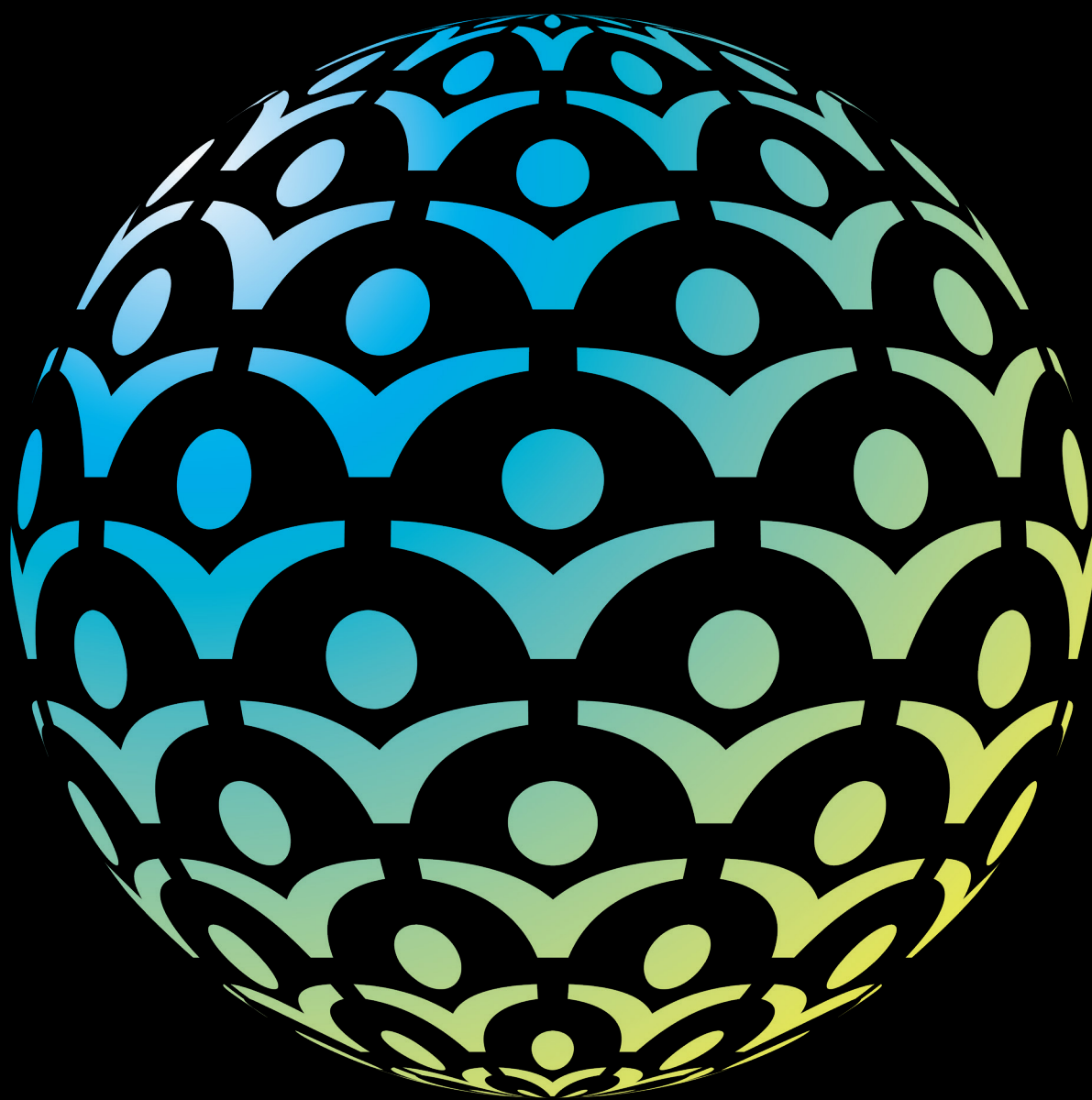




Governance in focus

A framework for assessing the effectiveness
of the external audit process

2022 Edition

Contents

How to use this framework	03
Thirty questions for the audit committee	04
Ten questions for component management	08
Contacts	09
The Deloitte Academy	10

