



As new regulatory standards take effect, audit committees formalize assessments of their external auditors

A fundamental responsibility of an audit committee is to oversee and evaluate the performance of the external auditor. Policymakers and investors are seeking more disclosure from audit committees about auditor performance. Regular evaluations of the auditor both satisfy these external stakeholders and provide an audit committee with additional comfort about audit quality.

On 19-20 April 2017, members of the European Audit Committee Leadership Network (EACLN) met in Paris for their 28th stand-alone meeting. As part of that meeting, members participated in a two-part conversation about external auditor evaluations. In the first part of the session, Jean-Yves Jégourel, EY's EMEA Assurance leader, briefed members on significant regulatory developments and recommended that audit chairs formalize assessment processes. Then, in an executive session, audit committee chairs shared their views on evaluating external auditors and on the practices they use to ensure that their companies receive high-quality audits from teams that are skilled, transparent and candid. For a full list of participants, see Appendix 1, on page 11.

Executive summary

In conversations before, during and after the meeting, guests and members considered the following topics:¹

- **Will EU audit regulation increase pressure for enhanced assessment of external auditors?** (page 2)

Experts forecast increased attention to external auditor assessments, even though the European Commission does not formally require such auditor evaluations. Recent reforms have focused on the audit committee's duty of care, on disclosing interactions between the external auditor and the audit committee and on mandatory auditor rotation. This indirect regulatory pressure, and the potential for a more direct requirement in the future, is causing audit committees to consider enhancing their current auditor assessment process.

- **What do audit committees look for when assessing the performance of their auditors?** (page 3)

EACLN members emphasized that strong relationships are crucial to a successful audit. Audit chairs value auditors who demonstrate their independence from management by communicating openly and candidly with directors about issues. Productive interaction between the audit committee, the audit firm, and management sends strong signals about the effectiveness of the audit team; an effective lead partner is able to maintain both a critical eye and strong relationships across the organization. Assessing the auditor's performance when the company has global operations poses a particular challenge for audit chairs, requiring heightened attention to audit activities in regions of concentrated risk.

- **What processes do audit committees use to test and track performance?** (page 7)

Audit committees continuously evaluate their external auditors over the course of an engagement, sometimes using informal techniques to assess performance. Many EACLN members also employ more

¹ *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.

formal tools – including surveys and interviews with directors and members of management – to quantify and track the auditor’s performance. Audit committees are also interested in inspection reports issued by national regulators, the audit firms’ own audit quality assessments and other material to help benchmark the performance of their audit engagement teams.

For a list of discussion questions for audit committees, see Appendix 2, on page 12.

Will EU audit regulation increase pressure for enhanced assessments of external auditors?

Some experts suggest that European regulators are giving increased attention, or likely will in the future, to audit committees’ evaluations of their external auditors. Evaluation practices vary across Europe owing largely to differing national regulatory standards. However, the Audit Regulation and Directive (ARD), which took effect on 17 June 2016, has encouraged more co-operation among national audit regulators and an increased focus on improving audit quality.² Mr Jégourel said, *“Currently, there is not an obligation to perform an assessment of the external auditor; however, there are many articles in the 2016 reform that refer to duties of the audit committee that point to such an evaluation. These assessments are under scrutiny, hence there will be more formalization of the process.”*

EU audit reform may lead audit committees to enhance auditor performance assessments

Elements of the ARD and certain EU-level regulations combine to increase the scrutiny on audit committees’ oversight of external auditors, and may indirectly change the way some audit committees evaluate auditor performance. Before the meeting, an EY expert cited the obligation to stay informed about regulators’ inspection reports as a likely spur to audit committees to bolster their audit assessment process.³ Likewise, audit committees face an explicit responsibility for continuously monitoring the auditor’s performance during an engagement.⁴ And regulatory authorities’ extended reporting requirements may also place pressure on audit committee assessments of auditors’ activities. For example, the ARD not only requires an audit committee to inform the board about the outcome of an audit, but also to “explain how the statutory audit contributed to the integrity of financial reporting and what the role of the audit committee was in that process.”⁵

