

An ornate brass door knocker is mounted on a dark blue door. The knocker features intricate scrollwork and a central bell-shaped element. A yellow rectangular graphic is overlaid on the left side of the image, containing text.

Assessing the quality and effectiveness of the external audit

A practical tool for audit committees

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned above the 'Y'.

Building a better
working world

Contents

Foreword	3
What is a high quality and effective audit?	4
Questionnaire	5
A. Audit planning and strategy	6
B. Audit execution and conclusion	11
C. Firmwide policies and procedures	16
D. Insights	18
Appendices	19
A. Sources of evidence	19
B. Summary of observations	22
C. Disclosure considerations	23



The electronic version of this file is editable. It allows users to:

- ▶ Choose the responses
- ▶ Highlight text
- ▶ Write notes
- ▶ Add comments
- ▶ Strike out questions and add new ones

This allows you to customise the tool to reflect the particular circumstances of your company and its audit as well as annotate actions and/or report on progress.

Foreword

The scrutiny on audit quality has never been greater. Following recent corporate failures and weakened public trust, questions have been raised about the scope and value of an audit and the accountability of directors and auditors.

Assessing audit quality is therefore a key task for audit committees. We have designed this toolkit to be a pragmatic guide to allow them to conduct the assessment and identify areas where improvement might be needed.

In updating this toolkit in 2020, we took account of:

- ▶ The increased emphasis by regulators on how the culture of the audit firm and its firmwide procedures create the appropriate conditions and incentives for high quality audits.
- ▶ Calls from investors for audit committees to clearly demonstrate how they have assessed the quality of an audit.
- ▶ The important role of the audit committee in facilitating audit quality.

In our view, while the quality of the audit is largely dependent on the auditor and audit firm, it is also impacted by the effectiveness of the contribution from the audit committee.

- ▶ Recent pronouncements:
 - The Financial Reporting Council's (FRC) *Audit Quality: Practice Aid for Audit Committees* and its *Letter to audit firms on high quality audits*, both issued in December 2019.
 - The International Organization of Securities Commissions' (IOSCO) Report *Good Practices for Audit Committees in Supporting Audit Quality* issued in early 2019.
 - The Investment Association's (IA) Report *Shareholder Priorities for 2020 – Supporting Long Term Value in UK Listed Companies* issued in January 2020.

Managing the assessment

Below we have listed some practical points that audit committees should consider in planning and conducting their assessment:

Timing of the assessment

In order to ensure that the audit committee can make timely interventions, the assessment should be carried out

in parallel with the audit process. This toolkit is therefore structured along the key phases of the audit so that audit committees can influence the appropriate actions as the audit progresses.

Detail of the assessment

To make the assessment simple to complete, for each phase of the audit we have identified the key considerations relevant to a quality audit and designed compound questions to address them. If these compound questions highlight a potential quality issue/concern, the tool kit allows the audit committee to go into further detail on the matter via a set of 'deep dive' questions.

Input into the assessment

Whilst it is important that audit committees have an independent point of view on audit quality, we would expect this to be informed by input from executive management and, to some extent, by input from the auditor as audit quality relies on effective financial reporting processes and co-operation from management.

To aid the collation of such feedback we have prepared a separate document with questionnaires that can be completed by the auditor and by management. This is available for downloading from our [website](#).

Outcome of the assessment

In order to discharge their stewardship role, investors are increasingly interested in the audit committees' disclosures of how they conducted their assessment, the specific areas of focus and the outcomes from their assessment. This toolkit should help audit committees not only meet their public reporting responsibilities, but also achieve maximum governance impact. We therefore include in Appendix C note-taking space, to help capture both the outcomes in key areas and the points to be included in the disclosures in the annual report and accounts (ARA).

Sources of information and evidence to support the audit committee's assessment

In Appendix A, we provide an overview of the key sources of evidence and information that audit committees should consider when conducting the assessment. This will not only help audit committees reach a conclusion which is robust and objective but also help with the disclosure aspects in performing the assessment.



