Zen and the art of auditor assessments
The CPAB and CPA Canada are changing the way audit committees oversee external auditors.

Back in 1974, Robert M. Pirsig explored the meaning of ‘quality’ in his seminal book, Zen and the Art of Motorcycle Maintenance. At the time, the author admitted that the book included very little factual information about either Zen or motorcycles—but it did look deeply into the concept of quality. Now, 40 years later, CPAB and CPA Canada have raised the quality torch in an effort to help audit committees assess the performance of their external auditors. While they don’t refer to Zen or motorcycles at all, they have provided tools to improve audit committee oversight of the external auditor in the belief that this approach is the one most likely to enhance audit quality.

To help you apply this guidance, here are answers to some common questions you may be asking.

Are audit committees changing their processes in response to the CPA Canada materials?

Most audit committees are taking steps to understand the new guidance and determine how it might affect their processes. The topic is certainly being discussed, both informally and formally in audit committee meetings. Of course, many audit committees already have processes for assessing external auditor quality. As such, the impact of the new guidance and tools will vary from one organization to another.

Do you expect audit committees to use the CPA Canada tools to conduct annual assessments and periodic comprehensive reviews of external auditors?

It depends. Some audit committees are finding the forms overly long and detailed and are concerned that this may detract from a substantive discussion of important matters. Others are grateful for the structure provided by the tools. Some audit firms have even developed versions of the forms to assist their clients, but many audit committees want their processes to appear neutral and balanced, so they may hesitate to use those forms. We believe the tools provided by CPA Canada are intended to be scalable and adapted to reflect each organization’s particular circumstances. As a result, many will likely develop shorter, less detailed formats to guide and document their assessment processes.

What is audit quality? What are the critical elements of the quality of service from the external auditor?

Although there is no universally recognized definition or analysis of the terms, these complex questions are addressed in the CPA Canada materials. At the least, quality external audit service would include a rigorous audit, with an appropriate degree of professional skepticism, conducted in compliance with the applicable standards. Other essential elements might include depth of industry knowledge, the nature and extent of valuable insights and observations arising from the audit process or the ability to effectively coordinate services from many locations around the world.

Many audit committees wonder if they should strive to obtain audit service at the lowest possible cost.
Obviously, we bring a natural bias to this question, but in our experience, the best audit committees consider this question in the same way they would any other professional service for which quality is critical to the organization. This view is reinforced by this recent comment from the Chief Accountant of the SEC:

It is my sincere hope that audit committee members … do not always choose the low-cost provider. If audit committees seek to reduce costs by “fee hunting” and there is a subsequent audit failure, it may create liability issues and “raise questions” about how effectively the board is fulfilling its responsibilities.

Who should coordinate the assessment processes? The audit committee? Management? A third party? The external auditor?

There is no right or wrong answer to this question. Audit committees must obtain the information and spend the time they need to conduct a thoughtful and complete assessment. While some organizations might ask the auditors for help, and a few may engage third parties, it will likely be more common to have a member of the management team coordinate the activities. The auditors will be able to provide much of the information integral to the assessment processes.

Are there best practices audit committees can use to assess their external auditors?

While the new guidance has not yet spurred the development of new trends or themes, in our experience, it’s most effective to:

Reach agreement regarding the most important aspects of the service provided by the external auditor. This will vary from one organization to another.

Get input from audit committee members, management and external auditors on each aspect of quality service. Consider giving each party the opportunity to comment on the initial information provided by the other parties.

They may be able to share an interesting perspective on the observations of others. Set aside ample time for the audit committee to substantively discuss the accumulated information.

Conduct an open and frank discussion of the results of the assessment with the external auditors.

Final thoughts

While practices will evolve over the coming months and years, each organization should establish processes consistent with the spirit of CPA Canada materials. Although many organizations will develop tools and processes most effective to their circumstances, it may help to use CPA Canada’s materials and tools as a reference source. There is little doubt that audit committees—and individuals—will continue to grapple with the concept of quality for years to come. That said, we will continue to work with CPAB and CPA Canada to help shape the future of audit quality in Canada.

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