How to use this framework



Dear Audit Committee member,

The whole corporate governance ecosystem is currently engaging in the once-in-a-generation opportunity to revisit the purpose and shape of audit and corporate reporting presented by the Government's White Paper, [Restoring trust in audit and corporate governance](#). Whilst the implementation of some of the changes will take time, the world of corporate reporting and assurance over that reporting is moving fast. This framework has been updated for elements of the White Paper and for the Financial Reporting Council's "What makes a good audit?" published in November 2021. Of course, we expect further updates to be required as new legislation, regulation and expectations develop.

The importance of the audit committee's focus on audit appointment, audit quality and the effectiveness of the external audit process continues to increase. Indeed, it is more important than ever that the audit committee should be able to make their assessment of audit quality with confidence, as it is a key part of the audit committee's role to scrutinise the quality of the external audit on behalf of shareholders. Considerations around the audit committee's role in audit quality, including the critical underpinning of high-quality management information and commitment to robust corporate reporting, are reflected in our updated framework on the effectiveness of the audit committee, the 2021 version of which is available on our [governance library](#).

We present a concise set of just thirty questions for audit committees and ten questions for material component management to consider, which we believe will continue to be relevant and current even after the various reviews are concluded. For ease of review, we have separated these into your views on your audit partner, the organisation of the audit, the planning, execution and reporting of the audit process, and finally the vital role of management. An audit committee with an effective external audit process should have the confidence to answer "yes" to each of these questions.

We hope you find this updated framework helpful. As always, please get in touch with me, our Centre for Corporate Governance or your Deloitte partner with any questions.

Best regards,

A handwritten signature in black ink that reads "Paul".

Paul Stephenson

Managing Partner, Audit and Assurance

The effectiveness of the external audit process

Thirty questions where audit committees should feel confident to answer “yes”

NOTE: This framework has been updated to reflect relevant proposals from the BEIS White Paper Restoring trust in audit and corporate governance and will be updated again once this consultation concludes.

Audit area	Key question	Audit committee views			
		Yes	Somewhat	No	Comment
The audit partner	The audit partner demonstrates high professional and ethical principles, including integrity, independence, and objectivity. The partner shows strong auditing skills, depth of technical knowledge, is clearly committed to audit quality and demonstrates a healthy professional scepticism, acknowledging the public interest role of the auditor.				
The audit partner	During the course of the audit, the audit partner ensures they and their team bring wider perspectives to the audit through their other professional auditing experience.				
The audit partner	The audit partner demonstrate knowledge and understanding tailored to the sector in which we operate, our specific company and the strategic challenges we face, as well as our purpose, business model, values and culture.				
The audit partner	The audit partner continues to engage with the audit committee between meetings to the extent the audit committee requires, in the form of briefings on significant and emerging issues, for example industry developments, technical accounting, regulatory or corporate governance updates.				
The audit partner	The audit committee welcomes the candour of the audit partner’s observations relating to governance, internal controls, financial reporting and annual report disclosures in private sessions and their outside perspective on developments in the business and industry sector.				
Organisation of the audit	The audit committee is satisfied with the timeliness of the auditor’s planning process and communications to the audit committee. It is apparent both during the planning and the execution phases that the audit has been designed to allow enough time for appropriate involvement of specialists and other senior resource and to allow for a level of unforeseen complexities and adaptations.				

