

**Audit Tender**

**Process Overview**

**3 July 2015**

Version 1.0

## 1. Audit Tender Process Description

### 1.1. Background

In the 2013 annual report, Barclays announced its intention to launch a tender for a new external auditor to support the 2017 or 2018 audit (the “Audit Tender”) ahead of the legislative requirement to do so. As PricewaterhouseCoopers (“PwC”) have been Barclays’ external auditors since 1896, it was decided not to invite them to participate due to their tenure and the requirement under the new EU rules for Barclays to change auditors by June 2020.

### 1.2. Governance

Three levels of governance were implemented to manage and support the Audit Tender:

Governance Body	Purpose
<b>Board Audit Committee</b>	<ul style="list-style-type: none"><li>Recommend selection of the new external Auditor to the Board</li></ul>
<b>Audit Tender Oversight Sub-Committee</b> Tim Breedon (Chairman, Non-Executive Director), Crawford Gillies (Non-Executive Director), Colin Beggs (Non-Executive Director and Chairman of the audit committee of Barclays Africa Group Limited)	<ul style="list-style-type: none"><li>Agree objectives and desired outcomes for the Audit Tender</li><li>Approve the design of the Audit Tender</li><li>Oversee execution of the Audit Tender</li></ul>
<b>Core Audit Tender Team</b> Mark Merson (Deputy Finance Director), Meen Adams (Chief Accountant), Charlotte Haggard (Programme Lead), Rashmi Pandey (Sourcing Lead)	<ul style="list-style-type: none"><li>Assist the firms to put the best solution forward for consideration</li><li>Conduct detailed assessment of the firms following the design approved by the Audit Tender Oversight Sub-committee</li></ul>

The Boards of Barclays PLC and Barclays Bank PLC are responsible for selecting the new auditors, based on the recommendation of the Board Audit Committee.

Given his former position at KPMG, and the fact that KPMG participated in the tender, Mike Ashley, Chairman of the Board Audit Committee, took no part in the audit tender process other than providing comments on the initial design of the tender process.

### 1.3. Scope

The Audit Tender resulted in selection of the Barclays Group External Auditor, the primary auditor for all global entities. The Audit Tender did not include requirements for the secondary auditor in jurisdictions where there is a joint auditor requirement. A separate selection process will be conducted by the local companies as required.

#### 1.4. Tender Principles

The Audit Tender was designed to implement a selection process which was efficient, open, transparent, fair and effective. This was accomplished by the following:

- **Efficient:**
  - a clear governance structure;
  - a small Core Audit Tender Team, with dedicated programme management and sourcing support ;
  - clearly identified internal points of contact;
  - a structured series of site visits, workshops and evaluations;
  - a virtual data room to host information which the firms could access at their convenience;
  
- **Open and Transparent:**
  - information on the Audit Tender was included in the 2013 and 2014 Barclays Annual Report;
  - the Audit Tender [Request for Proposal](#) document was published on the Barclays internet;
  
- **Fair:**
  - implementation of enhanced compliance procedures and recusal conditions;
  - consensus-based group evaluation via a standardised evaluation approach incorporating quantitative scoring and qualitative observations;
  - regular feedback to firms and opportunities for remediation;
  - equal access by all firms to information and Barclays management;
  
- **Effective:**
  - a variety of activities were implemented which allowed a broad evaluation of each firm by representatives from a variety of different functions;
  - consistent understanding of the evaluation criteria by all evaluators prior to launching the tender;
  - regular face to face briefings and workshops ensured a common understanding of requirements and submissions

#### 1.5. Enhanced Compliance Procedures

In order to ensure a fair evaluation of the firms, additional procedures were implemented to manage compliance with the bank's Gifts and Entertainment and Conflicts of Interest Policies. All in-scope colleagues were asked to confirm adherence to the additional procedures via a signed attestation.

#### 1.6. Participation in Tender

Desktop due diligence was conducted to confirm which firms would be invited to participate in the Audit Tender. The following factors were considered:

- Experience auditing comparable organisations;
- Size and scale;

- Global presence; and
- Relationship with Barclays

Based on this exercise, five firms were shortlisted for the Audit Tender. Two firms formally declined to participate in the Audit Tender due to their inexperience in auditing global banks.

### 1.7. Timelines

The Audit Tender was officially launched early March 2015 with issuance of the Request for Proposal, and concluded when the Barclays Board approved the recommendation made by the Board Audit Committee at the end of June.

