



Audit and Assurance Committee

| | |
|------------------------|------------------------------|
| Date of Meeting | 09 November 2021 |
| Subject | Assessment of External Audit |
| Agenda No | 10 |
| Paper No | 15.9 |
| Prepared By | Chair |
| Purpose | Discuss |

1. Background

- 1.1 Each year the Audit and Assurance Committee should undertake an assessment of external audit. Attached at Annex A (separate document) is a copy of the ICAS Guide for Evaluating your Auditor that we used last year to structure this assessment and propose we use again this year.

2. Evaluating your Auditor

- 2.1 The purpose of the guide is to act as a checklist to support the evaluation of external audit. It aims to help Committees:
- Evaluate the performance and effectiveness of their external auditors
 - Manage and review their relationship with their auditors
 - Work with auditors to secure high quality audit and value for money.
- 2.2 While we are undertaking this evaluation now, the guide should be used throughout the year including when we are considering the annual audit plan.
- 2.3 While Committee Members should read the full guide, specific reference should be made to the checklist on page 12. This does not need completed, but we should use this to help inform our discussion at the meeting.
- 2.4 It is recognised that the new Non-Executive members will likely be able to make limited comment at this time.
- 2.5 It should be noted that External Audit will be present for this item, however if any member has concerns they would like to raise beforehand please make Chair of committee aware ahead of the meeting.

3. Conclusions



3.1 Committee Members are asked to review the Guide and consider specific questions they want to ask of External Audit at the meeting in November.

GOVERNANCE CHECKLIST

| Strategic consideration | Impact |
|---------------------------------|---|
| Environment | nil |
| Governance | The assessment aligns to the responsibilities of the Committee outlined in its Terms of Reference and is viewed as good governance. |
| Data | nil |
| Finance | nil |
| Staff | nil |
| Equalities | nil |
| Estates | nil |
| Communications and Presentation | nil |

| Strategic Objective | Contribution |
|--|--|
| <p>Dignity, fairness and respect</p> <p>Delivering a service with dignity, fairness and respect at its core.</p> | Not Applicable |
| <p>Equality and tackling poverty</p> <p>Promoting equality and tackling poverty.</p> | Not Applicable |
| <p>Efficiency and alignment</p> <p>Ensuring efficiency and aligning our activities with wider public sector for the benefit of the people we serve.</p> | This toolkit helps the Committee measure and evaluate the effectiveness of external audit, which aligns to this strategic objective. |



| Strategic Objective | Contribution |
|--|----------------|
| Economy, society and environment Contributing to our economy, society and protection of our environment. | Not Applicable |

