

The Comprehensive Review: What have we learned?

Why a comprehensive review?

In 2013, the Enhancing Audit Quality (EAQ) initiative, jointly undertaken by CPA Canada and the Canadian Public Accountability Board (CPAB), examined how to enhance audit quality in light of global regulatory developments. One key recommendation was for the audit committee to perform a comprehensive review of the external auditor at least every five years.

So, how far have we come?

In 2018 CPAB met with audit committee chairs, external auditors and members of management to understand how comprehensive reviews are currently being performed; key insights include:

- Providing feedback to the auditor is an ongoing process including quarterly discussions, annual reviews and periodic comprehensive reviews.
- The comprehensive review should be customized to gain the most benefit.
- Incorporating audit quality indicators (AQIs) can significantly improve the depth and quality of the comprehensive review.
- The audit committee, management and the auditor play important and distinct roles in achieving an effective comprehensive review.

Stakeholders say the comprehensive review is a worthwhile exercise with a number of benefits:

- Shifts the auditor's focus to the audit committee as the client, rather than management.
- Allows the audit committee to more clearly define what they expect from the auditor over the short and longer term.
- Improves audit committee understanding of the audit process; enhanced auditor and audit committee discussions.
- Provides more detailed feedback to the auditor on areas to improve.
- Access to more information augments audit committee understanding of audit quality processes across the audit firm.

One size does not fit all – customize to meet your needs

Different tools and guides are available to support you in performing a comprehensive review (including the [EAQ tools](#) developed by CPA Canada, CPAB and the Institute of Corporate Directors). This is a good place to get started but keep in mind to be most effective, the scope and depth of the review should be tailored to your specific circumstances, and driven by the audit committee in collaboration with management. Consider the following as you begin your planning:

- Intended level and depth of outreach within the company to obtain feedback on the auditor either by survey, interview or meeting.
- Scope of background materials prepared by management and the auditor.
- Number of audit committee meetings over which the comprehensive review is considered.
- Nature and extent of information on the audit firm's quality processes.

Audit quality indicators work!

Some audit committee members say it can be challenging to evaluate the quality of the auditor and answer some of the questions suggested in the comprehensive review tools. The good news is audit committees using [AQIs](#) said these specific measures helped focus questions and the discussion on relevant audit quality topics during their reviews.

Using AQIs drives ongoing discussion, making for a more effective comprehensive review. We recommend collecting insights and understanding over time which can be used as part of an annual or comprehensive review.

Are you using AQIs?

Join our AQI network to share your experiences.

Tap into insights across the organization

We cannot stress enough how important it is to include the auditor, audit committee and management in planning and conducting the comprehensive review.

The comprehensive review is best driven by the audit committee who is responsible for evaluating the performance of the external auditor, while the audit firm and management provide perspective. To be effective, the audit committee engages others to help manage the process and accumulate information supporting the review while maintaining control over the feedback and final conclusions.

Who does what?

<p>Audit committee chair</p> <ul style="list-style-type: none"> Leads the development of the comprehensive review plan Liaises with management and the external auditor throughout the process Facilitates audit committee discussions Provides feedback to the external auditor 	<p>Audit firm</p> <ul style="list-style-type: none"> Responds to requests for information Ensures firm leadership is available to meet with the audit committee Supports or champions the comprehensive review process and shares insights Measures progress in areas identified for improvement
<p>Audit committee</p> <ul style="list-style-type: none"> Reviews and approves the comprehensive review plan Participates in surveys Reviews and discusses review results and provides a recommendation to the Board 	<p>Management</p> <ul style="list-style-type: none"> Participates in surveys and interviews Shares insights and identifies areas where management can contribute to audit quality Provides support to the audit committee as required

Audit committee chairs say appointing one person to coordinate the comprehensive review is critical. That person could be from a variety of disciplines including internal audit, legal, finance, or an external consultant.

Ongoing feedback is key

Feedback is essential to ensuring continuous improvement and high-quality outcomes whether in the role of auditor oversight or coaching and mentoring employees. The comprehensive review is a good feedback source to use but it should be considered in combination with other approaches such as regular discussions (quarterly for many companies) and / or performing an annual review to provide the auditor with ongoing feedback.

Annual vs. Comprehensive review

What's the difference between an annual and comprehensive review? We found a range of different practices on what is included in an annual review compared to a comprehensive review and how the two reviews could complement each other.

- ▶ In some cases the comprehensive review focused on understanding more about the audit firm, internal quality processes and ability to support the audit team in performing a high quality audit. This approach included an understanding of the firm's depth of industry expertise.
- ▶ In other cases, the comprehensive review focused on trends in the annual reviews over time, specifically considering how the auditor had responded to previous feedback and how their approach and quality of the audit changed over time.
- ▶ Annual reviews are typically performed to support the annual auditor appointment recommendation and to provide timely feedback to the auditor. The annual review is generally focused on the engagement team's performance in the most recent audit.

Leading tips for success

TIMING

There are varied practices on timing of a comprehensive review:

- Some say it's most effective to perform a comprehensive review following a particular event, major acquisition, or change in geographic location. Others prefer every five years regardless of specific circumstances.
- Many have coordinated their comprehensive review around the timing of partner rotation; perspectives vary on performing the review shortly after, midway or at the end of a partner rotation.
- Many have timed their annual review to support their auditor reappointment recommendation to shareholders, and perform the comprehensive review at another time (generally mid to end of their fiscal year).

GETTING INPUT FOR THE REVIEW

Everyone we spoke with obtained input from management and audit committee members through surveys, interviews or group discussions. Many used the guide to performing a comprehensive review ([EAQ materials](#)) as a starting point but said customization was critical.

Interviews were insightful. Some used a third party facilitator or in house legal counsel to ensure confidentiality.

AUDITOR MATERIALS

Auditor materials were most helpful when tailored to audit committee focus areas and were incremental to the materials provided in the course of the audit. In one case, an auditor self-assessment was included.

Audit partners supported the comprehensive review, including capturing information after each annual audit to prepare for the next comprehensive review. Quarterly tracking of AQIs, identifying areas where the auditor challenged management (including component auditors for key subsidiaries) and tracking progress against feedback from the previous annual and comprehensive reviews are other best practices of auditor collaboration.

Some audit committees wanted more information about how the audit firm compares to its peers, including industry coverage, which is helpful in understanding bench strength and to assist in succession planning for future audit team members. In some cases, management provided insights on other firms' industry experience based on interaction at industry conferences or from other services provided by audit firms to the reporting issuer.

DISCLOSURE

More companies are including enhanced disclosures in their public filings, generally in their management information circulars, about how the audit committee is overseeing the audit. These disclosures include when the audit committee performed a comprehensive review or when the next review is planned, and other actions like the use of audit quality indicators. Audit committees say this is helpful in increasing investor communication in an area that is generally not well understood.

Final words

Ready to get started? There are lots of materials available to get the ball rolling. And you don't have to get the process perfect – most of the value coming from the review will be in conversations that happen as you roll out the review. For other insights, please reach out to us at stakeholderengagement@cpab-ccrc.ca. We'd love to hear about your experiences.

Join CPAB's AQI Network. CPAB's AQI Network supports current and future AQI users by providing resources, sharing key insights, and enabling peer-to-peer discussion. Members of the Network also have access to in-person support. To join our AQI Network or to learn more, please contact AQINetwork@cpab-ccrc.ca.

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