In the current environment, audit committees, regulators and other stakeholders are sharpening their focus on audit quality. A thorough review of the audit plan is an essential starting point to ensure audit quality is at the level it should be.

Audit committee oversight essentials ...

As part of its task in helping boards discharge their duties by providing independent oversight over external audit, audit committees are tasked with assessing and monitoring the effectiveness of the external audit plan.

The audit committee needs to understand the scope of the audit and how it is to be approached. An effective way to achieve this is to hold a meeting with the external auditor prior to the auditor finalising the audit plan. The discussions may uncover areas where the committee assumes that work is done but is not, and other areas where audit effort is directed but of which the audit committee may be unaware. Discussion should also focus on what the auditor considers to be the significant accounts and the transactions posing the most risk.

The audit committee should determine that an appropriate audit plan is in place. It should carefully consider the appropriateness of the business risks identified by the external auditor and whether, because of the audit committee’s own knowledge of the organisation’s risk environment, other risks should also be taken into account. This focus applies both at a strategic level – those risks that are fundamental to the achievement of the entity’s strategy – and at the more detailed operational level: those risks that affect day-to-day operations, the recognition of revenue and costs, the custody and value of assets, and the completeness of recognition of liabilities.

In general terms, the audit committee should understand inter alia:

- Audit materiality.
- The areas where the external auditor intends to perform detailed substantive testing and those areas where the auditor intends to rely on internal controls.
- Whether divisions or subsidiaries receive adequate coverage, particularly those that are considered most risky or remote either geographically or culturally.
- Whether other audit firms are involved in auditing specific geographic locations or group entities that might impact on the organisation’s overall risk profile.

The audit committee should also seek to understand whether, and to what extent, the external auditor is content to rely on the work of internal audit in support of their audit work, and to what extent they will be reviewing the work of the internal auditor.

At the pre-audit planning meeting, the audit committee may determine that the external auditor should perform additional work to satisfy the needs of the organisation, such as increased internal control testing or aspects of the internal audit work. In such circumstances, the audit committee should consider the effect this may have on the effectiveness of the company’s overall arrangements for internal control.
Key questions for audit committees to consider:

**Audit approach**

- What are the fundamentals of your audit strategy and audit approach in general? Are there significant changes from previous years?
- What are the significant audit risks? What audit approach do you plan in these areas (controls-based versus detailed substantive testing)? How have you assessed the risk of material misstatement?
- What do you consider to be the key fraud risks related to financial reporting? What procedures will be performed to address the risk of material misstatement due to fraud, including procedures relating to the risk of management override of controls?
- What are the materiality levels used in the audit? Have there been any changes versus prior year?
- What were the key factors considered in determining materiality?
- Will certain significant accounts be audited using lower materiality levels because of the differences in the level of risk and/or third party expectations?
- How do you integrate data analysis in your audit approach? How does the anticipated use of data analysis relate to your assessment of the risk of material misstatement? Do you compare results between departments and geographical locations to identify unusual trends and outliers?
- How does your audit approach and timeline ensure that significant matters and issues are identified, communicated and resolved on a timely basis?

**Cost and staffing**

- Will there be effective coordination of audit procedures between the internal and external audit functions?
- What are the estimated external audit fees for this year’s audit? What caused the increase/decrease from the prior year?
- Are the audit fees and resources adequate in light of the size and complexity of the company's business?
- Have there been any significant changes on the engagement team?
- In case of significant non-routine transactions taking place in the year under audit (e.g., a major acquisition or restructuring), is the team agile enough to absorb the additional workload, both in terms of time commitment and expertise?
- For which audit areas or procedures are you planning to involve specialists (e.g. tax, IT, financial risk management, actuaries, etc.)?
- How do you ensure that the audit team, including specialists, adheres to any relevant independence requirements?
- What is the plan for audit partner rotation? What steps will be taken to contribute to a smooth transition to the new partner?

**Accounting and reporting matters**

- What procedures have you planned to audit/review the (interim) financials?
- What changes in accounting standards have occurred recently or are likely to occur? How will they affect the financial statements and your audit procedures?
- What are the critical accounting policies of the company and how will you satisfy yourself that they are still fit for purpose?
- What are the most significant accounting estimates and judgements made by management that will receive specific attention in your audit procedures? How satisfied are you about the process that management follows in making those estimates and judgements? How does the audit approach deals with these accounting estimates and judgements?
- Do you believe management is under any pressure to accept less than high-quality financial reporting? How did you factor this risk into the audit approach?

**Different activities, subsidiaries and geographies**

- How do you determine which activities/subsidiaries/geographies to audit? Do you believe any of the group’s activities/subsidiaries/geographies are riskier than the others and how is this factored in to the audit scope? Are any areas that were considered high risk in prior years no longer consider high risk?
- Will members of the lead engagement audit team visit key locations? If no, why not?
- Are other audit firms involved in the audit? If so, do you participate in their scope setting process? How do you determine whether their work is adequate?
- What “coverage” (e.g., percent of revenue, operating profit, total assets) is expected from the activities/subsidiaries/geographies selected for testing?