Change ahead

The current debates around an audit's purpose, scope and value (which are the subject of the Brydon Review), will inevitably impact the definition of a high-quality audit in the near future and extend procedures to areas such as:

- ▶ Alternative performance measures, and any key performance indicators used to calculate executive remuneration.
- ▶ Assessing the effectiveness of the company's relevant controls in preventing and detecting material fraud.
- ▶ Opining on whether the company's section 172 statement is based on observed reality or on the basis of the auditor's knowledge of the company and its processes.

What is a high quality and effective audit?

A high quality and effective audit must deliver the right audit opinion on the annual report supported by appropriate audit evidence and professional judgements, in which shareholders and other stakeholders have confidence.

As a minimum, the auditor¹ must comply with all relevant auditing and ethical standards and professional and regulatory requirements. Beyond that, a high-quality audit must be:

- ▶ Grounded in the audit firm's commitment to audit quality and its focus on continuous improvement, its tone on ethical and professional matters (including independence) and its culture of consultation.
- ▶ Robust and bring an informed professional scepticism to bear on management's approach and assertions.
- ▶ Executed by a team with the right knowledge and skills sets and led by a partner that takes effective ownership of the entire audit.
- ▶ Supported by appropriate specialists and audit team members who are technically strong, rigorous, perceptive, intellectually curious and independently-minded.

- ▶ Tailored to the risks facing the company, as impacted by its industry, structure, regulatory environment and other circumstances.
- ▶ Based on an understanding of the company's control environment in supporting the financial reporting process and combine various sources of assurance, including using the newest technologies.
- ▶ Executed in a globally consistent manner with appropriate central oversight of work performed at the locations.
- ▶ Accompanied by the appropriate communications and reports to the audit committee that reflect the audit team's thought processes, challenge and rationale for conclusions.
- ▶ Efficient and well managed to allow focus on the right areas and avoid last minute surprises.
- ▶ Delivering insights on a forward-looking basis and encouraging good practice in respect of reporting and the underlying processes.

¹ Throughout this document, the terms 'audit team' or the 'auditor' refer to the individuals executing a specific audit. The term 'audit firm' or 'firm' refers to the entire practice/organisation that the auditor or audit team belong to.



Questionnaire

As noted in the [Foreword](#), we have structured the questionnaire along the following key phases of the audit so that audit committees can influence the appropriate actions as the audit progresses.

A.

Audit planning
and strategy

B.

Audit execution
and conclusion

C.

Firmwide
policies and
procedures

D.

Insights

For each area, you will find compound questions to be answered on a sliding scale e.g., 1 being not demonstrated or does not address to 10 being fully demonstrated or fully addresses. By selecting 'deep dive' you can also choose to answer additional, detailed binary questions. These are designed to help guide your answer to the compound questions or analyse your observations more granularly. You can add questions which are specific to the circumstances of your company and its audit.

A. Audit planning and strategy

A1. Team structure and leadership demonstrated by the audit partner

Having obtained feedback from management and considering your direct interactions with the auditor, the results of internal reviews conducted by the audit firm and external regulatory reviews:

To what extent does the audit partner demonstrate oversight of the audit, including component teams, and leadership of and trust in the audit team?

For deep dive questions click here

	Yes	No	N/A
Does the audit partner demonstrate leadership of the audit team?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit partner demonstrate trust in her or his team?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit partner provide visible and effective ownership and oversight of the group audit?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit partner have sufficient control and influence over component audit teams?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do the audit partner and senior team members have the necessary understanding of the company's industry?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do the audit partner and senior team members demonstrate accounting and auditing expertise?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are individuals with the appropriate skills and knowledge assigned to complete the audit?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are the partners' and senior team members' personal quality scores satisfactory?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do you feel that the partner and senior audit team members spend adequate time on the audit and in interacting with the committee?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Did the audit firm manage partner rotation effectively, both in terms of selecting the successor as well as ensuring a smooth transition?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If there were changes in the composition of the senior audit team, were these handled to your satisfaction?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

A. Audit planning and strategy

A2. A tailored audit

Considering the areas of audit focus, involvement of specialists and changes to the prior year audit plan communicated in the auditor's reporting to the audit committee, and given the audit committee's areas of concern, from its understanding of the company:

To what extent does the audit plan address company and industry specific risks in a manner that will ensure appropriate challenge, scepticism and rigour?

