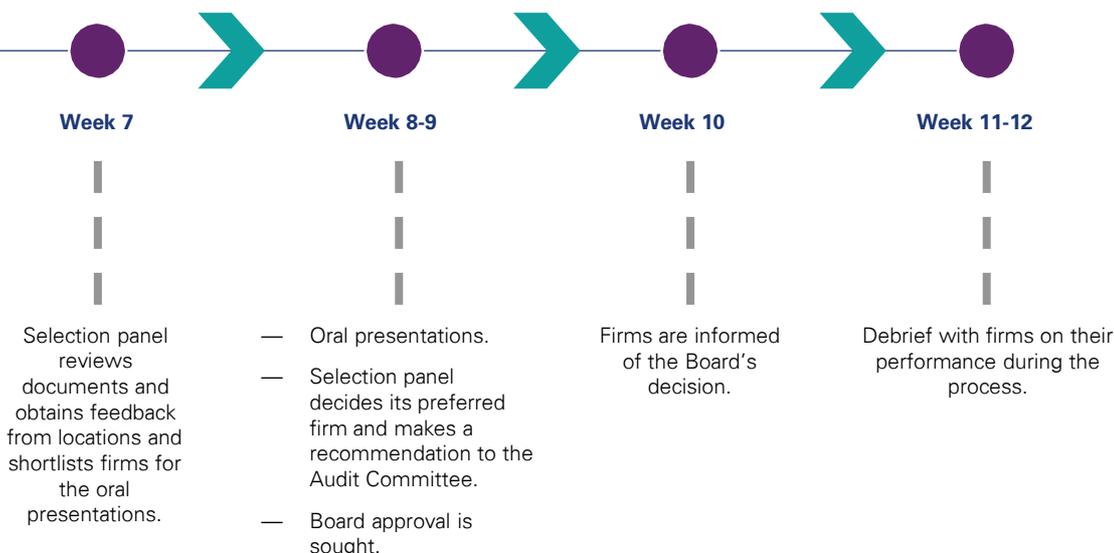
In the absence of any further guidance, perhaps the safest course of action is to put advance notice of any tendering plans into the public domain either through disclosure in the annual report (see below) or disclosure on the company website.

Inviting two firms can be all that's required for sufficient competition. However organisations regularly invite three or more firms to provide a fuller picture of what the marketplace has to offer. Remember, the EU Audit Reforms require that the Audit Committee recommends two potential audit firms - a first and second choice candidate – together with the reasons for its choices.

## Shareholder consultation

Whatever the timing you decide on, think about shareholder consultation and make sure they understand the context of any decision. Guidance on tendering says you should disclose your intention to tender well in advance, for example, in your annual report up to 1-2 years before a tender. This would help you manage shareholder expectations and prevent any "spooks" in the market when you announce a tender.

Inviting two firms can be all that 's required for sufficient competition and can save real time and effort for yourself and those tendering.



# Step 3 – Making the right decisions

## Factors to consider

- When planning the proposal process, you should agree;
- Who in the organisation should be involved in making the decision.
- How the decision will be reached.

Your decision is likely to be based on two elements:

- **Tangible** – a number of factual/tangible criteria for comparing the firms (the evaluation criteria).
- **Intangible** – how you feel about the firms, the teams they put forward and how well their cultures fit with your own organisation's style.

## Decision makers and other inputs

Regulations require that the Audit Committee be responsible for the process of auditor selection and making the recommendation to the Board for the appointment. To find the best audit firm for your organisation, input should be sought from various perspectives from around the organisation and the process should include representatives of all the parties who'll have a relationship with the auditor and impacted advisory services providers. This would typically be:

- Those who have responsibility for audit related matters – the Audit Committee, the finance director.
- Those who'll have a relationship with the advisers, Head of Internal Audit, Head of Tax, General Managers, members of the finance functions.

It's important to get the right balance between having enough input and involving too many people and wasting time. You can ask people for their views without them being involved in the whole decision making process, for example, general managers or subsidiary managers can feed back their views following the firm's site visits. Giving internal business units a voice in the development of the scorecard allows them to be heard and will reduce future internal noise around the decision.

It's essential to try to ensure that all the key people are available for significant meetings, for example, site visits and the firm's presentations. Also make sure they've been briefed on the proposal process and its objectives, and that the Audit Committee takes ownership of the evaluation criteria and decision making process.