ANNEX A

Link to document which is embedded on following slides

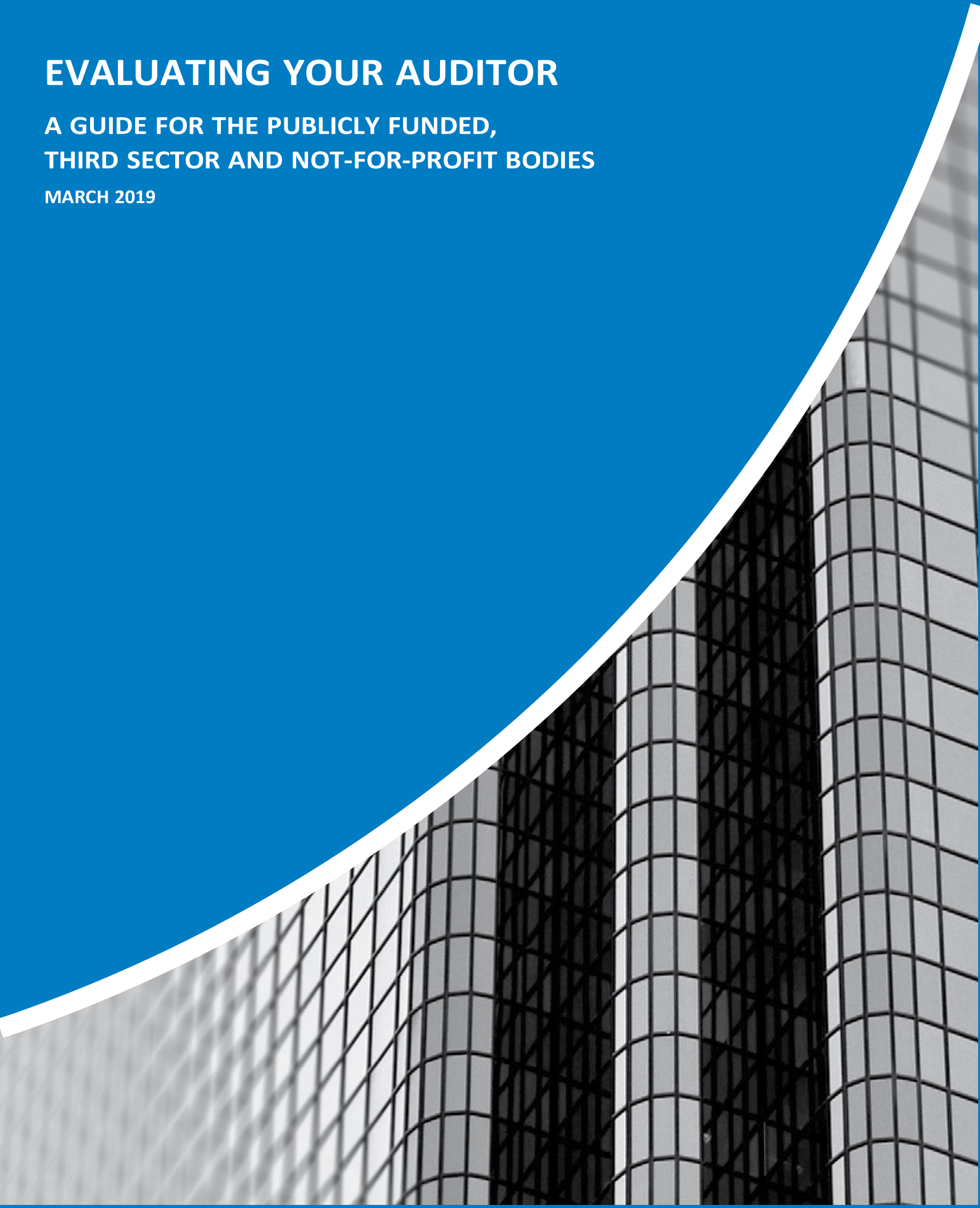
[Governance-Audit-and-Assurance-Committee-Meeting-10-10-November-2020-10.10-b-Assessment-of-Exeternal-Audit.pdf \(socialsecurity.gov.scot\)](#)



EVALUATING YOUR AUDITOR

A GUIDE FOR THE PUBLICLY FUNDED,
THIRD SECTOR AND NOT-FOR-PROFIT BODIES

MARCH 2019





1. 1. INTRODUCTION

1. Introduction

-
- Who this guide is for
- Why it is important to evaluate your auditors
- Approach and when to evaluate the auditor
- Role of boards, audit committees and public sector audit

2. Evaluating your auditor

- What is a high quality audit?
- Key drivers of a quality audit
- Engaging non-audit
- Auditor evaluation - key principles and what to look for

3. How to use the checklist

4. Auditor evaluation checklist

Appendix A - sources of good practice

1.1 Purpose

This guide offers an aide-mémoire for publicly funded, third sector and not-for-profit bodies highlighting key good practice points and a checklist to support the evaluation of their auditor. It aims to help audit committees:

- Evaluate the performance and effectiveness of their external auditors;
- Manage and review their relationship with their auditors; and
- Work with auditors and the bodies that may appoint them to secure high quality audit and value for money.

1.2 Who this guide is for

The guide tailors good practice to public sector and other not-for-profit entities including charities, housing associations and arm's length external organisations of public bodies.

It is for the audit committee members, board members, directors or trustees irrespective of who appoints the external auditor. If no audit committee exists, then its application should be considered by any equivalent arrangements such as a sub-committee of the board responsible for audit tendering and evaluation, or if that



does not exist, the governing board. It can also be used by audit firms and others who may be interested in the audit process.

The term “audit committee” in the following text and in the questions, should be taken to mean “audit committee or other appropriate persons such as the board or trustees”.

1.3 Why it is important to evaluate your auditors

It is a statutory requirement for public and charitable bodies to ensure that their financial statements are audited¹ (unless eligible for smaller body exemptions). It is good business practice to ensure that goods and services are fit for purpose and offer value – this applies to audit as for any other significant purchase. A regular evaluation of the auditor’s performance helps to ensure that you get the service needed for your organisation.

