



# Audit tenders: Survey of CFOs and audit committee chairs

KPMG Board Leadership Centre



**Regular audit tendering and rotation is now business as usual, but how have things changed since mandatory audit tendering and rotation were adopted into the UK corporate governance framework? 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 and CFOs 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 and 43 FTSE350 CFOs took part in the survey.**



**A positive development** Mandatory audit tendering and rotation is generally considered to have been a positive development though a significant minority of CFOs (30 percent) consider any benefits in terms of market perception or fresh perspectives to have been outweighed by the work involved in transitioning.



**Timetable** For most, the next audit tender will be a year or two before the mandatory deadline (to ensure enough time to address any independence issues), or at a time dictated by the business and external environment – which could be much earlier than the 10 year regulatory cycle.



**Decision making criteria** For both audit committee chairs and CFOs, the top five decision making criteria are: 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; and the ability of the audit partner to apply complex judgements. Beyond 'audit quality', audit committee chairs favour the ability of the audit partner to provide challenge and professional scepticism. By contrast, CFOs lean towards the quality of the audit team and the chemistry between the audit partner, audit committee and management.



**ESG and ICOFR rising up the agenda** The auditors approach to ESG issues and internal controls over financial reporting (ICOFR) and audit fees are rising in importance with 18 percent of audit committee chairs now including ESG within their top five decision making criteria. Data analytic capabilities appear to be falling in significance (ranked 7<sup>th</sup> by audit committee chairs but only 9<sup>th</sup> by CFOs).



**Participation of the incumbent** The majority of respondents would run an equally rigorous tender process whether or not the incumbent could participate. The incumbent would generally have to prove to be the best in order to be retained, albeit 25 percent of CFOs exhibit a preference to retaining the incumbent in order to avoid transitioning to a new auditor.



**Insight-providing aspects** The most important insight-providing aspects of the audit tender process are all people/relationship related: spending quality time with the lead partner and key specialists; a presentation and opportunity for Q&A with the key people from the audit firm; and maximising senior management contact with the proposed (wider) audit team. Very few respondents prioritised: demonstrations of audit technology or the document setting out the audit proposition.



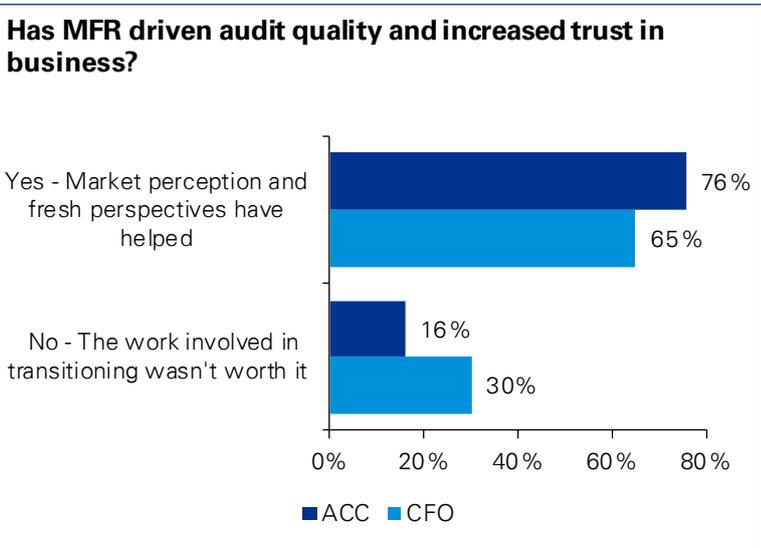
**Additional assurance** There is strong support from audit committee chairs for the auditor providing more assurance to the board on ICOFR, ESG disclosures and, to a lesser extent, anti-fraud procedures and cyber security defences. CFOs are less positive about the auditor providing more assurance in these areas with large numbers expressing dissatisfaction with the auditor providing such assurance.



