

Dear Audit Committee Chair

## **Introduction**

This is the second year in which Audit Committee Chairs (ACCs) have been surveyed about their experience of audit quality. This year, the Financial Reporting Council (FRC) oversaw the process to add an extra layer of independence to it.

Surveys were sent to all FTSE 350 ACCs. A further selection of ACCs from listed companies outside of the FTSE 350 was included to provide a reasonably sized sample for the six largest audit firms. Response rates were up on last year, with just under 50% of ACCs completing the survey sent to them. Completion rates were not uniform across the firms, however, and so the number of responses received was not in proportion to the firms' market share.

In total, just over 200 ACCs responded to this survey. The results of those submissions have now been collated and we would like to share the summary of results with you. In addition, each audit firm has received aggregated scores relating to their individual firm in order to help progress their audit quality agenda.

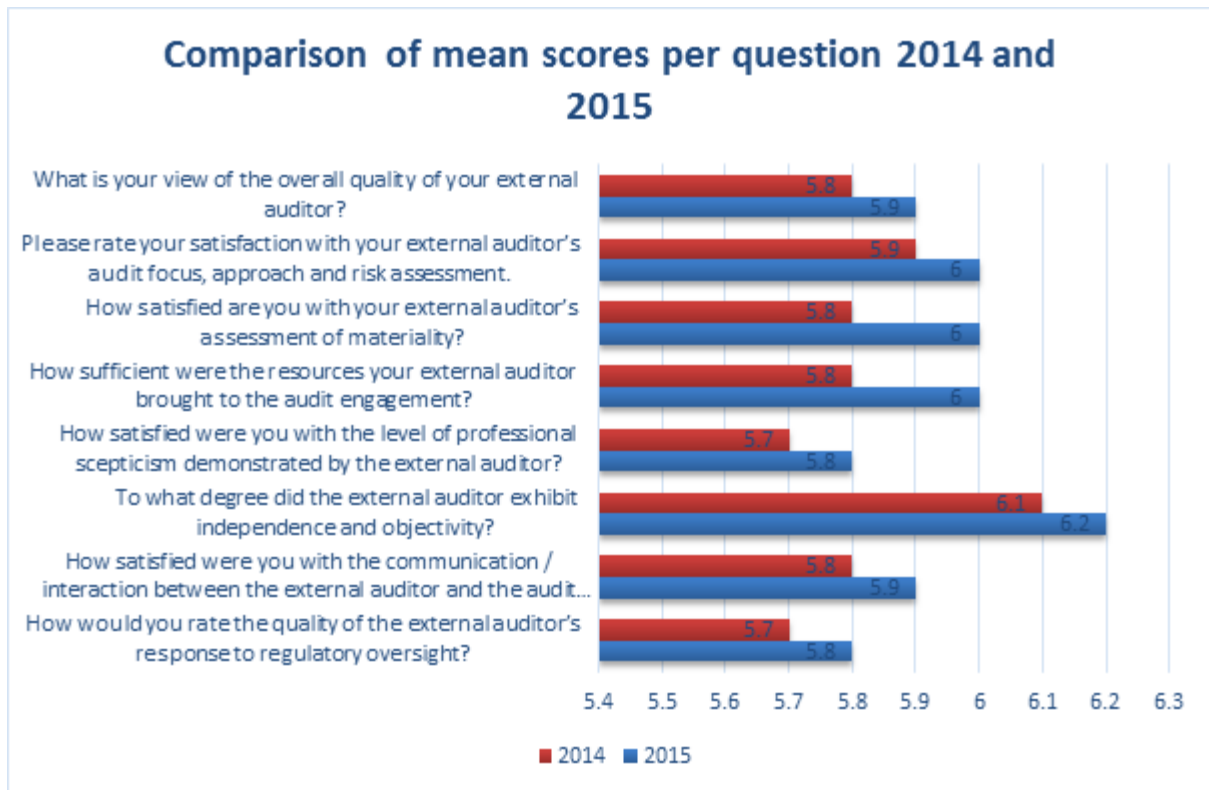
We would like to thank all of those ACCs who contributed to the survey. Your feedback has been extremely valuable.

## **Audit quality**

ACCs were asked a total of eight questions on audit quality and were asked to rank their responses on a scale of 1 to 7, with 1 being the lowest and 7 the highest. There was also an opportunity for ACCs to make comments against each question. The questions were the same as those asked last year in order to facilitate easy comparison between years.

Feedback from ACCs on audit quality was overwhelmingly positive, with the majority giving their auditor a score of 6 or 7 for most or all of the questions. Very few ACCs scored their auditor less than 3 on any question.

There was a slight improvement from 2014 in the ratings for each question, as can be seen in the graphic below:



Although it was possible to observe some differences between firms, these were very small and there were no clear conclusions to be drawn in relation to this data. In view of this we have decided not to make these figures public.

In their comments, ACCs amplified the answers they gave. The majority were positive statements on their experience with their audit firm. A number referred to the quality of the audit engagement partner as being crucial to their assessment of the quality of the audit. Several ACCs discussed the importance of independence to both the company and the audit firm, with some saying explicitly that they gave no or very little non-audit work to the external auditor.

There was evidence of some confusion as to the precise role of the FRC's Audit Quality Review function, and we will consider how we might better articulate this going forward.

ACCs were also asked to comment on other criteria they use to assess audit quality outside of the headings in the questionnaire. These included:

- Surveys of management and finance staff on their views of the performance of the auditors
- The extent to which the auditor can demonstrate knowledge of the business and the key risks facing it
- Perceived calibre of the individuals on the audit team
- Continuity within the audit team
- The extent to which the auditor can add value, for example by pointing the company's management towards instances of best practice in corporate reporting

We will consider the extent to which these factors can be built into future guidance to audit committees.

## **Tendering**

In the light of the increase in tendering activity, this year the survey also asked ACCs whether their company had been involved in a tender process during the previous twelve months. 34 companies (17% of the sample) indicated that the company had conducted an audit tender. Of these, 75% had resulted in a change of auditor.

ACCs who had been involved in a tender process were asked to rate the actual difficulty of the exercise in comparison with their expectations, with 1 being much more difficult than expected and 7 being much easier. The overall mean score across all firms was 4.7.

There were relatively few comments in this section, but a few ACCs pointed to difficulties arising from independence restrictions. This can impact on the number of audit firms who were prepared to tender. A number of ACCs whose companies had changed auditor reported that a “fresh pair of eyes” and a new perspective had been beneficial; an ACC whose company had retained the existing auditor noted that the tender had led to the firm “raising their game”.

## **Conclusion**

The results demonstrate that FTSE 350 ACCs generally view the quality of their current auditors in a very positive light. There has also been an improvement on last year’s figures, which is welcome. It is notable however that the lowest overall scores for a second year are for the questions on professional scepticism and the auditor’s response to regulatory oversight. Although these too have improved from the previous year, it does suggest that there is still some work for the firms to do in this area.