In the public sector, external audits are often carried out by national audit agencies or audit firms appointed by or subcontracted to them. Whilst these agencies will usually have arrangements in place to assess the quality of the audit work undertaken, the scope of that assessment may not meet the needs of the audited body and, historically, is unlikely to have been shared with the body.

Where the auditor is prescribed in statute or appointed by an external agency, two-way sharing of information about the quality of the audit will help to ensure that the public body achieves confidence about the quality of the audit it receives or seek to secure improvements even where it has no control over the audit appointment.

Irrespective of who appoints the external auditor, the board or audit committee of all organisations should take an active role in evaluating how well the audit was performed both from a technical standpoint and from a customer service position.

A quality audit can benefit the organisation:

- It provides independent, professional judgement:
 - assessing the effective operation of procedures and controls;
 - identifying control failures; and
 - providing independent assurance of reporting to stakeholders (including lenders).

¹ Public sector legislation varies depending on the sector and jurisdiction e.g. Local Government (Scotland) Act 1973, Charities Act, (ICAS guidance charity audit exemption - England and Wales), Local Audit and Accountability Act 2014 (England) and bodies audited by the Auditor General (Public Finance and Accountability (Scotland) Act 2000 section 21) etc. Some audit exemptions exist for smaller bodies.



- A good audit helps to ensure an organisation complies with legislation and is keeping abreast of changes in accounting standards, governance, tax regulations etc. which could impact it.
- The auditor brings professional scepticism, critical appraisal and a questioning mind which can highlight issues in your organisation that are an opportunity or are an area of risk to be managed. They can also identify potential misstatement due to error or fraud and reduce reputational risk.
- Constructive management challenge strengthens governance and reduces the opportunity for 'group think'.
- Auditors have wide experience from providing services to a varied client base which offers:
 - a professional and informed sounding board;
 - the ability to question existing practices (are they right, can they be improved ?)
 - an external perspective on the operating model and management attitudes; and
 - the opportunity to understand comparative practice.

It is good practice to document the evaluation of auditors and decision-making to help benchmark performance and inform any future audit tender.

1.4 Approach and when to evaluate the auditor

A joined-up approach across the auditor, management and the audit committee is required.

It is good practice² for audit committees to approach auditor evaluation on a continual basis, as a fundamental part of their activities where evidence is monitored and assessed through the year, not in isolation or just as part of a year-end exercise.

The principles (section 2.4) and checklist (section 4) identify the issues to be considered by the audit committee when monitoring and formally reviewing the auditors. Evaluation requires a joined-up approach between management, internal assurance functions, the audit committee and possibly also the company secretary.

Audit committees are encouraged to focus more on obtaining evidence of audit quality throughout the process, particularly at the planning stage to understand and obtain comfort that the risks to audit quality for their organisation have been appropriately identified and addressed in the audit strategy and plan. This can then be followed up and queried later in the audit process to enable the audit committee

² Current good practice is based on the UK regulatory framework and Financial Reporting Council's Audit Quality Practice aid for audit committees (May 2015) and Guidance on Audit Committees.



to weigh the evidence of the audit work performed, how the risks were addressed, findings and conclusions.

“...the [audit] assessment should not be a separate compliance exercise, or an annual one-off exercise, but rather should form an integral part of the audit committee’s activities. These allow it to form its own view on audit quality, and on the effectiveness of the external audit process, based on the evidence it can reasonably obtain during the year. This should both improve the effectiveness of their assessment and reduce the burden of their year-end activities.”

FRC Audit Quality Practice Aid for Audit Committees (May 2015) page 5

Monitoring is carried out in conjunction with a full assessment of the external auditor. This is usually annual although it is up to those in charge of governance of the organisation to judge if this is proportionate to their circumstances. An alternative might be more appropriate, for example, a full assessment every 2 years but with an annual check-in or review to identify if any issues have arisen which indicate that a full evaluation is needed. Triggers for a full evaluation may include changes which affect the achievement of the principles at section 2.4. This might include:

- Independence concerns, potential conflicts of interest, staff changes (within the company or audit firm);
- Communication issues, closeness or deteriorating relationship between the auditor and management and whether the auditor continues to demonstrate sufficient professional scepticism;
- Whether the skills, experience and competence of the audit team continues to meet evolving business needs.

