

## **Invitation to Tender (ITT):**

### **Audit Firm Culture**

### **Focus Groups at Audit Firms**

Reference	FRC2021-0155 Audit Firm Culture
Date	October 2021

## **1. Background**

The Financial Reporting Council sets the UK accounting, audit and actuarial standards and administers the Corporate Governance and Stewardship Codes. 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.

In May 2018 the FRC published a [thematic review on Audit Culture](#). Audit firm culture is a critical component of an audit firm's ability to deliver high quality audits in the public interest therefore the review looked at audit firms' activities to establish, promote and embed a culture that is committed to delivering consistently high-quality audits.

One key attribute of a good, healthy audit culture is auditors being able to challenge companies' management teams effectively and exercise professional scepticism when performing audits. The FRC's work continues to show that auditors often struggle to challenge the management of audited entities effectively, especially on issues that involve judgement. This can result in auditors failing to obtain sufficient and appropriate audit evidence, and in some cases, failing to identify or seek the correction of potential misstatements of the financial statements. In December 2020 the [FRC wrote](#) to all firms expressing our concerns in this area.

There are a number of factors that are needed for auditors to deliver effective challenge of management. For example, there needs to be appropriate audit methodology, strong quality control processes and innovative audit technology. The FRC assesses these through our programme of firmwide work at the seven largest firms. In addition to these factors, and at least as important, is the need for audit firms to have a culture that supports and requires professional scepticism and effective challenge of management.

The FRC is conducting a further thematic review on what firms are doing to promote and instil such a culture. By comparing and contrasting current practices at different audit firms this review will stimulate debate, and its observations (both good practices and recommendations for improvement) will help audit firms to continually improve.

## **2. Project / Requirements**

### **2.1 Purpose and Scope**

This research project will provide evidence and analysis to support the FRC's current thematic review on audit culture. This will involve considering drivers of behaviour that either promote or inhibit auditors' exercise of professional scepticism and their effective challenge of management – including the reward structure, performance management, learning and development, leadership, governance, and communication at the firm.

The contractor's research team will gather evidence using focus groups. The research team's analysis of these will subsequently be provided in a report to the FRC. The FRC's team will use the information in this report in addition to the FRC's own evidence and analysis to produce a thematic review report written by the FRC. The research team's report will not be published separately but the research team will be credited in the FRC's published report.

## 2.2 Approach

The suggested approach to the focus groups and interviews will be as follows:

- A. A minimum of three focus groups for each of the seven largest audit firms, split by level of seniority
- B. A minimum of three individual interviews with a Partner or Director at each of the seven largest audit firms
- C. A focus group with the Independent Non-Executive Directors at each of the seven audit firms

The purpose of the focus groups and interviews will be to assess the factors that either promote or inhibit the ability of an auditor to exercise professional scepticism and effectively challenge management at the audited entity when performing an audit. The FRC team will work with the contractor's research team to develop the questions for the focus groups and interviews. It is expected that all focus groups and interviews will be held by video call/conference.

Proposals should outline how the focus groups would be structured and facilitated to make best use of everyone's time, maximise interaction and ensure a balanced contribution among participants. Please also provide an overview of the topics you envisage being discussed during the focus groups. The contractor may suggest an alternative approach to this assessment based on their experience.

We do not expect to receive a full list of interview questions or a full plan for the focus groups. However, your submissions should be of sufficient breadth and depth to demonstrate that your proposed team has sufficient knowledge of the relevant issues, as well as the ability to apply this effectively in the specified engagement formats. Upon appointment, the FRC team will work with the successful team, contributing specialist audit knowledge, to develop a plan and full set of questions for the interviews and focus groups. The FRC team will arrange the recruitment of participants for the focus groups and interviews.

The success of this research project will depend not just on the active participation of the audit firms, but also to a significant extent on the knowledge, experience and skills of the people facilitating the focus groups. An important consideration in identifying the strongest proposal will therefore be the evidenced experience of the people that would be carrying out these tasks. They will require broad knowledge and experience of behavioural science or the assessment of culture and a basic understanding of the audit industry and operation of the largest accountancy firms.

## 2.3 Deliverables, milestones, and high-level timeline

The deliverable required will be a report setting out a summary of the key themes arising from the focus groups and interviews. The themes will describe factors that either promote or inhibit the ability of an auditor to exercise professional skepticism and challenge management when performing an audit. The FRC commissioned [research with Audit Committee Chairs](#) is indicative of the report we expect from this research project, and of the level of analysis/interpretation of findings it should contain.

The project is expected to run from November 2021 to April 2022. The timeline below is indicative; proposals should explain what is possible while maintaining high quality standards.