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

Both audit committee chairs and CFOs generally considered mandatory audit tendering and rotation to have been a positive development. However, a significant minority (16 percent of audit committee chairs and 30 percent of CFOs) were less positive citing the disproportionate amount of work in transitioning to the new audit firm.

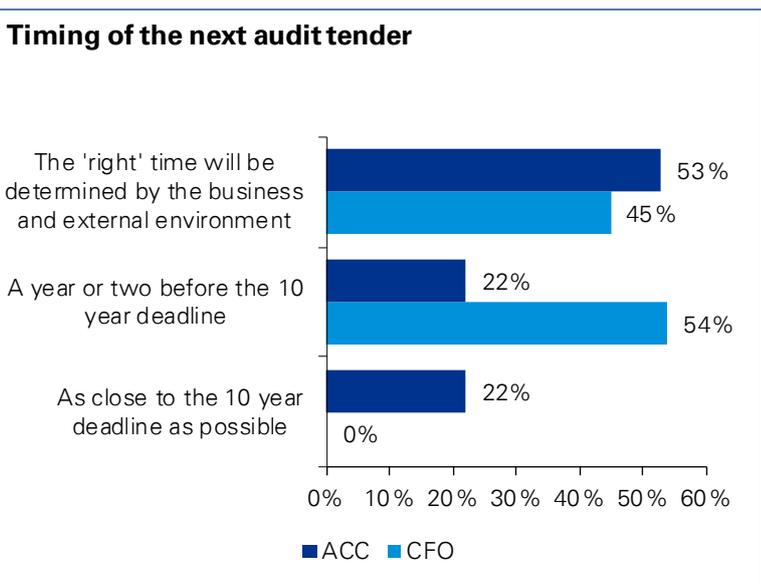
It is perhaps to be expected that the CFO community would be more troubled by the additional work involved in transitioning as they, and their finance teams, have more contact with the auditor throughout the audit.



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

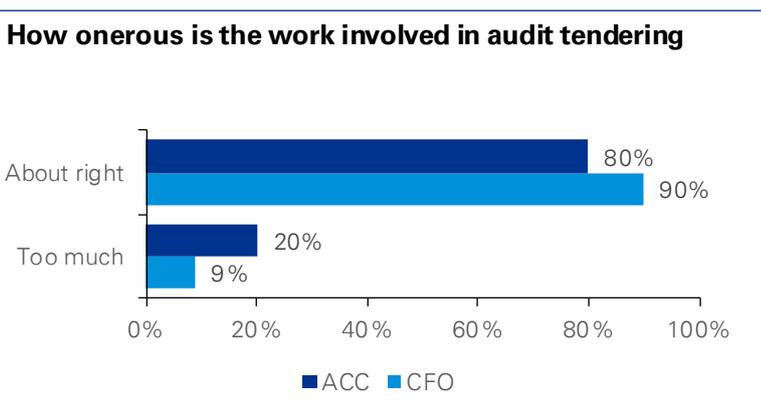
Around half of the respondents said that they would proactively think about the right time to run an audit tender process in conjunction with how much change is going on in the business and the external environment (i.e., this could be much earlier than that dictated by the ten year regulatory cycle).

Also, around half of CFOs said that they would prefer that the tender be carried out a year or two before the 10 year deadline to adhere to the requirements whilst ensuring plenty of time to address any independence issues. Audit committee chairs were split between this response and running the next audit tender as close to the ten year mandatory audit tendering deadline as possible.



**We asked 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 believed the work involved in audit tendering to be 'about right' though 20 percent of audit committee chairs and 9 percent of CFOs considered it to be 'too much'.



**We asked FTSE350 audit committee chairs and CFOs for their top five decision making criteria (or preferred decision making criteria) for the last audit tender as well as what the top 5 decision making criteria would be for the next audit tender.**

Broadly speaking the same top criteria emerged for both audit committee chairs and CFOs: 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.