Such decisions should be explained, documented and, if necessary, identify when a retendering exercise would be appropriate.

Audit committees are advised to develop their own approach to assessment which reflects their own circumstances. Audit evaluation is not a tick-box exercise and some tailoring may be needed to ensure good practice is applied proportionately.



Where a body appoints its own auditor, a full evaluation can help to identify when retendering would be appropriate and help decide what will be important in scoping and evaluating the audit tenders.

1.5 Role of boards, audit committees and public sector audit

The board of directors or trustees has overall responsibility for the smooth running and good governance of the organisation. For larger bodies, the board delegates the oversight of the organisation's financial reporting, internal control, risk management, internal and external audit to an audit committee. For smaller bodies this may be delegated to a subcommittee of the board such as a scrutiny and performance or project committee.

Audit committee/equivalent responsibilities include:

- Monitoring audit effectiveness, efficiency and the ongoing relationship between the auditors and the organisation;
- Deciding whether/when to tender (unless set by a national framework);
- Developing a policy on the provision of non-audit services by the auditor; and • Awarding and monitoring non-audit services to ensure compliance with the policy.

An effective audit committee will provide professional scepticism, healthy challenge and ask management and the auditor probing questions.

The directors/senior management team have a responsibility to ensure that the audit committee (or equivalent) is appropriately informed to enable them to carry out their duties effectively.

The **regulatory frameworks** for public and not for profit entities are varied. These include legislation, guidance and regulation issued by HM Treasury or sector regulators such as the Charity Commission/OSCR and housing regulators³.

The **external auditors appointment process** is sometimes the responsibility of the body itself but in the public sector it is often a function of an Auditor General or other external organisation. The auditor undertaking the audit work may be a member of staff of a national audit agency, a firm appointed to carry out the audit or a firm subcontracted to an Auditor General.

2. 2. EVALUATING YOUR AUDITOR

³ Other sources of good practice on audit committees and public sector boards published by government and national audit bodies are listed at **Appendix A**.



2.1 What is a high quality audit?

Overall the auditor is expected to:

- Obtain sufficient and appropriate evidence to enable them to achieve reasonable assurance on which to offer an objective opinion on the truth and fairness of the financial statements (taking account of materiality); and
- Undertake the audit in compliance with professional standards, relevant laws and regulations.

A regulator would expect to see evidence of challenge, judgement and risk assessment.

2.2 Key drivers of a quality audit

The ICAS guide **Selecting your auditor - a guide to tendering the external auditor appointment for publicly funded, third sector and not-for-profit bodies** explains the drivers of a quality audit. Key elements include:

Audit independence - the audit committee/equivalent is expected to take an active role to ensure the integrity, independence, objectivity and effectiveness of auditors, and be able to demonstrate this. Importantly, this includes the perception of independence. The overarching principle of independence is cited in the FRC Ethical Standard 2016:

“...free from conditions and relationships which would make it probable that an objective, reasonable and informed third party would conclude the independence of the firm or any covered person is compromised.”

There are two aspects:

- The relationship auditors have with the board, senior management, the finance function and whether this could be compromised by familiarity, significant levels of non-audit service income, etc.
- The arrangements within the audit firm to ensure they provide a professional and independent service evidenced by an appropriate audit trail.

A constructive organisation auditor relationship between the audit committee/equivalent, finance director, the finance team and the auditors can take time to develop. Mutual respect and constructive challenge of management are important aspects which strengthen governance. The auditor's ability to demonstrate professional scepticism is crucial.

The auditor should exercise competence and sound judgement throughout the audit process from planning and risk assessment to reporting, demonstrating in particular that they have:

- made appropriate judgements about materiality;
- identified and focused on the areas of greatest risk;
- designed and carried out effective audit procedures;
- understood and interpreted the evidence they obtain;
- made reliable evaluations of that evidence; and
- reported with clarity and candour⁴.

2.3 Engaging non-audit services

It is important to formalise a policy on the provision of non-audit services to support judgement on when it is, and is not, appropriate to contract additional services from the auditor. Every organisation should have a policy on this.

Whatever the size and type of entity, the principle of ensuring independence must be maintained. The **auditor's responsibilities** are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. This means an auditor cannot be connected with a client's responsibilities to prepare accounts, operate internal controls, review their own work, have financial interests in the organisation or have a relationship with the client which could in any way diminish the auditor's objectivity⁵.

