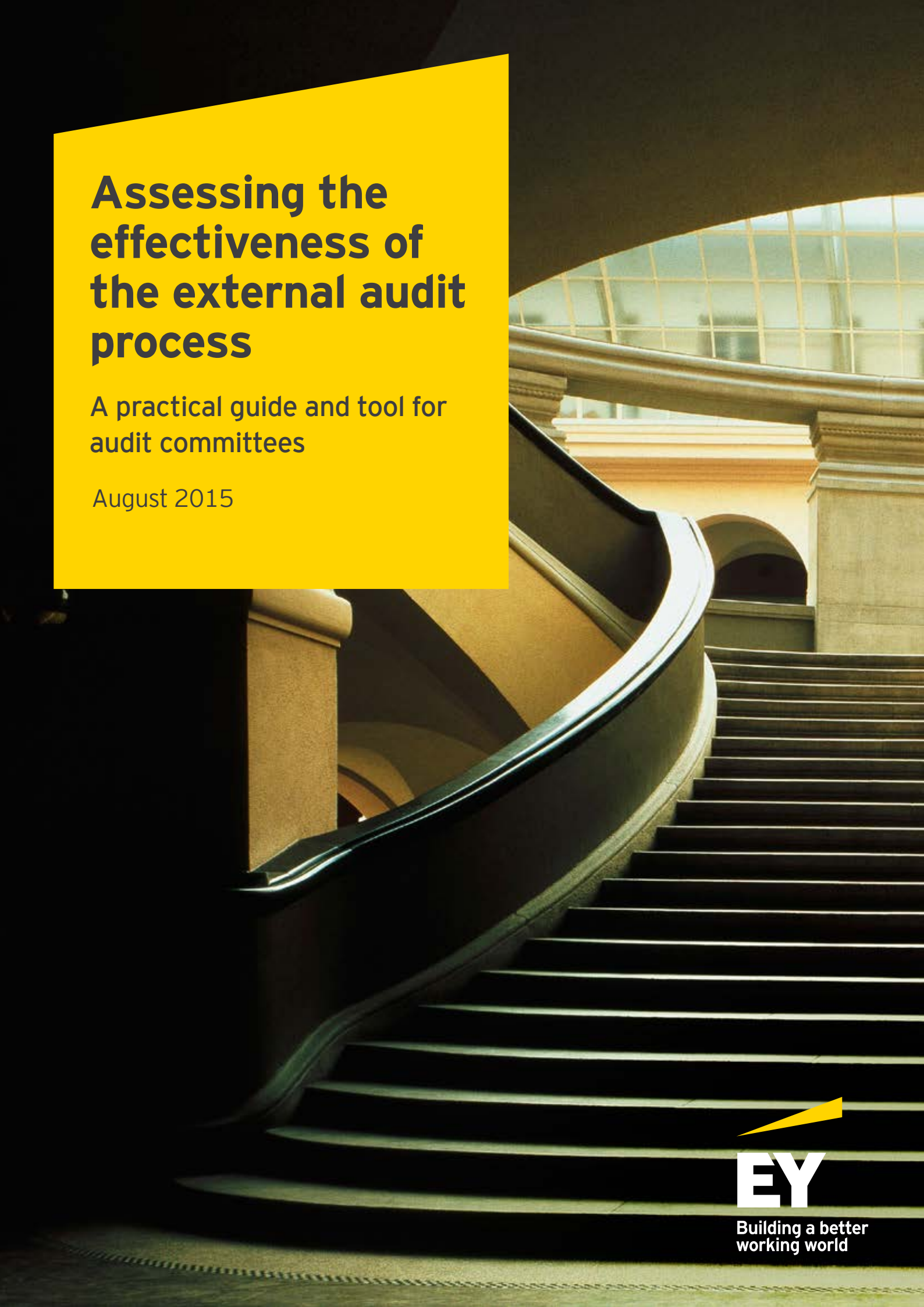
Assessing the effectiveness of the external audit process

A practical guide and tool for audit committees

August 2015



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Foreword

This document offers practical guidance and direction for audit committees seeking to discharge their duties and responsibilities to conduct an assessment of the effectiveness of the external audit process and to report how they have done so.

Our original publication, *Assessing the Effectiveness of the External Audit Process: a Guide for Audit Committees,* was issued in November 2013. Since that date, there have been no changes to the UK Corporate Governance Code[1] or the supporting guidance[2] in relation to the assessment of the effectiveness of the external audit process.

