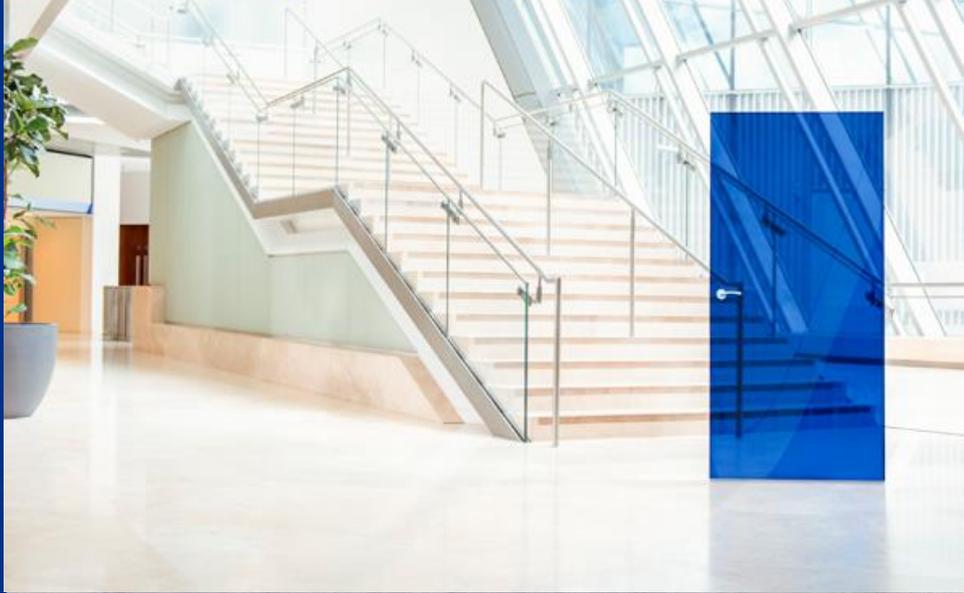




Audit tenders: What audit committee chairs are saying

KPMG Board Leadership Centre



Regular audit tendering and rotation is now business as usual, but how have things changed since the introduction of the new regime? To help explore some of the issues associated with audit tendering, including the key decision making criteria used, attitudes to reappointing the incumbent (where permitted) and additional areas of assurance being sought, we asked FTSE350 audit committee chairs a number of questions about their experience to date and how things might change in the future. A total of 92 FTSE350 audit committee chairs took part in the survey during late November and early December.

We asked FTSE350 audit committee chairs whether mandatory audit tendering and rotation had driven audit quality and made a positive contribution to building trust in business.

Respondents generally considered mandatory audit tendering and rotation to have been a positive development:

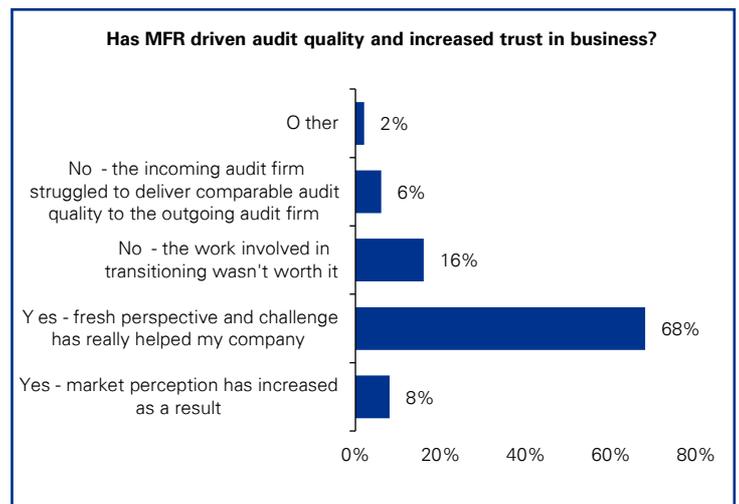
- 68 percent considered fresh perspectives and challenge had really helped the company
- 8 percent considered market perception had increased

However, a minority (22 percent) were less positive citing either the disproportionate amount of work in transitioning (16 percent); or that the incoming audit firm struggled to deliver comparable audit quality to the outgoing firm (6 percent).

We asked FTSE350 audit committee chairs for the top five decision making criteria for the last audit tender they oversaw as well as what they thought would be the decision making criteria for the next audit tender.

