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BDO USA CORPORATE GOVERNANCE PRACTICE

BDO USA's Corporate Governance Practice was developed to provide guidance to corporate boards. The firm works with a wide variety of clients, ranging from entrepreneurial businesses to multinational Fortune 500 corporations, on a myriad of accounting, tax, risk management and forensic investigation issues.

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EXTERNAL AUDITOR ASSESSMENT TOOLS

In June 2015, the Audit Committee Collaboration¹, facilitated by the Center for Audit Quality (CAQ), released both the “External Auditor Assessment Tool: A Reference for Audit Committees Worldwide” and an updated version of the U.S. “External Auditor Assessment Tool”. These tools are designed to assist audit committees in evaluating the external auditor to assess the quality of the audit, or to select or recommend the retention of the audit firm. The tools are scalable and permit the audit committee to gauge the quality of:

- ▶ Services and sufficiency of resources provided by the auditor;
- ▶ Communications and interactions with the auditor; and
- ▶ The auditor's independence, objectivity, and professional skepticism

Audit committees should conduct such evaluations regularly. Audit committees of public companies listed on the NYSE are specifically required to “at least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the listed company.” NYSE commentary goes on to indicate that “after reviewing the foregoing report and the independent auditor's work throughout the year, the audit committee will be in a position to evaluate the auditor's qualifications, performance and independence. This evaluation should include the review and

¹ The Center for Audit Quality (CAQ) has teamed up with the National Association of Corporate Directors, NYSE Governance Services, Tapestry Networks, the Independent Director's Council, and the Association of Audit Committee Members, Inc. to form the Audit Committee Collaboration. For more information, refer to: www.auditcommitteecollaboration.org.

evaluation of the lead engagement partner. In making its evaluation, the audit committee should take into account the opinions of management and the listed company's internal auditors (or other personnel responsible for the internal audit function). In addition to assuring the regular rotation of the lead audit partner as required by law, the audit committee should further consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself. The audit committee should present its conclusions with respect to the independent auditor to the full board."²

The evaluations are based on the audit committee's experience with the auditor³, which is further informed by input from management and others within the company, including internal audit and other key managers. Another source of information for audit committee consideration, in addition to regulator inspection reports, peer review findings, and audit firm's reports on quality control procedures outlined above, may include an audit firm's public transparency report, if available. Audit committees may also request input from the audit firm itself on its performance through reporting as to how an audit firm's management and operations support the performance of high quality audits.

As a good practice, it is suggested that audit committees finalize formal and informal assessments during group discussions (as opposed to collecting audit committee member comments separately). Additionally, audit committees are further encouraged to voluntarily share their processes for evaluating the auditors with stakeholders as part of improving their public disclosures with respect to the audit committee's oversight of the external auditor.⁴

The U.S. External Auditor Assessment Tool provides background regarding the content of the formal and informal evaluations followed by sample question sets for audit committees to note their observations. Additionally, it includes a survey that the audit committee may provide to others within the organization who may have had substantial contact with the auditor in order to elicit valuable views on the quality of service provided and about the independence, objectivity and professional skepticism demonstrated by the auditors. The U.S. tool further contains an appendix highlighting relevant U.S. requirements and standards.

The important role of the audit committee in overseeing the integrity of an organization's financial statement reporting process continues to evolve. We encourage you to explore the resources cited as you fulfill your duties on behalf of the boards and companies that you serve. For additional audit committee tools and resources, visit BDO's [Board Governance page](#).

² Refer to the NYSE Listed Company rules: [303A.07 \(b\)\(iii\)\(A\)](#).

³ In addition to the audit firm, the assessment tool can be used to evaluate the lead audit engagement partner, audit team, and engagement quality reviewer.

⁴ Refer to [BDO's Audit Committee Disclosure Resources Practice Aid](#) for more information.

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