For deep dive questions click here

	Yes	No	N/A
Is the business and its structure, the sector, and the regulatory environment appropriately reflected in the audit approach?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Has the audit approach been challenged in the current year?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit plan reflect scope and materiality changes that are responsive to changes in the size, risk and nature of the business?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are any scope, materiality or fee changes logically explained without raising concerns that audit quality will be inappropriately impacted?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do you agree with the identified significant risks and fraud risks?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
In relation to business risks that do not translate into audit risks, is the auditor able to explain clearly why?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are appropriate specialists (e.g., IT, tax, pensions, corporate and other valuers, actuaries and industry experts to assess stage of completion for the purposes of revenue recognition etc.) going to be involved in the audit, commensurate with the complexity of issues?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit approach address any issues raised by the audit committee in its previous assessments of audit quality and effectiveness?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit approach appropriately reflect and address the findings from regulatory reviews (either topical, thematic reviews or a review of the company's audit itself)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the auditor communicate the results of other regulatory reviews such as findings from thematic reviews that may be pertinent to the company's audit and explain how the audit approach will take account of these findings?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

A. Audit planning and strategy

A3. Globally integrated audit approach

Considering the clarity of communication about the scope of work, number and nature of visits to component teams, and basis for allocating materiality communicated in the auditor's reporting to the audit committee:

To what extent are the scope of the audit, the allocation of performance materiality and the plan for primary team oversight appropriate for the risks and sizes of the company's component locations?

[For deep dive questions click here](#)

	Yes	No	N/A
Does the audit plan reflect a globally consistent and integrated audit approach?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit scope reflect the risks associated with each component location (including the impact of significant risks)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit scope appropriately reflect materiality associated with each component location?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the plan for central oversight and quality control of the work carried out by component audit teams extend beyond just sending group instructions and receiving their reports (whether in the firm's network or other firms), and instil confidence?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit partner assess the technical competence, quality, experience and professional objectivity of component teams?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Were you provided with information to allow you to assess how firm-wide policies support compliance with applicable auditing and ethical standards?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments and actions

A. Audit planning and strategy

A4. Sources of audit assurance

Considering the audit plan set out in the auditor's reporting to the audit committee and the audit committee's understanding of the company's internal control environment, IT systems and internal audit activities:

To what extent does the audit approach appropriately incorporate the various sources of assurance, including controls reliance and data analysis?

[For deep dive questions click here](#)

	Yes	No	N/A
Does the audit plan appropriately consider sources of assurance from within the business (such as internal audit, risk, compliance and control functions)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit team demonstrate a clear understanding of regulatory restrictions on the use of other sources of assurance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit approach clearly demonstrate and explain the extent to which the underlying control environment is considered and relied upon?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is the extent to which technology is used to enhance audit delivery appropriate?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is sufficient use made of data analysis to test entire populations?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit approach reflect innovative thinking?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit response to significant risks adequately combine various sources of assurance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments and actions

A. Audit planning and strategy

A5. Fee considerations

Considering information regarding audit fees, such as the planned hours by level and audit profitability:

To what extent are you satisfied that the fee is commensurate with the risk profile, geographical spread and complexity of the group so as to support the delivery of a quality audit?

[For deep dive questions click here](#)

	Yes	No	N/A
Do the hours by staff level appear reflective of the risks and complexity of the group?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do the hours by group component appear to be reasonable in the context of the group's material components and legal requirements?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do the year on year changes to the audit fee appear reasonable in the context of changes to the business, changes in audit scope and risk and changes in audit requirements?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are you satisfied that the audit scope, audit procedures and materiality judgements have not been inappropriately influenced by budget and fee pressures?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
For a newly tendered audit, is there evidence that the winning firm has proposed a sustainable level of audit fee?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

B. Audit execution and conclusion

B1. Robust challenge and professional scepticism

Considering the auditor's reporting to the audit committee, direct interactions with the auditor when presenting audit results and observing interactions between the auditor and management:

What degree of confidence do you have that the auditor was sufficiently robust in its challenge of management, addressed the risk of confirmation bias by sceptically evaluating contradictory evidence and demonstrated professional integrity throughout the audit?

