

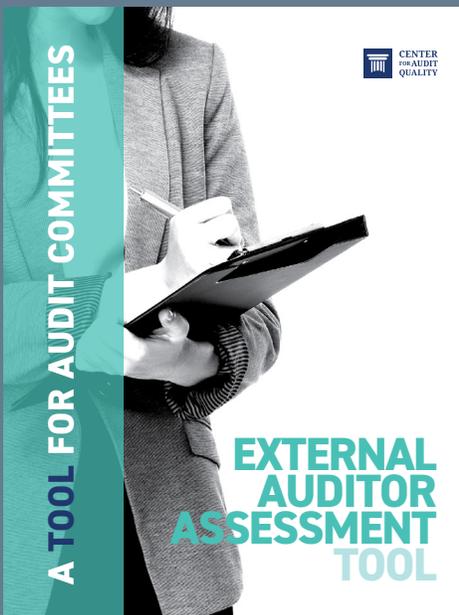


AN OFFERING FROM THE BDO CENTER FOR CORPORATE GOVERNANCE AND FINANCIAL REPORTING

# FLASH REPORT CORPORATE GOVERNANCE

JULY 2019 / [www.bdo.com](http://www.bdo.com)

## CAQ Issues External Auditor Assessment Tool: A Reference for U.S. Audit Committees



More and more stakeholders continue to express interest in further understanding the oversight responsibilities of the audit committee and the role of the auditor in the financial reporting process. A critical responsibility of the audit committee is the oversight of the integrity of the financial reporting process, which includes the appointment, compensation and oversight of the external auditor. In this spirit, the CAQ has updated and re-released its *External Auditor Assessment Tool: A Reference for US Audit Committees*. The tool includes sample questions for consideration in four specific areas related to auditor oversight, together with a sample form and rating scale to collect information and inform the evaluation of the external auditor.

## Components of the Assessment of the Auditor



Quality of Services and Sufficiency of Resources Provided by the Engagement Team



Quality of Services and Sufficiency of Resources Provided by the Audit Firm



Communication and Interaction with the External Auditor



Auditor Independence, Objectivity, and Professional Skepticism

## SUMMARY

The audit committee and the independent auditor share in the goal of ensuring the highest quality financial reporting and associated high audit quality. Achievement of this goal infuses trust, and therefore investment, into our capital markets. Robust, two-way dialogue and engagement between the auditor and the audit committee improve audit quality and enhance the relationship between these stakeholders - creating a check and balance between the parties. An important component of this process is the audit committee's oversight of the independent auditor which should include regular assessment of the auditor and the performance of the engagement team. This assessment may be done continually, but at least should be done on an annual basis. The CAQ tool provides structure to the assessment process, forms to facilitate the process and sample questions to generate dynamic conversations throughout the process.

### BDO INSIGHT

*"Auditors strive to deploy appropriately skilled, experienced professionals who leverage the right tools and resources and provide timely, deep insight to the Audit Committee about the companies' business and related financial reporting. The CAQ's resource is an excellent source to aid Audit Committees in determining whether they have the right partners, team and firm delivering the highest quality audit engagement."*

#### AMY ROJIK

National Assurance Partner,  
Governance and Communications

## CAQ EXTERNAL AUDITOR ASSESSMENT TOOL

### Updates

Building upon its most recent release in 2017, the CAQ *External Auditor Assessment Tool* has been revised to include further consideration of:

- ▶ Firm level audit quality indicators
- ▶ Changes in accounting standards
- ▶ New and emerging risks

### Assessment Process

The external auditor assessment process should contemplate the current engagement with the external auditor including deliverables, meetings – both formal and informal, and relationships and interactions between various stakeholders (e.g. management, board, internal audit). The process should focus on the risks the company is facing and how those risks were viewed and addressed by the auditor. Assessment data may be collected formally or informally, individually or in a group setting and should be analyzed objectively considering facts and circumstances surrounding the engagement. The audit committee should consider if, when, and how they will communicate this process to other stakeholders including shareholders.