## 2. Evaluation Process

### 2.1. Evaluation Criteria

A variety of weighted criteria was used to assess each firm's commitment, competence and cultural compatibility as follows:

- 50%: Audit Quality
- 20%: Cultural Fit
- 15%: Corporate Fit
- 15%: Experience

Evaluation of the firms was conducted on a "fee blind" basis, i.e. the fee information was not seen either by Management or the Board Audit Committee before finalising their recommendation.

### 2.2. Elimination Criteria

The following elimination criteria were established for the Audit Tender. Any firm meeting one or more of the following criteria would not be considered for appointment and would be eliminated from the tender:

- Inability to achieve independence by September 2016;
- No experience providing external audit services to at least one bank within the past five years;
- No established presence of external audit services in London, New York, India and Africa;
- Evidence of persistent regulatory and compliance breaches or issues as evidenced by regulatory/compliance reports over the past five 5 years; and
- Total average score of <50% across an aggregate of the site visit assessments

No firm was eliminated on this basis.

### 2.3. Evaluation Activities:

Six due diligence activities were conducted to assess the firms and inform evaluation against each of the evaluation criteria:

- i. **Request for Proposal (“RFP”)**: An RFP was issued to the firms for response that covered company profile, experience, proposed solution, independence and transition. A copy of the RFP is available on the Barclays internet site: [Audit Tender RFP](#)
- ii. **Audit Quality Workshop: Valuations**: assessment of valuations knowledge, experience and approach to auditing;
- iii. **Audit Quality Workshop: Information Technology**: IT audit approach, experience, use of data analytics tools and Cyber-risk;
- iv. **Audit Quality Workshop: Market Research**: review of regulatory reports from the FRC and PCAOB over the past five years
- v. **References**: reference checks were conducted with comparable clients at the Management and Board Audit Committee level;
- vi. **Site Visits / People Assessment**: seven site visits were organised with the firms and various functions across Barclays to allow assessment of the proposed teams

#### 2.4. Evaluation Approach

Evaluation was conducted using a standardised scorecard for all three firms. Evaluation results were consolidated across all evaluation activities. Individual scores by evaluation criterion were turned into percentages and then weighted at the aggregate level. Thematic patterns were identified and presented as part of the overall evaluation results..

#### 2.5. Evaluators

Evaluation of the firms was conducted by 40+ evaluators which included representation from various parts of Barclays, including senior subject-matter experts and executive-level management. Evaluators were required to review materials and to be present for workshops with all three firms for the full duration of each workshop.

In order to provide exposure to the firms and the tender process, Non-Executive Directors from the Board Audit Committee were invited to attend workshops. The majority of the workshops were attended by at least one Non-Executive Director. The Non-Executive Directors did not participate in evaluation of the firms at this stage, and attended as observers only.

#### 2.6. Feedback to Firms

Feedback to the firms was provided on a regular basis throughout the Audit Tender. Immediate feedback was provided if any material concerns were raised during the due diligence activities, and formal feedback was provided at scheduled sessions.

## **2.7. Other Activities**

Other due diligence activities conducted as part of the Audit Tender included review of proposed approaches to Independence, Transition and Legal.

## **2.8. Board Audit Committee Presentations**

Management provided a summary of the results of the evaluation activities to the Board Audit Committee. All three firms presented to the non-conflicted members of the Board Audit Committee of Barclays PLC and Barclays Bank PLC and Colin Beggs (Chairman of the audit committee of Barclays Africa Group Limited) on 17<sup>th</sup> June 2015.

## **2.9. Recommendation & Approval**

The Barclays Board Audit Committee recommended two firms, with an expressed preference for one, to the Boards of Barclays PLC and Barclays Bank PLC for approval. The Boards agreed to the appointment of KPMG.

Sir Michael Rake and Mike Ashley, both former partners of KPMG, did not receive the relevant Board papers and recused themselves from the part of the Board meeting which discussed and decided on the new auditor. Furthermore, given the decision to appoint KPMG, the Boards formally considered whether it was appropriate for Mike Ashley to continue in the role of Board Audit Committee Chairman. They determined that it was, given that over 4 years will have elapsed between his retiring from KPMG and that firm signing their first audit report on the Group, and that he himself had played no part in the decision to appoint them.