

Invitation to Tender

Research Project: *Qualitative research with audit committee chairs on audit quality*

1. Summary

The Financial Reporting Council (FRC) wants to commission qualitative research with Audit Committee Chairs (ACCs) of Public Interest Entities (PIEs)¹ to obtain a rich, in-depth understanding of ACCs' views on audit quality.

Since 2014, the FRC has conducted relatively large-scale annual surveys of ACCs of large companies on audit quality, often using written questionnaires. For 2020 the FRC wants to commission a set of in-depth, semi-structured interviews with a smaller, but representative, sample of ACCs, to generate more detailed insights into ACCs' 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 January 2020 and May 2020.

2. Background to the issue

About the FRC

The FRC regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. We seek to promote transparency and integrity in business; our work is aimed at investors and others who rely on company accounts, audit and high-quality risk management. As the Competent Authority for audit in the UK, the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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.

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

¹ 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.

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 may be required in response to recommendations of the Competition and Markets Authority (CMA) study of the statutory audit services market (April 2019). 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. Other reviews into the audit sector may also result in changes to the regulation of audit committees e.g. the [Independent Review of the FRC \(December 2018\)](#) and Sir Donald Brydon's current review into the quality and effectiveness of audit

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, e.g. Developments in Audit 2018 (see pages 34-37) and Developments in Audit 2017 (see pages 44-45). The FRC also published findings from its Audit Committee Chairs (ACCs)' survey in 2015.

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. Research objectives

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 will include:

- ACC's views on the key drivers of audit quality
- What does a good/bad audit look like to an ACC?
 - We would like to hear about episodes when an ACC oversaw a good audit, and why was it good
 - We would like to hear about episodes when an ACC oversaw a bad audit, why was it bad and what would have made it better
- Selection of auditors / tender process
- Audit planning
- Considerations of quality during the audit and post-audit
- 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
- Developments in the audit sector and role of audit committees in future

The above list of questions is not exhaustive. Questions and topics will be developed during the project, in conjunction with the FRC as outlined in section 5 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 *quality of the audit* itself and how this informs their selection of auditors.

The findings from the research will inform the FRC's ongoing work, including Developments in Audit, and aid us in identifying where we could usefully issue further guidance to audit committees. Our aim is to help all audit committees to be more effective in driving audit quality.

4. 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 representative 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. The supplier will be responsible for recruiting interviewees and arranging the interviews.

The sample will need to be adjusted as recruitment proceeds to ensure the final interviewee list remains representative of the PIE population, 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.

5. 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 interviewer(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 face to face meeting and more if needed.

We anticipate each ACC interview will 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. We would also like your proposal to include the CV(s) and short bio(s) of the interviewer(s) you would use.

6. 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, or sections of it.

The following will also be considered deliverables of the project:

- An anonymised summary of the interviewee sample (giving characteristics as per section 4 above) sent to the FRC for sign-off *before* interviews begin.
- Face-to-face 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 5 above)
- The final Topic Guide as used in the interviews
- A presentation to the FRC of initial observations/preliminary findings *before* further analysis is started and the final report is written

7. 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 issues/areas of interest.

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

8. Project timing

Tender period	13 December 2019 – 13 January 2020
Contract awarded	w/c 17 January 2020
Topic Guide development; recruitment of interviewees	January – February 2020
Interviews and analysis	March – early May 2020
Final report delivered	By end May 2020

9. Budget

The budget for this project is £50,000 excluding VAT. This figure is indicative. There may be some budget flexibility if the proposed approach is particularly strong and supports the project objectives.

10. Form of proposal

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) 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.

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

11. *Evaluation criteria*

Bids should identify any real or perceived conflicts of interest. Bids will be assessed against the following criteria:

- evidence of understanding the brief;
- suitability of approach, including characteristics of the proposed interviewers;
- experience in the area;
- cost.

12. *Closing date for tenders*

11:59pm Monday 13 January 2020. Please submit to research@frc.org.uk