Mr Jégourel noted, *“Although we’re not very far in terms of a framework in Europe, it seems inevitable that regulators and other stakeholders will increase their focus on audit committee evaluations of their auditor.”* Just as regulators will expect more from audit committees, the external auditor will be expected to provide greater detail on its own performance. The external auditors, according to Mr Jégourel, will provide *“a more extensive version of the audit report, which will be discussed with audit committee.”* He added, *“This longer report will provide data points, or an audit trail, to show regulators how external audit is being monitored. Consistency in evaluation is an expectation as an aspect of risk assessment.”*

² For more, see the *ViewPoints* document on the session that directly addressed this topic: European Audit Committee Leadership Network, *Dialogue with the Committee of European Auditing Oversight Bodies*, (Waltham, MA: Tapestry Networks, 2017).

³ [Regulation \(EU\) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on Specific Requirements Regarding Statutory Audit of Public-Interest Entities and Repealing Commission Decision 2005/909/EC](#) (2014), L158/77, art. 16.

⁴ *Ibid.*, Article 39.

⁵ Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 Amending Directive 2006/43/EC, Amending Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts, art. 1, par. 32, amending art. 39, par. 6 (a). See also EY Center for Board Matters, [New EU Audit legislation: Implications for Audit Committees](#) (London: EYGM, 2016), page 1.

Some national regulators have already implemented reforms or created new requirements for audit committees. In 2016, the United Kingdom's Financial Reporting Council (FRC) released its updated Corporate Governance Code requiring audit committees to “review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.”⁶

Auditor rotation and lead partner succession

Audit firm rotation, mandated through the ARD, is causing some audit committees to consider and change their approach to evaluating their auditors.⁷ A member said, “*Rotation helps initiate the review of the external auditor. We ask each prospective firm to fill out a 25-question survey, and the firm that won the bid showed knowledge of our business through the process.*” Members added that, particularly in cases where they make a change, their committees are focused on the performance of the new auditor. One member's company gave special attention to evaluation during the auditor's first year: “*We had a much deeper assessment of the auditor in the first year ... [We spent] more time to make sure we made the right decision. In addition, the audit firm wanted to assure themselves, so they spent a huge amount of time reviewing their performance, and we reviewed their report against our own.*”

For some members, the transition to a new lead partner presents an opportunity to assess the firm on how it handles the change. A member noted, “*Succession planning matters. We're concerned with whether an audit partner has experience in our industry and whether their successor is also a good candidate, ensuring a smooth transition.*” Other members noted that leadership transitions also present opportunities to start fresh, and are therefore a good time to consider revamping the committee's approach to assessing auditor performance.

What do audit committees look for when assessing the performance of the external auditor?

When evaluating audit quality, members said that their audit committees must agree on the qualities they seek in their external auditor. While a variety of stakeholders offer examples of criteria and tools for this purpose, most members said that they and their committees have their own perspectives on what they value most from their external auditors. Members outlined factors by which they gauge the quality of the service they receive from their audit firm.

Strong relationships create the foundation of a high-quality audit engagement

Beyond technical audit proficiency, members look first for an auditor whom they can trust to communicate openly and effectively. This is assessed qualitatively, based on relational elements experienced throughout the audit engagement by the audit chair, other members of the board and management. Members emphasized that these “*soft factors*” are critical in managing the matrix of relationships across the company and the global audit team.

⁶ Financial Reporting Council, *UK Corporate Governance Code April 2016*. (London: Financial Reporting Council, 2016), page 18.

⁷ European Commission, “*Reform of the EU Statutory Audit Market – Frequently Asked Questions (Updated Version)*,” news release, 17 June 2016.