Auditors cannot be connected with client responsibilities including accounts preparation, operation of internal controls, self-review, have a financial interest in the organisation or any relationship which may reduce their objectivity.

All decisions to engage non-audit services from the auditor should be challenged. Every organisation should have a policy on this and ensure compliance with the relevant Code of audit practice⁶. Where non-audit services have been awarded it is encouraged to disclose this in the annual report/financial statements stating the fee, directors' rationale for awarding without tendering and assessment of risk to independence.

⁴ Audit Quality Practice aid for audit committees (May 2015) para 2.12

⁵ FRC Ethical Standard

⁶ Refer to relevant jurisdiction's Codes e.g. NAO AGN 01; Audit Scotland Annual Planning Guidance



Tendering offers the advantage of widening the pool of potential suppliers and encouraging competitive quotes which can help drive quality and value for money⁷.

⁷ For more on audit tendering see ICAS guide – [Selecting your Auditor for public sector](#)

2.4 Auditor evaluation – key principles and what to look for

The key principles explaining what we are seeking to achieve and main points are summarised below. Principles apply whatever the size of the organisation.

| Section of checklist | Principle | Key points |
|--|---|--|
| <p>Independence and objectivity</p> | <p>The auditor is free from actual or perceived conflicts of interest which might compromise an objective judgement.</p> | <ul style="list-style-type: none"> • To ensure that the audit is free from conditions and relationships which would make it probable that an objective, reasonable and informed third party, would conclude the independence of the auditor is compromised⁸. • The audit committee should take an active role to ensure the integrity, independence, objectivity and effectiveness of auditors, and be able to demonstrate that they have done so. • Have a company policy on the provision of non-audit services (NAS) and ensure it is complied with. This should include compliance with ethical standards for non-audit services – see ICAS guide to tendering the external auditor appointment for publicly funded, third sector and not-for-profit bodies⁹ and the FRC’s Ethical Standard (2016) section 5. • Independence means that an auditor cannot be connected with client management responsibilities including preparation of accounts, operation of controls, be in a position of reviewing their own work, have financial interests in the organisation or any other relationship with the client which could diminish the auditor’s objectivity. |

⁸ FRC revised Ethical Standard 2016 page 12 ⁹

Section 2.2 Auditor independence

| | | |
|---|---|--|
| | | <ul style="list-style-type: none">• The benefits of tendering for NAS should be considered. |
| Financial stability and risk profile of the audit firm | The audit firm is in good financial health and their reputation is strong. | <ul style="list-style-type: none">• To consider whether there are any matters about the auditor’s reputation or financial position which might cause concern. |

| | | |
|---|---|--|
| <p>Audit firms quality processes</p> | <p>The firm can demonstrate its commitment to deliver high audit quality through internal and external mechanisms⁹ and a positive attitude to audit quality management.</p> | <ul style="list-style-type: none"> • To assess the audit firm’s arrangements to ensure audit quality and the results of any reviews of the quality of the auditor’s work. • Increase the dialogue with the auditor on how audit quality is delivered, how firms evaluate performance, their approach to audit quality, how partners are rewarded, and review their audit quality record, including any improvement points identified and how actioned¹⁰. • Where another body appoints the external auditor they may have arrangements in place to assess the quality of audits. All statutory audit firms are subject to external quality review. The reports for larger firms are published by the FRC¹¹. Smaller firms are subject to monitoring/quality review by their professional body. Whilst the reports for smaller firms are not published, the body should routinely ask its auditor to share with it the results of any such review. • All audit firms should also have internal quality assurance procedures in place. • The auditor acts promptly to learn from and implement any actions from reviews. |
|---|---|--|

⁹ Internal – firm’s quality management process; external – quality monitoring by external regulator (see footnote 8)

¹⁰ For example **PSAA audit quality reports**

¹¹ The monitoring of audit firms with public interest entity (PIE) clients is conducted by the FRC’s internal Audit Quality Review team. In the case of a small firm with 10 or less PIEs, the monitoring is conducted by the Recognised Supervisory Body (RSB), being an approved professional accountancy body. For ICAS see **audit monitoring**.