<b>Date</b>	<b>Deliverable / milestone</b>
01-12-21	Supplier chosen and notified
December 2021	Project kick-off meeting
December & January 2021	Focus group and interview questions to be drafted by FRC and Supplier FRC
December & January 2022	Planning (incl. scheduling) of focus groups & interviews by FRC & Supplier
February 2022	Focus groups & interviews begin
End March 2022	Focus groups & interviews complete
29-04-2022	Delivery of final report of focus group and interview findings

## 2.4 Liaison arrangements

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

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

## 2.5 Your tender response

The proposal should be no more than 7 pages in total, excluding annexes, and include:

- A succinct summary of the proposal, including an estimated timeline of project milestones and deliverables.
- Example interview questions and topics for discussion at the focus groups. These should be of sufficient depth and breadth to demonstrate knowledge of the relevant issues, as well as the ability to apply this effectively in the specified engagement formats
- Details of the number of focus groups that can be carried out based on the budget (including the number of people)
- Details of 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.
- A budget, including a breakdown of time and costs per activity, per team member, in line with the project objectives outlined above. If your proposal includes options, these should be costed separately.
- Project team CVs should be included in an annex, along with any additional information about your organisation that you think is relevant.

Bids should identify any real or perceived conflicts of interest.

## 2.6 Tender Evaluation

*Please submit all documents in a Microsoft Word compatible format (or Open Document format). You may additionally send a PDF version.*

Bids will be assessed on the following basis:

- Demonstrable understanding of our project requirements and purpose 15%
- The suitability of your overall approach (including project management) 20%
- Quality/relevance of example interview focus group questions 20%
- Number of people proposed to be surveyed through focus groups and interviews 15%
- Experience of the proposed personnel 15%
- Pricing / cost of your proposal. 15%

## 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.

## 3. Cost /Financials

- The tenderer should provide a fixed fee for the work exclusive of VAT however inclusive of all expenses and disbursement costs. 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 £60,000 excluding VAT.**

## 4. Use of ITT & publication

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

## 5. Questions & Clarifications

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

5.1.2. 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

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

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

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

## 6. Tender process timeline

**This procurement is intended to follow the timeline below:**

DATE/TIME	ACTIVITY
<b>27-10-2021</b>	Publication of the Invitation to Tender
<b>08-11-2021 4pm</b>	Deadline to submit clarification questions
<b>11-11-2021 4pm</b>	Deadline for publication of responses to clarification questions (FRC will endeavour to meet this deadline).
<b>24-11-2021 <i>midday</i></b>	Deadline for supplier submission of tender to the FRC.
<b>01-12-2021</b>	Tender Outcome
<b>08-12-2021</b>	Contract Start Date
<b>29-04-2022</b>	Contract end

**Please note the following are indicative timescales for planning purposes only. The FRC reserves the rights to amend this timetable and steps following the submission of tender.**

## 7. Conduct

7.1.1. 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.

7.1.2. 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.

- 7.1.3. The tenderer must not make any arrangements with any other person about whether or not they should tender, or about their tender price.
- 7.1.4. The tenderer must not offer any incentive to any member of FRC's staff for doing or refraining from doing any act in relation to the tender.
- 7.1.5. If the tenderer engages in any of the activities set out in this paragraph or if FRC considers the tenderer's behaviour is in any way unethical FRC reserves the right to disqualify the tenderer from the procurement.
- 7.1.6. The tenderer represents and warrants that a conflicts of interest check has been carried out, and that check revealed no conflicts of interest.
- 7.1.7. 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.
- 7.1.8. 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.

## **8. Due Diligence**

- 8.1.1. 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.
- 8.1.2. Neither 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.
- 8.1.3. 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.

- 8.1.4. 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.

## **9. Submitting a Tender**

- 9.1.1. Tenderers must submit their tender response within the deadline to [procurement@frc.org.uk](mailto:procurement@frc.org.uk).
- 9.1.2. Where a Tender Response Template is provided, potential providers must align their tender response with that format.
- 9.1.3. 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.

## **10. Evaluation**

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

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

- 11.1.1. FRC reserves the right to amend, add to or withdraw all or any part of this ITT at any time during the procurement.
- 11.1.2. 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. FRC also reserves the right to award more than one contract to fulfil the requirement.
- 11.1.3. The tenderer will be notified of the outcome of the tender submission at the earliest possible time.
- 11.1.4. 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.
- 11.1.5. Nothing in the documentation provided by FRC to the tenderer during this procurement or any communication between the tenderer and FRC or 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 FRC.



## 12. Additional Information

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

**12.1.2.** The Terms and Conditions that will apply to this proposed Agreement are attached. **Suppliers should accept the Terms & Condition's with no material changes.**