

Invitation to Tender (ITT):

Assessing current practice in extended auditor reporting

Provision of Research Services

Reference	FRC2021-0108 Extended Auditor Reporting Research
Date	23 July 2021

Assessing current practice in extended auditor reporting

1 Background

The Financial Reporting Council (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.

Auditor reports form a key element in the financial reporting ecosystem as they represent the only conduit of information about an audit for those who are external to the audit process. Extended auditor reports were introduced by the FRC for the audit of Public Interest Entities (PIEs) from 2013. Following this, the FRC published two reports in 2015 and 2016 reviewing the experience of this innovation.¹

Requirements around auditor reporting have subsequently changed as a consequence of further revisions to ISA (UK) 700 in 2019, the introduction of ISA (UK) 701 in 2016, and subsequent further changes to both standards in 2019. These changes require auditors to include meaningful disclosures on their approach to, and observations arising from, key matters impacting the audit (known as 'Key Audit Matters'). These include:

- specifying significant judgements made by the auditor;²
- giving scope to the auditor to make observations on a Key Audit Matter;³
- detailing judgements made by the auditor on materiality, and disclosing performance materiality;⁴
- encouraging symmetry between Key Audit Matters included in the auditor's report and the Issues disclosed in the Audit Committee Report included in the company's annual report.⁵

Auditor's reports are also required to explain the extent to which the audit was considered capable of detecting irregularities, including fraud.⁶ The audit firm is also required to disclose any non-audit services provided to the company and its controlled undertakings and which have not been disclosed in the annual report or financial statements.⁷ These regulatory changes are principles-based and non-prescriptive, with the intention of encouraging innovation by auditors.

¹ Financial Reporting Council, [Extended auditor's reports: A review of experience in the first year](#) (March 2015); Financial Reporting Council, [Extended auditor's reports: A further review of experience](#) (January 2016).

² ISA (UK) 701, paragraph 13(b),

³ ISA (UK) 701, paragraph A51-1.

⁴ ISA (UK) 701 (Revised November 2019) (Updated January 2020) [Communicating Key Audit Matters in the Independent Auditor's Report](#), paragraphs 16-1(a)(iii), A51-2.

⁵ ISA (UK) 701, paragraph 16-2(c).

⁶ ISA (UK) 700 (Revised November 2019) (Updated January 2020) [Forming an Opinion and Reporting on Financial Statements](#), paragraphs 29-1, A39-1 to A39-5.

⁷ ISA (UK) 700, paragraph 45-1(f).

2 Project description

2.1 Context

This research project will support a broader FRC exercise assessing current practice in long-form auditor reporting in the UK. This broader exercise has two objectives:

- improved understanding of current auditor reporting practice
- promoting good practice in auditor reporting

The intention is that the FRC exercise will result in a publication and the analytical report from this research project will be included as an annex, providing supporting evidence and analysis.

2.2 Purpose and Scope

The research project will have two distinct parts:

Part A: Literature review

This will be a review of research literature on the impact of extended auditor reporting in the UK since its introduction in 2013, as produced by researchers, academics, and other appropriate bodies.

Part B: Data collection and analysis

A sample of auditor reports will be analysed using both quantitative and qualitative techniques. The sample itself will be sufficient to support robust statistical comparisons between market segments, audit firms and market sectors. The sample should be drawn from:

- the population of all component members of the FTSE 350 as at 31 December 2020.
- UK incorporated companies listed on AIM with a market capitalisation greater than €200m on the same date.

The dataset will need to be designed so that it can support comparisons between:

- market segment (FTSE 100, FTSE 250, AIM)
- audit firm and
- market sector

For all companies in the sample, the auditor report contained within the first annual report issued on or after this date should be assessed. The UK Corporate Governance Code also requires the audit committee to describe the significant issues that it considered in relation to the financial statements, and how they were addressed.⁸ These 'Issues' identified by the Audit Committee should be recorded and used to assess the extent to which the Key Audit Matters included in the auditor's report are symmetrical with those 'Issues'.

The data collected from each sampled auditor's report will then support quantitative analyses (frequency counts) which will be comparable with the tabular outputs produced in the previous two FRC publications.⁹ These will include frequency counts of the following:

- length of the auditor[?] report (in words)

⁸ Financial Reporting Council, [The UK Corporate Governance Code](#) (July 2018), paragraph 4.26, p.11.

⁹ See references in footnote 1.

- different types of audit opinions, including emphases of matter and reporting by exception on matters required by the Companies Act
- different approaches to audit materiality (materiality base, materiality threshold, performance materiality threshold)
- discussion of the audit response to the risk of fraud and other irregularities
- frequency of different types of Key Audit Matters
- disclosure of non-audit services provided by the firm to the company being audited

Each auditor report should also be subject to qualitative assessment using a qualitative coding scheme for content analysis or other techniques as appropriate. This should comprise assessments of the following features of each auditor report:

- the readability of the report
- the level of granularity i.e. the extent to which detail provided in the auditor's report is particular to the circumstances of the audited company
- any observations made in the auditor's report on Key Audit Matters
- the extent of the use of standardized 'boilerplate' text which is not tailored to the circumstances of the company being audited
- the extent to which the Key Audit Matters disclosed in the auditor's report are symmetrical to the Issues included in the Audit Committee Report

Suggested approaches to qualitative assessments are included in section 2.3(B) below. The data collection exercise should also identify, record, and describe instances of innovation in auditor reports.

