

## ▶SAMPLE AUDIT COMMITTEE QUESTIONS TO ASK OF AUDITORS AND MANAGEMENT

To assist the audit committee in performing its duties, the following is a list of questions they may ask the auditors and management in the context of periodic discussions (i.e., audit planning meeting; quarterly review meetings; and pre- and post-earnings release meetings).<sup>1</sup> However, committees are cautioned against falling into a checklist mentality where the basic goal is completion of the checklist itself, rather than conducting their own company-specific investigation. Accordingly, these questions should be tailored to the circumstances of each company. You may find many of the following questions are appropriate to ask more broadly of both the auditors and management.<sup>2</sup>

### AUDIT PLANNING MEETING

#### Ask the External Auditor

- Did you discuss any major accounting or auditing issues with management prior to your retention, your responses to which were, or might be considered to be, a condition of your retention?
- (If there is a new auditor this year) What steps will be taken to ensure an orderly transition from the prior auditor?
- What is the planned scope of your audit, i.e., will all of the subsidiaries be examined, what percentage of inventories will be observed, what percentage of accounts receivable will be confirmed, how will you verify accounts payable? Will auditing procedures be rotated (i.e., financial statement areas, locations, etc.)?
- Are there any subsidiaries or activities that will not be audited that present business or financial risks but are not viewed as "material?"
- How can your planned audit scope be relied upon to detect material errors, fraud, illegal acts or material weaknesses in internal control?
- How will the involvement of the internal auditor be coordinated with your integrated audit?
- Does the Company use the services of other external auditors? What is the percentage of assets, revenues and net income for which they will be responsible? How will you determine the quality of their work? Will your report make reference to the other external auditors?
- Are there any concerns with how management controls key business processes? Have the key processes been appropriately identified?
- Are there any areas where the Company could be of greater assistance to reduce the amount of time spent by you?
- Will your risk assessment of the internal control policies and procedures enable you to reduce audit testing performed in conjunction with the integrated audit?
- What risk assessment techniques will you use?
- What criteria do you use to determine materiality?
- How will you utilize computer auditing techniques to review our computer processes?
- Will you use statistical sampling?
- How does the planned scope of your integrated audit differ from the prior year?
- How do you intend to staff the engagement? Will there be personnel continuity from the prior year? What is the expected level of participation by the engagement partner?
- How do you plan to detect the existence of related party transactions?
- Are there any proposed accounting, auditing or reporting rules that could materially affect the Company's financial statements?
- Has the Company adopted any significant eBusiness strategies and if so how will you audit them?
- How do you ensure independence? Are there any matters that might reasonably be thought to bear on your independence?
- Are there any unresolved questions from the prior year's audit?
- Do you anticipate any special problems in this year's audit?
- (If applicable) Are there transition plans in place for the required rotation of the engagement partner (and/or the engagement quality review partner)?
- Did the PCAOB inspect our Company's audit? If so, were there any deficiencies noted?

<sup>1</sup> Audit committee may wish to refer to the BDO Financial Reporting Letter on *Shareholder Questions* available at: <http://www.bdo.com/publications/assurance/finrptnl/FRL-SQs-5-07.pdf> for additional questions to ask regarding specific accounting, financial reporting and governance matters.

<sup>2</sup> For additional questions for audit committees to consider with respect to IFRS, refer to *IFRS Implications for Audit Committees* available on the BDO IFRS Resource Center at: <http://www.bdo.com/ifrs/practice.aspx>