| | | |
|-----------------------------|--|--|
| | | |
| Section of checklist | Principle | Key points |
| Audit strategy | The audit strategy demonstrates a good understanding of the audited organisation, its business model, risks, strategy and sector. This is reflected in an appropriate audit approach. | <ul style="list-style-type: none"> • To assess whether the audit plan/strategy covers all the required and expected areas and that the auditor has sufficient understanding of the organisation’s business and sector. • Cost does not always equal value. The unintended consequences of low audit fees should be considered by the audit committee so they understand the risks and potential impact on audit scope and quality. • A sound understanding of the legal and regulatory frameworks which may affect the business and underpin financial reporting is evident. • The auditor demonstrates sound understanding of their own responsibilities and professional duties as statutory auditor. |

| | | |
|---|---|--|
| | | |
| <p>Communication of adverse or unexpected findings</p> | <p>Auditor communications include all significant points from the audit and are clear, relevant and prompt.</p> <p>All key findings have been escalated appropriately.</p> <p>The auditor demonstrates the competence and skills to undertake a high quality audit throughout the audit cycle.</p> | <ul style="list-style-type: none"> • To consider whether the auditor communicated issues arising promptly and at an appropriate level. • The auditor demonstrates strong competencies and skills: • communicates clearly and effectively; • applies rigour in conducting audit procedures and gathering evidence; • challenges evidence and exercises professional scepticism; • technical competence, organisational/sector knowledge; and • sound judgement on risk assessment, materiality setting, use of audit procedures, evaluation and formulation of conclusions. • What evidence exists of the auditor exercising professional scepticism and challenging management? |
| <p>Reporting</p> | <p>The auditor’s report and presentations at the audit committee are complete and demonstrate competent delivery of their statutory duties, technical competency and understanding of the organisation.</p> | <ul style="list-style-type: none"> • To assess whether the auditor included all the expected areas in their reports and discussions with the audit committee at the end of the audit. |

| | | |
|----------------------------------|---|---|
| <p>Concluding matters</p> | <p>The audit committee is satisfied that the auditor’s conclusion on the financial statements is objective, robust and that the auditor has conducted a quality audit in accordance with their statutory and ethical duties.</p> | <ul style="list-style-type: none"> • To consider matters not covered above and to draw together the overall results of the assessment. • The identification of prior year adjustments or other subsequent changes to the accounts offers an opportunity for a critical review to understand the context of audit error. This helps to identify if something was missed or should have been identified earlier. • Looking forwards – learning points and known changes (accounting standards/operational) are reflected in the plan for next year’s audit. |
|----------------------------------|---|---|



3. HOW TO USE THE CHECKLIST

Overall, audit committee members need to get a sense of the challenge provided by auditors and whether they are providing proper scrutiny. It is not sufficient to just check the procedures followed.

This checklist should be used proportionately, taking into account:

- the size and circumstances of the organisation;
- the length of time since the last evaluation;
- when the auditor was appointed; and
- whether there are any specific concerns that are already known.

Agreeing the review and what to circulate

Once a review has been agreed, the blank checklist should be shared with all members of the audit committee or board and with the most senior finance personnel (if they are not board members). A summary of the results and actions from any previous review should also be provided so that audit committee members can evaluate whether agreed actions have been implemented satisfactorily and enable identification of trends.

Who completes the checklist

The review should be completed by all members of the audit committee/board and finance director (or most senior person in finance if not a board member). The views of other senior finance staff, such as the financial controller, can be helpful to get a broad range of views. Some questions will be more/less relevant to either the finance director/ audit committee members. Separate responses can help to bring out their different perspectives.

The audit committee should be aware of the different perspectives of management and non-executives. Sometimes an auditor who is providing plenty of challenge and doing their job well may have a trickier relationship with the finance director and vice versa.

Summing up and evaluating the results

The process may vary according to organisation size, resources available and preferences of board members. For larger bodies, those completing the checklist could be asked to return it to a central point to analyse and summarise results. A report would then be prepared for the next audit committee/board meeting.



Alternatively, those completing the checklist could be asked to bring it to the next meeting for discussion and to share views. The meeting minutes would document a summary of the discussion as a formal record.

Under either approach, the body should hold the discussion without the external auditor present but should then arrange for a meeting with the auditor to talk through the results and allow the auditor an opportunity to consider and respond to any areas of concern identified or suggestions for improvement. If improvements are identified, an agreed action plan should be produced with clear responsibilities assigned and timeframes set.