Open communication sets the right tone for partnership

EACLN members said that proactive communication prevents problems from escalating and enables the audit committee to fulfill its oversight responsibilities more easily. One member noted the importance of the human element in an engagement: *“At the end of the day, it’s not the firm; it’s the people.”* Another member said, *“I want to hear about problems as they arise. I want a close relationship, and the auditor should proactively call me.”* Another echoed that sentiment: *“I tell the auditor, the only way you can make me mad is if you surprise me. I describe it as a race between management and the auditor to see who will tell me the news first. That’s the level of responsiveness that I expect.”* Others described the benefit of regular communication with the audit partner. One said, *“The committee regularly meets with the external auditor, giving us the opportunity to listen to them and gain confidence in their capabilities.”*

Effective communication is not measured solely by its frequency; members emphasized the importance of candor and courage. One member said, *“One of the most important factors in evaluating the auditor is [whether] they provide a point of view in an unvarnished way to the audit committee chair and the broader committee.”* Other members described transparent communication as crucial to a functioning relationship between the audit chair and the external audit partner in conveying the performance of management. One said, *“I rely on informality, and I judge the degree to which the auditor is open with me about the quality of management and judgments being made. They don’t expect me to overreact or that I’ll go to management and tell on them. What I will do is filter the information into the system. The audit partner has to have a working relationship with management and can’t be seen as a tattletale.”*

One member said that another aspect of open communication is the willingness of the audit team to share knowledge gained from working with companies both in and outside the industry. The member continued, asking, *“If the auditor knows a best practice, why wouldn’t they bring those ideas to our engagement and help the company do a better job?”*

Independence remains a crucial factor for audit quality

As important as it is for auditors to build strong relationships throughout the organization, members said that it is even more critical that their auditors remain independent. Audit committees also examine elements beyond compliance obligations when evaluating independence, testing specific, measurable criteria such as the financial interests an auditor might have in a company.⁸ For the external audit firm, maintaining a positive, constructive relationship with the audit client while remaining objective and skeptical is not always easy.

For some members, independence is the key criterion for measuring audit service quality. *“For me, quality is about real independence. I want to know about issues, even if already solved; I want to know the main items discussed between the external auditor and management, and [I want] to know how they solved the problem as a way of understanding independence,”* one member said.

Measuring independence can be difficult, even for an experienced audit chair. One member explained, *“There is not a formal process for assessing independence; it comes out of discussions with the auditor.”* Another member agreed, *“Independence is gauged through the quality of communication, and the auditor’s proactivity and transparency.”* Members also discussed the importance of balancing independence with

⁸ International Auditing and Assurance Standards Board, *A Framework for Audit Quality: Key Elements That Create an Environment for Audit Quality*, page 40.

partnership: *“Independence does not mean you cannot have great communication and a good relationship. We are working towards a common objective; partnership does not prevent independence.”*

Global audits pose complex challenges for audit chairs

Members expressed concern about their ability to evaluate the quality of audits in foreign jurisdictions. One member commented on the challenge of global oversight: *“While we survey local finance and management teams, the issue is with quality, which might look different between countries.”* Another member expressed frustration with the inability to control audit quality on a global scale: *“When you’re an international company, how do you ensure the same audit quality in India, Nigeria, France and the United States? I struggle finding an answer to that question.”*

Members take different approaches to overseeing global audits. One member focused on assessing the work of a globally distributed audit team: *“From an audit committee perspective, I know little about the people under the partner. We never see those people. We don’t understand the quality of their work. There needs to be a paradigm shift, where the audit committee gets to meet with the leaders of the different facets of the audit. We should be involved with major leaders.”* The member said, *“You expect the lead audit partner to give insight into audit quality on a global scale. You need for him or her to select the team well.”* Another member mentioned relying on audit committee chairs of subsidiary boards to give guidance on the quality of a global audit.