## Identifying the evaluation criteria

The EU Audit Reforms require that the Audit Committee be responsible for ensuring that tender documents contain transparent and non-discriminatory selection criteria that shall be used to evaluate the audit proposals.

Consider what you're looking for in your auditors and potentially other professional advisers. This will relate to your current needs and to the strategic plans for the future. The factors that are important to you should form the evaluation criteria that you apply.

They may include:

- **understanding your business** – how well do the prospective teams understand your business, the issues you face and the emerging industry trends?

The audit firms' experience in providing audit and other services to other companies in the same sector should be assessed. The perceived disadvantage of such sector experience may be that the audit firm provides services to direct competitors. Auditors are under a professional and legal obligation of client confidentiality and normally go to great lengths to construct 'Chinese walls' to prevent any abuse of an apparent conflict. This threat may be more perceived than real, but it could be a matter of genuine concern.

- **people** – are the team members authorities in their field? Do they have the experience that you're looking for? Do you trust them?

It's important that the audit team is able to address complex technical issues and that appropriate back-up resources are available if required.

- **relationship** – is there a personal fit with members of your team? Do the key partners and managers have the qualities to establish the type of relationship your executive management prefer?

One of the many important aspects of the auditors' position is the working relationship with the company's executive management. The finance director and the finance team must believe that they'll have a relationship with the new auditors that will work and can be based on trust and respect for each other. They need to be satisfied that the audit team will have the appropriate level of staff, with the necessary experience and knowledge and that the personal relationship at the key company/ audit contact points will be workable.

In particular, it's important that the audit partner has an appropriate working relationship with the finance director and the chairman of the Audit Committee, and that the audit manager has an appropriate working relationship with the finance director and key finance staff.

- **proactivity, ideas and strategies** – to what extent have the teams demonstrated that they'll be proactive, bring new ideas and continually enhance their service to you?

Throughout the process, the level of ideas brought to you will provide you with an indication of the type of performance you can expect in your relationship with the firm. Ideas brought to you upfront in the process also allow you to assess the teams' commercial understanding of your business.

- **organisational fit** – does the firm have the coverage that you need? Do its culture and values fit well with your organisation?

The firm needs to be capable of serving the needs of the company. It also needs to really understand your priorities and values and ideally, display these characteristics itself.

- **commitment** – how committed is the firm to providing you with the service you want? How far are they prepared to go?

The level of input at partner level can be an indicator of the level of commitment that the firm has to developing a working relationship with your company.

- **approach** – how well does the proposed approach to the work address your needs and provide the added value that you're looking for?

- **Independence** – can the firm achieve independence?

- **dedicated service professional input** – to what extent do the firms have the dedicated service professional experience that you'd like access to?

This can be a section required in the documentation by which you can assess approaches and use of industry authorities on the team.

- **fees** – will you get good value for money on an ongoing basis?

The executive management may be keen to demonstrate their tight control over the company's costs, through a reduction in the audit fee, but this may not necessarily be in the interests of the Board or the shareholders, or even of the executive management themselves. A more appropriate measure may be value for money rather than absolute cost.

Where there's a downward pressure on the audit fee particularly, this poses a challenge to the audit process. The Audit Committee should be mindful of the appropriateness of the proposed audit fee, so as to strike a balance in which the fee is low enough to present a challenge to the audit process to improve the efficiency and effectiveness of the audit, but high enough to enable the auditors to undertake a thorough audit in accordance with auditing standards.

The Audit Committee must satisfy itself that the audit fee quoted is a realistic fee for undertaking a full and proper audit and that the auditors aren't relying on obtaining additional non-audit work to subsidise an unrealistically low audit fee.

To some extent, audit efficiency can be helped by the company providing the correct information in an appropriate format at the right time. In this way the company may have some influence over the overall audit cost. Such arrangements, and any other ways by which the company might be able to help the efficiency of the audit, should be discussed with the potential audit firms as part of the selection process.

The proposed audit fee, needs to strike a balance in which the fee is low enough to present a challenge to the audit process to improve the efficiency and effectiveness of the audit, but high enough to enable the auditors to undertake a thorough audit in accordance with auditing standards.



