

## Comprehensive Review of the Auditor – *What Audit Committees are Saying*

### Overview

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.

As part of this initiative, the Independence and Role of the Audit Committee Working Groups concluded that a comprehensive review of the external auditor by the audit committee at least every five years was an effective approach to addressing threats arising from long tenure of the audit firm.

Performing a comprehensive review is still a fairly new exercise and audit committees are interested in practical examples of how other committees are approaching comprehensive reviews. Based on interviews with audit committee chairs representing organizations varying in size and industry, this publication provides observations and lessons learned from those who have completed or are planning to complete a comprehensive review in the coming year.\*

#### Key insights:

- Leverage learnings from the annual review when performing a comprehensive review.
- The tools are scalable – decide what makes the most sense for your audit committee and organization.
- Don't rush it – developing a strong plan will result in an efficient process.
- Time the review with key changes or events.
- The audit committee should retain control with appropriate support.
- Emphasize audit quality not just quality of service.
- Consider disclosure of results to stakeholders.

### Audit committee insights on performing a comprehensive review

#### Leverage learnings from the annual review when performing a comprehensive review

Several audit committee chairs said a strong annual assessment is important to provide a foundation for completing a comprehensive review. The annual assessment focuses on the quality of the engagement team, their audit work and service, as well as their independence, objectivity and professional skepticism. Some audit committee chairs said their committees assess the auditor throughout the year and have auditor

oversight as a standing agenda item at their meetings, not just at the year-end meeting. One audit committee planning to perform a comprehensive review delayed the review for a year so they could enhance the quality of their annual assessment first.

Whether an annual assessment has been performed only in the last year or for several years, the trends and insights gained can support a richer discussion and the efficient execution of the comprehensive review.

## The tools are scalable – determine what makes sense for your audit committee and organization

Most audit committees said that the tools issued by CPA Canada, CPAB and the Institute of Corporate Directors (ICD) are a solid starting point for planning a comprehensive review and can be suitably modified to best meet the objectives of their entity. For example, some have removed questions or reduced the scope. Others have modified or supplemented the questionnaires. Additional examples include:

- Customizing the questionnaires so that it reflected not only past performance of the audit firm but also had a strategic focus as the organization looked into the future (e.g. questions to help understand if the audit firm and team could support the organization's complexities, increasing global reach and strategic goals).
- Including a step to solicit feedback on the audit team's performance below the executive level, such as finance and operational staff who often work directly with the management and staff of the audit team.
- Supplementing the guidance with independent research on the audit firm (e.g. unknown litigation or claims).
- Interviews with firm representatives beyond the engagement team (e.g. the national or regional audit leader, quality and risk leader or the engagement quality review partner).
- Audit committees stressed it is not about the number of hours spent. It's about the quality of the background information collected, the conversations with company and firm personnel, and avoiding a "check-the-box" exercise. They encourage upfront planning to determine an approach that will provide the greatest value to your specific entity.

### Tools for Audit Committees – Annual Assessment and Comprehensive Review

CPA Canada, CPAB and the ICD have developed background materials and tools that can be used by the audit committee in performing an annual assessment and comprehensive review. The documents, issued in 2014, include an overview of activities that audit committees can perform to assist them in overseeing the external auditor and practical tools to support audit committees to conduct an annual assessment of the external auditor, and a periodic comprehensive review of an audit firm.

The background information and tools can be accessed here:

*Annual assessment of the external auditor:*

*Tool for audit committees*

*Periodic comprehensive review of the external auditor:*

*Tool for audit committees*

One audit committee planning to perform a comprehensive review delayed the review for a year so they could enhance the quality of their annual assessment first.

## Don't rush it – developing a strong plan will result in an efficient process

The effort spent on performing a comprehensive review will vary across audit committees. Performing a review will often require multiple discussions and opportunities to review interview responses and documentation. Don't assume that one discussion at year-end will be sufficient time to conduct an effective review. It may also be too late to act on decisions to change the audit firm or engagement team for the following year, if necessary. One audit committee chair said they included a review of trends from prior annual assessments and information required to support the audit committee's conclusions on the meeting agenda two or three times throughout the year, closing off the process in either the Q3 or year-end meeting

Audit committees stressed it is not about the number of hours spent. It's about the quality of the background information collected, the conversations with company and firm personnel, and avoiding a "check-the-box" exercise. They encourage upfront planning to determine an approach that will provide the greatest value to your specific entity.