Describing a high-touch method of monitoring global activities, several members spoke of traveling to visit remote locations where there is a concentration of risk. Visiting these sites does not always provide total confidence in the global audit team, however. One member said, *“I have gone twice in the last 18 months to gain confidence in the quality of the audit in a particular country. But there are other locations where I don’t have the slightest idea regarding quality.”* Another member suggested meeting with various members of the team, including staff in the finance organization, internal audit and external audit, which helps *“to get a sense of what is happening on the ground.”*

Mr Jégourel explained that the complexity of global audits has heightened regulatory attention to auditor evaluation, which in turn demands more interaction on the part of audit partners: *“An area that regulators are paying attention to is the group audit. As a global audit partner, it’s essential that we travel and see the full scope of the company, having contact with the business in order to provide a human touch. You need this presence to ensure a high-quality global audit.”*

Audit chairs look to the professional practice office to be part of the team

An external auditor’s professional practice office (PPO), sometimes called a national office, plays a major role in resolving issues requiring extraordinary technical expertise. In assessing the effectiveness of an audit team, members consider the performance of the firm’s PPO. Before the meeting, one member explained how important confidence in the lead audit partner is when dealing with the PPO: *“We look for an audit partner with credibility to deal with the national office, where we are confident the national office and the lead partner are unlikely to disagree. From the auditor’s perspective, it can be difficult to protect objectivity if the client company demands to see the technical concurring partner [from the PPO], who is not meant to see the client.”*

Members recalled being frustrated when they received top-down rulings from the PPO without consultative engagement with local teams. One member expressed the need for more open communication among the national offices, audit teams, management and audit committees.

Audit chairs also require their auditors to be technically skilled

While most members agreed that the technical competencies of the major firms were of high quality, members said that they look for certain key indicators of a sound audit team, including components related to audit team knowledge, experience and the introduction of new technologies into the audit plan.

Demonstrating audit proficiency

First and foremost, the auditor must meet its obligation to perform a sound audit, thereby providing comfort to the audit committee that the auditor's opinion on the accuracy and fairness of the company's financial statements is well supported. Members seek assurance that the audit team has proficiency in technical accounting principles as well as in auditing standards. Some members also recommended that audit teams demonstrate specialized knowledge in particular areas that are critical to the audit, areas which vary by company and industry. *"In a complex world, you have to have specialists on the team,"* said one member.

In its framework for audit quality, the IAASB considers the audit team's knowledge, experiences, values and ethics, as well as timely reporting and appropriate interaction as key inputs for determining audit quality.⁹ One way that audit firms enhance their technical expertise is by committing to the training and continuing education of their audit professionals. In recent guidance, the FRC included training as a key element of the audit firm's quality control.¹⁰

Identifying business-related risks and establishing audit priorities

Members noted the importance of setting priorities for the audit, then allocating audit resources and building a team to execute against those priorities. Setting accurate priorities requires the auditor to have a detailed understanding of the company's problems and risks. Members also emphasized their expectation that external auditors showcase a deep understanding of the business. *"The external auditor must be knowledgeable about the business of the company. They need to be more than an accountant. They need to know the company in order to see what the risks are,"* one member said.

The external auditor can often provide insight beyond the tasks outlined in a traditional audit plan, and members emphasized the value of an auditor's expert perspective on the company's culture, business and sector. One member explained how the external auditor can aid audit chairs in monitoring activity across the company: *"There are things that you do not see after a period of time within a company. The auditor's outside perspective is very important, as is their ability to bring external experience."*

Implementing new technologies during the audit

EACLN members emphasized the need for the audit firm to stay ahead of the technological curve, creating efficiencies and solving problems by introducing automation and analytics to the audit process. While this competency is a focus for some audit committee chairs, others considered the technological competency of

⁹ International Auditing and Assurance Standards Board, *A Framework for Audit Quality: Key Elements That Create an Environment for Audit Quality*, page 4.

¹⁰ Financial Reporting Council, *Audit Quality: Practice Aid for Audit Committees* (London: Financial Reporting Council, 2015), page 7.

the Big Four as an established fact. One member said, *“We look for digital or innovative techniques in performing the audit. You can tell how on the ball an external auditor is based on how they show technology in their process.”* Some members found that a tender process often provided audit firms with the opportunity to showcase advances in audit technology, while others recommended ongoing conversations regarding the application of new tools to the audit.

