

**Invitation to Tender (ITT):**  
**Research Project: Qualitative research with  
audit committee chairs on audit quality**

**Provision of Research Services**

Reference	FRC2021- 013 Qualitative research with audit committee chairs on audit quality
Date	January 2021

## 1. Summary

The Financial Reporting Council (FRC) would like to commission qualitative research with Audit Committee Chairs (ACCs) of Public Interest Entities (PIEs)<sup>1</sup> to obtain a rich, in-depth understanding of ACCs' views on audit quality. This will build on similar research undertaken in 2020<sup>2</sup>.

Since 2014, the FRC has conducted relatively large-scale, annual surveys of ACCs of large companies on audit quality, often using written questionnaires. For 2021, the FRC wants to commission a set of in-depth, semi-structured interviews with ACCs, to generate detailed insights into their views on audit quality. This includes insights into how audit committees break down the components of *quality of service* and *quality of audit* when choosing an auditor and evaluating the quality of the audit received.

The project is expected to take place between March 2021 and July 2021.

The FRC does not anticipate tender bids over £50,000 excluding VAT

Note: The FRC may in future decide to repeat this research in future years to provide an over-time comparison. If you bid for this project you should please confirm your willingness to do this. If the FRC takes up this option, it will do so before the end of 2025 (and the total expenditure including repeat(s) will be capped at no more than £175,000).

## 2. Background

### *About the FRC*

The Financial Reporting Council sets the UK Corporate Governance and UK Stewardship Codes; sets UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality. The FRC works in the public interest. Our work is aimed at investors and others who rely on company reports, audit and high-quality risk management.

### *The importance of audit and the role of audit committees*

The directors of a company (the Board as a whole) are responsible for ensuring its financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. A high-quality audit provides investors and other stakeholders with a high level of assurance that the financial statements of an entity give a true and fair view and provide a reliable and trustworthy basis for taking decisions.

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<sup>1</sup> The definition of a PIE is set by EU audit legislation and the UK classification of such entities is: UK entities with transferable securities (equity/debt) admitted to trading on a regulated market in the European Economic Area (EEA); Credit Institutions, irrespective of whether they are listed or not; and Insurance Undertakings. The Government is currently considering extending the definition of a PIE; this specification uses the existing definition.

<sup>2</sup> <http://www.frc.org.uk/document-library/audit-and-assurance/2020/yougov-acc-research>

Audit committees serve the interests of investors and other stakeholders through their independent oversight of the annual corporate reporting process, including the audit of the company's financial statements. The audit committee is responsible for the appointment of the external auditor, approval of their remuneration and any non-audit service work commissioned. The audit committee is also tasked with challenging the auditor over the quality of their work and ensuring that the auditor's independence is not compromised. The audit committee reports on the work done by the external auditor, and the conclusions drawn, in the annual report. The audit committee, through its interactions with the auditor and with the other directors and management, can play a key role in facilitating a high-quality audit.

#### *Recent developments in the audit sector*

Since May 2015, there have been significant changes in the governance and auditing framework which continues to emphasise the fundamental role of audit committees in effective stewardship.

Further changes are expected to be the subject of Government consultation in response to recommendations of the [Competition and Markets Authority \(CMA\) study of the statutory audit services market](#) (April 2019) as well as those in the [Independent Review of the FRC \(December 2018\)](#) and [Sir Donald Brydon's review \(December 2019\) into the quality and effectiveness of audit](#). These changes may include increased regulatory scrutiny of audit committees, including initiatives to ensure auditors are selected on the basis of quality of audit rather than other criteria.

Legislation enacted in June 2016 introduced a requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after no more than 20 years. The legislation includes specific responsibilities for PIE audit committees with respect to tender processes. An effective tender process is a key step in obtaining a high-quality audit.

#### *Previous FRC research with Audit Committee Chairs*

Given the key role Audit Committees can play in facilitating a high-quality audit, the FRC has regularly engaged with ACCs to inform its work. In recent years, the FRC has set out its survey findings with respect to ACCs in the annual Developments in Audit reports. The FRC published findings from its [Audit Committee Chairs \(ACCs\)' survey in 2015](#).

In 2020 the FRC commissioned [qualitative research in the form of a set of in-depth interviews with ACCs](#), focusing on how ACs consider audit quality, how they select their auditor, and related issues. This Invitation to Tender is for similar work in 2021.

#### *Relevant FRC publications*

The FRC has published a number of documents covering the role of Audit Committees.