## Time the review with key changes or events

Certain events may trigger the need to perform a comprehensive review or could drive greater efficiencies if the review was performed in conjunction with that event, including:

- Performing the comprehensive review at the time of partner rotation — this is usually when there is a reassessment of the audit firm and the overall audit team.
- If the external auditor performs a periodic self-assessment of the audit process, leveraging the firm's time with audit committee members given that the scope of the firm assessment may overlap with areas of the comprehensive review.

Some audit committees also timed the comprehensive review with subsidiaries or the parent company of the organization, particularly if both or all organizations engage the same audit firm.

## Audit committee should retain control with appropriate support

Audit committee chairs noted the importance for the audit committee to retain control of the process and have ultimate responsibility for the overall evaluation of the auditor.

However, because the comprehensive review involves the accumulation of background information on the external auditor and potentially conducting interviews across various entity and firm personnel, the audit committee will typically require support from the entity. Audit committee chairs noted differing practices on who from the entity provided this support, with some identifying the internal audit function, the finance team or a combination of these groups as key to supporting the process.

Audit committee chairs noted the importance for the audit committee to retain control of the process and have ultimate responsibility for the overall evaluation of the auditor.

## Emphasize audit quality not just quality of service

Some audit committee chairs said that before performing or planning for a comprehensive review, previous assessments of the external auditor focused primarily on the quality of service, such as timely communication and professionalism, rather than on audit quality. While the annual assessments and comprehensive reviews consider aspects of service quality, the tools provide a new opportunity for audit committees to have deeper discussions on the quality of dialogue with the external auditor on audit issues and the quality and skills of the firm and engagement team.

For example, audit committees noted that discussions about how the external auditor demonstrated professional skepticism had greater depth as a result of annual assessments and comprehensive reviews. Typically, audit committee discussions would focus on unresolved issues or disagreements between management and the auditor. During the annual assessments and comprehensive reviews, the audit committee can gain further insight into the auditor's process for addressing significant issues that were resolved with management outside of audit committee discussions and developing trends.

### \*CPAB thanks the following audit committee chairs for their contributions to this document:

Chris Clark Corporate Director	Sheila Fraser Corporate Director	Nick Kirton Corporate Director
Terry Poole Corporate Director	David Smith Corporate Director	Paul Weiss Corporate Director

On February 12, 2015, CPAB also participated in the Institute of Corporate Directors (ICD) Session "Enhancing Audit Committee Oversight of the External Auditor: From the Director Perspective" during which lessons learned and best practices on performing a comprehensive review were shared by audit committee members. Feedback from that session has been reflected in this document.

## Consider disclosure of results to stakeholders

It's early days but some audit committees are considering whether and how to publicly disclose information about the review.

While most audit committees interviewed indicate an intention to disclose that a comprehensive review was undertaken, the extent and nature of the disclosures was not finalized. Some noted their disclosure will state that a comprehensive review was performed, the approach that was followed, conclusions reached and recommendations to the board. Others have considered providing further detail on the information and analysis examined during the review.

## Final Words

Initial feedback from audit committees on the comprehensive review has been positive. One audit committee chair said the review will result in richer discussions with the external auditor on audit quality issues and greater substance to the annual assessments. Another stated that performing the review did more to help the audit committee, management and auditors better understand each other and, as a result, the audit committee has learned to better state their expectations of the auditor and understand how these are being met.

It will be important for audit committees to continue to share their experiences in performing a comprehensive review, including challenges and lessons learned, so that more Canadian audit committees can implement and benefit from a process that supports continuous improvement in audit quality.

### Learn More

CPAB's thought leadership publications for audit committees are available at [www.cpab-ccrc.ca](http://www.cpab-ccrc.ca).

Join our mailing list – [www.cpab-ccrc.ca](http://www.cpab-ccrc.ca) > Mailing List



Follow us on Twitter – @CPAB\_CCRC

This publication is not, and should not be construed as, legal, accounting, auditing or any other type of professional advice or service. Subject to CPAB's Copyright, this publication may be shared in whole, without further permission from CPAB, provided no changes or modifications have been made and CPAB is identified as the source.

© CANADIAN PUBLIC ACCOUNTABILITY BOARD, 2015. ALL RIGHTS RESERVED

[www.cpab-ccrc.ca](http://www.cpab-ccrc.ca) / Email: [info@cpab-ccrc.ca](mailto:info@cpab-ccrc.ca)