## Independence and objectivity

The Audit Committee needs to consider any threats to independence and objectivity faced by each audit firm and the safeguards that each proposes to overcome those threats. The Audit Committee should assess the extent to which each audit firm would be – and be seen to be – independent and objective in the position of auditor, covering non-audit services, in the case, other firm relationships (e.g. financial arrangements) and the personal independence of teams.

You'll need to review your approach to awarding contracts for advisory and tax services, often referred to as "non-audit" services, in the case of certain services up to a year before the start of the audit period. The outcome of your tender process may affect other projects you have underway. Understanding how long it may take to resolve these issues and the impact on your business will prevent any last minute panics.

Also give consideration to the independence of your Board and exec team. Could you be challenged on their independence? If so, you'll need to assess whether these are valid concerns and think about how you could mitigate or remove this. Because you need to be independent in decision making, you may even need to change your succession plans or committee chairmanships. The earlier you can think about this, the better – consult your investors and have a proposed plan of action.

## The decision making process

The EU Audit Reforms require that your pre-determined non-discriminatory selection criteria be shared with participants.

Once you've identified the criteria that are important to your organisation, prioritise them according to importance and weight them with a number score. You might do this by asking all relevant internal parties to identify and weight the criteria that are important to them. Combining the responses should ascertain the overall weighting as fairly as possible.

Make sure that whatever process you devise takes into account both the tangible and the intangible. If you rely solely on the highest score for tangible elements, you may appoint a firm that's the best technically, but find that key people in your organisation don't want to work with them.

The EU Audit Reforms states that the Audit Committee must ensure that the "audited entity shall evaluate the proposals in accordance with the selection criteria predefined in the tender documents. Prima facia this would appear to remove any latitude for changing the selection criteria once the process has started. Selecting the right selection criteria, in conjunction with all relevant stakeholders, before the process begins, and articulating them in the 'right' way, is therefore essential – and arguably the most difficult part of the selection process.

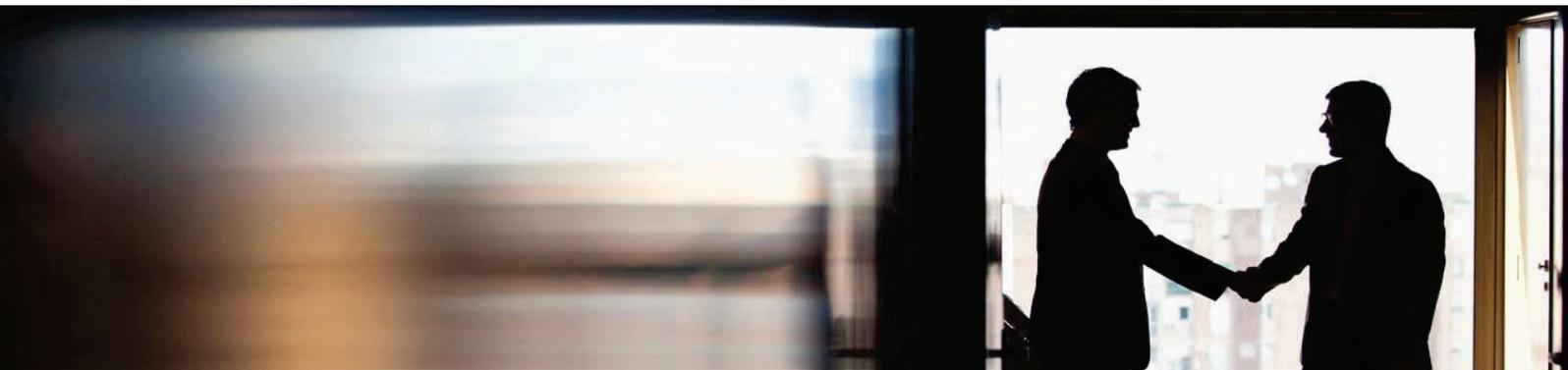
## Rotation – consider the shuffle of services, role of the previous auditor and step change

The changes to audit tendering and rotation requirements will mean that firms with an established, long-standing audit role will be required to rotate off. It's important to consider how to avoid losing the positivity of this relationship and what you've jointly learned about your working relationship.

Discuss in advance with the previous auditor, the mutual benefit of change. What role would be most beneficial for them to play after they rotate? The rotating firm will also no doubt have insights into how the audit is most beneficially undertaken, what kind of approach, in their opinion, is best for your organisation and what kind of personalities will mesh best in your organisation. Involve them early in your identification of objectives and consider advice in other areas.