Finally, further analysis is also required where a company has changed audit firm between the sampled annual report and the prior year. A comparison with the previous auditor report will be required to understand and record how the audit approach as communicated in the report has changed with the change in auditor. This should cover changes in materiality, audit coverage, scope, and Key Audit Matters.

2.3 Suggested approach

Part A: Literature review

The output from this part will be a report of no more than 3,000 words, exclusive of bibliography and references.

Part B: Data collection and analysis

The sample of auditor reports should be selected using standard statistical methods. In your proposal indicate the sample size that is possible within the project budget and timeframe.

Qualitative assessments of auditor reports are inherently subjective however the appointed research team will be required to develop a robust, qualitative coding scheme for content analysis to mitigate this. The FRC will review this coding scheme with the research team before analysis begins. However, the FRC would also welcome proposals which include the use of data analytics and/or machine learning techniques, especially with respect to assessing the prevalence of 'boilerplate' disclosures within auditor reports.

For instances where the auditor has changed between the sampled annual report and the prior year, a case study approach is suggested to facilitate comparisons between the audit approaches as described in the auditor reports.

2.4 Outputs and deliverables

Three outputs will be delivered to the FRC during the course of the project:

- i. A literature review of research on extended auditor reports in the UK since their introduction in 2013, with a supporting bibliography. This will be drawn upon by the FRC in preparing the main report, and the successful tenderer will be credited with providing this input in the introduction to the report.
- ii. An analytical report detailing the quantitative and qualitative analysis of the dataset created during the project.
 - a. It will include a full description of the sample composition and methodology utilised in the study.
 - b. This report should be provided in an electronic format to facilitate its integration into the overall FRC report. It should be of a comparable length to the 2015 and 2016 FRC reports on auditor reporting.
 - c. The successful tenderer will be cited in the overall FRC report as the author of the annex and will also be credited in the introduction for their contribution to the FRC report.
- iii. The dataset itself (in electronic format), with supporting documentation. This will include a description of the quality assurance processes adopted to ensure the accuracy of the data collection exercise.

It is proposed that the project has three milestone payments aligned with the above (and weighted to the back end of the deliverables).

2.5 Liaison arrangements

The FRC team should be updated on project progress and consulted on key decisions in the research design and its implementation. This will include regular progress updates made via conference call and email.

In particular, the FRC team wishes to be involved in the sign off the underlying data model (i.e. the underlying structure of the dataset to be created by the project) for collecting information from the sampled auditor reports, as well as the qualitative coding scheme for content analysis.

2.6 High-level timeline

<i>Date</i>	<i>Deliverable / milestone</i>
Early September 2021	Kick-off meeting to review sampling methodology and data collection strategy
Mid/late September 2021	Discussion with FRC to sign off the underlying data model and the coding scheme for content analysis
Late October 2021	Completed literature review to be provided to the FRC.
3 December 2021	Receipt by FRC of draft analytical report and dataset for comment/review.

17 December 2021	Receipt by FRC of final version of the report and dataset.
------------------	--

2.7 Cost and financials

The tenderer should provide a fixed fee for the work, exclusive of VAT, inclusive of all expenses. Tenderers should detail their costs in the Tender Response Documents in the format specified. No other costs should be charged on top of the fixed fee, unless the scope has materially changed from what is set out / agreed. Changes to the scope / cost of the project must be mutually agreed.

The FRC does not anticipate tender bids over £35,000 excluding VAT.

2.8 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.
- Details of the proposed approach. This should include a high-level overview of the sampling and data collection strategy, and the analytical approaches to be adopted by the project.
- A demonstrable understanding of auditor reporting and the audit market, as well as financial audit more broadly.
- Details of personnel to be involved, including their role for this project and their relevant experience.
- Your organization’s experience of similar projects and relevant research capability.
- The arrangements to be put in place for managing this work and quality assuring outputs.
- A budget, including a breakdown of time and costs per activity, in line with the principal project objectives outlined above. If your proposal includes options, these should be costed separately.
- CVs for the project team should be included in an annex, along with any additional information about your organization that you consider relevant.
- Bids should identify any real or perceived conflicts of interest.

2.9 Tender evaluation

Bids will be assessed against the following principal criteria:

- (25%) Understanding of our requirement (supported by relevant experience, track record and / or transferrable knowledge).
- (30%) The suitability of the approach (including methodology and management). In particular. For Part B we will pay particular attention to
 - the proposed sample size
 - the methods/approaches proposed for the qualitative aspects.
- (25%) Experience / relevant experience of the proposed personnel.

- (20%) Pricing / cost of your proposal.

3. References

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

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 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

DATE/TIME	ACTIVITY
23-07-2021	Publication of the Invitation to Tender
06-08-2021 12.00noon	Deadline to submit clarification questions
12-08-2021 before 5.00pm	Deadline for publication of responses to clarification questions (FRC will endeavour to meet this deadline).
23-08-2021 midday / 12.00noon	Deadline for supplier submission of tender to the FRC.
02-09-2021	Tender Outcome
09-09-2021	Contract Start Date
17-12-2021	Contract end

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.

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 T&C's with no material changes.**