► **SAMPLE AUDIT COMMITTEE QUESTIONS TO ASK OF AUDITORS AND MANAGEMENT** continued

## AUDIT PLANNING MEETING

### Ask the Internal Auditor

- Has management been responsive to your and the external auditor's previous findings and recommendations? What previous year internal control recommendations from either the external auditor or as a result of your procedures have not been adopted?
- Were there any areas of concern that were not reviewed due to budget or other limitations?
- Have your audits identified areas of concern to the overall corporate environment? Have any specific locations or areas been identified?
- Does management give appropriate consideration to your views?
- What is your relationship with the external auditors?
- How would you assess the information systems control environment, including key business information systems? How is security over these systems maintained?
- What work will you be doing to assist the external auditors? Could this work be expanded for greater audit efficiency?
- How do you monitor the Company's policies and procedures to prevent improprieties?
- What were the scope and results of internal audits this past year?
- How are risks identified?
- What procedures are in place to prevent/address the risk of management override of controls?
- How is the internal audit staff remaining current with respect to changes in accounting and financial reporting requirements? Are there appropriate training mechanisms in place?
- (For multi-locations) Do you and the external auditors plan to visit all of the Company's locations this year? If not, what are your criteria for site visits?

### Ask Accounting Management

- Were there any major changes in operations this year?
- Are there any areas that require special attention due to high business or financial risks?
- What are the Company's policies and procedures to deter conflicts of interest and illegal acts, and how are they monitored?
- How does the Company minimize the risk of fraudulent financial reporting?<sup>3</sup>
- What are the Company's revenue recognition policies? Are there instances where we may be pushing the limit? Does the Company have bill and hold or consignment arrangements?
- Does the Company have any policies or practices to identify if any side agreements exist? Does the Company discourage the issuance of side agreements?
- Are there any major write-downs or other significant transactions that will affect the financial statements?
- Were there any significant changes in accounting estimates or models used in making accounting estimates? If yes, what changes were made and what are the financial statement effects?
- Is the Company contemplating any changes in accounting methods?
- Should the audit committee be aware of any problems or legal difficulties?
- Does management have the appropriate resources to assess the effectiveness of internal control over financial reporting?
- Are there policies and procedures in place for disclosing internal accounting control deficiencies and frauds or illegal acts identified to the auditors and the audit committee?
- How is management remaining current with respect to changes in accounting and financial reporting requirements? Are there appropriate training mechanisms in place?
- How do you define materiality? How is this different from the auditors' determination of materiality?
- Were there any significant systems implemented or modified that could impact processing of transactions?
- What is the company's current exposure to IFRS (i.e., statutory requirements, foreign subsidiaries, acquisition targets, significant competitors that currently report on IFRS)?
- What is the company's current level of IFRS knowledge? Does the company have adequate resources currently to begin to formulate a transition plan?
- Is management monitoring the status of IFRS standard-setting?
- Has management and the audit committee begun assessing risks to the company associated with application of IFRS throughout the organization?

<sup>3</sup> For further audit committee guidance with respect to financial reporting fraud, refer to separate BDO practice aid entitled, "Strengthening Corporate Governance – Effective Fraud Programs."

► **SAMPLE AUDIT COMMITTEE QUESTIONS TO ASK OF AUDITORS AND MANAGEMENT** continued

## QUARTERLY REVIEW MEETINGS

### Ask the External Auditor

- What are your procedures for ensuring audit committee pre-approval of audit and non-audit services?<sup>4</sup>
- What non-audit services do you expect to provide the Company and what are the approximate fees? How may performance of these services affect your independence?<sup>5</sup>
- What was the scope of the review?
- Are the accounting principles or financial reporting practices used by the Company only marginally acceptable? If so, what alternative principles or financial reporting would you recommend?
- Are there any accounting principles or financial reporting practices used by the Company acceptable only because their impact is not considered material to the financial statements? Might they cause a material impact in the future?
- Were there any changes made in significant accounting policies or their applications? If so, why were they made and what was the financial statement impact? Were there other alternatives that could have been selected?
- Are there any concerns about the Company's timely recognition of potential financial reporting issues or recognition of revenue?
- Was there any fraudulent financial reporting noted?
- Were there any disagreements with management and, if so, how were they resolved?
- Were there any consultations with other accountants?
- Were there any difficulties encountered in performing the review, including timing?
- Were any adjustments or disclosures proposed by you and not recorded by the Company?
- Are there any unresolved matters?
- Were there any unusual items that affected earnings? Are they properly accounted for and disclosed?
- Based upon your review procedures, are there any changes that should be made to the scope of the annual audit?