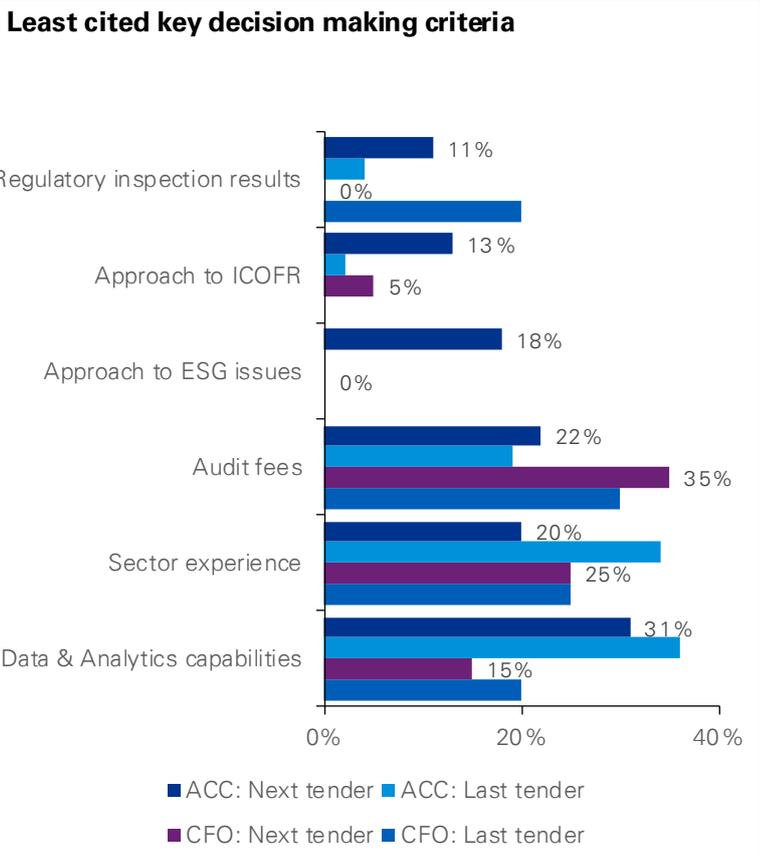
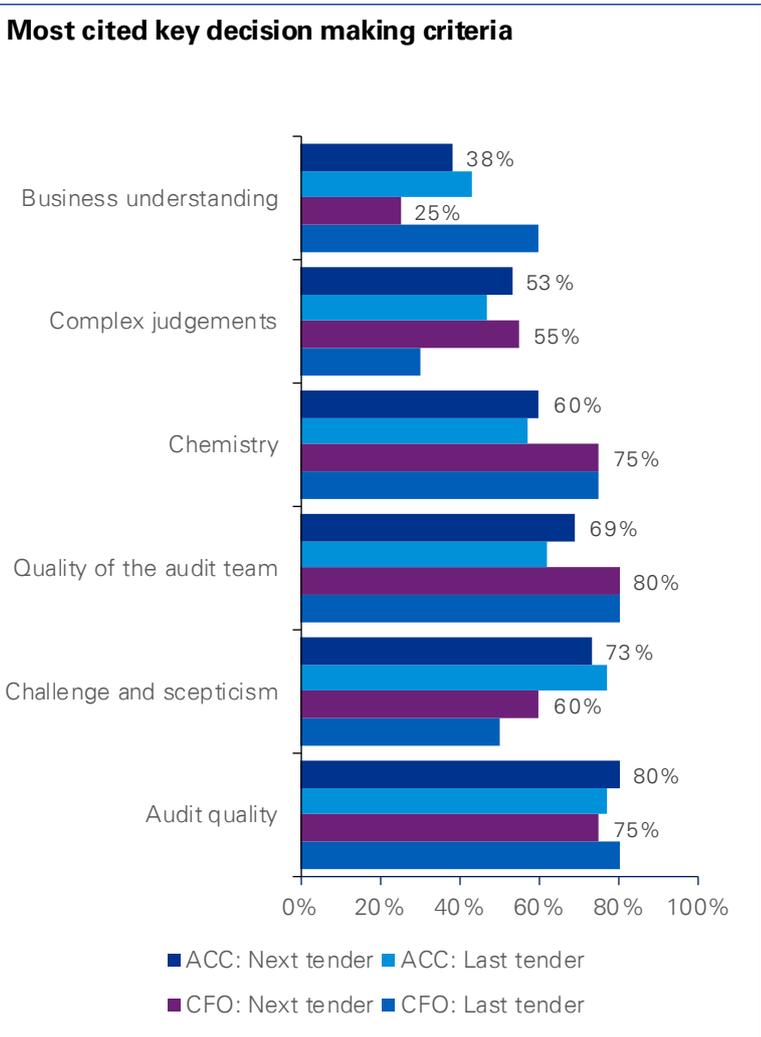
Audit committee chairs were more favourable than the CFOs towards the ability of the audit partner to provide challenge and professional scepticism. By contrast, CFOs were more favourable towards the quality of the audit team and the chemistry between the audit partner, audit committee and management.