Maintaining an open dialogue with your incumbent will also allow you to consider what possible step change is desired or required. What would you like to improve upon? In what areas do you see most potential for gain?

Selecting the right selection criteria, in conjunction with all relevant stakeholders, before the process begins, and articulating them in the 'right' way, is therefore essential.



# Step 4 – Begin the audit tender

## Issuing the invitation to tender

The first stage is to prepare and dispatch an information pack to the firms – see Appendices I-V. The pack should include a formal invitation to tender and additional background information.

Your invitation to tender letter should clearly set out:

- The scope of the services being tendered.
- The period of the appointment.
- The process and timetable.
- The pre-determined non-discriminatory selection criteria.
- Areas to include in the proposal document.
- Document delivery information – number of copies required, format and delivery details.
- Likely format, content and timing for any presentation phase.
- Any ground rules for the proposal, for example, all communication must be copied to the project manager.
- Information regarding access to your personnel.
- Contact information for the key contact.

Provide as much relevant background information on the company as you can. Appendix III lists the type of information that firms find useful in developing their response. Consider asking the firms to sign a confidentiality agreement before releasing documents that aren't in the public domain.

## Site visits

Get feedback from your staff on their impressions of the firms during their visits to your sites. To ensure some consistency in their feedback, you might find it helpful to provide a site visit scorecard for them to complete. There's example in Appendix II.

## Managing site visits

The firms' ability to develop propositions that are tailored to your objectives and requirements depends on them being given reasonable access to management during the process. If you want to reduce the amount of time this will absorb, you could:

- Cut down on the number of firms involved in the tender, rather than reduce the number of managers you allow them to see.
- Arrange a group briefing for all firms covering basic matters. Firms will still need individual time with management to discuss and refine their thoughts and ideas with you.

Arranging site visits can be time consuming. Either allow the firms to make their own arrangements, or let the project manager control this stage of the process. It may be easier for your staff to liaise with one internal project manager rather than representatives of a number of firms.

Ensure that the individuals are briefed thoroughly on the process, reasons for the tender and their role in the selection process.

You'll need a way for individuals to feed back their assessments of the tendering firms to the decision makers. This might be done informally, for example through a telephone call, or more formally through a scoring system linked to the evaluation criteria. Appendix II provides a sample site visit scorecard.

You may shortlist participants following assessment of the site visits and full written submissions. Shortlisting at this stage allows you to form a more informed view of what's on offer, without spending the time attending a large number of presentations.

It's important that you have time to build a rapport with the proposed teams to make a fair decision regarding the personal and cultural fit. If you already have strong relationships with the firms, this may be a good approach.

## Access to company personnel

The firms find it useful to meet a number of people, primarily the decision makers and those people who can help them understand the business. It won't always be practical or appropriate for them to meet all of these people, but the more people they have access to, the better they'll understand your business and your needs.

Relevant people may include:

- The chief executive.
- The finance director.
- The chairman.
- The Audit Committee chairman and members.
- Other Board members and non-executives.
- General managers of key business units.
- The head of internal audit/head of risk.
- The head of IT.
- The head of tax.
- Managing directors and financial directors at subsidiaries and key locations.

## Proposal documents

Be as specific as you can in your request for proposals, regarding the content, number of pages and format that you want the firms to follow in their documents.

Most documents impose a page limit of approximately 12-18 pages with additional appendices, such as CVs and fee breakdowns.

Documents may be provided to you electronically as well as in hard copy. If you want electronic copies, you'll need to specify the software that's acceptable and/or ask for the document in a read-only PDF format.

There's an example contents list in Appendix IV.

## Evaluating documents

Decide who in the organisation will carry out a technical evaluation of the documents and summarise the findings in a short report.

For example, the review could encompass a comparison of fees, comment on the quality and completeness of responses to questions asked in the request for tender, facts on the teams and their firm's resources.

As with site visits, you need to decide who should be involved within the organisation at this stage and how they'll feed back their comments.

You might also want to contact the firms to discuss the issues raised and any points that need clarification. This will help them focus their presentations on the areas of greatest interest to you.