### Ask the Internal Auditor

- Are you aware of any significant changes in internal control that might need to be reported in the 10-Q?
- Are you aware of any changes in processes for formulating any accounting estimates not discussed by the external auditors?
- Are you aware of any changes in accounting policies or their applications not reported on by the external auditors?

### Ask Accounting Management

- What is the proposed audit fee for the current year and how does it compare to the prior year?<sup>6</sup>
- Were there any major changes in operations?
- What significant variances from the prior period and/or budgeted results occurred during the quarter, and what were the reasons?
- Were there any disagreements with the external auditors? If so, how were they resolved?

<sup>4</sup> In practice, this discussion would typically be held early in the year prior to services being performed (e.g., first quarter).

<sup>5</sup> See above footnote.

<sup>6</sup> In practice, this discussion would typically be held earlier in the year in conjunction with approval of audit and non-audit services.

► **SAMPLE AUDIT COMMITTEE QUESTIONS TO ASK OF AUDITORS AND MANAGEMENT** continued

## PRE-EARNINGS RELEASE MEETING

### Ask the External Auditor

- Did the scope of the audit differ from the audit plan?
- Were you provided with all the information you requested? Do you have any reason to believe that information was withheld from you or that management representations were incorrect?
- Did the Company or its counsel impose any limitations on you?
- Did you observe any areas of serious concern over the corporate control environment? Were any integrity or honesty concerns noted?
- Did you detect any material errors, fraud, illegal acts or significant deficiencies or material weaknesses in the internal control system?
- Were there any significant changes in financial statement amounts from the prior year? What were the causes of the changes?
- Did you have enough time to complete all phases of your audit? When do you expect to complete your audit?
- Will your opinion be unmodified? If not, why?
- (For multi-location engagements) How did you ensure that work performed by your audit firm in other locations has been pre-approved and does not impair independence?
- Did management consult with you on tax matters? Is the liability for taxes adequate to cover potential assessments?
- Did you provide any tax services to the Company or its executive officers of the type that would impair your independence under the PCAOB's rules on ethics and tax services?
- Were there any disagreements regarding accounting, auditing or reporting matters between you and management? If so, how were they resolved?
- Did management pressure you on contentious issues by threatening to "shop" for other auditors?
- Were any adjustments or disclosures proposed by you not recorded by the Company?
- Are there any unresolved matters?
- Are the accounting principles used by the Company overly conservative or aggressive? What would be the effect of using alternative principles? Do the accounting principles conform to industry practice?
- Were there any changes in accounting principles?
- How did you satisfy yourself as to the reasonableness of any significant accruals or estimates made by management (e.g., doubtful accounts, valuation allowances, environmental contingencies, etc.)?
- Were there any unusual items that affected earnings? Are they properly accounted for and will they be adequately disclosed?
- Did you review information furnished to other experts (e.g., actuaries)?
- Did you provide the Company with advice and assistance in reviewing the financial statements of merger candidates prior to their acquisition during the year? Are material risks and uncertainties properly accounted for and will they be adequately disclosed?
- Are you satisfied that there is no substantial doubt about the Company's ability to continue as a "going concern"?
- When do you expect to issue your report?
- Are there any significant concerns about information systems and their ability to process, record and report financial transactions?
- Did the Company enter into any contingent fee arrangements with you?

### Ask the Internal Auditor

- What was the extent of your work on the audit and were there any changes to the scope of work performed?
- Was there adequate coordination with the external auditors?
- Did management impose any limitations on you?
- Were any significant problems encountered?
- Are you aware of any actual or possible illegal or questionable payments?
- Are you aware of any conflicts of interest between officers or employees and the Company?
- Are you aware of any significant deficiencies or material weaknesses in internal control not identified by management or the external auditors?

