

## **EXTERNAL AUDITOR TENDER PROCESS**

### **INTRODUCTION**

In compliance with the Securities and Exchange Commission (SEC) Code of Corporate Governance of Publicly Listed Companies, Auditing Standards, and Global Best Practices, the external auditor and/or auditing firm shall be changed, or the lead and concurring partner shall be rotated every five (5) years or earlier. This is also in accordance with the Company's Corporate Governance practice on rotation or change of the Company's external auditor.

### **External Auditor Tender Process**

Objectives of the external audit tender process:

- 1) To get new ideas from another auditing firm's perspective (audit plan)
- 2) To be exposed to new approaches in auditing (audit plan)
- 3) To obtain a possible fee reduction (audit fees)
- 4) To further improve audit quality and/or service (audit plan, staffing, expertise)
- 5) To gain access to a wider range of experience (staffing, consultation, expertise)
- 6) To comply to corporate governance best practice

### **PLANNING THE PROCESS**

#### **Appointing a Project Manager**

The role of the project manager is to manage the process and be the direct contact with the participants.

Appointing a project manager could allow focusing the efforts on assessing the firms and reaching the right decision based on the approved evaluation criteria.

#### **Timetable for the Process** (Please Refer to Annex\_\_\_)

- Commitment of Controllership and other Groups that will be involved.
- Access to the Chairman, ARMC Chairman and other NED and Directors as appropriate
- 20 weeks (to commence on August of the year and ends on December of the year).
- Prepare the timetable:
  - o Day 1 - Invitation to tender dispatched.
  - o Week 1 to 2 - Initial Meeting with CFO and the firms involved in the tender process.
  - o Week 3 to 14 – Meetings with key personnel and site visits
  - o Week 15 – Tender document submitted
  - o Week 16 to 17 – Selection panel review documents and obtain feedback from locations, shortlists firms for oral presentation
  - o Week 18 to 19 – Oral presentations. Selection Panel recommends to the ARMC preferred firm. Board approval.
  - o Week 20 – Firms are informed of the Board's decision and debrief with firms on their performance during the process

### **Composition of the Approving Panel**

- Audit and Risk Management Committee (ARMC)

### **Members of the Assessment Team**

- Chief Audit Executive (CAE)
- Chief Financial Officer (CFO)
- Controller
- Compliance Officer (CO)

### **Scope of Proposals and Presentation Format**

- Approximately 12 to 18 pages with additional appendices for curriculum vitae (CV) and fees.
- To be submitted to the Project Manager in soft copy and hard copy

### **Pre-qualification assessment to drawup the Longlist**

- A pre-qualification assessment shall be done by Internal Audit (IA) to drawup the longlist of audit firms.
- The longlist could be derived using the following criteria:
  - o Background in auditing a Conglomerates
  - o Number of Conglomerates's engaging the audit firm
  - o Number of companies (based on the Top 1000 companies) engaging the auditing firm
  - o Global reach
  - o Inclusion in the list of SEC-authorized external auditing firms.

### **Selecting the Invitee List (Shortlist)**

- A pre-qualification assessment shall be done by IA to drawup a shortlist of three (3) audit firms.
- Invite the three (3) selected audit firms to participate in the tender.

### **Manage Shareholder Expectations**

- The context of the decision to tender should be understood by the shareholders.
- Intention to tender should be disclosed in the annual report at least a year before the tender. This is to clear any speculations in the market that may arise when the tender is announced.

### **Role of the current external auditor**

- Discuss with them the plan of the Bank to change external auditors and the role that would be beneficial for them to play.
- The current external audit firm may still participate in the tender.

### **Site Visits**

- Who should be involved within the organization.
- Who to provide feedback to.

## **Presentations**

- The presentation of the bidding firms should include in its audience the ARMC

## **EVALUATION CRITERIA**

<b>Criteria</b>	<b>Percentage</b>
The audit plan and methodology/ Independence	30%
Sector/Industry expertise/ Global reach and integration	10%
Staffing/ Character and authority of the senior partner	25%
Effectiveness of the consultation process	15%
Audit fees	20%
<b>Total</b>	<b>100%</b>

### ***The Audit Plan and Methodology/Independence***

- Understand the approach the auditor plans to take in conducting the audit.
- Ask the auditor to write up in detail how the assignment will be done.
- Provide the bidding firms the key parameters about the company around which the audit plan will be developed.
- The timeline to finish the engagement.
- The external auditor's independence, as determined by the nature and percentage of non-audit services it provides to the Company, is a critical variable that typically must meet certain regulatory requirements. The Company will need to consider the implications for non-audit services of hiring a new audit firm.
- The ARMC needs to consider any threats to independence and objectivity faced by each audit firm and the safeguards that each proposes to overcome those threats.