## Presentations

First, give consideration to the format you want to follow. This may be formalised presentations, for a set period of time, covering specific topics, or you may choose to instead host deep Q&A sessions developed specifically for each firm. This can reduce time and cut straight to the areas where greatest clarity is required.

Either way, communicate the format in advance, detail how long each presentation slot will last, and how this time should be allocated between formal presentation and Q&A. Best practice would have the presentations lasting for 60-90 minutes. You may also set a limit on the number of people each firm should bring to the presentation and/or give guidance on the inclusion of dedicated service professionals.

Preparing a list of questions to be answered by all firms, to supplement those that arise spontaneously in the individual presentations can also be helpful.

## Making the decision

Having discussed the contenders in light of their performance during the proposal process and at the presentation, a consensus will often emerge on which firm should be appointed. Follow your agreed decision making process and use the evaluation criteria you've continuously developed.

## Appointing a firm

Once you've reached a decision, notify all the decision makers and the Board as necessary, then inform the tendering firms. If you intend to change your auditors, there'll be some procedural company secretarial formalities to comply with.

You'll also need to be clear with the appointed firm, regarding when independence will need to begin.

## Report on the selection procedure

The EU Audit Reforms require a written report setting out the conclusions of the selection procedure. The report is to be prepared by the audited entity (presumably management or those responsible for managing the audit proposal on a day to day basis) and validated by the Audit Committee. It should include the rationale for the selection of the auditor or reappointment of the incumbent auditor.

Also, the Audit Committee must ensure that the company is able to demonstrate to the competent authorities, upon request, that the selection procedure was conducted in a fair manner.

## After the process

It's likely that both the winner and losers will ask you to debrief them on their performance during the process. This is always a helpful learning exercise from the firms' point of view and allows you to communicate how you'd like to continue your relationship with them in future. The firms should appreciate your open and honest feedback and you making time available for them.

# Appendices

- I. Example invitation to tender letter
- II. Example site visit scorecard
- III. Information to be supplied to participants in audit tenders
- IV. Example content for written audit submissions
- V. Guidance for data rooms

# Appendix I

## Example invitation to tender letter

Dear [ ]

The Board of [ ] has decided to review its audit arrangements for the year ending [ 20xx]. The purpose of this letter is to invite your firm to propose, and to advise you of the process which the Board will adopt to select the firm to be recommended for the appointment and the proposed timetable. The selection process will be confined to [ ] and it is anticipated that each firm will bear the costs associated with the tender submission.

Each firm will be required to submit a written tender setting out your capabilities, the key elements of your service and team, as well as your proposed fee by [ ].

The tender should cover the following areas:

- Details of your firm
- Resourcing
- Approach
- Transition
- Quality assurance
- Independence and governance
- Fees
- Additional services.

Further detail that outlines the information to be included in tenderers' written submissions is set out in Appendix (E) to this letter.

From the tenders, we will identify a shortlist who will be asked to make a presentation to [selection panel] including a question and answer session. Appendix (B) details the key dates in the selection process.

Further information to be provided should you choose to tender is outlined in Appendix (D) to this letter.

Mr/Ms [ ] of our company will be responsible for coordinating the tender process and all questions and requests for further information should be coordinated through him/her. He/she can be contacted as follows [ ].

I should be grateful if you will confirm your willingness to participate in the selection process and your ability to comply with the indicated timetable by [ ].

Yours sincerely

# Appendix II

## Example site visit scorecard

### Firm: Completed by:

Please answer the following questions by circling the relevant score based on your perception of the firm during the site visit.

1 = totally dissatisfied –do not believe they will deliver

4 = completely satisfied –wholeheartedly believe they will deliver the service discussed

### Understanding the business

1. Did the firm demonstrate clear understanding of:				
— the business	1	2	3	4
— the industry	1	2	3	4
— the market place?	1	2	3	4
2. Did the team clearly understand the business issues and take account of these in their approach to you and the work to be undertaken?				
	1	2	3	4

### People

1. Did the team have the requisite experience and availability?	1	2	3	4
2. Did the team have the necessary qualifications and expertise of your industry?	1	2	3	4
3. Did the team appear professional?	1	2	3	4
4. Was your importance as a client fully appreciated by the whole team?	1	2	3	4
5. Did the culture of the team fit with your site's culture?	1	2	3	4
6. Do you feel you could work well with the team?	1	2	3	4
7. Do you have any concerns about a member of the proposed team? If so who and what? Comments (please be succinct)	1	2	3	4