For deep dive questions click here

	Yes	No	N/A
Do the auditors act in a way that demonstrates that their primary responsibility is to the audit committee (on behalf of shareholders) rather than to management?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the auditor demonstrate professional integrity and objectivity?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Observing interactions between the auditor and management, would the audit partner say 'no' when needed and stand by their view and not succumb to pressure?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit team demonstrate an appropriate degree of challenge and scepticism throughout the audit particularly on contentious or significant risk areas?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Have the conclusions reached in areas of significant accounting and audit judgement been explained by reference to audit evidence and not management representation?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Has the audit team explained its assessment of any contradictory or inconsistent evidence in a satisfactory manner?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Did the audit team appear to have access to the right quality control and consultation resources within the audit firm such that appropriate and timely decisions were made?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Has the audit team interacted with functions outside finance in order to challenge or corroborate information provided by members of the finance team in relevant areas?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If unexpected material issues arose at component locations not initially considered in the audit plan, has the audit team increased their interaction with and oversight over those component audit teams e.g., by conducting visits?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

B. Audit execution and conclusion

B2. Technical excellence

Considering the timing of when issues were brought to your attention, the auditor's reporting to the audit committee, direct interactions with the auditor when presenting audit results, any external regulatory reviews of the company's annual report or its audit, and any internal reviews conducted by the audit firm:

To what extent has the auditor consistently demonstrated technical excellence and expertise and been able to explain complex technical issues in an accessible manner?

[For deep dive questions click here](#)

	Yes	No	N/A
Were all major issues identified in a timely manner?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Was the reporting on complex technical matters clear and easy to follow?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Was the audit partner able to explain accounting and auditing issues in an understandable manner?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Did the audit partner advise the audit committee of the results of consultations with the audit firm's technical teams on accounting, auditing, risk or independence matters?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Were any technical consultations executed in a timely and transparent manner?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Did the partner take ownership of technical judgements?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Was the input from specialists and/or the firm's technical team useful and insightful?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If the company's annual report was subject to review by the regulator e.g., the FRC's Corporate Reporting Review (CRR) team, were there material matters raised by the CRR that the auditor had not identified?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

B. Audit execution and conclusion

B3. Communication and audit reporting

Considering the auditor's reporting to the audit committee, the auditor's report and direct interactions with the auditor when presenting audit results as well as other interactions with the audit team:

To what extent are the communications from the auditor specific to the company, clear and easy to understand, whilst grounded in sound technical analysis and demonstrating scepticism and challenge?

For deep dive questions click here

	Yes	No	N/A
Did the audit partner maintain a professional and open dialogue with you at all times?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Was the auditor's communication proactive rather than being limited to formal reporting milestones, especially when there were matters which needed immediate attention e.g., a significant difficulty encountered in the audit?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Were communications from the auditor timely and avoided late surprises, to allow appropriate action to be taken?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Did the auditor adequately discuss the quality of the company's corporate reporting (financial and narrative), including the fairness of accounting estimates and judgements?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Was the auditor able to articulate a point of view on technical issues in a clear and simple manner whilst setting out the reasoning behind it?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Was the communication from the auditor specific and relevant to the company and its circumstances rather than 'boilerplate'?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do the descriptions in the auditor's report of Key Audit Matters ² (KAMs) and the audit procedures to address these agree with what was communicated previously to the audit committee?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Has the work performed and the findings in respect of the KAMs (as included in the auditor's report), been clearly explained in the reporting to the audit committee?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is the explanation of how conclusions were reached in respect of KAMs clear and does it demonstrate challenge and scepticism?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do the descriptions in the auditor's report of KAMs align with the audit committee's own views?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
In private sessions, did the audit partner discuss sensitive issues candidly (e.g., any concerns about management's reporting processes, governance and internal control issues or the quality of the reporting and finance teams etc.)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If the company's audit was selected for an external quality inspection, did the audit partner advise you of the selection of the audit, discuss the findings and the effect, if any, on the audit process in a timely manner?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

² Key Audit Matters (KAMs) have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

B. Audit execution and conclusion

B4. Efficiency and project management

Considering information regarding audit fees, such as the planned hours by level, the original audit fee and any overruns, and the timeliness of auditor's reporting to the audit committee, in the context of unexpected issues that might have arisen during the audit:

To what extent has the auditor executed an efficient audit in line with the plan presented to the audit committee?

