

Evaluation of the external auditor



Audit committees have a role in helping boards discharge their duties by providing independent oversight over external audit.

In the current environment, many audit committees are considering how they should discharge their responsibilities in relation to the effectiveness and efficiency of the external audit arrangements. Tendering the audit is being encouraged by regulators, but is by no means the only available option under this responsibility – audit committees are capable of evaluating the performance of their independent auditors and holding them accountable for the performance of their professional duties. Indeed, it is best practice for audit committees to evaluate the effectiveness of their audit arrangements every year.

A review of the audit process, the effectiveness and performance of the audit team, and the output, quality and cost effectiveness of the audit is a valid alternative to the tender approach, subject to regulation. Not only does such a review help optimise the performance of auditors; it also encourages good communication between the auditor and the audit committee.

Such a review should evaluate the relationship between the auditor and executive management and ensure that an appropriate balance exists. The relationship should not be so close as to put at risk the auditors' independence and objectivity yet, at the same time, should be such that management and auditors can work together in an environment of constructive challenge.

In determining the appropriateness of the external auditor, the audit committee should have full regard to the auditor's competence, the quality and efficiency of the audit, and whether the audit fee is appropriate in relation to size, complexity, and risk and control profile of the company.

This document provides a framework for an audit committee to carry out a formal review of the effectiveness and efficiency of the external auditor.

This assessment process focuses on your personal perception of the external audit – it does not seek to evaluate individuals and their personalities.

The audit committee chairman should determine who is asked to complete the questionnaire. It is not unusual for it to be completed by audit committee members, the CFO; the heads of major business units/subsidiaries and others who have regular contact with the external auditor. The internal auditor may also be asked to comment.

The questionnaire takes about 10 minutes to complete and should be completed in the following manner:

- Using a scale of 1 (low) to 10 (high), complete each question by placing your score in the two boxes beside the question. 'Actual' is your view of the current position of the internal audit function on that issue. 'Ideal' is the score that you would like to see. The difference can be used to determine the relative priority of each issue.

- You may wonder why there is a choice of score on the Ideal position as you may think it should always be a ten (the maximum). This may often be the case; however, there may be occasions where you feel an area is of less importance and therefore may merit an Ideal score lower than ten. We would stress that the main reason for asking for the two scores is to see where the biggest gaps are between Actual and Ideal as this identifies where any development priorities lie.
- There is a space for comments space beside each question. You are not obliged to make comments; however, comments do improve the quality of the review and therefore are to be encouraged.
- 'N/A' can be used where you don't have a view on the matter in question.
- All responses will be treated as anonymous unless the individual completing the questionnaire wishes otherwise.

Typical answers might look like this:

	Actual	Ideal	N/A	Comments
1. The audit partner maintains contact with the audit committee on an informal basis 'between meetings'?	8	10		I do not see the audit partner as regularly as I would like
2. The audit firm provide appropriate technical support through seminars and publications?	5	5		I do not look to the auditor (other than the audit team) for my 'professional development'

A. Calibre of external audit firm

	Actual	Ideal	N/A	Comments
1. The external audit firm has a strong reputation?	()	()	()	()
2. Recent or current litigation against the firm will not have a significant adverse impact on the audit firm's reputation?	()	()	()	()
3. The audit firm has a strong presence in this industry?	()	()	()	()
4. The external audit firm has the size, resources and geographical coverage required to audit this company?	()	()	()	()

B. Quality processes

	Actual	Ideal	N/A	Comments
1. The audit firm has strong internal quality control processes in place? (Factors to be considered include the level and nature of review procedures, the approach to audit judgements and issues, independent quality control reviews and the external audit firms approach to risk.)	()	()	()	()
2. The remuneration and evaluation arrangements of audit partners and other key audit individuals do not impair the external auditor's objectivity and independence?	()	()	()	()
3. Relevant and qualified specialists are involved in the audit process?	()	()	()	()

C. Audit team

	Actual	Ideal	N/A	Comments
1. Audit team members have appropriate qualifications for their roles?	()	()	()	()
2. Audit team members have sufficient industry experience for their roles?	()	()	()	()
3. Audit team members understand our business and its issues?	()	()	()	()
4. Audit team members are proactive in their approach?	()	()	()	()
5. Audit team members are responsive to our requests?	()	()	()	()
6. Audit team members are consistent in their approach to matters?	()	()	()	()
7. There is sufficient continuity of staff to ensure a smooth audit?	()	()	()	()
8. The engagement partner's and other senior personnel's involvement in the audit is appropriate?	()	()	()	()
9. There is a strong audit team that works together effectively?	()	()	()	()