### Approach - for audit tenders

<b>1. Has the team explained and agreed the audit approach with you?</b>	1	2	3	4
<b>2. Will key audit areas and issues be discussed prior to the interim and final audits?</b>	1	2	3	4
<b>3. Will issues be properly discussed and, where possible, resolved prior to Group Reporting?</b>	1	2	3	4
<b>4. Will audit evidence be cost-effectively obtained?</b>	1	2	3	4
<b>5. Does the proposed standard of reporting meet your expectations?</b>	1	2	3	4

### Previous experience of the firm

<b>1. Has the team delivered on previous occasions?</b>				
<b>If yes</b>	1	2	3	4
<b>2. Has the team met expectations?</b>	Yes / No			
<b>If yes</b>	1	2	3	4
<b>3. Has the quality of reporting and feedback obtained from the team been consistently of a high quality?</b>	Yes / No			
<b>If yes</b>	1	2	3	4
<b>4. Have you found their approach to be robust in dealing with you and your team?</b>	Yes / No			
<b>If yes</b>	1	2	3	4
<b>5. Have the team been proactive and provided strategies to issues before they have become problems?</b>	Yes / No			
<b>If yes</b>	1	2	3	4
<b>6. Would you be happy to continue working with this team?</b>	Yes / No			
<b>If yes</b> Comments (please be succinct)	1	2	3	4

# Appendix III

## Information to be supplied to participants in audit tenders

Information which firms find useful and you might consider providing is outlined below.

### Selection criteria (required)

- Transparent and non-discriminatory pre-determined selection criteria.

### Organisational

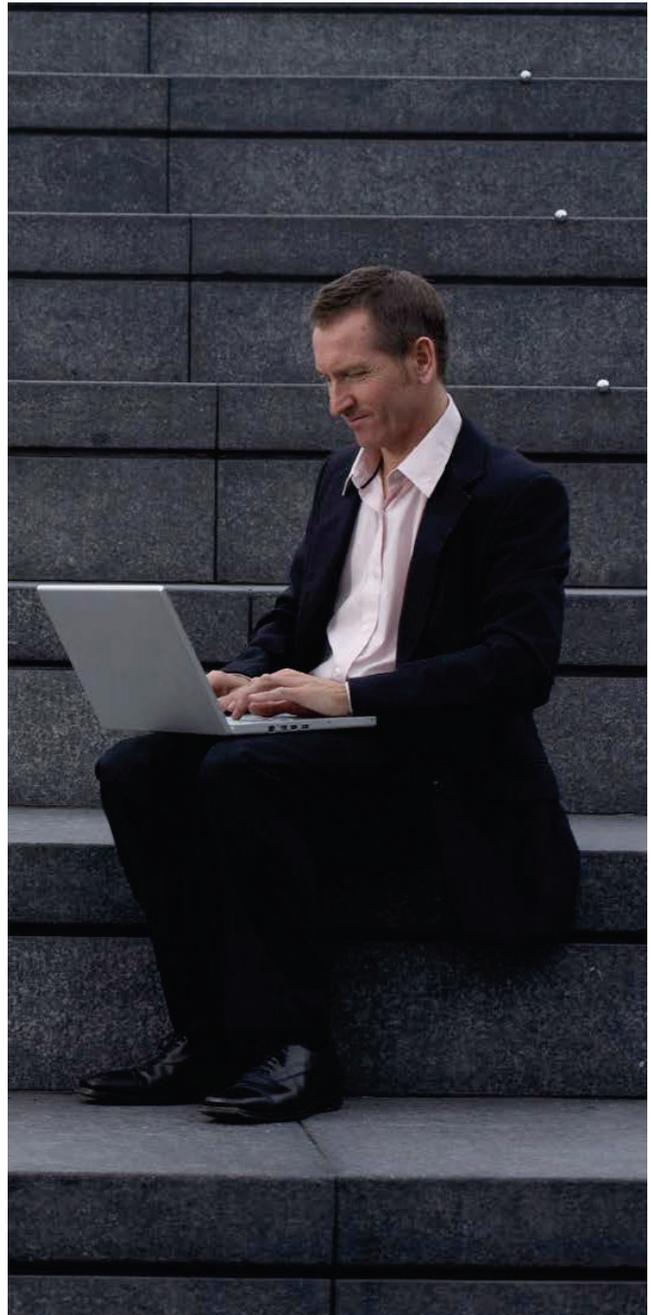
- Mission statement and corporate strategy.
- Organisation chart, showing the key individuals, responsibilities and reporting lines.
- Organisation structure, e.g. business processes, business units, functional, including key locations.
- List of subsidiaries and associates.
- Names of all Audit Committee members and senior management.
- Locations and operations, domestically and overseas.
- Cultural information.