For deep dive questions click here

	Yes	No	N/A
Was the audit planned and executed with appropriate, but not undue, reliance on procedures carried out before the end of the reporting period, supported by realistic reporting deadlines?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Were milestones and deadlines communicated at planning met, or reasons for delays explained as they occurred?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Have any overruns been logically explained?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are you satisfied that the level of overruns is not indicative of poor audit planning?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments and actions

B. Audit execution and conclusion

B5. Independence

Considering the auditor's reporting to the audit committee, its direct interactions with the auditor and the firm's transparency report:

To what extent is the audit committee satisfied that the auditor demonstrated a commitment to adhering to independence standards and their spirit?

[For deep dive questions click here](#)

	Yes	No	N/A
Has the partner demonstrated a commitment to adhering to independence standards and policies (Consider all aspects of independence i.e., business relationships, non-audit services and threat of familiarity.)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the auditor's communications about their independence clearly articulate the threats identified and the related safeguards adopted to maintain independence and objectivity as well as any violations?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the auditor's reporting cover all matters that might reasonably be thought to bear on the firm's independence, including exceptions to its compliance with independence requirements?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
In obtaining pre-approval from the audit committee for permissible non-audit services, does the audit partner discuss safeguards in place to protect the independence, objectivity and professional scepticism of the auditor?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

C. Firmwide policies and procedures

C1. Culture and tone at the top

Considering the audit firm's transparency report and equivalent documents as well as any external regulatory reviews:

To what extent are you satisfied that the audit firm's commitment to audit quality is at the heart of its culture and that the partner's and audit team's incentives align with these priorities?

For deep dive questions click here

	Yes	No	N/A
Is the audit partner able to clearly articulate the challenges, as well as the priorities and initiatives, within the audit firm to improve and sustain the firm's culture in relation to audit quality?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
In information issued by the audit firm, is there a balanced discussion on:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The cultural challenges to delivering high quality audits and what is being done at a firmwide level to respond to these?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Whether there have been any recent regulatory cases against the audit firm and the actions the audit firm is taking to learn lessons and avoid future recurrences?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The audit quality indicators used to monitor the quality of audits and performance against those (examples may include results of internal and external quality reviews, partner quality ratings, attrition rates and scores from audit quality surveys.)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is the audit partner able to explain the performance of the company's audit against the firmwide audit quality indicators?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is root cause analysis applied by the audit firm to understand the sources of any poor-quality scores?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the firm disclose how it is tracking against root cause analysis conducted in prior years?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit firm hold audit partners and teams accountable for audit quality e.g., is audit quality a key consideration in performance assessments, remuneration and promotion decisions?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

C. Firmwide policies and procedures

C2. Resources, support and commitment to quality

Considering the audit firm's [transparency report](#) and equivalent documents as well as any [external regulatory reviews](#):

To what extent are you confident that the audit firm adequately supports its audit teams with resources and infrastructure necessary to deliver a quality audit?

[For deep dive questions click here](#)

	Yes	No	N/A
Does the firm have sufficiently robust procedures to identify and monitor high risk audits?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Do appropriate internal firmwide arrangements exist to review the quality of the audit as well as support the audit team (e.g., central support to coach audit teams in complex areas, hot review processes and second partner review.)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the firm regularly review portfolios of senior team members, including partners, to ensure they have adequate time to lead and participate in audits?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are there adequate project management and documentation tools available to help audit teams effectively plan and manage audit delivery?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is there sufficient central guidance including templates to aid teams to communicate effectively with audit committees and management?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the transparency report adequately explain the technological investments made by the audit firm?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Has the firm planned its recruitment activities to ensure appropriate resourcing on audits (including any new audits it plans to take)?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Does the audit firm demonstrate a commitment to ongoing training and development of its auditors, especially in areas such as scepticism, the audit of complex areas and independence?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Are the firm's governance structures and oversight processes appropriate? For example, is there a risk oversight committee, or equivalent, and what role do the independent non-executive directors play in promoting audit quality?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is the audit firm's infrastructure appropriate to support effective cross border engagement with component audit teams?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

