EXTERNAL AUDITORS

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The directors of a company are responsible for ensuring that the company's financial statements are prepared in accordance with the applicable financial reporting framework and for overseeing the company's internal control framework. The board of directors may establish an audit committee, as a requirement of law and regulation or as adoption of best practice of good corporate governance. The audit committee is responsible for the appointment of the external auditor, approval of their remuneration and any non-audit service work commissioned. The audit committee is also tasked with challenging the auditor over the quality of their work and ensuring that the auditor's independence is not compromised. It reports on the work done, and the conclusions drawn, in the annual report.

There is certain information that an auditor should routinely provide to those charged with governance in accordance with auditing standards. In addition to these required communications, further detailed questioning will allow the audit committee to more deeply understand and challenge the information presented to them. The audit committee, through its interactions with the auditor and with the other directors and management, has a key role in facilitating a high-quality audit.

Audit timing

Many people have heard of the 5Ps of success Proper Planning Prevents Poor Performance, and this is especially relevant to an audit process. A well-planned audit reaps many benefits, including ensuring that audit efforts are directed at the most significant areas of the audit and improving the efficiency of the audit. A well-planned audit process will also give the directors sufficient time to consider the key areas at the right time in the process.

Directors should liaise with management and the audit firm to ensure that the audit has been properly planned. Questions to assist in this process include:

- What is the audit timetable? How realistic is it and is there flexibility built in to allow time to deal with any unexpected matters arising?
- Is there sufficient time allocated for review of the financial statements by all the parties who need to review the financial statements and other reporting documents?
- Were all deadlines met in the prior year? If not, why and how can the cause of these delays be managed this year?
- When will the work on significant risk areas and critical judgements be performed and reported on, for example at the interim or final stage, or as part of a continuous year-round audit? Will this give the audit committee and management enough time to follow up on any findings?
- What specialists will be involved in the audit and when will the output of their work be reported?

Resourcing the audit

Asking questions about how the audit is resourced provides a lot of valuable information to those charged with governance. It gives directors information to assess the quality of the audit, for example by understanding the extent of use of specialists on complex technical areas or overall partner hours to assess the quality of direction and supervision by the partner. Understanding the audit resourcing also allows directors to understand, and if necessary challenge, the time that is spent on the higher-risk areas and key judgements and how the planned time allocation compared to

the actual time spent at the end of the audit. Questions to assist in this understanding include:

- What staff will be allocated to the audit, what areas of work will they be allocated to, and how much time will they spend on each audit area?
- Will there be continuity of staff from the prior year? What knowledge do each of the team members bring?
- What specialists will be used, what areas will they work on, and how much time will they spend on the audit?
- How many hours will the engagement partner spend on the audit and how does this compare to similar audits?
- How can management or the board help with improving the efficiency of the audit?
- How reasonable are the auditor's anticipated hours in relation to the proposed fee based on the work to be performed?

Key judgements

Management makes many judgements and estimates in preparing financial statements, some of which will have a significant effect on the reported results and financial position. Information about the key judgements and estimates made is of value to investors (and stakeholders), as it helps them assess an entity's financial position and performance and understand the sensitivities to changes in assumptions.

- What are the key judgements and areas of estimation uncertainty within the financial statements?
- To what degree is each of the judgements considered conservative or aggressive? How has the auditor assessed this and what information have they used for this assessment?
- How do the judgements and estimates compare to those made by other companies in a similar sector?
- What is the sensitivity or range of possible outcomes, on how changes to estimates could affect the results?
- Could there be improvement to the disclosure in this area, including quantified information such as sensitivities or a range of possible outcomes, on how changes to estimates could affect the following year's results?

Audit scope

The auditor will communicate the significant decisions and judgements they made when setting the audit plan, and further questioning on the audit scope can facilitate a high-quality audit.

- What is the planned scope of the audit and how does it differ from the prior year?
- Will any other audit firms be involved in the audit (for example, auditing subsidiaries of a group). If so, what percentage of assets, revenues, and net income will they be responsible for and how will the audit firm oversee the quality of their work?
- How is materiality determined and why does the audit firm believe that this is an appropriate basis for determining materiality? How does the materiality selected impact the risk assessment and testing to be performed?
- How will the involvement of the internal auditors be coordinated with your audit?
- Do you anticipate any particular problems in this year's audit?

Meeting without management present

The audit committee would normally meet with the auditor without management present at least annually. These meetings allow the audit committee to ask questions on matters that might not have been specifically addressed in the formal part of the audit committee meeting and allow the auditor to provide candid, often confidential, comments to the audit committee.

- What were the key accounting, auditing, or reporting matters that were discussed between you and management?
- Were there any disagreements on these and if so, how were they resolved?
- Did management pressure you on contentious issues by seeking alternative views from other accountancy firms? Could your response on these matters be considered to be a condition of your retention?
- Were any integrity or honesty concerns noted?

Audit conclusions

When the auditor presents their final report towards the end of the audit, the audit committee has an opportunity to ask many probing questions to ensure that they fully understand the findings from the audit and how the audit addressed the significant areas:

- Did the scope of the audit differ from the audit plan?
- Are there any unresolved matters?
- Did you detect any material errors, fraud, illegal acts, or significant deficiencies or material weaknesses in the internal control system?
- Are there any adjustments or disclosure deficiencies that have not been corrected for?
- What factors were considered when assessing the entity's ability to continue as a going concern?
- Was management receptive to any recommendations you made? Were all findings reported by you last year remediated?
- Are there any proposed new accounting, auditing, tax, or reporting rules that will impact the company?

The questions above cover just some of the areas that would be discussed between the auditors and those charged with governance. Whatever particular topic is being discussed, effective communication, active engagement, and probing questioning by those charged with governance will go a long way in facilitating a smooth audit process and a high-quality audit.