- The [UK Corporate Governance Code](#) (2018) (p10 sets out roles and responsibilities of the Audit Committees and p11 covers what should be in the annual report about their work)
- The [Guidance on Audit Committees](#) (2016)

- [Audit Tenders: notes on best practice](#) (2017)
- [Audit Quality: practice aid for Audit Committees](#) (2019)

### 3. Project / requirements

#### 3.1. Purpose and scope

The overarching objective of the project is to provide the FRC with a rich understanding of ACCs' views on, and approach to, audit quality. This may include:

- ACC's views on the key drivers of audit quality
- What does a good/bad audit look like to an ACC?
- Selection of auditors / tender process
- Audit planning
- Considerations of quality during the audit and post-audit, including ACC's views of the impact, if any, of audit firm culture
- How ACC's use the results of AQR inspections to drive improved audit quality
- How ACC's satisfy themselves as to the independence and suitability of their auditor
- How ACC's assess the work of their committees

The above list of questions is not exhaustive. Questions and topics will be developed in the first phase of the project, in consultation with the FRC as outlined in section 3.3 below. We expect the research to explore ACCs' views on quality throughout the audit process, including at the tender phase, during the planning phase and while the audit is being conducted. We are interested in understanding how ACCs distinguish between the *quality of auditor service* and the *quality of the audit* itself and how this informs their selection of auditors. We are interested in gaining ACC's views on the practical and technical issues.

The findings from the research will inform the FRC's ongoing work with audit committees. Our aim is to help all audit committees to be more effective in driving audit quality.

#### 3.2. Target participant group

Interviews should be conducted with at least 50 ACCs from PIEs (more if possible – please specify in your proposal). The interviewees should be a mix of ACCs:

- with experience of recently tendering for audits
- who have experience of audits by Big Four audit firms
- who have experience of audits by *non*-Big Four audit firms.
- from a range of business sectors

We expect the supplier to develop a suitable sample of ACCs from which to draw potential interviewees. We may require that the sample should not overlap with the previous sample of ACCs interviewed by our researchers in 2020<sup>3</sup>. The supplier will be responsible for recruiting interviewees and arranging the interviews.

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<sup>3</sup> We will discuss this issue, and explore related sampling options, with the successful bidder upon appointment.

The sample will need to be adjusted as recruitment proceeds to maintain a balanced sample, with a mix of the characteristics listed above. The FRC should be informed and consulted at each stage of building the sample to ensure it meets the priorities of the project. The FRC has access to relevant data on the current auditors of PIEs to inform the sampling process.

### **3.3. Suggested approach and analysis**

The research objectives detailed above will be met through a series of semi-structured interviews with ACCs. These interviews will be driven by a topic guide that will be developed by the expert(s) employed by the supplier, working closely with the FRC's subject matter experts, as well as any other expertise the supplier can offer (please specify in your proposal). The FRC would expect to have significant engagement with the interviewer(s) to develop the topic guide, including at least one meeting and one 'dummy run' of an ACC interview with a senior FRC staff member acting as the ACC. We expect the supplier to plan for at least one review meeting with the FRC after several interviews have been conducted in order to assess the topic guide and make adjustments as necessary.

We expect each ACC interview to last 60 minutes. The ACCs' identities will remain anonymous; only the supplier will know who took part and who declined to do so.

Besides the topic guide, the success of these interviews will depend to a large extent on the quality of the interviewer(s). They must have a good understanding of the work of auditors and ACCs of large audited companies. It would be an advantage if they had first-hand experience of audit (whether as an auditor, as an audit client, or otherwise). This understanding will enable the interviewer(s) to develop on-the-spot follow up questions, during the interview, in response to what the interviewee has told them. Such follow up questions should be focused on building, iteratively, a detailed understanding of the topics in the topic guide.

In your proposal please show how the interviewer(s) you would use meets the above requirements. If the interviewer(s) you propose to use do not have first-hand experience of large company audits, please describe how you will ensure that experts with this knowledge will be involved to ensure sufficient quality and depth of information-gathering and analysis. We would also like your proposal to include the CV(s) and short bio(s) of the interviewer(s) and audit experts (if different) you would use.

### 3.4. Deliverables/Milestones

The main product required will be a report setting out the evidence gathered, analysis of that evidence and the findings, giving specific examples to illustrate the points made. We would expect the report to include extensive quotation from the interviews. This will need to be done with a view to the level of anonymity agreed for the ACCs. The FRC may publish this report, therefore we would expect drafts and finalised versions to be presented to a very high standard, including having been proof-read for the supplier by subject-matter experts before being sent to the FRC.