### ***Sector/Industry expertise/Global reach and integration***

- Given that different industries present different challenges for an auditor, it is important to select an auditor with sufficient sector experience.
- Establish if the senior partner (partner in-charge) has industry-specific (conglomerate) knowledge.
- Look at the other clients the firm has in the conglomerate industry.
- The audit firm should be capable of auditing remote offices effectively. The firm should also be integrated on a worldwide level to serve offices/ branches with operations in another country.

### ***Staffing/ Character and authority of the senior partner***

- Ensure that the firm has competent staff in areas that are critical to the Company and that the right people are assigned to the engagement.
- Ensure that there is clear commitment from the appointed firm on staffing and that there is talent locked up on critical areas, such as taxation, information technology, credit, etc.
- Clarify on who is going to be on the team and for how long.
- Establish the percentage of junior staff as against senior partners and managers.
- The lead partner should be able to challenge management in a way that supports a good relationship.
- Ask the bidding partners about the largest crisis that they have experienced and how they handled it.

- The lead partner should have the courage to point out to the audit committee all noted critical issues.

***Effectiveness of the consultation process***

- Assess the process on how the audit firm resolve difficult accounting issues.
- Establish the mechanisms for resolving technical disputes, to ensure that the consultation process is fast and efficient and properly managed.

***Audit fees***

- The audit fee is a key ingredient in bidding; however, this should not be the only factor in determining the external auditor. A more appropriate measure may be value for money rather than absolute cost. The proposed audit fee needs to strike a balance in which the fee is low enough to present a challenge to the audit process to improve the efficiency and effectiveness of the audit, but high enough to enable the auditors to undertake a thorough audit in accordance with auditing standards.
- The ARMC must satisfy itself that the audit fee quoted is a realistic fee for undertaking a full and proper audit and that the auditors are not relying on obtaining additional non-audit work to subsidize an unrealistically low audit fee.
- The fees must appear commensurate with the scope of the audit firm's engagement.
- Not choosing the lowest-cost firm should require a valid justification.

**CONTENT OF WRITTEN AUDIT SUBMISSIONS**

The tender document should include the following information:

1. Details of selecting your firm
  - A statement indicating the benefits/advantages to LT Group of selecting your firm.
  - The organization and structure of your firm.
  - Industry experience and client base.
2. Resourcing
  - Names of the lead partner, core service team, location, key qualities and relevant experience.
  - Personal fit with the management team and culture.
  - Estimated time that the key team members will provide to this engagement.
  - Succession planning and contingencies to ensure continuity of the engagement.
3. Approach
  - Your understanding of LT Group's business needs and risks.
  - Processes for delivering audit services which are customized, responsive and aligned with the specific needs of LT Group.
  - Processes that your firm will employ to address concerns regarding performance measurement, continuous improvement and client satisfaction.

- Manner and extent of coordination/collaboration with LT Group's Internal Audit and Controllership Group.
- Use of technology and innovation to deliver your services.
- Process on how audit findings will be reported.

#### 4. Quality Assurance

- Internal processes used for quality assurance.
- Your firm's approach to resolving accounting and financial reporting issues.

#### 5. Independence and governance

- Internal practices to ensure independence and freedom from conflicts of interest.
- List of relationships that may reasonably be thought to bear on independence and the proposed plan to manage them (e.g. proposals for non-audit services).
- Certification by your firm to undertake all appropriate steps to ensure its independence.

#### 6. Fees

- Estimated fee to complete the LT Group engagement for a particular year.
- Separate estimates of your total audit fees for reporting on:
  - Half-year results
  - The final LT Group, Inc. account
  - The accounts of subsidiaries, required for statutory or other purposes
- Basis on which fees will be determined in succeeding years.
- General overview of the schedule and timing of billings.

### **REPORT ON THE SELECTION PROCEDURE**

- Prepare written report on the conclusions of the selection procedure.
- Should include rationale.
- The ARMC should be able to demonstrate that the selection procedure was conducted in a fair manner.

### **AFTER THE PROCESS**

- Debrief the winner and loser on their performance during the process.