However, two relevant publications have been issued recently:

- The Financial Reporting Council (FRC) released a guide *Audit Quality: Practice Aid for Audit Committees* in May 2015; and
- The Center for Audit Quality (CAQ) published *External Auditor Assessment Tool: A Reference for Audit Committees Worldwide* in June 2015. In our view, this tool is fairly US centric and/or of more use in jurisdictions where no other guidance exists.

Whilst we believe our tool has stood the test of time, we have taken the opportunity to refresh and update it in light of these new publications.

It is interesting to note that the FRC's Practice Aid was issued in response to requests from audit committees for practical guidance on how to conduct their assessment of the effectiveness of the external audit. It also notes that "many audit committees are of the view that it is relatively straightforward to assess service levels in the external audit process, but less so on audit quality."[3]

In line with our original tool, the assessment process outlined in Section 3 continues to focus heavily on audit quality in the external audit process. It contains specific questions the audit committee could ask and the potential sources of evidence or associated indicators they could look to. In our view, having a body of evidence – an 'audit trail' so to speak – will not only help audit committees reach a conclusion which is robust and objective but also help with the disclosure aspects.

It is important that the audit committee has an independent point of view on audit quality; however, we would expect this independent view to be partly informed by input from executive management (e.g., when management have raised concerns, it is critical for the audit committee to explore whether these concerns generally reflect the effectiveness of the external audit). Our tool facilitates the collection of these views.

More broadly, we believe that a well-designed and executed assessment process should:

- Result in a constructive and honest dialogue with the audit firm about its performance, what went well and what could be improved.
- Provide insights for the company into a broad range of areas including governance, processes and controls and business improvements.
- Result in optimised assurance being derived from the audit
- Help inform future audit tender processes that the audit committee will undertake.

Whilst meeting the disclosure requirements may be seen as a compliance task by some, it presents an opportunity to challenge how the audit committee currently assesses the external audit process – and so support effective corporate governance.

If you have any feedback on this document, please contact your usual EY contact or me.

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[1]UK Corporate Governance Code, provision C3.8, September 2014.
[2]FRC's Guidance on Audit Committees, paragraph 4.35, September 2012 (see Appendix A).
[3]FRC's Audit Quality: Practice Aid for Audit Committees, paragraph 1.5, May 2015.

1

What is an effective audit process?

In our view, a high quality audit truly challenges and tests the contents of the financial statements in order to form an opinion on whether they present a true and fair view.

Fundamentally, an effective audit process must deliver the right audit opinion supported by appropriate audit evidence and professional judgements, in which shareholders and other stakeholders have confidence.

External auditors must comply with all relevant auditing and ethical standards and professional and regulatory requirements. Beyond that, an effective audit must include:

- An audit process tailored to the risks facing the company, the business structure and the regulatory environment.
- An audit team that is technically strong, rigorous, perceptive, intellectually curious and independent-minded – bringing an informed professional scepticism to bear on management's approach and assertions.
- An audit team that supports and promotes a culture of consultation and fully integrates specialists and experts.
- An audit approach that is based on an understanding of the company's control environment, including the role of information technology in supporting the financial reporting process.
- A culture in the audit firm that seeks continuous improvement and increased quality and that sets the right tone on professional and ethical matters including quality, objectivity and integrity.

Other characteristics of an effective audit include:

- Communications and reports to those charged with governance that reflect the audit team's thought processes and rationale for conclusions. These should discuss management's approach, alternatives considered, relevant comparators and a clear articulation of the final conclusion.
- Effective interaction between the auditor, management and the audit committee throughout the audit process – everyone must understand what the 'audit issues' are, why they are 'issues' and how they will be resolved.

Whilst the external auditor is in large part responsible for the effectiveness of the audit process, management and the audit committee have an important influence. Their contributions should also be considered in the overall assessment of the effectiveness of the external audit process.

Fundamentally, an effective audit process must deliver the right audit opinion supported by appropriate audit evidence and professional judgements, in which shareholders and other stakeholders have confidence.

2

Managing the assessment itself: practical questions for audit committees

The assessment in itself needs to be effective and efficient. Consideration by the audit committee of the following key questions should help to ensure that this is the case.

Objectives	▶ What is the desired outcome that the audit committee is seeking to achieve from the assessment? ▶ Do all members of the audit committee have a shared understanding of the relevant requirements in the UK Corporate Governance Code and the FRC's Guide *Audit Quality: Practice Aid for Audit Committees?* ▶ How will the assessment process ensure that the audit is sufficiently independent and meets the needs of shareholders[4] and expectations of other stakeholders[5] where applicable? ▶ How does the audit committee currently assess the effectiveness of the external audit process and is it adequate and effective?
Timing	▶ When in the audit cycle will the assessment be conducted?[6] ▶ What is the timetable for the assessment and does it include appropriate milestones and deadlines?
Resources	▶ Who will the audit committee delegate the management of assessment to, whilst retaining ultimate accountability? ▶ What information does the audit committee require various stakeholders (including the auditor and management) to provide as part of the assessment process?