The following will also be considered deliverables of the project:

- An anonymised summary of the interviewee sample (giving characteristics as per section 3.2 above) sent to the FRC for sign-off *before* interviews begin.
- Meeting(s) between the FRC policy team and the interviewer(s) the supplier will use, during which the interview Topic Guide will be developed (as outlined in section 3.3 above)
- A 'dummy run' of an ACC interview with a senior FRC staff member acting as the ACC, repeated if necessary
- The final Topic Guide as used in the interviews, signed-off by the FRC *before* interviews begin
- A presentation to the FRC of initial observations/preliminary findings *before* further analysis is started and the final report is written

### 3.5. Project timing

Topic Guide development, building sample of PIES; sign-off	March 2021
Recruitment of interviewees Interviews and Analysis	March – June 2021
Full first-draft report delivered for FRC comment	By 9 July 2021
Final report delivered; sign-off	By 31 July 2021

### 3.6. Liaison arrangements

The supplier will be expected to work with the FRC team to develop the sampling approach, and the topic guide. After the interview phase is complete, the supplier will present initial observations/preliminary findings to the FRC. This will enable the FRC to ask that subsequent analysis and report writing goes into greater detail in particular areas of interest.

A schedule of regular progress updates and meetings will be agreed between the FRC and the supplier.

The FRC policy team should be updated on project progress and consulted on key decisions in the research design and operationalisation.

- Regular progress update meetings (by conference call)
- FRC sign-off on all deliverables/milestones above

- Report structure, draft report and final report to be signed-off

### **3.7. Tender response**

The proposal should be no more than 8 pages in total, excluding annexes, and include:

- A succinct summary of the proposal, including an estimated timeline indicating project milestones.
- Details of the proposed approach (including, as appropriate, the techniques, methodology, and external data sources to be used, including your rationale for choosing them).
- A demonstrable understanding of statutory audit, audit committees and audit tendering for PIEs. Good understanding of the current policy context.
- CV(s) and short bio(s) of the interviewer(s), audit experts (if different), and of the report-writer/editor who would be employed on the project.
- Details of other personnel to be involved including their role for this project and their relevant experience.
- Your organisation's experience of similar projects and relevant research capability
- Arrangements for managing this work and quality assuring outputs, including how you would like to work with the FRC during the project.
- A detailed budget, including a breakdown of time and costs per activity and per team member. If your proposal includes options these should be costed separately where it makes sense to do so.

#### **Note:**

*The FRC may in future decide to repeat this research in future years to provide an over-time comparison. If you bid for this project you should please confirm your willingness to do this. If the FRC takes up this option, it will do so before the end of 2025 (and the total expenditure including repeat(s) will be capped at no more than £175,000).*

Please include any additional information about your organization that you think is relevant.

Bids should identify any real or perceived conflicts of interest.

### **3.8. Tender Evaluation**

*Please submit all documents in a Microsoft Word compatible format (or Open Document format).*

Bids will be assessed against the following criteria:

- Demonstrable understanding of our project requirements and purpose
- The suitability of your overall approach (including methods and project management)
- Experience in the area, including characteristics of the proposed experts/interviewers
- Cost

#### **References**

The FRC reserves the right to take up references. You will be required to provide references within the Tender Response Document. References must be relevant to the FRC requirement and within the last five years.

#### 4. Cost /Financials

- The tenderer should provide a fixed fee for the work exclusive of VAT however inclusive of all expenses. Tenderers should detail their cost in the Tender Response Documents in the format specified. No other costs should be charged on top of the fixed fee, unless and except if the scope has materially changed from what is set out / agreed. Changes to the scope / cost must be mutually agreed.
- The FRC does not anticipate tender bids over £50,000 excluding VAT**

#### 5. Use of ITT & publication

Tenderers **must not** undertake any publicity activity regarding the procurement within any section of the media

#### 6. Questions & Clarifications

6.1.1. Tenderers may raise questions or seek clarification regarding any aspect of this further competition at any time prior to the tender clarification deadline.

6.1.2. Tenderers may raise questions or seek clarification within the timeframe by sending questions to [procurement@frc.org.uk](mailto:procurement@frc.org.uk) in the following format.

Nature of query / clarification	Query / Clarification

6.1.3. The FRC will not enter into exclusive discussions regarding the requirements of this ITT with tenderers.

6.1.4. To ensure that all tenderers have equal access to information regarding this tender opportunity, the FRC will publish all its responses to questions raised by Tenderers on an anonymous basis.

6.1.5. Responses will be published in a questions and answers document to all Tenderers who have indicated that they wish to participate.