D. Insights

D1. Insights

Considering the auditor's reporting to the audit committee, and specifically the management letter, as well as the thought leadership and events shared with, or available to the audit committee and management:

To what extent did the auditor

- Deliver insights on ways to improve the control environment,
- Share updates on accounting, reporting governance and other regulatory developments, and
- Benchmark the company against trends and leading practice in reporting?

[For deep dive questions click here](#)

	Yes	No	N/A
Has the audit team provided forward-looking insight and points of view e.g., on how strategic decisions of the company, changes in the company's environment, and developments in accounting and regulatory standards may affect future reporting?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Have you and management been provided with updates and insights to allow you to operate effectively in a changing environment?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Were updates from the auditor tailored, specific and relevant to the company and its circumstances rather than generic or 'boilerplate'?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Did the insights include:			
Accounting technical matters and updates?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Control environment observations and benchmarking?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reporting process observations and benchmarking?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Narrative reporting trends and good practice?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Corporate governance developments?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Regulatory updates including independence?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If limited reliance was placed on the control environment, was the rationale clearly explained together with improvement observations?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Did the audit team share insights from their use of data analysis?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Did the auditor discuss how the company's accounting policies, reporting processes and corporate disclosures compare with industry trends and leading practices?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Is the audit team proactive in seeking feedback about the quality of the audit and do they seek feedback in a manner that distinguishes the quality of service from the quality of the audit?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments
and actions

Appendices

A. Sources of evidence

Auditor's reporting to the audit committee and auditor's report (extended audit opinion)

The auditor must meet the minimum reporting requirements set out by applicable audit standards. All communications should be relevant in the context of the company and appropriately cover all significant and fraud risks as well as KAMs included in the extended audit opinion.

- ▶ The auditor's reporting should, amongst other matters, cover:
 - Independence;
 - Audit plan including the nature of the group audit team's planned involvement in the work of the component auditors;
 - Significant risks of material misstatement and KAMs;
 - Significant findings from the audit including any significant deficiencies in internal control;

- Actual or suspected non-compliance with laws and regulations as well as any suspicions that irregularities, including fraud;
 - Significant matters in connection with the entity's related parties;
 - Certain information in respect of compliance with the UK Corporate Governance Code; and
 - Uncorrected misstatements as well as material misstatements corrected by management.
- ▶ The narrative in the extended audit opinion should be granular, rather than generic. It should include, amongst other things, information about the sensitivity ranges used in testing, and the auditor's view on the appropriateness of management estimates and assumptions. It should be clear, concise and balanced.

Direct interactions with the auditor

The audit committee will interact with the auditor in several ways - during the committee's meetings, in meetings without management present, and in meetings organised to deal with specific audit and reporting issues. These interactions provide insights into the quality of the audit process and audit team. They are an opportunity to assess whether:

- ▶ The audit team and partner challenge executive management's views and appropriately consider contra as well as corroborating evidence.
- ▶ The application of the firm's policies for quality control, training, staff development, independence and professional scepticism to the audit have been appropriate.
- ▶ The transition between the outgoing and successor partner (or senior team members) was managed appropriately.

- ▶ The number of re-iterations and timeliness of decision making on significant matters indicates poor project management or insufficient resourcing.
- ▶ The team dynamics are healthy.

External regulatory reviews e.g., FRC Thematic³ and firmwide reports⁴ on the audit firm as well as any FRC reviews directly on the company⁵

The FRC is the UK's current designated competent authority for audit regulation. Its Audit Quality Review (AQR) team monitors the quality of the audit work in the UK, based on its inspections.