Other criteria such as data and analytic capabilities, sector experience, the auditors approach to ESG issues and the auditor’s approach to, and reliance on internal controls over financial reporting (ICOFR) were seen as less important decision making criteria.

Data analytic capabilities appear to be falling in significance for both audit committee chairs and CFOs whilst the importance of the audit fee is trending upwards

The importance of the auditors approach to ESG and ICOFR has risen significantly for audit committee chairs. The importance of the approach to ICOFR to CFOs is also rising, although the auditors approach to ESG still doesn’t register as a top 5 key decision making criteria.

	ACC Ranking	CFO Ranking
Audit quality	1	=2
Challenge and scepticism	2	4
Quality of the audit team	3	1
Chemistry	4	=2
Complex judgements	5	5
Business understanding	6	=7
D&A capabilities	7	9
Audit fee	8	6
Sector experience	9	=7
ESG approach	10	-
ICOFR approach	11	10
Regulatory inspection results	12	-



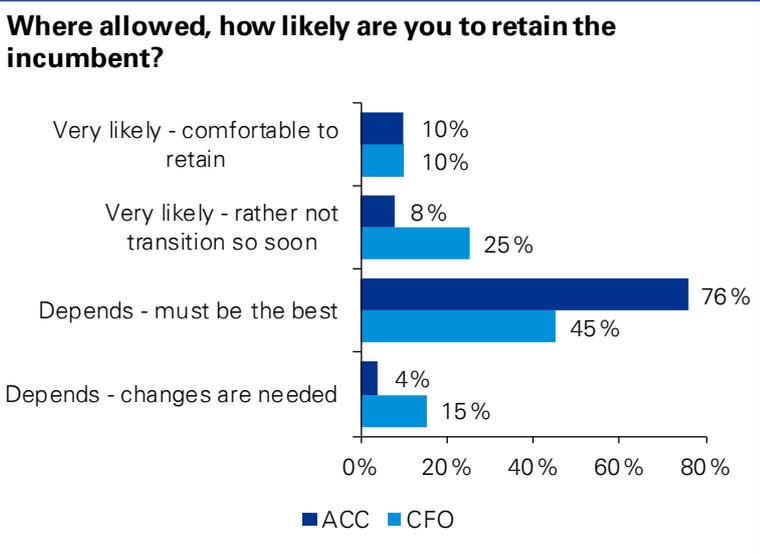
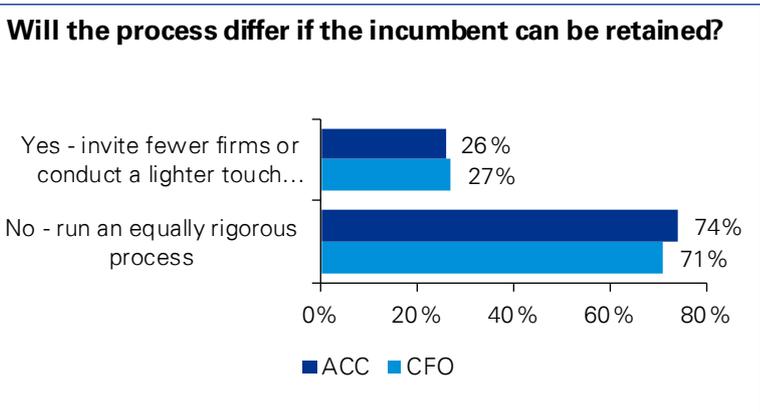
**We asked how likely audit committee chairs and CFOs would be to retain their incumbent audit firm (where that was possible); and whether when overseeing an audit tender where it was possible to retain the incumbent (e.g., where audit firm rotation isn't mandatory), they would anticipate running the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