Reporting and disclosures	▶ What form will the audit committee's report[7] to the board take? Options might include a summarised dashboard with key metrics, a brief written commentary on key areas or a verbal presentation
	▶ What are the key principles that the disclosures in the ARA must meet? In our view, the disclosures should:
	  ▶ Be concise and specific to the company highlighting the audit committee's areas of particular emphasis
	  ▶ Highlight specific activities, if any, that formed part of the assessment in a particular year as compared to the recurring aspects of the assessment that are undertaken for every audit cycle
	  ▶ Clearly outline the assessment process, the assessment factors considered, the outcomes of the assessment and any resulting actions

[4]As part of your general engagement with shareholders, you may want to ask what is important to them.
[5]Whilst the audit is primarily directed to the needs of shareholders, other stakeholders such as regulators may also be worthy of consideration.
[6]In our experience, assessments of the effectiveness of the external audit process generally occur after the audit committee meeting at which the ARA is approved. Hence, the outcome of the assessment is reported retrospectively. In order to provide more relevant and timely information to users of the ARA, our view is that assessment can be carried out contemporaneously i.e., be undertaken in large part as the audit progresses such that the audit committee is able to report in real time at least for the planning and design phases of the audit. The structure of our tool in section 3 which follows the natural progression of the audit from planning and strategy, to execution and conclusion will allow this.
[7]As recommended by paragraph 4.35 of the FRC's Guidance on Audit Committees, September 2012 (see Appendix A).

3

Tool to assist audit committees in assessing the effectiveness of the external audit process

This EY tool will assist audit committees in discharging their duties and responsibilities to conduct an assessment of the effectiveness of the external audit process and to report how they have done so.

Although it is the responsibility of the audit committee to assess the effectiveness of the audit process, we recognise that management's views are relevant. The tool therefore highlights questions and sources of evidence that are appropriate for management to provide a view on. We would expect the audit committee to take account of these views in reaching its overall assessment.

In our view, assessing the effectiveness of the external audit process is broader than assessing the external auditor. Management have a role too and Section D of this tool therefore highlights suggested questions to consider the role of management in the overall assessment.

We have approached the challenge of the assessment in a chronological manner – following the natural progression of the audit from planning and strategy, to execution and conclusion. An audit is more than the sum of its parts, however. Overarching these specific audit phases are the audit firm's own policies and procedures, which set the tone for all the audits its professional staff conduct.

Throughout the tool, we suggest the potential sources of evidence and indicators that the audit committee can collate and review. In our view, this will help the audit committee reach its conclusions in an objective and robust manner. The suggested questions, potential sources of evidence and indicators are not comprehensive. Neither are they mandatory. They will need to be tailored to reflect the individual circumstances of the company and its audit, as well as the preferences of the audit committee regarding how it wishes to conduct its assessment and considering the needs of shareholders and expectations of other stakeholders where applicable.

The assessment process should be a dynamic one. It must reflect the context of the audit in a specific year, which may have been characterised by particular challenges. The company may, for example, have undertaken a complex corporate transaction; there may have been changes in personnel both within the company and the audit team; or they may have been changes in the company's control environment.

This tool aims to help audit committees not only meet their public reporting responsibilities, but also achieve maximum governance impact. We therefore conclude our tool with note-taking space, to help those involved in conducting the assessment to capture the outcomes in key areas.

The electronic version of this file is editable. It allows users to:

- Highlight text
- Write notes
- Add comments
- Strike out questions and add new ones

This allows users to customise the tool to reflect the particular circumstances of the company and its audit as well as annotate actions and/or report on progress.

