

Good Practices for Auditor Appointment



Engagement of External Auditors

One of the duties of the Audit Committee (AC) is to make recommendations to the Board on the appointment and reappointment of external auditors. In addition, the AC should review the external auditors' fees and make appropriate recommendations to the Board for approval.

In order to discharge its responsibilities, the AC should consider instituting a formal process for the engagement of external auditors. In formalizing such a process, the AC may wish to consider these factors:

- Identifying the necessary procedures involved in the reappointment of external auditors on an annual basis and setting out the timeframe for the performance of these procedures.
- Setting out the criteria to be used for the evaluation and selection of external auditors. These would include:
 - The company's specific needs
 - The audit requirements in other jurisdictions where the company has operations
 - Number of audit firms invited for evaluation
 - Acceptable fee levels
- Prioritizing criteria according to importance and assigning weights to them with a number score. This can be undertaken by asking all relevant internal parties to identify and weight the criteria that are important to them. Combining the responses should ascertain the overall weighting as fairly as possible.

The evaluation and selection process should cover both the evaluation of external auditors for new appointments, as well as the evaluation of incumbent external auditors with regards to re-appointment.

During the evaluation process, some of the factors that the AC should consider may include the following:

Evaluation of External Auditors For New Appointments

- The audit firm's standard billing rates for classes of professional personnel for each of the last three years.
- The audit firm's staff turnover experience in the last three years as well as other quality control systems. i.e. How will it ensure staff continuity on the company's audit?
- How the audit firm is different from other firms being considered and the reasons for it being the best choice.
- The amount of attention the audit firm would be giving to the company.
- The audit firm's reputation (including outcome of recent firm inspections or other regulatory oversight reviews, if available).
- How the audit firm will resolve technical disagreements (a) among engagement personnel and (b) between the firm and the client.
- Whether or not the audit firm intends to comply with the requirement for audit partner rotation every seven years.
- The audit firm's representation and network in other jurisdictions that the company/ group has operations in.
- How the audit firm co-ordinates with its counterparts in other jurisdictions for audits involving multiple jurisdictions.

- How and to what extent the audit firm can keep the AC and Management apprised of changes in accounting standards.
- How the audit firm maintains independence of firm and teams from the entities they are auditing.

Experience in Industry

- The audit firm's experience in providing audit services to companies in the same sector, as well as companies of comparable size.

Relationship and Experience with Regulators

- The audit firm's experience in providing audit services to listed companies in the past three years.
- Any investigation by the regulatory authorities where either the audit firm or their clients were the target.
- Whether or not there are any civil or criminal litigation matters involving the audit firm but not necessarily the client.
- Any positions taken by the audit firm with respect to accounting and audit matters, with the SGX, ISCA and/or others, that could be viewed as controversial and are related to the company's business.

Expected Approach to this Audit

- Identify the partner, manager and accountant in-charge who will be assigned to the company's audit if the audit firm is appointed and provide their work experience in biographic material.
- Address specific complaints levelled by professional bodies or regulatory authorities and outline the remedial actions that have been taken by the audit firm.

- Ascertain how the firm will approach the audit of the company, including the use of any associated or affiliate member firm personnel.
- The audit firm's fee proposal for the 20XX audit, with whatever guarantees that may be given regarding fee increases in future years. Ensure that the fee proposed is sufficient to cover the work that the firm is expected to perform if appointed
- Understand how frequently and in what manner (e.g. meetings and/or reports) the audit firm will be communicating matters arising from the audit to the AC.

Evaluation of External Auditors for Re-appointment

These are some factors that the AC may consider before it recommends to the Board the re-appointment of existing auditors:

- The engagement partner and team members' overall business acumen, as well as their knowledge and experience in the company's industry.
- Time spent by senior audit team members.
- The AC's ability to build a trusting relationship with the partner in charge and its level of comfort with periodic contact between meetings.
- The auditor's ability to clearly, candidly and effectively communicate issues and concerns to the Committee, both in private sessions and during meetings.
- The auditor's ability to work co-operatively with Management, including the CEO and non-financial management, while maintaining objectivity.
- The auditor's ability to meet deadlines in providing services and responding to issues in a timely manner.
- The level of independence, objectivity and professional skepticism exercised by the audit team (for example, in the review or estimates and judgements).

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