



## **Governance in focus**

A framework for assessing the effectiveness  
of the external audit process

2019 Edition

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# How to use this framework



Dear Audit Committee member,

With the future of audit so much in the spotlight, you may think it an odd time to update our framework for the effectiveness of the external audit process. After all, the once-in-a-generation opportunity to revisit the purpose and shape of audit in 2019 will require a full update to this framework once all the reviews are settled and the outcomes clear. But, for now, our answer is that we are responding to current demand, and life has moved on substantially since we last updated this in 2013.

Since 2013, the importance of the audit committee's focus on audit quality and the effectiveness of the external audit process has only increased. Indeed, it is more important than ever that the audit committee should be able to make their assessment of audit quality with confidence. It is a key part of the audit committee's role to scrutinise the quality of the external audit on behalf of investors.

This updated version is deliberately brief and does not anticipate areas that will likely be updated as the various reviews of audit and reporting conclude.

We present a concise set of just twenty 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. As an audit committee with an effective external audit process, we believe you 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, my governance team or your Deloitte partner with any questions you may have.

Best regards,

A handwritten signature in black ink, appearing to read 'William Touche'.

**William Touche**  
Vice Chairman

# The effectiveness of the external audit process

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

**NOTE:** This framework does not reflect the outcomes of current reviews of audit and reporting. It will be updated after these conclude.

Audit area	Key question	Audit committee views		
		Yes	No	Comment
<b>The audit team</b>	The audit partner demonstrates a strong understanding of our purpose, business model, values and culture, as well as the wider industry in which we operate and the strategic challenges we face.			
<b>The audit team</b>	The audit partner demonstrates high professional and ethical principles, including integrity, independence, and professional scepticism. He / she shows strong auditing skills, depth of technical knowledge, and is clearly committed to audit quality for the benefit of our shareholders.			
<b>The audit team</b>	The audit partner provides support to the audit committee between meetings to the extent the audit committee requires, in the form of briefings on significant and emerging issues and updates on governance developments.			
<b>The audit team</b>	The audit committee welcomes the candour of the audit partner’s observations in private sessions and an outside perspective on developments in the business and industry sector.			
<b>Planning</b>	The overall audit coverage has 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, has been individually evaluated and communicated to us.			
<b>Planning</b>	There is good evidence that the auditor has planned for and undertaken clear and high quality communications with component auditors, particularly those in other countries and including those from other audit networks, including appropriate involvement in the component auditor’s risk assessment and evaluation of the appropriateness of the audit procedures planned to respond to the identified significant risks.			

Audit area	Key question	Audit committee views		
		Yes	No	Comment
<b>Planning</b>	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.			
<b>Planning</b>	The auditor communicates their assessment of the systems infrastructure and applications relevant to the audit process at all material locations and the scope of work, including any use of specialists.			
<b>Planning</b>	The auditors have communicated their approach to optimising the efficiency and effectiveness of 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.			
<b>Planning</b>	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 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.			
<b>Execution</b>	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. They received appropriate resource from management and the auditors, including any necessary specialist involvement, and the auditors challenged robustly, demonstrating appropriate professional scepticism.			

Audit area	Key question	Audit committee views		
		Yes	No	Comment
<b>Execution</b>	The audit committee has 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 considered both these papers and any contradictory evidence that came to our attention.			
<b>Reporting</b>	The auditor has been able to provide insight into improvements that could be made in our reporting, both in the financial statement disclosures but also through their reading of our front half reporting. The auditor has been able to articulate clearly why changes were required or additions recommended to front half disclosures, covering topics such as alternative performance measures, environmental disclosures, or workforce engagement, will be beneficial to the quality of reporting. The auditor has encouraged early disclosure where appropriate on areas mandatory for future periods.			
<b>Reporting</b>	Reports to the audit committee by the auditor clearly articulate the key audit risks, significant elements of the judgements made by management, the quality of the evidence base, and the auditors' challenge of those judgements, including where management's view of the preferred treatment differs from their own. The auditor clearly articulates the alternative treatments considered and the rationale for the conclusions, having regard to the interests of stakeholders.			
<b>Reporting</b>	We understand the nature of the work performed by the auditor on key front half disclosure areas, such as the business model, longer term prospects, viability statement, the board's risk management statements, and all the other disclosure items required by law. We are able to form a judgement on how far this provides us with suitable assurance.			

Audit area	Key question	Audit committee views		
		Yes	No	Comment
<b>Reporting</b>	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.			
<b>Reporting</b>	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 all key audit committee functions, including financial reporting and associated controls, external audit and audit quality, internal audit and other matters within the terms of reference and delegated to the audit committee. In assessing audit quality, the audit committee has taken account of inspections results of the firm and the key audit partners, and ensured any relevant actions for the company are implemented			
<b>The role of management</b>	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.			
<b>The role of management</b>	Management takes seriously those control observations and deficiencies raised by the external auditor, together with any challenges regarding the control environment or individual controls raised by internal audit, the audit committee, and remediates deficiencies or weaknesses in a timely fashion.			
<b>The role of management</b>	Management and the audit committee consider all proposed audit adjustments and prefer 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 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 is actively involved in planning meetings, risk assessment, key audit judgements and conclusions.			
The approach and mindset of members of the audit team demonstrates commitment to integrity, audit quality and professional scepticism. 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 and efficiency 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 improved standards at our business unit.			



# Contacts

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