A. Audit planning and strategy

	Suggested questions	Potential sources of evidence/indicators	Comments and observations
Team structure and leadership demonstrated by the audit partner	▶ Does the audit partner demonstrate leadership of the audit team and provide visible and effective ownership and oversight of the audit? ▶ Do the audit partner and the audit team have the necessary knowledge and skills (company-specific, industry, accounting, auditing) to meet the company's audit requirements? ▶ Do the partner(s) and key members of the audit team commit an appropriate amount of time to undertake the audit, to supervise staff and to meet directly with management and the audit committee?	▶ Feedback from members of executive management most involved in the audit process, on whether the audit partner is actively engaged in the audit process and audit decisions and is not over-reliant on his/her team. ▶ Feedback from management on whether the partner(s) and key team members have the necessary knowledge and skills and are available, responsive and proactive, based on interactions throughout the audit. ▶ Evidence that changes are made to the audit team in response to changing business needs as well as performance issues (e.g., team strengthened to deal with a major corporate transaction).	
	▶ Do you agree with the audit team's assessment of significant risk areas and their planned audit approach? ▶ Are appropriate specialists (e.g., IT, tax, pensions, valuations, etc.) involved in the audit commensurate with the complexity of issues?	▶ Direct experience of the audit committee and the board based on interactions with the auditor. ▶ Information from the auditor on the proportion of senior to junior time and the absolute amount of hours budgeted to be spent on the audit by senior team members. ▶ Information from the auditor on the proportion of audit effort spent addressing significant risk areas. ▶ Feedback and insights received by the audit committee and executive management from the involvement of specialists.	
Globally integrated audit approach	▶ Does the audit plan reflect a globally consistent and integrated audit approach as relevant to a multi-location audit? ▶ To what extent does the audit scope reflect the risks and materiality associated with each group location (including the impact of significant risks)? ▶ Are there any changes to the audit scope and allocated materiality to the location audit teams from the previous year and why? ▶ Do the audit scope and allocated materiality make sense? ▶ Is there sufficient central oversight and quality control of the work carried out by location audit teams? ▶ Does the audit partner have sufficient control and influence over location audit teams including assessing their technical competence, experience and professional objectivity? ▶ To what extent is the approach underpinned by infrastructure in the audit firm that supports effective cross border engagement?	▶ Number and nature of site visits by the central audit team and feedback from local management on these visits. ▶ Feedback from management on whether the central audit team demonstrates a strong understanding of local issues and their resolution. ▶ Evidence of central audit team directing activities of location audit teams beyond group instructions and exchange of planning/summary reports. ▶ Feedback from local management on the quality of location audit teams in key locations. ▶ Responsiveness of location audit teams to requests and feedback from the central audit team. ▶ Feedback from location and central management, on consistency of audit approach at locations. ▶ Clarity of communication about scope of work to be performed by location audit teams and the extent of central audit team involvement in this work.	

Questions highlighted are appropriate for management to contribute a view on.

	Suggested questions	Potential sources of evidence/indicators	Comments and observations
Audit tailored to the business	▶ Does the audit partner discuss the audit plan with the audit committee and explain how it addresses company and industry-specific areas of accounting and audit risk (including fraud risk)? ▶ Is the audit team's understanding of the business and its structure, the sector and the regulatory environment appropriately reflected in the audit approach? ▶ Is the audit approach responsive to changes in the business over time? Has the audit approach been challenged in the current year and if so, what has changed? ▶ Have the significant risks been challenged in the current year, and was the rationale for change (or indeed no change) clearly articulated? ▶ Have business risks been properly considered when assessing audit risks? In relation to business risks that do not translate into audit risks, is the auditor able to explain clearly why?	▶ Evidence that senior audit team members demonstrate a good understanding of the group's business and industry sector (e.g., from their discussions with executive and non-executive management). ▶ Communication of planning matters by the auditor to the audit committee shows scope and materiality changes that are responsive to changes in the size, risk and nature of the business. ▶ Communication of planning matters by the auditor to the audit committee shows clear understanding of the business and the risks that matter most, including fraud risks. Audit committee's own assessment based on probing and challenging the auditor's plan and approach. ▶ Audit committee's consideration as to whether the external audit scope makes sense in the context of the areas of the business that it is concerned about. ▶ Audit approach is clearly modified year on year as appropriate.	
	▶ Is the rationale for materiality (including any changes) clear?	▶ Clarity of communications regarding the basis for materiality. ▶ Commerciality, flexibility and innovation are apparent from discussions with the audit team.	
Leveraging sources of assurance	▶ Does the audit team demonstrate an understanding of the sources of assurance within the business including management controls and internal audit or compliance monitoring and does it seek to draw upon these sources where it can? ▶ Does the audit approach clearly demonstrate the extent to which the underlying control environment is considered and relied upon including how (rotation, reliance and re-testing, etc.)? ▶ Where limited reliance is placed on the control environment, is the rationale clearly explained together with improvement ideas? ▶ Does the audit team demonstrate a clear understanding of regulatory restrictions on the use of other sources of assurance? ▶ If the auditor is relying on management and internal audit testing, does the audit committee understand the rationale for such reliance? ▶ Are there any significant differences in views between the internal auditors and management and the external auditor? If so, are they resolved professionally?	▶ Communication of planning matters by the auditor to the audit committee explain clearly the extent of reliance on other sources of assurance, and the rationale for the decisions including any restrictions imposed by auditing standards or regulators. ▶ Perceptiveness and practicality of improvement ideas and management letter points. ▶ Feedback from management, internal audit and compliance teams.	
Use of innovation and technology	▶ To what extent is technology used to enhance audit delivery? Is it effective and visible? ▶ Are data analytics tools used to allow entire populations of data to be tested? ▶ Where technology cannot be used due to ineffectiveness or inefficiency is the rationale clearly explained together with improvement ideas? ▶ In what way does the audit approach reflect innovative thinking?	▶ Communication of planning matters by the auditor to the audit committee details available tools or techniques and options considered. ▶ Rationale for using data analytics tools including assurance obtained is clearly articulated. ▶ Output of data analytics and benchmarking are presented by the auditor to management and, if relevant, the audit committee. ▶ Quality of the auditor's recommendations in the management letter. ▶ Feedback and insights received from the involvement of specialists	