Audit area	Key question	Audit committee views			
		Yes	Somewhat	No	Comment
Organisation of the audit	The audit committee understands the composition of the audit team both at head office and at each material entity and considers it to be appropriate, including the level of senior and specialist involvement, particularly in complex risk areas. The audit team appears to have ready access to the resources of the firm and additional specialists, experts and senior resource are available during the course of the audit as necessary. Our perception is that there is prompt and clear communication at all levels of the team.				
Planning	The overall audit coverage and audit approach have been communicated and explained to us satisfactorily and the scope of the audit work, including the use of technology and the extent of reliance on controls at each material entity, and in centralised or head office functions has been individually evaluated and communicated to us. The auditor performed a careful risk assessment, in which they evaluated a range of risks to determine whether they impact the audit plan. We consider that the risks were tailored appropriately to our sector and the complexity of our business model and took into account external sources of data and the possibility of management bias.				
Planning	There is good evidence that the auditor has planned for and undertaken clear and high quality communications with component auditors, to build a shared understanding, particularly those in other countries and including those from other audit networks. The auditor has appropriately directed and supervised the component auditor's risk assessment with timely interactions and robust challenge, and the planning of audit procedures to respond to the identified significant risks and other key areas of judgement in relation to the group audit.				
Planning	The level of quantitative materiality adopted for the audit (including component/subsidiary and error reporting thresholds) and qualitative materiality considerations, together with the judgements involved, have been explained to us and our questions have been answered satisfactorily.				

Audit area	Key question	Audit committee views			
		Yes	Somewhat	No	Comment
Planning	The auditor communicates their assessment of the systems infrastructure and software applications relevant to the audit process at all material locations and the scope of work, including any use of specialists. The auditor's decision on whether to place reliance on IT controls or controls over financial reporting has been clearly communicated to us, together with the auditor's rationale, including any identified deficiencies.				
Planning	The auditor has obtained and discussed with us our fraud risk assessment (where available) and has discussed with the audit committee our evaluation of the vulnerability of the entity to fraud and our knowledge of actual, suspected or alleged fraud. They have explained their careful approach to evaluating management's processes to prevent and detect fraud, including any use of specialists, and our questions have been answered satisfactorily.				
Planning	The auditor has explained their approach to how they will identify and respond to climate-change related financial statement risks and has explained their planned scope of work, including any use of specialists. The auditor has also explained their approach to considering related disclosures in the front half of the annual report.				
Planning	The auditor has communicated their approach to optimising the audit process by using innovative audit techniques, such as data analytics, as part of the audit methodology, such that the audit committee can understand the benefits.				
Planning	The audit committee has engaged with, understood and challenged where necessary the key planning decisions regarding coverage, scoping, materiality, audit approach and significant risks/key audit matters. We are satisfied that the auditor has properly evaluated the developments in our business during the year, understanding our key metrics and how performance is managed and rewarded, and that audit quality has been the key planning criterion. We have asked the auditor what additional work would be suggested if additional fees were made available.				

Audit area	Key question	Audit committee views			
		Yes	Somewhat	No	Comment
Execution	The auditor identified the key accounting judgements and significant estimates, and challenged and addressed these prior to the year-end where possible, including assessment of management's controls over these judgements and estimates. Key judgements and estimates received appropriate resource from management and the auditors, including any necessary specialist involvement, and the auditors challenged robustly, demonstrating appropriate professional scepticism. The auditor has communicated how they have evaluated the quality of management's estimates and any bias in the choice of method, data and assumptions both for individual significant estimates and on a "stand back" basis.				
Execution	The auditor demonstrated appropriate professional scepticism and challenge of management throughout the audit, ensuring questions they posed were answered fully and to their satisfaction. Both corroborative and contradictory audit evidence was taken into account and communicated to us when it affected the conclusions on key audit risks.				
Execution	Based on discussion with the auditor and on feedback received from group and component executive management, the audit committee is satisfied that there has been close contact, supervision and oversight of component audit teams with clear communication between the auditor and component teams regarding any issues arising at component level.				
Execution	The audit committee has itself assessed and challenged the key financial reporting judgements on its own account, commissioning additional work to be done either by management or by outside specialists where it was considered necessary. We received timely and good quality papers from management and the external auditors considered both these papers and any contradictory evidence that came to their or our attention, including being alert to the possibility of linked transactions.				