Members experienced these advances firsthand in a technical education session at EY France’s Experience Lab, where they were introduced to new tools being used in the audit. Mr Jégourel explained that external auditors are increasingly *“data connected, analytically driven to better understand business processes and operating performance, using models to better assess business risk; and closely and constantly monitoring the progress of a global audit in real time.”*

What processes do audit committees use to test and track performance?

Audit committees can turn to a variety of resources for support when evaluating audit quality. With increased regulatory attention being paid to the audit committee’s oversight of the external auditor’s performance, new assessment tools and frameworks are becoming widely available. The International Federation of Accountants (IFAC), the International Auditing and Assurance Standards Board (IAASB), national regulatory bodies, and large accounting firms offer material for this purpose. Using these tools, many committees have developed their own rubrics over time; most feature a combination of quantitative and qualitative measures.

EACLN members described both formal and informal evaluation processes; some described checking the auditors only on certain key points, while others detailed more comprehensive approaches. Many members described using more than one technique in order to gain multiple data points that serve as markers of long-term trends in the quality of the external auditor’s services.

Formal evaluations

More formal auditor evaluations often involve an annual assessment using questionnaires, surveys or interviews that capture both quantitative and anecdotal feedback from various stakeholders.¹¹ Typically, relevant members of management, including finance staff, internal audit and risk management, provide reflections on their experience working with the audit team. Some audit firms provide templates for the questionnaires that members have used. In addition, questionnaires may ask whether the audit partner discussed the formal audit plan and whether it covered company- and industry-specific accounting and audit risks.¹²

Describing the process at one company, a member said, *“We’ve consciously avoided questionnaires. It was often beyond the scope of the person filling out the questionnaire to give a substantial answer. Instead, we interview 100 people – it’s more informal, relaxed. Substantial information comes back to us. We then have management review these results with the top three audit partners, creating a plan and addressing specific issues. If a problem is recognized in a specific geographic area, they go and check it out. I’ve even begun to offer to travel in order to gain insight about these situations.”*

¹¹ For a sample company questionnaire, see Appendix 3 on page 13.

¹² EY, *Example Annual Evaluation of the Independent Auditor* (New York: Ernst & Young LLP, 2014), page 1.

Audit chairs at UK-based companies noted that the FRC has provided substantial guidance to audit committees on topics to include in a questionnaire. In May 2015, the organization released guidelines for audit quality to aid audit committees in assessing the external audit engagement team's performance, focusing on three critical elements: "Most critically the auditor's mindset and culture, skills, character and knowledge, and their quality controls, are necessary to support them in making reliable and objective judgments at all stages of the audit. These judgments underpin their audit opinion and are critical to delivering high audit quality and enable them to win the trust of those to whom they report."¹³

Several members appreciated the data provided by formal evaluations, which allow the committee to track auditor performance over time. One member noted that auditor rotation can impede the audit committee's ability to observe trends in longitudinal data: *"Evaluation is made more difficult by audit rotation. Our surveys help to quantify performance, but it's meaningless unless you have multiple years of data."*

Annual inspection reports of audit firms by national regulators offer another benchmark by which audit chairs can evaluate the audit firm and its performance. By incorporating the report into a conversation with the audit partner, audit chairs can gain insight into issues and risks discovered in the audits of competitors and peers, as well as an understanding of the health of the auditor's business.