Broadly speaking the same top criteria emerged: Audit quality; the ability of the audit partner to provide challenge and professional scepticism; the quality of the audit team; the chemistry between the audit partner, audit committee and management; the ability of the audit partner to apply complex judgements; and the depth of understanding of the business

Other criteria like the auditor's approach to ESG issues; the approach to, and reliance on, ICOFR; and regulatory inspection findings were seen to be growing in importance and now included in the top five decision making criteria by 18, 13 and 11 percent of respondents respectively.

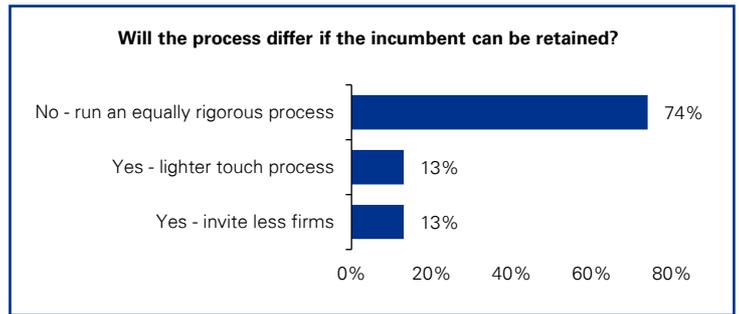


We asked FTSE350 audit committee chairs how likely they would be to retain their incumbent audit firm (where that was possible); and whether when overseeing an audit tender where it was possible to retain the incumbent (e.g., where audit firm rotation isn't mandatory), they would anticipate running the tender differently than when compared to a tender where they would have to change the audit firm.

Here we see the majority of respondents (74 percent) answering that they would run an equally rigorous tender process whether or not it was possible to return the incumbent.

Only 13 percent said they would invite less firms to tender and 13 percent said they would run a lighter touch process if the incumbent could be retained

Where the incumbent could be retained, only 8 percent said retention was very likely subject to a rigorous tender process. 8 percent said retention was likely as they would rather not go through a transition so soon. 76% were uncommitted – the incumbent would need to demonstrate that they are the best via a rigorous tender process

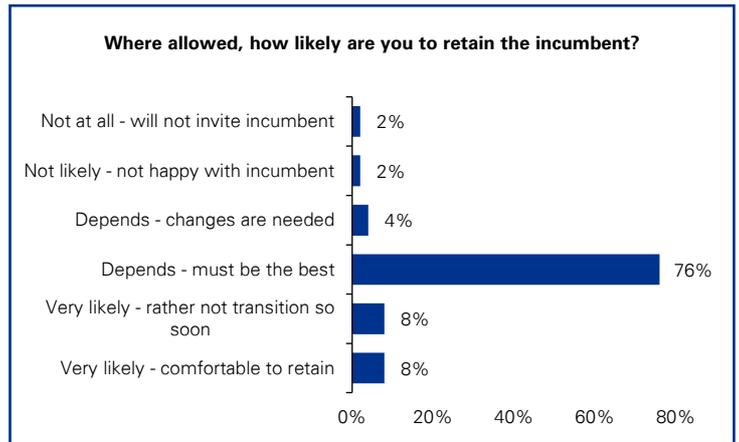


We asked FTSE350 audit committee chairs to highlight the most important insight-providing aspects of a short, sharp audit tender process.

The most important, insight-providing aspects of a short, sharp tender process are:

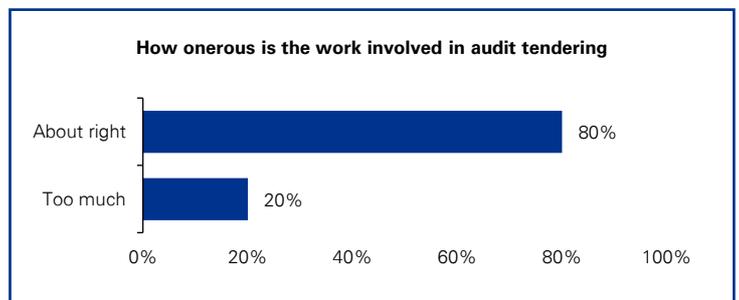
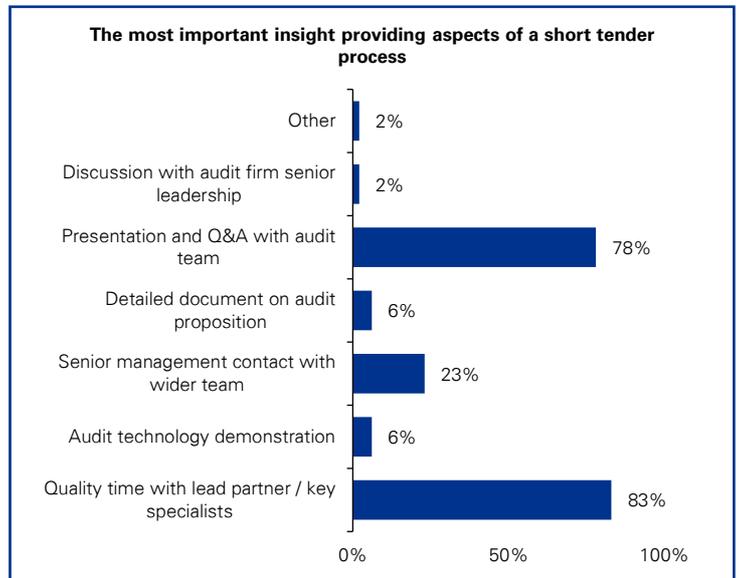
- Quality time with the lead partner and key specialists (82 percent)
- A presentation and opportunity for Q&A with the key people from the audit firm (78 percent)
- Maximising senior management contact with the proposed (wider) audit team (22 percent)

Very few (less than 3 percent) prioritised: demonstrations of audit technology; a detailed document setting out the audit proposition; or a discussion with the audit firm's senior leadership



We asked FTSE350 audit committee chairs whether, based on their experience of audit tenders to date, the work involved in audit tendering was 'too much', 'about right', or 'too little'.

The majority of respondents (80 percent) believed the work involved in audit tendering to be 'about right' though 20 percent considered it to be 'too much'



We asked FTSE350 audit committee chairs how they would approach the timing of the next audit tender.

Only 22 percent of respondents said that they would run the next audit tender as close to the 10 year mandatory audit tendering deadline as possible; and another 22 percent said that they would run the tender a year or two before the 10 year deadline to adhere to the requirements whilst ensuring plenty of time to address any independence issues

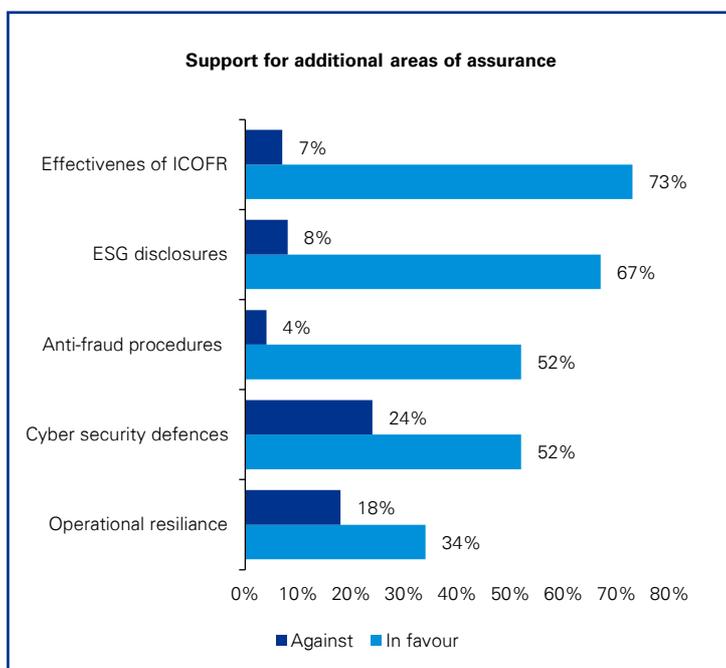
53 percent said they would proactively think about the right time to run an audit tender process in conjunction with how much change is going on in the business and the external environment (i.e., this could be much earlier than that dictated by the 10 year regulatory cycle)

We asked FTSE350 audit committee chairs whether, and to what extent, they were looking for their statutory auditor to provide the board with more assurance in a number of different areas.

There was strong support for more assurance around the effectiveness of ICOFR and ESG disclosures, and reasonably strong support for more around fraud procedures and cyber defences.

- Effectiveness of controls over financial reporting: 73 percent in favour, only 7 percent disagreed
- ESG disclosures: 67 percent in favour, only 8 percent disagreed
- Procedures for preventing and detecting fraud: 52 percent in favour, only 4 percent disagreed
- Cyber security defences: 52 percent in favour but 24 percent disagreed

There was less clear support for more assurance around operational resilience with just 34 percent in favour and 18 percent against.



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