### Financial

- Most recent financial statements for all key group companies (last two years).
- Group structure chart.
- Year-end / reporting / consolidation process and timetable.

### Other (as appropriate)

- Internal Audit scope and plan.
- Internal Audit department structure, responsibilities and reporting lines.
- IT systems in operation.
- Current tax arrangements / suppliers.
- Current tax status.



# Appendix IV

## Example content for written audit submissions

The tender document should include the following information.

### Details of your firm

- A statement summarising the benefits to [client] of selecting your firm.
- The organisation and structure as it is relevant to this engagement.
- Industry experience and client base.

### Resourcing

- Names of your core service team, location and relevant experience.
- Personal fit with the management team and culture.
- The time the key team members will commit to this appointment.
- Succession planning and steps to ensure staff continuity.

### Approach

- Understanding of our broader business needs and risks.
- Processes for delivering audit services which are customised, responsive and aligned with [client's] specific needs.
- Processes that your firm will employ to address matters related to client satisfaction, performance measurement and continuous improvement.
- How you will liaise and work with our internal audit and/ or tax department.
- How you will use technology to deliver your service.
- How you will report your audit findings to us.

### Transition (if appropriate)

- Process for audit transition of [global] clients.
- Relevant previous experience with audit transitions of similar companies.
- Transition plan.

### Quality assurance

- Describe the internal processes used for quality assurance.
- Describe your firm's approach to resolving accounting and financial reporting issues.

### Independence and governance

- Internal practices to ensure compliance with independence requirements and freedom from conflicts of interest.
- Summary of relationships that may reasonably be thought to bear on independence and the proposed plan to manage them (e.g. non-audit services)
- Confirmation by your firm that it will take all necessary steps to ensure its independence.

### Fees

- Competitive fee quote to complete the [global audit for 20XX].
- Separate estimates of your total audit fees for reporting on:
  - half year results
  - the final group accounts
  - the accounts of subsidiaries, required for statutory or other purposes.
- The basis on which fees will be determined in future years.
- General overview of the schedule and timing of billings

# Appendix V

## Guidance for data rooms in audit tenders

### Why use a data room?

Data rooms give you the chance to give tendering firms lots of information in one go, making the process much more efficient and saving you time and money.

### Six things to think about when you're putting a data room together

1. Make it virtual rather than an actual physical space. This way firms can have access to it as and when they need to. And you don't need to use valuable space in your office.
2. Make it easy for lots of people within each firm to get access to it by giving them just one ID and password. (Rather than an ID/password to each individual.)
3. Index and label the information clearly to make it easy to find. (This will also save you time if firms have questions about specific documents.)
4. Make sure documents can be downloaded. This will mean firms can have all the information at their finger-tips and will scope and price the Audit appropriately.
5. Keep the questions that each firm asks confidential to protect each firm's competitive position.
6. Set up an automatic data alert, so firms know when you've added a new document.

### What to include in a data room?

Below you will find a list of all the information that's useful to include. We haven't included information that's publically available, e.g. Annual Report, Accounts and published strategy documents etc.

#### Group structure

- Organisation chart, showing key individuals, responsibilities and reporting lines including Finance, Compliance, Corporate Audit, Commercial organisation including clusters and categories, specialist areas (such as IT, Treasury, Tax, Enterprise support etc.)
- Location of operations globally including addresses and number of personnel

#### Statutory accounts

Group structure chart and how it compares to the structure in the financial reporting system if different

- Detailed listing of audit requirements in each country including statutory audits within scope and any other requirements
- Latest statutory accounts of entities requiring an audit for last 2 years
- Prior year or indicative current year fees for subsidiary entities requiring an audit (indication whether statutory, regulatory and group reporting fees)
- Details of where local statutory accounts are prepared if it is other than the local country itself