Questions highlighted are appropriate for management to contribute a view on.

B. Audit execution and conclusion

	Suggested questions	Potential sources of evidence/indicators	Comments and observations
Behavioural factors including professional scepticism	▶ To what extent does the team demonstrate professional integrity and objectivity? Would the audit partner say 'no' when needed and stand by their view? ▶ Does the audit team demonstrate an appropriate degree of challenge throughout the audit particularly on significant risk areas? ▶ In areas of significant accounting and audit judgement, does the audit team demonstrate the robustness of their approach including the evidence considered and the rationale for the conclusions reached?	▶ Feedback from management and the audit committee on whether senior audit team members were robust when dealing with key judgements, errors, etc., whether they had conviction, were able to clearly articulate the rationale behind their position and did not unduly rely on management representations. ▶ The auditor's communications about their independence clearly articulate the threats identified and the related safeguards adopted to maintain independence and objectivity. ▶ Feedback on the results of internal and external quality reviews, and the audit team's responses to the findings and recommendations. ▶ Evidence from audit committee and other meetings that the audit partner challenges executive management's view and does not just accept explanations received without corroboration. ▶ Quality and clarity of the articulation of the significant risk areas and other audit and accounting issues. The basis for the auditor's view is clearly explained and the audit committee understands the auditor's thinking.	
Technical excellence	▶ Is technical excellence visible within the team and is this appropriately demonstrated alongside commercial application? ▶ Are management and the audit committee provided with accounting, corporate governance and other technical and regulatory updates and insights to allow them to operate effectively in a changing environment? ▶ Do the partner(s) take ownership of technical judgements and are they able to clearly articulate their point of view and reasoning behind them? ▶ To what extent are specialist technical resources used and effectively deployed in order to address difficult or unusual technical issues? ▶ Does the audit partner advise the audit committee of the results of consultations with the firm's technical team on accounting or auditing matters? Are such consultations executed in a timely and transparent manner?	▶ Quality of analysis in communication and reports from the auditor. ▶ Feedback from members of executive management who are best placed to assess technical competence. ▶ Experience from audit committee briefings and formal meetings. ▶ Feedback on the results of internal and external quality reviews, and the audit team's responses to the findings and recommendations. ▶ Feedback from members of executive management of the consultation process and its timeliness. ▶ No late surprises coming through communications. ▶ Feedback and insights received from specialists where involved. ▶ Observing the business and technical expertise of the audit firm through attendance at industry and technical forums organised by the audit firm.	

Questions highlighted are appropriate for management to contribute a view on.