Audit area	Key question	Audit committee views			
		Yes	Somewhat	No	Comment
Reporting <i>In the annual report</i>	The auditor has been able to provide observations on improvements that could be made in our reporting, both in the financial statement disclosures but also through their reading of our front half reporting and considering the links between the two. The auditor has been able to articulate clearly why changes were required or why additions have been recommended to front half disclosures, covering topics such as purpose, culture, the business model, alternative performance measures, climate-related disclosures, or stakeholder and workforce engagement. The auditor has encouraged early disclosure where appropriate on areas mandatory for future periods.				
Reporting <i>To the audit committee</i>	Reports to the audit committee by the auditor clearly articulate the key audit risks and significant accounting judgements made by management. Any changes from the proposed approach set out in the audit plan have been communicated along with their rationale. The auditor communicates the quality of the evidence base, including the consideration of wider financial or other information, and the auditor's challenge of those judgements, including where management's view of the preferred treatment differs from their own, along with challenges encountered during the course of the audit. The auditor explains the alternative accounting treatments considered and the rationale for the conclusions, having regard to the interests of stakeholders. The auditor clearly articulates the work that has been performed on fraud, on going concern, and on internal controls. The audit committee feels confident in the quality of the auditor's documentation as the reports received are themselves high quality.				
Reporting <i>To the audit committee</i>	The auditor has been able to satisfactorily answer our queries regarding the firm's audit practice as a whole, including areas such as its quality risk assessment process, governance and leadership, performance monitoring and remediation, quality monitoring, resourcing and reward, technology, methodology and training. The auditor has been proactive in discussing with us any areas of change in the audit practice as a whole which may impact our audit.				
Reporting <i>To the audit committee</i>	It is clear from the communications (both written and oral) received from the auditors that the principles of the FRC's Ethical Standard regarding independence and objectivity have been achieved and are demonstrably serving the interests of shareholders.				

Audit area	Key question	Audit committee views			
		Yes	Somewhat	No	Comment
Reporting <i>By the auditor to shareholders</i>	The audit report published for the benefit of shareholders clearly articulates those matters identified as key audit matters, the scope of the auditor's work related to those matters and the conclusions reached, including where the key audit matters relate to internal controls or to the risk of fraud such as management override. The audit committee is satisfied that the messages in the audit report are consistent with those communicated directly to the committee and are informative.				
Reporting <i>By the audit committee</i>	The audit committee section in the annual report clearly articulates the role of the audit committee and the work performed by the committee during the year in respect of external audit and audit quality. Through its disclosure, the audit committee has demonstrated how it assessed the quality of the audit, including how the auditor demonstrated professional scepticism and challenged management's assumptions where appropriate, and how the audit committee itself has challenged management's assumptions, together with the results of its challenge.				
The role of management	The management team involved in the audit process is well organised, prepares good quality papers and is committed to the value of independent audit and the development of respected professional relationships with the auditors. The audit timetable set by management allows sufficient time for robust quality control and takes into account the auditor's input about the time needed to conduct a quality audit.				
The role of management	Management sufficiently evaluates and documents the effects of climate change and other sustainability matters in relation to financial statements, including the consistency of those statements with climate-related commitments made by management both within the company and externally. The climate- and sustainability-related information which is used to evaluate those effects is subject to appropriate oversight and quality controls.				
The role of management	Management is proactive in seeking early input from the auditor, for instance on the application of new accounting standards or accounting for complex, unusual or sensitive transactions. The auditor is afforded sufficient time to consult with specialists and experts and conclude on these areas, raising relevant issues for the audit committee to pursue further with management where appropriate.				
The role of management	Management takes seriously the control observations and deficiencies raised by the external auditor, together with any challenges regarding the control environment or individual controls raised by internal audit or by the audit committee, and remediates deficiencies or weaknesses in a timely fashion.				
The role of management	Encouraged by the audit committee, management considers all proposed audit adjustments and prefers to book all but trivial audit adjustments.				