If the body did not appoint its own external auditor then they should ask the appointing body if it would like to know the results of the review and if so share it with them to enhance shared information on audit quality evaluation.

Finally, the audit committee/board should follow up on any action plan to see that agreed actions are implemented on time.



Gathering evidence to support conclusions

It is good practice to evidence conclusions from the assessment of a particular area, even if “no issue” has been identified. Typical sources of evidence include:

- Audit strategy and plan;
- Audit reports to the audit committee;
- Interaction of auditors with staff/management (will require feedback from management);
- Performance of key audit staff/partner at audit committee meetings; and
- External monitoring reports from regulators¹².

¹² FRC Audit Quality Review team reports or professional body report for smaller firms.

2.1 4. AUDITOR EVALUATION CHECKLIST

The checklist aims to provide an aide-memoire for audit committee members on conducting their assessment. It should be tailored by the organisation to its particular needs and circumstances. Each section confirms the principle guiding the evaluation (section 2.4).

If any issues are flagged, refer to question 56 and consider if retendering is required.

| | | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
|---|--|---|------------------------------|--------------------------|----------|
| Independence and objectivity | | | | | |
| The auditor is free from actual or perceived conflicts of interest which might compromise an objective judgement. | | | | | |
| 1. | Has the audit committee received documented reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the organisation? | | | | |
| 2. | Has the audit committee received from the audit firm information (in writing) about policies and processes for maintaining independence and monitoring compliance with relevant requirements? This would include compliance monitoring with the FRC Ethical Standard and relevant | | | | |

| | | | | |
|--|--|--|--|--|
| <p>professional body ethical codes. It should be received on an annual basis.</p> <p>Does it cover the following:</p> | | | | |
| <p>a) the rotation of audit partners and senior staff?</p> | | | | |
| <p>b) the level of fees that the organisation pays in proportion to the overall fee income of the firm, office and partner?</p> | | | | |
| <p>c) any relationships between the audit firm and its staff (including former employees of the audit firm) and the organisation?</p> | | | | |
| <p>d) office and business procedures including partner and senior manager incentive arrangements?</p> | | | | |
| <p>e) has the audit committee received written assurance regarding the firm's compliance with applicable ethical standards¹³?</p> | | | | |

¹³ FRC Ethical Standard and NAO Auditor Guidance Note/Audit Scotland's Code of Audit Practice.

| | | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
|----|--|---|------------------------------|-----------------------------|----------|
| 3. | Non-audit services | | | | |
| | Does the firm's independence policy include non-audit services? | | | | |
| 4. | Does it state the nature and the amount of other services provided to the organisation and statement of compliance with the organisation's non-audit work policy? | | | | |
| 5. | Has the audit committee taken into account best practice regarding the provision of non-audit services by the auditors and satisfied itself of the auditor's independence and objectivity? Does this include: | | | | |
| | a) the auditor does not audit its own firm's work? | | | | |
| | b) the auditor does not make management decisions for the organisation? | | | | |
| | c) no joint interest between the organisation and the auditors is created? | | | | |

| | | | | | |
|----|--|--|--|--|--|
| | d) the auditor is not put in the role of advocate for the organisation? | | | | |
| | e) overall confirmation from the auditor (in writing) of their independence and objectivity? | | | | |
| 6. | Has it been confirmed that the cap on non-audit services has not been breached (where applicable, e.g. if set by national frameworks)? | | | | |
| 7. | Have the auditors met with the audit committee and discussed their objectivity and independence in an appropriately open and straightforward manner? | | | | |
| 8. | Has the audit committee considered whether there has been any impairment, or appearance of impairment, of the auditor's judgement or independence in respect of the audit? (<i>Some organisations may also have a policy on employment of former employees of the audit firm which should be monitored</i>). | | | | |

| | | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
|---|---|---|------------------------------|--------------------------|----------|
| 9. | Notwithstanding the above, does the audit committee regard the relationship between auditors and management as too close, such that the auditors may lack, or appear to lack, the required degree of objectivity? | | | | |
| 10. | Have any other matters arisen or been notified to the audit committee which cast doubt on the independence of the auditors or individual members of the audit team (e.g. duration of audit)? | | | | |
| Financial stability and risk profile of the audit firm The audit firm is in good financial health and their reputation is strong. | | | | | |
| 11. | Are there any issues relating to the auditor's litigation record, regulatory/media reports or the auditor's transparency report (if prepared) that give rise to concerns | | | | |