	Suggested questions	Potential sources of evidence/indicators	Comments and observations
Communication and audit reporting	▶ Does the audit partner maintain a professional and open dialogue with the audit committee and audit committee chair? ▶ In private sessions, does the audit partner discuss sensitive issues candidly with the audit committee (e.g., his or her views on, including any concerns about, management's reporting processes; internal control issues; the quality of the finance team)? ▶ Is the auditor proactive in their communications especially as regards issues which need immediate attention e.g., a significant difficulty encountered in the audit? ▶ Is the audit partner able to explain accounting and auditing issues in an understandable manner? ▶ Does the auditor adequately discuss the quality of the company's financial reporting, including the reasonableness of accounting estimates and judgements? ▶ Does the auditor discuss how the company's accounting policies compare with industry trends and leading practices? ▶ Are communications from the auditor clear and concise and does the auditor communicate a point of view where relevant? ▶ Are the communications and reports from the auditor timely so as to allow appropriate action to be taken to prevent as well as detect material misstatements in financial reporting? ▶ Are communications from the auditor specific and relevant to the company and its circumstances rather than boiler plate? ▶ Do the descriptions in the audit report of significant risk areas and the audit procedures to address these risks tie with what has been communicated to the audit committee? ▶ Is the audit team able to provide insight and points of view on how strategic decisions of the company, changes in the company's environment and developments in accounting and regulatory standards may affect future financial statements?	▶ Direct experience of the audit committee, the board and senior management based on interactions with the auditor throughout the audit process. ▶ Clarity and timing of reports to management and the audit committee and whether they provide insight into broader governance matters, the company's financial reporting process and control environment rather than just accounting technical matters. ▶ Communication of findings by the auditor to the audit committee clearly outlines the results of the procedures performed and conclusions reached on the identified significant risk areas and other key accounting and auditing matters. ▶ Use of issue trackers/dashboards, client assistance schedules interim and 'early warning' reports in addition to communication of planning matters and findings from the audit. ▶ Feedback from management regarding timely communications throughout the year. ▶ No late surprises coming through communications. ▶ Consistency of the descriptions in the audit report of significant risk areas and the related audit procedures with what has been communicated to the audit committee. ▶ Feedback from the audit committee and management on whether the auditor provides insight and views on a forward looking basis whether orally or as part of their written reports.	

Questions highlighted are appropriate for management to contribute a view on.

	Suggested questions	Potential sources of evidence/indicators	Comments and observations
Audit efficiency and project management	▶ To what extent are audit scope, execution procedures and materiality judgements influenced by budgets and fee pressures? ▶ Is the audit planned and executed with appropriate but not undue reliance on procedures carried out before the end of the reporting period, supported by realistic reporting deadlines? ▶ In a tender situation, is there evidence that the winning firm has proposed a fee that is unsustainable over the medium to long term which may put pressure on the audit team to inappropriately reduce audit scope and procedures? ▶ Are any scope or materiality changes and fee reductions logically explained without raising concerns that audit scope and execution will be inappropriately reduced? ▶ Does the audit team identify and factor in efficiencies in planning the audit? ▶ Did the audit team deliver on the planned audit efficiencies? ▶ Is the cost of the audit reasonable and sufficient for the company's size, complexity and risks?	▶ Quality and timeliness of information requests from the auditor to management. ▶ Communication of planning matters detail rationale for scope and materiality changes and impact on fees. ▶ Evidence from management of undue pressure on audit resources, timing of work or overall approach. ▶ The impact of scope changes and one off work is clearly explained and communicated on a timely basis. ▶ Use of issues and outstandings dashboards, client assistance schedule, interim and 'early warning' reports in addition to communication of planning matters and findings from the audit.	

Questions highlighted are appropriate for management to contribute a view on.

C. Firmwide policies and procedures

	Suggested questions	Potential sources of evidence/indicators	Comments and observations
Independence and quality control	▶ Are you provided with information to allow you to assess how firm-wide policies support compliance with applicable auditing and ethical standards? ▶ Has the partner demonstrated a commitment to doing the 'right thing' as well as adhering to policy (consider business relationships, non-audit services and safeguards as well as the threat of familiarity)? ▶ Does the audit firm report to the audit committee all matters that might reasonably be thought to bear on the firm's independence, including exceptions to its compliance with independence requirements? ▶ In obtaining pre-approval from the audit committee for all non-audit services, does the audit partner discuss safeguards in place to protect the independence, objectivity and professional scepticism of the auditor? ▶ Are policies and procedures in place to ensure audit quality is monitored and appropriate consequential action taken?	▶ Clarity of communication on safeguards against threats to independence. ▶ Transparent reporting of independence exceptions and violations. ▶ Audit firm Transparency Report – in particular the sections on independence and quality assurance and training. ▶ Discussion between the audit committee (or its delegate, e.g., the company secretary) and the audit team on the firm's policies for quality control, training, staff development, independence, professional scepticism, etc. ▶ Reports from regulators on their external quality reviews as well as the audit firm's response to the findings and recommendations.	
	▶ Does the audit team appear to have access to the right quality control resources within the audit firm such that appropriate and timely decisions are made? ▶ Does the audit firm manage partner rotation effectively, both in terms of selecting the successor as well as ensuring a smooth transition between the outgoing audit partner and the successor? ▶ Where there are changes in the composition of the audit team particularly in senior team members, how are these handled? Are individuals with the appropriate skills and knowledge assigned to complete the audit? ▶ How have any relevant audit quality issues identified in the regulator's public reports been incorporated into the audit plan? ▶ If the company's audit was selected for an external quality inspection, does the audit partner advise the audit committee of the selection of the audit, discuss the findings and the effect, if any, on the audit process in a timely manner? ▶ Does the auditor communicate the results of other regulatory reviews such as findings from thematic reviews that may be pertinent to the company's audit? Does the auditor explain how the audit approach will take account of these findings?	▶ Nature of relationship with management, i.e., is it robust, constructive and open yet not confrontational? ▶ Number of re-iterations and timeliness of decision making on significant matters. ▶ Audit committee input sought on successor partner candidates. ▶ Feedback from the audit committee as well as executive management on how the transition between the outgoing and successor partner was managed. ▶ Feedback from management on how the handover and transition of new senior audit team members was managed.	