D. Audit scope

	Actual	Ideal	N/A	Comments
1. The audit plan appropriately addresses the areas of higher risk?	()	()	()	()

	Actual	Ideal	N/A	Comments
2. The audit team communicated their audit plan in advance of the audit?	()	()	()	()
3. The audit team comprised an appropriate number and level of staff?	()	()	()	()
4. Partners and managers were involved sufficiently throughout the audit?	()	()	()	()
5. Appropriate specialists are involved in the audit process (IT, tax, Treasury etc.)?	()	()	()	()
6. Are all significant operations covered by the external audit?	()	()	()	()
7. The audit approach is consistent across the team and audit locations?	()	()	()	()
8. The audit team work to appropriate materiality levels?	()	()	()	()
9. The audit team complete their work in line with the agreed timetable?	()	()	()	()
10. The external audit team's approach to seeking and assessing management representations is appropriate?	()	()	()	()
11. The audit team has an effective working relationship with internal audit?	()	()	()	()

E. Communications

	Actual	Ideal	N/A	Comments
1. All communications from the audit team are clear and relevant?	()	()	()	()
2. Issues are discussed on a timely basis?	()	()	()	()
3. The audit committee/auditor relationship operates on a 'no surprises' basis?	()	()	()	()
4. The external audit firm have open lines of communication with the audit committee.	()	()	()	()
5. The audit partner maintains contact with the audit committee on an informal basis 'between meetings'?	()	()	()	()
6. Communications accurately detail the issues encountered during the audit and their resolution; including:	()	()	()	()

	Actual	Ideal	N/A	Comments
a. the business risks relevant to financial reporting objectives, the application of materiality and the implications of their judgements in relation to these for the overall audit strategy, the audit plan and the evaluation of misstatements identified? and audit locations?	()	()	()	()
b. the propriety of significant accounting policies (both individually and in aggregate)?	()	()	()	()
c. the propriety of management's valuations of the material assets and liabilities and the related disclosures provided by management?	()	()	()	()
d. the effectiveness of the system of internal control relevant to risks that may affect financial reporting (including any significant weaknesses)?	()	()	()	()
e. other risks arising from the business model and the effectiveness of related internal controls (to the extent, if any, the auditor has obtained an understanding of such matters)?	()	()	()	()
f. other matters relevant to the board's determination of whether the annual report is fair, balanced and understandable?	()	()	()	()
7. Audit differences are discussed and resolved efficiently?	()	()	()	()
8. There is good communication and coordination between local audit teams and the 'head office' audit team?	()	()	()	()
9. The external auditor advises the audit committee about new developments regarding risk management, corporate governance, financial accounting and related risks and controls on a timely basis?	()	()	()	()
10. The audit team seek feedback on the quality and effectiveness of the audit?	()	()	()	()

F. Technical expertise

	Actual	Ideal	N/A	Comments
1. Audit team members have sufficient technical experience for their roles?	()	()	()	()

	Actual	Ideal	N/A	Comments
2. The audit team responds to technical questions with a definitive answer within an agreed time frame?	()	()	()	()
3. The audit team's advice reflects our commercial considerations in an appropriate manner?	()	()	()	()
4. The audit firm provide appropriate technical support through seminars and publications?	()	()	()	()

G. Audit governance and independence

	Actual	Ideal	N/A	Comments
1. External audit partners and staff demonstrate a high degree of integrity in their dealings with the audit committee.	()	()	()	()
2. The external audit firm discuss their internal process for ensuring independence with the audit committee.	()	()	()	()
3. Management respect the external auditors as providers of an objective and challenging audit process.	()	()	()	()
4. The level and nature of entertainment between the external audit firm and management is appropriate.	()	()	()	()
5. The nature of non-audit services is appropriate and adequate safeguards exist to preserve audit objectivity and independence.	()	()	()	()
6. The external auditor's relationship with both the audit committee and management is appropriate.	()	()	()	()

H. Audit fee

	Actual	Ideal	N/A	Comments
1. The external audit fee is appropriate given the scope of the external audit? (Consider how the audit fee compares with other similarly sized companies in this industry – a fee that is either too high or too low can be of concern.)	()	()	()	()
2. Differences between actual and estimated fees are handled appropriately?	()	()	()	()
3. The relationship between audit and non-audit fees is appropriate?	()	()	()	()

I. Comparison of XYZ Plc's external audit experience with other external audits you may have experience of:

Issue	Comments
()	()
()	()
()	()
()	()
()	()

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