### Questions and insights focus around four specific areas related to auditor oversight:



#### Part 1 - Quality of Services and Sufficiency of Resources Provided by the External Auditor-The Engagement Team

Audit quality is highly dependent on those individuals performing the audit. Therefore, the audit committee should assess those individuals to ensure they were knowledgeable, they communicated appropriately, and they understood the company's business, industry and associated risks. To assist in evaluating these elements, the CAQ provides questions in the following categories:

- ▶ Engagement Team Skill and Responsiveness
- ▶ Engagement Team Hours and Workload
- ▶ Audit Plan and Risks
- ▶ Audit Participants
- ▶ Engagement Team Succession
- ▶ Complex Accounting and Auditing Matters, Including Consultants
- ▶ Scope and Cost Considerations



## Part 2 - Quality of Services and Sufficiency of Resources Provided by the External Auditor – The Audit Firm

The audit firm infrastructure plays an important role in audit quality. The audit committee should consider the audit firm's overall approach to promoting and monitoring audit quality through its system of quality control. This includes considerations as to whether the audit firm has appropriate subject matter and industry expertise and experience as well as sufficient resources (e.g. geographical reach) to conduct high quality audits. Complementary to this publication is the recently released [Audit Quality Disclosure Framework](#), which provides a common framework for audit firms to utilize in disclosing their approach to audit quality. The framework details elements that are important to audit quality. If applicable, the committee should further review the audit firm's voluntary audit quality report while contemplating these elements. To assist in evaluating these elements, the CAQ provides questions in the following categories:

- ▶ Audit Quality Report
- ▶ Leadership, Culture, and Firm Governance
- ▶ Engagement Team Management
- ▶ Audit Engagement Performance
- ▶ Monitoring



## Part 3 - Communication and Interaction with the External Auditor

There are a number of regulations around audit committee communications. It is important to remember that these requirements are driven by the value added by frequent, two-way, robust communications. These communications should address both issues and concerns, while serving as a status update on the services provided so that the audit committee is continually apprised of progress and given the opportunity to ask questions and provide feedback. To assist in evaluating these elements, the CAQ provides questions in the following categories:

- ▶ Openness of Communications
- ▶ Nature of Communications
- ▶ Communication of Concerns



## Part 4 - Auditor Independence, Objectivity, and Professional Skepticism

The independent auditor should not only be well versed in the independence rules, but freely communicate the requirements and the auditor's compliance including any items that may question the firm's independence. The auditor should also display integrity, objectivity and professional skepticism. These characteristics are often observed in the auditor's evaluation of highly subjective areas where they will evaluate and challenge methods and assumptions used. The audit committee may further evaluate the auditor based on the frankness and informative nature of responses to their inquiries. To assist in evaluating these elements, the CAQ provides questions in the following categories:

- ▶ Independence Compliance
- ▶ Disagreements with Management
- ▶ Promotion of Professional Skepticism
- ▶ Internal Audit Reliance
- ▶ Non-audit Services

The tool concludes by providing a sample form and references to relevant US requirements and standards.

## RESOURCES

Audit Committees are encouraged to utilize the following practice aids to assist in executing their require duties:

### Recommended Resources

[Audit Committee Requirements Practice Aid](#)

[Audit Committee Self-Assessment](#)

[Audit Committee Illustrated Charter](#)

[Audit Committee Disclosure Resources](#)

## NEXT STEPS

We encourage audit committees, management, and our audit professionals to remain abreast of guidance and resources being issued relative to corporate governance and dialogue regularly about such matters throughout the audit process. Please stay tuned for additional thought leadership and educational opportunities from [BDO's Center for Corporate Governance and Financial Reporting](#).

## CONTACT

### AMY ROJIK

National Assurance Partner  
617-239-7005 / [arojik@bdo.com](mailto:arojik@bdo.com)

### LEE SENTNOR

National Assurance Senior Manager  
617-239-4142 / [lsentnor@bdo.com](mailto:lsentnor@bdo.com)

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 650 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 80,000 people working out of 1,600 offices across 162 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: [www.bdo.com](http://www.bdo.com).

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.