Questions highlighted are appropriate for management to contribute a view on.

	Suggested questions	Potential sources of evidence/indicators	Comments and observations
Continuous improvement	▶ Does the audit firm demonstrate a commitment to ongoing training and development of its people? ▶ Is the audit team proactive in seeking feedback about the quality of the audit and the service provided? ▶ Is the auditor open to continuous improvement ideas and does it act upon any feedback?	▶ Direct observations from the audit committee as well as executive management on whether feedback given to the auditor has been acted upon and, if not, the reasons why are clear.	

D. The role of management

	Suggested questions	Potential sources of evidence/indicators	Comments and observations
Management's role	▶ Are key management personnel available and accessible to the auditor when needed? ▶ Is information requested by the auditor prepared on a timely basis, complete and accurate? ▶ Is information requested by the auditor reviewed by management prior to being provided to the auditor? ▶ Are management's papers to the audit committee and auditor on key judgements, estimates, and uncertainties well researched and written i.e. do they clearly articulate the issue, refer to applicable technical standards and requirements, articulate alternatives considered by management, a final conclusion/recommendation and a rationale for it? ▶ Is management proactive in preparing for changes arising from new standards, codes and regulations? ▶ Where possible, is management proactive in seeking early input from the auditor, e.g., on complex, unusual or sensitive transactions? ▶ Does the audit timetable allow sufficient time for robust quality control and review processes to be applied by both management and the auditor? ▶ Does management act on feedback provided by the auditor on financial reporting processes and controls? ▶ Has the audit team identified audit adjustments and control deficiencies?	▶ Delays in the audit process beyond the control of the auditor. ▶ Feedback from the auditor on availability and flexibility of key management personnel and timeliness and quality of information received. ▶ Feedback from the auditor and audit committee on quality of management's papers on judgements, estimates and uncertainties and timeliness of involving the auditor. ▶ Auditor's feedback on whether management implemented agreed upon actions from prior year management letters, assessments of the audit process or post audit debrief meetings. ▶ Number of uncorrected and corrected misstatements including disclosures misstatements. ▶ Number of prior year adjustments and restatements. ▶ Number of control deficiencies identified.	

We envisage the primary source of evidence in relation to the role of management in contributing to the effectiveness of the external audit process to come from discussions with the external auditor and the audit committee's own observations.

E. Notes

Outcomes from management's assessment for consideration by the audit committee

Overall conclusions of the audit committee (including rationale)

Key points for disclosure in the annual report and accounts on how the audit committee assessed the effectiveness of the external audit process

Points to feedback to the external auditor

Points to feedback to executive management

Points to carry forward to future assessments of the effectiveness of the external audit process

Reference material

FRC's Audit Quality: Practice Aid for Audit Committees (May 2015)

https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Audit-Quality-Practice-Aid-for-Audit-Committee-(1).pdf

- In paragraph 2.3 of the Practice Aid, the FRC states: "A high quality audit is one that either achieves a high level of assurance that the financial statements comply with the financial reporting framework (or if necessary ensures they are amended to do so) or results in an auditor's report that communicates the auditor's disagreement or restricted ability to opine. A high quality audit also complies with applicable laws and regulations (including relevant professional standards)".

FRC's Guidance on Audit Committees (September 2012)