#### Financial results for the last 2 years

- Breakdowns of revenue and operating profit (before and after tax) by company
- Balance sheet by company
- Tax workings
- Budget presentation
- Current bank model / cash flow forecast

#### Group reporting and consolidation

Indicative reporting dates and detailed year end timetable

- Example reporting pack
- Full system databook or equivalent
- Description of the month end and year end consolidation process. Process notes to include how key transfer pricing works, how intercompany transactions and balances are processed, local sign offs and the top level journals process

#### Standards and manuals

- Policy on Auditor Services
- Financial Planning and Budgeting Policy
- Financial Reporting and Control Policy
- Accounting Policy Manual

## **Governance**

- Risk register
- Description of the process for updating the risk register
- The process supporting:
  - Key Group risk policies
  - Credit risk policy
  - Insurance risk policy
  - Liquidity risk policy
  - Market commodity risk policy
- Key audit risks

## **Audit Committee/ Board papers**

- Executive management and Audit Committee meeting dates
- Audit Committee Agendas (and attendees) for last 2 years
- Audit Committee papers for the last 3 years including key judgements papers
- Board papers including strategy papers
- Board committee papers

## **Group Audit & Assurance**

- Charter
- Plan
- Summary of key findings for prior year and year to date
- Corporate audit reports for key group processes for last 3 years
- Group audit & assurance department structure, responsibilities and reporting lines

## **Compliance and controls**

- Detail of any significant deficiencies and material weaknesses for last 2 years
- Description of SOx compliance review process including scoping
- Copies of any agreed CIA with the SEC/DOJ
- Internal Anti Bribery and Corruption policies and procedures

## **Internal controls and risk management**

- Description of Internal Control Questionnaire process
- Summary of the results of the internal control evaluation process
- Full details of the financial controls framework with description of controls and key controls highlighted
- End-to-end financial controls process documentation (including automated controls and specifying location of control operation) for the following processes:
  - Revenue
  - Purchases
  - Exploration and evaluation costs
  - Deferred stripping
  - Close down, restoration and clean-up
  - Tax accounting
  - Cash management
  - Intercompany elimination & profit in stock management
  - Foreign exchange management
  - Payroll
  - Impairment
  - Pension obligation and charge
  - Month end consolidation
  - SAP Master Data amendments
  - Technical reporting process and reserves
  - Quarterly reporting process
  - Annual Report and Accounts
  - Schedule with vision for key high level review controls planned to implement
  - Description of SOx compliance review process for the last two years including scoping to see progression
  - Results of testing for SOx
  - Compliance team structure, responsibilities and reporting lines

## IT Systems

- Overview of IT environment
- Details of global applications (version, description of use)
- Details of IT infrastructure and supporting tools
- Overview of IT organisation
- IT organisation structure, roles and responsibilities and geography
- Extent of use of third parties, and details of the services they provide
- Current and future IT Projects
- Overview of the current portfolio of IT projects
- Overview of key IT projects recently completed, ongoing or future projects likely to impact on systems / processes and controls
- IT Risk, Security and Control Environment
- Overview of current / emerging IT risks
- Details of tools currently used to serve as continuous monitoring of IT controls e.g. SAP GRC, Data analytics engines
- Controls catalogue detailing General IT Controls (User access, change management, security, segregation of duties, program development, computer operations, etc.)
- Any third party assurance reports over IT services (e.g. ISAE3402)
- IT internal audit reports from the past 2 years

## Enterprise support

- Structure, responsibilities and reporting lines
- Key priorities, strategy papers and project plans
- Details (and examples) of financial analysis/reports produced for local countries

## Accounting papers

- Accounting papers for key accounting issues
- Detailed accounting policy notes
- Notes on critical accounting estimates and judgments (for those in the annual report)
- All correspondence with FRRP in respect of queries for the last five years
- All correspondence with the SEC in respect of queries for the last five years

## Specialist areas

- Detailed tax workings
- Tax status
- Current tax arrangements
- Correspondence with HMRC and similar for key countries
- Process description for preparation of taxes paid report
- Treasury set up and process description
- Banking/debt arrangements
- Tax structures (including sign off from HMRC or equivalent)

## Corporate Business Development

- Information about recent acquisitions including copies of accounting papers on the accounting for the acquisition, valuation of intangibles, SPAs, due diligence papers and integration and integration plans

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