Informal evaluations

Informal evaluations provide audit committees with another means of assessing their auditors, often giving insight into the qualitative elements essential to successful audit partnerships. Many audit committees use informal measures, alone or in addition to questionnaires and other types of surveys. A member said, *"I'm desperately looking for ways to supplement the formal process."*

A number of members said that an ad hoc evaluation process carried out over the course of a year is more effective than a formal process that occurs on a schedule. One member assessed the auditor based on real-time communication regarding problems in the audit: *"Any issues arising in the formal report should have been raised throughout the year. Whether or not issues have been raised at the right time is a factor that I consider."*

In order to *"get beyond the questionnaire,"* another member recommended that audit chairs attend planning briefings of the global external audit team: *"The firm briefs the global auditors on the audit plan. I go because it's useful to have those regional leaders interact with me, and I am able to get a sense of how the audit is being run around the world."*

Giving feedback to the external auditor

Members said that when issues arise or when the committee observes exceptional service, it is important to deliver informal feedback in real time. Members described several ways they and their committees communicate their informal feedback to the external auditor:

- **Off-cycle meetings between the audit partner and audit chair.** Several members found that informal conversations over coffee or dinner were an appropriate way to discuss the partner and firm's performance. One member said that informal settings helped build rapport with the auditor. The member noted, *"You can be independent and maintain a great working relationship. I like to report assessments back to the auditor in a relaxed environment over a meal."* In many cases, these meetings

¹³ Financial Reporting Council, *Audit Quality: Practice Aid for Audit Committees*, (London: Financial Reporting Council, 2015), page 7.

also provide an opportunity to see and assess the auditor in action. For example, one member uses quarterly one-on-ones to assess independence and “*get the real story.*”

- **Executive sessions during committee meetings.** Other members use a session at an audit committee meeting – without management present – to discuss the auditor’s performance. This forum allowed one member to share feedback showing year-to-year trends, provide critique, and create a plan of action with the external auditor.

Conclusion

EACLN members agree that evaluating the work of the external auditor is a core responsibility of the audit committee, although there is no single set of metrics that universally indicates a high-quality audit. Additionally, there is no single method of assessing how external auditors perform against the metrics that the audit committee determine are key to the audit. Quantifying external auditor performance is helpful in assessing performance, but these metrics serve as only one tool for understanding the overall quality delivered by the auditor. For most members, the relationship with the audit partner and team built on honest communication is a crucial variable in audit quality, and one that audit committees must gauge on a more intuitive level. As regulators and other external stakeholders pay greater attention to the audit committee’s responsibilities, reporting on the oversight of the external auditor will be increasingly important and will remain a focal point for audit chairs.

About this document

The European Audit Committee Leadership Network is a group of audit committee chairs drawn from leading European companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management and their advisors as they endeavor to fulfil their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, management and advisors who become systematically engaged in this dialogue, the more value will be created for all.

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Appendix 1: List of participants

EACLN members participating in all or parts of the meeting sit on the boards of about 40 public companies:

- Mr Mike Ashley, Audit Committee Chair, Barclays
- Dr Werner Brandt, Audit Committee Chair, Lufthansa
- Mr Aldo Cardoso, Audit Committee Chair, ENGIE
- Mr Carlos Colomer, Audit Committee Chair, Abertis
- Ms Carolyn Dittmeier, Chair of Statutory Auditors, Generali
- Mr Ángel Durández, Audit Committee Chair, Mediaset España
- Dr Edgar Ernst, Audit Committee Chair, TUI AG
- Mr Byron Grote, Audit Committee Chair, Tesco, Akzo Nobel and Anglo American
- Ms Siân Herbert-Jones, Audit Committee Chair, Air Liquide
- Mr Lou Hughes, Audit Committee Chair, ABB
- Ms Shonaid Jemmett-Page, Audit Committee Chair, GKN
- Mr Helman le Pas de Sécheval, Audit Committee Chair, Bouygues
- Mr Nasser Munjee, Audit Committee Chair, Tata Motors
- Mr Pierre Rodocanachi, Audit Committee Member, Vivendi
- Ms Guylaine Saucier, Audit Committee Chair, Wendel
- Mr Jean-Michel Sévérino, Audit Committee Chair, Danone
- Mr François Thomazeau, Audit Committee Chair, Bolloré

The following ACLN members participated:

- Ms Pam Daley, Audit Committee Chair, BlackRock

EY was represented in all or part of the meeting by the following:

- Mr Jean-Yves Jégourel, EY EMEA Assurance Leader
- Mr Jean-Pierre Letartre, Regional Managing Partner

Appendix 2: Discussion questions for audit committees

The following questions were provided to EACLN members in advance of the meeting:

- ? How do you approach evaluating the auditor and audit quality? What tools and techniques do you use?
- ? How do you test the technical competency of your audit partner and team? How do you ensure they rely on the right specialists to examine complex parts of the business?
- ? How do you assess whether an audit plan focuses on the right risks? What indicators do you look for as signs that the auditor is looking in the right places?
- ? How do you assess the audit firm's approach to auditing your company's global operations?
- ? How do you evaluate auditor communication and the engagement level of the audit partner? What do you do if your auditor is not communicating effectively?
- ? What signs indicate that the auditor has achieved the proper balance between understanding the business and knowing the team on the one hand and maintaining independence and professional skepticism on the other?
- ? How has mandatory firm rotation changed the evaluation process?
- ? What examples of effective handling of partner rotation on the part of an audit firm have you seen? What are indicators that the process is not working as well as it could?
- ? What is the most effective role for the audit firm's national office? How do you measure the quality of its service?
- ? How do you provide feedback to the external auditor? What are the benefits of providing a more formal, written review?
- ? Has regulatory pressure caused your committee to consider enhancing the audit committee's evaluation of the external auditor?
- ? Do audit committees tell shareholders enough about their process for evaluating the external auditor? What hurdles prevent audit committees from disclosing more?

Appendix 3: Sample audit quality questionnaire

Company X's survey focuses on the performance and effectiveness of the external auditor. Participants from management, the board, and executive leadership are asked to evaluate the effectiveness of the service provided by the external auditor, using a rating scale of "poor," "average," "good" and "excellent" (or "not applicable").

Questions asked:

Review of the team

1. How well did the audit partner demonstrate and apply a significant degree of professional skepticism and challenge during the audit?
2. How well did the audit team demonstrate and apply a significant degree of professional skepticism and challenge during the audit?
3. How well did the audit partner demonstrate strong knowledge of our industry and business?
4. How well did the audit team demonstrate strong technical accounting and auditing knowledge?
5. How well did the auditors construct a team of specialists that demonstrated the appropriate skill and expertise?
6. How well did the auditors make use of experts in auditing technical items and specialist areas at the appropriate time and juncture of the audit?
7. How well did the engagement partner spend his/her time on the audit engagement?
8. Did you feel that there was good continuity of partners and audit team on the job?

Review of the procedures

9. How well did the auditors raise issues on a timely basis with the appropriate level of staff and communicate their findings?
10. How well was the audit work focused on the major risks and issues in the business?
11. How well did the audit work adequately deal with all issues raised, and to what extent did the resolution of these involve escalation?
12. How well did the auditors demonstrate adequate insight and knowledge of industry issues and best practices based on their knowledge of our peers and competitors?
13. How well did the auditors proactively provide good ideas and practical recommendations?
14. How well did the auditors provide effective solutions to address business issues and priorities?
15. How well did the auditors anticipate emerging issues?
16. How well did the auditors adequately understand the expectations for the audit?
17. How well did the audit deliver on all the commitments made in the audit plan?

18. How effective was the auditor firm's internal escalation/vetting of positions on material/key issues to avoid duplication of investigations?
19. How would you assess the audit firm's approach and ability to identify relevant errors/issues (including those not self-identified by the company)?
20. How well does the auditor agree with the company in advance on additional out-of-scope work?

Review of the audit partner's and senior team's interaction with audit committee

21. How well did the audit partner and team interact with the audit committee?
22. Were the issues raised by the audit partner and team of sufficient quality?
23. How well did the audit partner and team demonstrate independence and objectivity?
24. Were the papers and presentations made to the audit committee of sufficient quality?