#### 7. Tender process timeline

DATE/TIME	ACTIVITY
<b>25-01-2021</b>	Publication of the Invitation to Tender
<b>01-02-2021 5pm</b>	Deadline to submit clarification questions
<b>03-02-2021 5pm</b>	Deadline for publication of responses to clarification questions Note: the FRC will endeavour to meet this timeline.
<b>17-02-2021 4pm</b>	Deadline for supplier submission of tender to the FRC.
<b>24-02-2021</b>	Tender Outcome
<b>01-03-2021</b>	Contract Start Date
<b>30-07-2021</b>	Contract end



## **8. Conduct**

- 8.1.1. The tenderer must not communicate to any person the tender price, even approximately, before the date of the contract award other than to obtain, in strict confidence, a price for insurance required to submit the tender.
- 8.1.2. The tenderer must not try to obtain any information about any other person's tender or proposed tender before the date of the contract award.
- 8.1.3. The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.
- 8.1.4. The tenderer must not offer any incentive to any member of the FRC's staff for doing or refraining from doing any act in relation to the tender.
- 8.1.5. If the tenderer engages in any of the activities set out in this paragraph or if the FRC considers the tenderer's behaviour is in any way unethical the FRC reserves the right to disqualify the tenderer from the procurement.
- 8.1.6. The tenderer represent and warrant that a conflict of interest check has been carried out and that check revealed no conflicts of interest.
- 8.1.7. Where a conflict of interest exists or arises or may exist or arise during the procurement process or following contract award the tenderer must inform the FRC and submit proposals to avoid such conflicts.
- 8.1.8. Tenderers must obtain for themselves at their own responsibility and expense all information necessary for the preparation of tenders. The FRC is not liable for any costs incurred by the tenderer as a result of the tendering procedure. Any work undertaken by the tenderer prior to the award of contract is a matter solely for the tenderer's own commercial judgement.

## **9. Due Diligence**

- 9.1.1. While reasonable care has been taken in preparing the information in this ITT and any supporting documents, the information within the documents does not purport to be exhaustive nor has it been independently verified.
- 9.1.2. Neither the FRC, nor its representatives, employees, agents or advisers:
  - makes any representation or warranty, express or implied, as to the accuracy,
  - reasonableness or completeness of the ITT and supporting documents;
  - or

- Accepts any responsibility for the adequacy, accuracy or completeness of the information contained in the ITT and supporting documents nor shall any of them be liable for any loss or damage, other than in respect of fraudulent misrepresentation, arising as a result of reliance on such information or any subsequent communication.

9.1.3. It is the tenderer's sole responsibility to undertake such investigations and take such advice, including professional advice, as it considers appropriate in order to make decisions regarding the content of its tenders and in order to verify any information provided to it during the procurement process and to query any ambiguity, whether actual or potential.

9.1.4. It is a requirement that the successful supplier (i) comply with all applicable laws and regulations including, without limitation, the Bribery Act 2010, the Equality Act 2010 and the Modern Slavery Act 2015; and (ii) in addition to any contractual requirement(s), inform the FRC immediately upon becoming aware of any event (including actual or threatened court proceedings) which may impact upon the reputation of the FRC, whether or not connected with the Supplies and/or Services.

## **10. Submitting a Tender**

10.1.1. Tenderers must submit their tender response within the deadline to [procurement@frc.org.uk](mailto:procurement@frc.org.uk).

10.1.2. Where a Tender Response Template is provided, potential providers must align their tender response with that format.

10.1.3. A Tender must remain valid and capable of acceptance by the Authority for a period of 90 days following the Tender Submission Deadline. A Tender with a shorter validity period may be rejected.

## **11. Evaluation**

11.1.1. The FRC will award the contract on the basis of the tender which best meets the evaluation criteria aligned to the requirements.

## **12. Acceptance of Tender & Notification of Award**

12.1.1. The FRC reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.

12.1.2. The FRC shall not be under any obligation to accept the lowest price tender or any tender and reserves the right to accept such portion or portions as it may decide, unless the tenderer includes a formal statement to the contrary in the tender. The FRC also reserves the right to award more than one contract to fulfil the requirement.

12.1.3. The tenderer will be notified of the outcome of the tender submission at the earliest possible time.

12.1.4. Where the procurement process is subject to EU public procurement directives, a minimum standstill period of 10 calendar days will apply between communicating the award decision electronically to tenderers and awarding the contract.

12.1.5. Nothing in the documentation provided by the FRC to the tenderer during this procurement or any communication between the tenderer and the FRC or the FRC's representatives, employees, agents or advisers shall be taken as constituting an offer to contract or a contract. No tender will be deemed to have been formally accepted until the successful tenderer has received a formal contract award letter from the FRC.

### **13. Additional Information**

13.1.1. Please use the attached Tender Response Document for your reply.

13.1.2. The Terms and Conditions that will apply to this proposed Agreement are attached. Suppliers should accept the T&C's with no material changes.