The effectiveness of the external audit process

10 questions that can be used by material component management when providing input to the audit committee regarding the effectiveness of component audit teams

Key question	Audit committee views		
	Yes	No	Comment
There is good evidence that the auditor has both planned and undertaken clear and high quality two-way communications with component auditors, including appropriate involvement in the component auditor's risk assessment and evaluation of the appropriateness of the audit procedures planned to respond to the significant audit risks identified.			
The component audit team has sufficient resources, experience, technical and industry knowledge and is appropriately directed and supervised by partners and managers. There is evidence that the component audit partner and suitable specialists are actively involved in planning meetings, risk assessment, key audit judgements and conclusions.			
The approach and mindset of members of the audit team demonstrates integrity, audit quality and appropriate professional scepticism and challenge of management throughout the audit, ensuring questions they posed were answered fully and to their satisfaction. Both corroborative and contradictory audit evidence is taken into account. Members of the audit team are not afraid to raise suitable, robust challenge with management on areas of judgement.			
Continuity of the audit team is generally good and, where required, clear succession planning for the senior members of the audit team has been undertaken and communicated.			
Where complex matters such as going concern, impairment and pensions are identified as audit risks, suitable specialists have been mobilised and the level of their involvement is visible and has been explained to us. The specialist resource forms an integral part of the engagement team, and is appropriately supervised.			
The audit approach reflects a clear understanding of our business, the industry in which we operate and our regulatory environment, takes account of any internal audit work, identifies the significant business risks and places appropriate focus on the right financial reporting risks.			
The auditor communicates their assessment of the systems infrastructure and applications relevant to the audit process and the scope of work, including any use of specialists.			
The auditor has demonstrated a good understanding of the component's internal control systems and, following suitable assessment, how far internal controls can be tested to improve the effectiveness of the audit process.			
Our perception is that the auditors listened actively to comments, requests and queries directed to them and dealt with any such matters promptly and effectively. Prior to the auditors reporting their findings to group we had the opportunity to discuss any major matters arising.			
The audit process and the audit team have challenged our thinking and contributed to improvements in financial reporting processes & related controls at our business unit.			

Contacts

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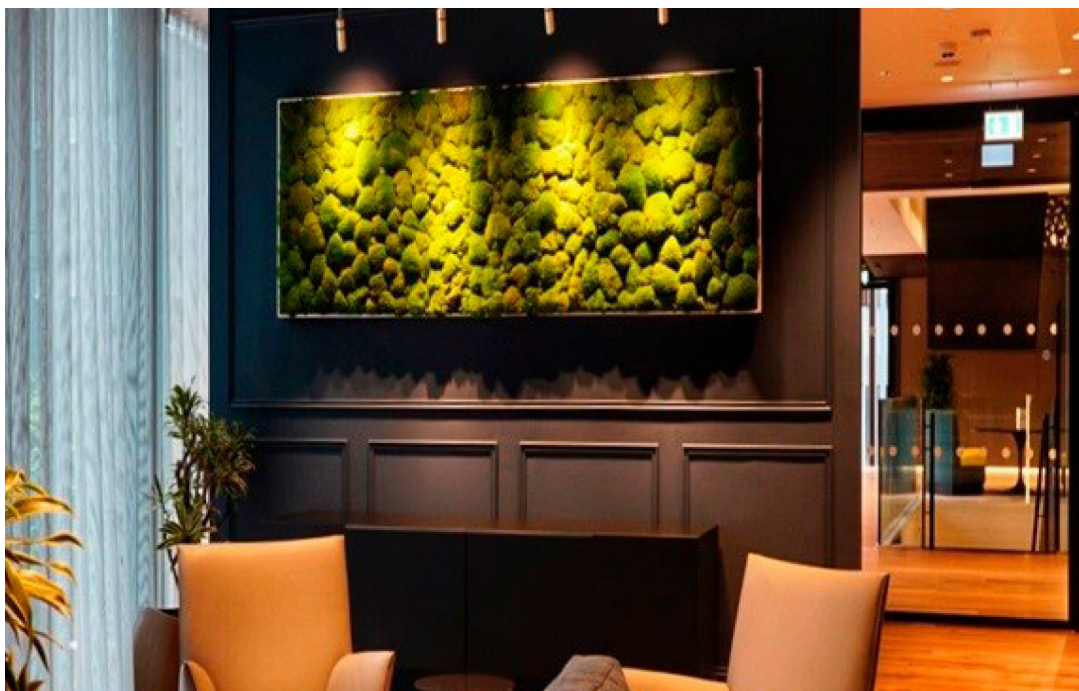
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