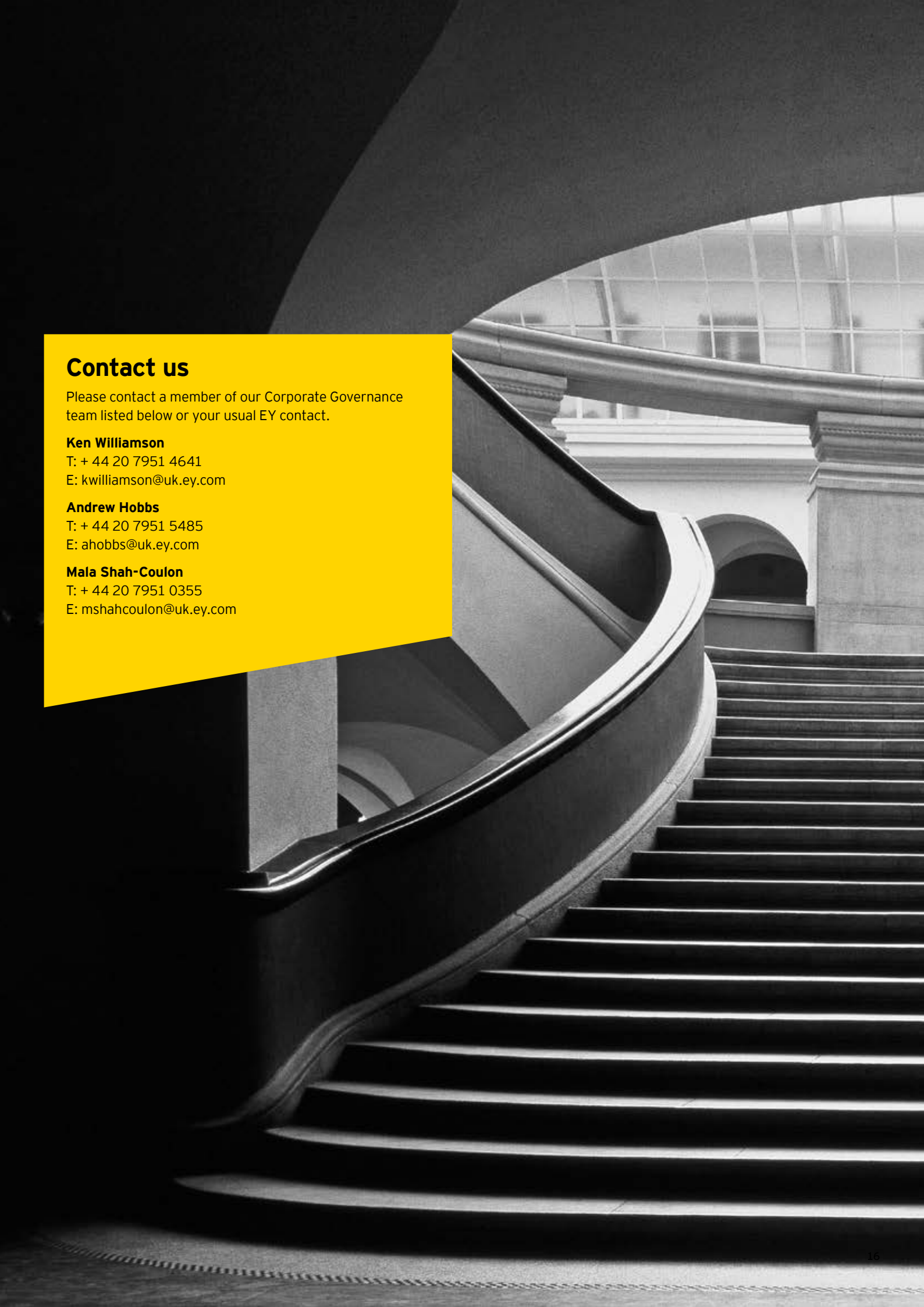
http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Audit-Committees-September-2012.aspx

4.35 At the end of the annual audit cycle, the audit committee should assess the effectiveness of the audit process. In the course of doing so, the audit committee should:

- Review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks.
- Consider the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committee, and in their commentary where appropriate on the systems of internal control.
- Obtain feedback about the conduct of the audit from key people involved, for example the finance director and the head of internal audit.
- Review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.
- Report to the board on the effectiveness of the external audit process.

Other reference materials

1. FRC's Financial Reporting Lab, Reporting of Audit Committees, May 2015
   https://www.frc.org.uk/Our-Work/Publications/Financial-Reporting-Lab/Implementation-Study-Reporting-of-audit-committee.pdf
2. FRC's Audit Quality Framework, February 2008
   https://www.frc.org.uk/Our-Work/Publications/FRC-Board/The-Audit-Quality-Framework-(1)-File.pdf
3. International Auditing and Assurance Standards Board, A Framework for Audit Quality, January 2013
   http://www.ifac.org/system/files/publications/files/A%20Framework%20for%20Audit%20Quality.pdf
4. Center for Audit Quality's External Auditor Assessment Tool: A Reference for Audit Committees Worldwide, June 2015
   http://www.thecaq.org/docs/default-source/reports-and-publications/auditor_assessment_tool_worldwide.pdf?sfvrsn=2/external-auditor-assessment-tool-a-reference-for-audit-committees-worldwide



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