

# Evaluation of the external auditor

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 adequacy, effectiveness, independence, scope and results 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 adequacy, 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 'Yes', 'Partially Agree', 'No', please tick your response to each question.
- 'Not sure' can be used where you do not have enough information to form a view.
- 'Not applicable' 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.

# KPMG Evaluation of the External Auditor

## A. Calibre of the external audit firm

	Yes	Partially agree	No	Not sure	Not applicable
1. The external audit firm has a strong reputation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Recent or current litigation against the firm will not have a significant adverse impact on the audit firm's reputation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The audit firm has a strong presence in this industry?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The external audit firm has the size, resources and geographical coverage required to audit this company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## B. Quality processes

	Yes	Partially agree	No	Not sure	Not applicable
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.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit firm has sufficient headcount in the quality control function to support audit team members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The remuneration and evaluation arrangements of audit partners and other key audit individuals do not impair the external auditor's objectivity and independence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Relevant and qualified specialists are involved in the audit process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## C. Audit team

	Yes	Partially agree	No	Not sure	Not applicable
1. Audit team members have appropriate qualifications for their roles?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Audit team members have sufficient industry focus for their roles?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Audit team members understand our business and its issues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Audit team members are proactive in their approach?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Audit team members are responsive to our requests?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Audit team members are consistent in their approach to matters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. There is sufficient continuity of staff to ensure a smooth audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. The audit firm has a stable attrition rate in the current year as compared to the industry average?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. The audit firm's attrition rate is reflective of the turnover seen in the audit team?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Where applicable, the audit firm explained how the changes or rotations of lead engagement partner or senior engagement team personnel would be handled and managed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. The engagement partner's and other senior personnel's involvement in the audit is appropriate and sufficient?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. There is a strong audit team that works together effectively?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. The audit firm provides relevant and timely training for the audit team members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#### D. Audit scope and approach

	Yes	Partially agree	No	Not sure	Not applicable
1. The audit plan appropriately addresses the areas of higher risk?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit team communicated their audit plan in advance of the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The audit team identified changing risks and circumstances and adjusted the audit plan accordingly with sufficient communication to the Audit Committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The audit team comprised an appropriate number and level of staff?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Partners and managers were involved sufficiently throughout the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Appropriate specialists are involved in the audit process (IT, tax, Treasury etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. All significant operations are covered by the external audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. The audit approach is consistent across the team and audit locations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. Where applicable, the audit team highlights how they supervise other accounting firms involved in the external audit for the Group?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. The audit team work to appropriate materiality levels?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. The audit team complete their work in line with the agreed timetable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. The external audit team's approach to seeking and assessing management representations is appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. The audit team has an effective working relationship with internal audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. The audit team incorporates a sufficient amount of data analytics and technology in the performance of the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## E. Communications

	Yes	Partially agree	No	Not sure	Not applicable
1. All communications from the audit team are clear and relevant?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Issues are discussed on a timely basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The audit committee/auditor relationship operates on a 'no surprises' basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The external audit firm have open lines of communication with the audit committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The audit partner maintains contact with the audit committee on an informal basis 'between meetings'?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The audit team communicates how the audit firm's leadership, through its tone at the top, emphasises audit quality and holds itself accountable for the audit firm's system of quality control?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Communications accurately detail the issues encountered during the audit and their resolution; including:					
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?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. the propriety of significant accounting policies (both individually and in aggregate)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

c. the propriety of management's valuations of the material assets and liabilities and the related disclosures provided by management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. the effectiveness of the system of internal control relevant to risks that may affect financial reporting (including any significant weaknesses)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. other matters relevant to the board's determination of whether the annual report is fair, balanced and understandable?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. the risk of fraud in the financial statements?					
8. Audit differences are discussed and resolved efficiently?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. There is good communication and coordination between local audit teams and the 'head office' audit team?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. 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?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. The audit team seek feedback on the quality and effectiveness of the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. The audit team responds to feedback received regarding the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## F. Technical expertise

	Yes	Partially agree	No	Not sure	Not applicable
1. Audit team members have sufficient technical experience for their roles?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit team responds to technical questions with a definitive answer within an agreed time frame?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The audit team's advice reflects our commercial considerations in an appropriate manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The audit firm provide appropriate technical support through seminars and publications?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## G. Audit governance and independence

	Yes	Partially agree	No	Not sure	Not applicable
1. External audit partners and staff demonstrate a high degree of integrity in their dealings with the audit committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The external audit firm discuss their internal process for ensuring independence with the audit committee.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Management respect the external auditors as providers of an objective and challenging audit process.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The level and nature of entertainment between the external audit firm and management is appropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The nature of non-audit services is appropriate and adequate safeguards exist to preserve audit objectivity and independence.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The external auditor's relationship with both the audit committee and management is appropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. The audit firm has a formal process in place to remedy the independence breaches?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## H. Audit fee

	Yes	Partially agree	No	Not sure	Not applicable
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.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Differences between actual and estimated fees are handled appropriately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The relationship between audit and non-audit fees is appropriate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**I. Comparison of [Company name]'s external audit experience with other external audits you may have experience of:**

Issue	Comments
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