The majority of both audit committee chairs and CFOs say that they would run an equally rigorous tender process whether or not it was possible to retain the incumbent.

For those that would do something different, CFOs lean towards a lighter touch process whereas audit committee chairs are equally split as to whether they would favour a lighter touch process or simply invite less firms to tender.

Where the incumbent can be retained, CFOs were much more likely than audit committee chairs to favour retention to avoid going through a transition so soon.

Also, nearly four times as many CFOs noted that some changes in audit approach, people or fees would need to be made for the incumbent to be retained than their audit committee colleagues.

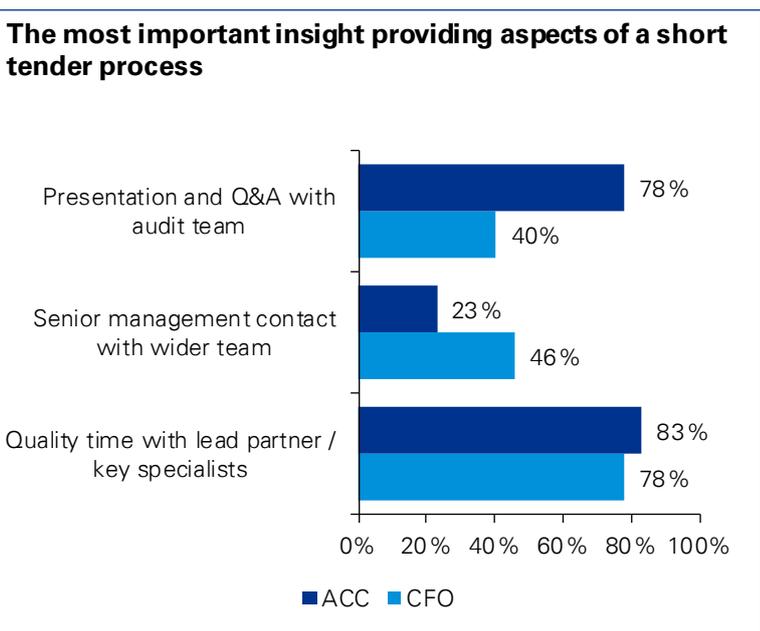


**We asked FTSE350 audit committee chairs and CFOs to highlight the two most important insight-providing aspects of a short, sharp audit tender process.**

The most important, insight-providing aspect was spending quality time with the lead partner and key specialists (83 percent of audit committee chairs and 78 percent of CFOs).

Audit committee chairs also had a strong preference for a presentation and opportunity for Q&A with the key people from the audit firm whereas CFOs were more or less evenly split between this and maximising senior management contact with the proposed (wider) audit team.

Very few audit committee chairs or CFOs prioritised: demonstrations of audit technology; a detailed document setting out the audit proposition; or a discussion with the audit firm's senior leadership.