► **SAMPLE AUDIT COMMITTEE QUESTIONS TO ASK OF AUDITORS AND MANAGEMENT** continued

## PRE-EARNINGS RELEASE MEETING

### Ask Accounting Management

- What was your reaction to the audit findings?
- Were there any disagreements between you and the external auditor? If so, how were they resolved?
- Are the financial statements fairly presented?
- What are the reasons for financial statement variations from the prior year?
- What was the substance of significant issues raised by either corporate or outside counsel, and how are these matters reflected in the financial statements?
- Did you consider any changes in accounting principles that were not ultimately adopted?
- Did you seek the opinions of other auditing firms on any accounting or auditing issues?
- Were there any significant fourth quarter adjustments and, if so, why weren't they made in earlier quarters?
- Were any problems or difficulties identified as a result of the audit that we should know about?
- What is your opinion of the auditing services performed by the external auditor?
- Were any significant deficiencies or material weaknesses identified and communicated to us pervasive across the Company or were they limited to a specific location or account? Have these been remediated?
- Were there any other deficiencies identified by you that were not reported to the audit committee (whether or not they have been remediated)?
- Were there any errors or adjustments noted by you that were not recorded?

## POST-EARNINGS RELEASE MEETING

### Ask the External Auditor

- Were there any related party transactions noted as a result of your audit? Are the transactions properly recognized and disclosed in the financial statements?
- How did you satisfy yourself that pending or threatened lawsuits are not likely to have a material effect on the financial statements? Has management provided adequate disclosures within the financial statements?
- In your review of other documents prepared by management (e.g., MD&A, CD&A, management's report on internal control over financial reporting, proxy statement, etc.), did you identify any inconsistencies or material misstatements of fact?
- What is management's attitude toward establishing strong internal controls? Do they set an effective example for the entire Company? Do they follow-up on suggested changes? Were weaknesses reported by you last year remediated? Was management receptive to your recommendations?
- Are there any material weaknesses in the Company's internal controls that have not been remediated, including computer security controls? Are appropriate changes being instituted?
- Did you encounter any difficulties in obtaining the management representation letter or any specific representations?
- What business advice do you have for the Company?
- How do you evaluate the Company's tax planning?
- What is your general assessment of the integrity and competence of the Company's financial, accounting, computer and internal audit staffs? Are they respected groups within the Company? Are they effective? What improvements would you recommend?
- How do actual engagement fees incurred for the year compare to the estimated fees?
- What percentage are the audit fees for this engagement in relation to your firm's total fees? Is that material?
- What can the Company do to reduce the audit time?
- What are the advantages to the Company in continuing its relationship with your firm?
- Are there any other items that should be discussed with the audit committee?

**▶SAMPLE AUDIT COMMITTEE QUESTIONS TO ASK OF AUDITORS AND MANAGEMENT** continued**POST-EARNINGS RELEASE MEETING****Ask the Internal Auditor**

- Are you aware of any related party transactions not disclosed in the financial statements?
- Are you aware of any management perquisites not included in officers' reported compensation?
- What are the department's goals and objectives for this year?
- What will be the scope of your activities this year?
- How will you monitor the Company's code of conduct?
- Do you feel your staffing is adequate?
- What additional work could you do to reduce the work of the external auditor?
- What is your evaluation of the external auditor's services for the past year?
- Are the Company's systems functioning with maximum efficiency at minimum cost?
- What is your assessment of the capabilities of management?
- Are there any other items that should be discussed with the audit committee?

**Ask Accounting Management**

- What is your reaction to the suggestions contained in the external auditor's management letter?
- What actions do you contemplate in response to these suggestions?
- What is your evaluation of the external auditor's services this past year?
- What significant changes do you foresee for the Company this year?
- Are there any other items that should be discussed with the audit committee?