The AQR team conducts:

- ▶ Thematic reviews of a firms' policies and procedures in respect of a specific area or aspect of the audit, or firm-wide procedures to make comparisons between firms with a view to identifying both good practice and areas of common weakness.
- ▶ Inspections of specific audits.

³ <https://www.frc.org.uk/auditors/audit-quality-review/thematic-inspections>

⁴ <https://www.frc.org.uk/auditors/audit-quality-review>

⁵ <https://www.frc.org.uk/accountants/corporate-reporting-review>

A. Sources of evidence

The CRR seeks to ensure that the provision of financial information by public and large private companies complies with relevant reporting requirements. The audit committee should consider:

- ▶ Feedback from the results of external quality and thematic reviews as they apply to the audit firm, and the audit team's responses to the findings and recommendations.
- ▶ The results of external quality inspections of the company's own audit.
- ▶ The results of external quality inspections of other audits that the partner and senior team members are involved in.
- ▶ Publicly available regulatory actions, professional body disciplinary actions.
- ▶ Consistency and completeness of the matters raised by the auditor compared to those raised by the FRC's CRR team (where applicable).
- ▶ Feedback from the audit committee's meetings with the regulator, investors and other stakeholders.

Feedback from management

When management raises concerns, it is critical for the audit committee to be aware of the risk of bias and to explore whether these concerns generally reflect the quality of the external audit. It is, however, important for the audit committee to obtain feedback from management on a number of areas, including those that the audit committee, through its own interactions, may have limited visibility into:

- ▶ Whether the audit team, especially junior team members, has adequate knowledge of the industry, business, competence and technical excellence, along with any observations regarding the transition between the outgoing and successor partner, if relevant.
- ▶ Whether all the members of the audit team were available, responsive and proactive; communicated timely throughout the year; or whether there may have been undue pressures on audit resources or timing of work that had a negative impact on the audit process.
- ▶ The number of re-iterations and timeliness of decision making on significant matters and the handling of any consultation process.

- ▶ The execution of the audit across the group's component locations, including the consistency of the audit approach, local management views on the auditor and the understanding of local issues.
- ▶ Whether feedback given to the auditor has been acted upon.
- ▶ Whether feedback from other key company personnel (such as internal auditors, company secretarial and compliance teams) indicated an appropriate level of engagement.

Information regarding audit fees

There are currently no specific requirements that auditors must follow in respect of fee reporting and benchmarking, although this might change if some of the Brydon Report recommendations are implemented. The audit committee needs to decide what information to request from the auditor in order to assess the appropriateness of the audit fee. This could include:

- ▶ Information from the auditor on the proportion of senior to junior time and the absolute number of hours budgeted to be spent on the audit by senior team members.
- ▶ Discussion with the audit partner regarding the relative profitability of the audit compared to the average for the firm.

- ▶ Discussion with the audit partner relating to any pressure applied by executive management to reduce the audit fee.
- ▶ Analysis of the dependence on profit made from other permissible services provided to the company.
- ▶ Clear and timely explanation of the impact of scope changes and one-off work on the fee, and clarity around overruns.
- ▶ Benchmarking the company's audit fees against peers/companies with a similar structure etc.

Transparency report and similar audit firm publications⁶

Auditors of certain public interest entities are required by regulation to publish annual transparency reports. The FRC monitors these reports. Some firms supplement their transparency report with specific reports on matters of quality, diversity and sustainability.

These publications facilitate the assessment of:

- ▶ Culture, values, desired behaviours and how they are promoted e.g., via performance and reward mechanisms.
- ▶ Firm-wide mechanisms to support independence, quality assurance, training, and remuneration.

⁶ <https://www.frc.org.uk/auditors/professional-oversight/oversight-of-audit/statutory-auditors-transparency-reporting>

A. Sources of evidence

- ▶ Audit quality indicators e.g., on training hours, level of staffing, access to specialist resources etc. and performance against these.
- ▶ Analysis of code of conduct, policies and procedures etc. in order to determine whether the firm's culture and incentives support the appropriate focus on audit quality.