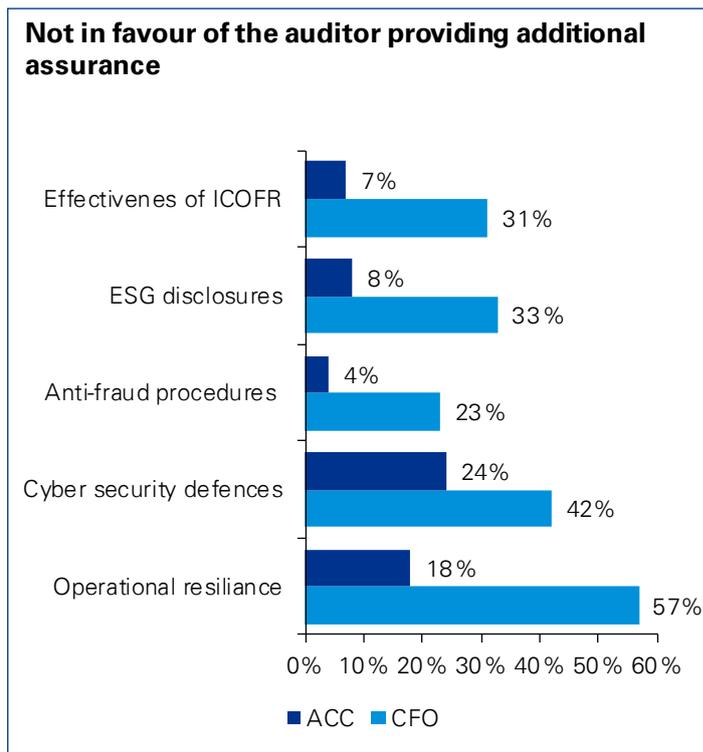
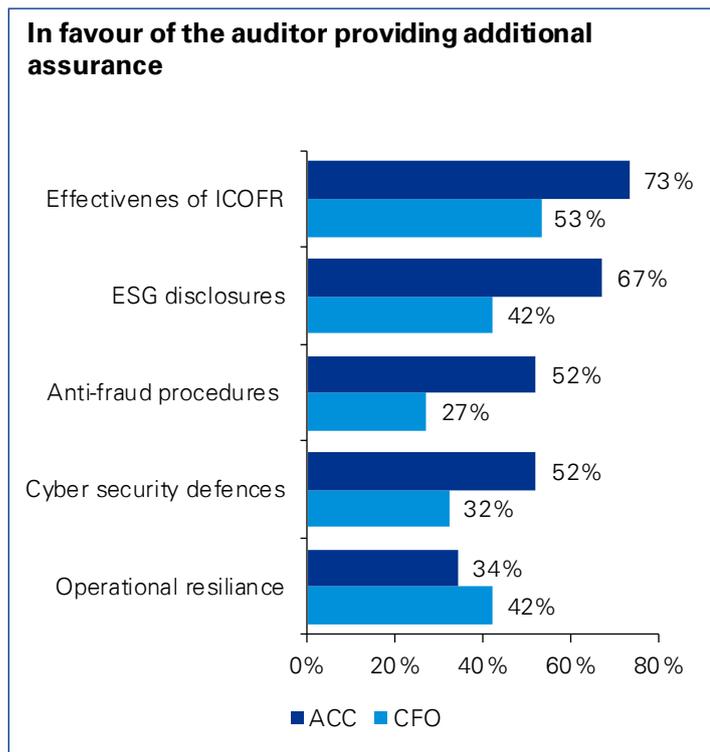


**We asked whether, and to what extent, audit committee chairs and CFOs were looking for their statutory auditor to provide the board with more assurance in a number of different areas.**

There was relatively strong support from both audit committee chairs and CFOs for more assurance around the effectiveness of ICOFR and ESG disclosures, and some support for more around fraud procedures.

Audit committee chairs were much more positive than CFOs regarding the auditor providing assurance over anti-fraud procedures and cyber security defences.

Interestingly, CFOs were much more likely than their audit committee colleagues to say that they were not in favour of the auditor providing additional assurance. Indeed, in two of the five categories (Cyber and operational resilience, more CFOs were against additional assurance than in favour.



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