Internal reviews conducted by the audit firm

All audit firms undertake internal quality reviews, with partners being subject to such reviews on a rotating basis. The following may be of relevance in assessing audit quality:

- ▶ Feedback from the results of internal quality reviews relevant to the senior team members, including at component level.
- ▶ Feedback from internal quality reviews of the company's audit and the audit team's responses to the findings and recommendations.
- ▶ Feedback from the results of internal quality reviews as they relate to firm-wide matters, and the audit team's responses to the findings and recommendations.

Thought leadership and events

Audit and accountancy firms publish thought leadership on matters such as accounting, regulatory change, corporate governance developments etc. They also hold events including training courses, discussion round tables, and seminars to discuss and promote best practice. These create an opportunity to assess:

- ▶ The business and technical expertise of the audit firm.
- ▶ The quality of the firm's thought leadership/points of view on accounting, regulatory and governance topics.

Feedback from the auditor

The quality of the audit process is influenced by the support and input the auditor has from management and the audit committee. To maximise the quality of the audit, these interactions need to be effective. The audit committee should seek to understand whether:

- ▶ There were delays in the audit process beyond the control of the auditor and, if so, why these arose and how they can be avoided in the future.
- ▶ Management was available and responsive to the auditor's requests.

- ▶ The timeliness and quality of information provided by management was adequate to facilitate a quality audit.
- ▶ Management implemented agreed upon actions from prior year management letters, previous assessments of the quality of the audit or post-audit debrief meetings.
- ▶ The actions it took based on its early reflection on the potential risks to the quality of the next audit were effective e.g., requesting early on that the auditor makes changes to the team and requesting management to put specific controls in place to avoid problems experienced etc.



B. Summary of observations

In the table below, you can input the score attributed by each member of the audit committee to the key questions. Calculate the average score and insert it in the last column:

Audit committee member	Name
1. Chair	
2. Member	
3. Member	
4. Member	
5. Member	

Audit planning and strategy	Chair	Member	Member	Member	Member	Average
1. Team structure and leadership demonstrated by the audit partner						
2. A tailored audit						
3. Globally integrated audit approach						
4. Sources of audit assurance						
5. Fee considerations						
Total						

Observations, including any input from management

Audit execution and conclusion	Chair	Member	Member	Member	Member	Average
6. Robust challenge and professional scepticism						
7. Technical excellence						
8. Communication and audit reporting						
9. Efficiency and project management						
10. Independence						
Total						

Firmwide policies and procedures	Chair	Member	Member	Member	Member	Average
11. Culture and tone at the top						
12. Resources, support and commitment to quality						
Total						

Insights	Chair	Member	Member	Member	Member	Average
13. Insights						
Total						

C. Disclosure considerations

The UK Corporate Governance Code requires the audit committee to report to the board on how it discharged its overall responsibilities. Additionally, the audit committee's report in the ARA must (among other matters) disclose how it assessed the effectiveness and independence of the audit. Below are key points to consider regarding this disclosure:⁷

Describe how the assessment considered the role of management and the audit committee in facilitating a high-quality audit including whether the audit committee itself has driven any changes in the audit process (e.g., a request for more work in a particular area).

Outline any new unique circumstances applicable to the company and the auditor during the year and disclose how these were factored into the audit committee's assessment (e.g. complex corporate transactions or changes to key members in management)

Explain how the audit committee took firm-wide procedures and indicators into account, including, for example, the audit firm's culture and commitment to quality.

Explain what evidence and indicators the audit committee used in performing its assessment with a particular emphasis on areas where the auditor challenged management; external evidence e.g., regulatory inspection findings related to the firm (and the specific audit if applicable); and the audit firm's and team's responses.

Focus on action-based information, decisions and outcomes that are specific to the company, its external audit and the audit committee's areas of particular emphasis, rather than process-oriented disclosures.

For a newly appointed auditor, provide an understanding of how the auditor's first audit met the expectations established in the tender.

Points to feedback to the external auditor

Points to feedback to executive management

Points to carry forward to future assessments of the quality and effectiveness of the external audit

⁷ For further guidance, see FRC's report *Audit Committee Reporting and the IA's publication Shareholder priorities for 2020 – supporting long term value in UK listed companies*.

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