| | | | | | |
|---|--|--|--|--|--|
| | about the financial position or reputation of the firm? | | | | |
| Audit quality | | | | | |
| The firm can demonstrate its commitment to deliver high audit quality through internal and external mechanisms and a positive attitude to audit quality management. | | | | | |
| 12. | <p>Have the implications of a low/high audit fee on the scope and quality of the audit been considered?</p> <p>Has the firm been challenged on the ability to deliver audit quality (if there is a low fee) or asked to justify a high fee?</p> | | | | |
| 13. | Did the auditor explain how audit quality is assured and monitored? | | | | |
| 14. | <p>Has the audit work on the organisation been subject to review by the auditor's quality review team or by any external organisation such as the body appointing the auditor or a regulator?</p> <p>If so, has the auditor shared the results of the review and any improvement actions with the audit committee?</p> | | | | |

| | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
|--|---|------------------------------|-----------------------------|----------|
| Audit strategy | | | | |
| The audit strategy demonstrates a good understanding of the audited organisation, its business model, risks, strategy and sector. This is reflected in an appropriate audit approach | | | | |
| 15. | Did the auditors communicate their strategy and audit plan for the audit to the audit committee, and did that communication include the following (where relevant)? | | | |
| | a) terms of reference including an engagement letter(s) covering the statutory audit, wider scope audit (as appropriate) and an independence letter? | | | |
| | Where a group structure exists b) a relationship chart summarising the key auditor-organisation/group relationships by division and function? | | | |
| | c) relationship to any other auditor in the UK or overseas? | | | |
| | d) the appointment of an engagement quality review partner who has not | | | |

| | | | | |
|--|--|--|--|--|
| had any prior involvement with the organisation or group? | | | | |
| e) the audit approach and scope? | | | | |
| f) audit arrangements for other group entities (including confirmation of key roles and responsibilities)? | | | | |
| g) audit arrangements in relation to service organisations supplying outsourced functions? | | | | |
| h) the auditor's assessment of organisation or group treasury operations and the proposed audit arrangements? | | | | |
| i) the level of audit materiality adopted for the audit (both group and subsidiary level) and justification for this amount? | | | | |

| | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
|---|---|------------------------------|--------------------------|----------|
| j) the role and scope of internal audit and the extent of any reliance to be placed by the auditors on the internal audit function? | | | | |

| | | | | | |
|-----|--|--|--|--|--|
| | k) the auditor’s understanding of the organisation’s IT strategy and their approach to the audit of IT systems? | | | | |
| | l) an assessment of (group) accounting and business risks, both qualitative and quantitative, and how they will be addressed as part of the audit approach, including use of experts in specialist or complex areas? | | | | |
| | m) additional assurance services and the nature of any reports/non-financial disclosures required in addition to the statutory audit report (e.g. management commentary, performance report, governance statement)? | | | | |
| | n) outline of fee proposal including reasons for major changes from prior year and fee analysis by scope and hours? | | | | |
| | o) key aspects of the auditor’s approach to ensuring continuous audit quality? | | | | |
| 16. | In determining their audit strategy, did the auditors state that they would ensure that: | | | | |
| | a) they would evaluate the key risks of misstatement in the financial statements | | | | |

| | | | | |
|---|--|--|--|--|
| and allocate resources and focus their work accordingly? | | | | |
| b) they would maintain an open and regular dialogue with management so that issues are identified and dealt with early? | | | | |
| c) where the organisation’s own internal controls are considered effective, they would test and place reliance on them where appropriate to maximise the cost/benefit of the audit? | | | | |

| | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
|---|---|---------------------------------------|----------------------------------|-----------------|
| d) there is a good working relationship with the organisation’s internal audit function and, where relevant, other assurance functions? | | | | |
| e) they would maintain an appropriate level of continuity ¹⁴ of all key personnel and would manage the audit on a basis | | | | |

¹⁴ Subject to rotational requirements.

| | | | | | |
|-----|--|--|--|--|--|
| | that mirrors the organisation's or group's own structure? | | | | |
| | f) they remain independent and objective in their assessment of the organisation or group financial statements and the issues which arise? | | | | |
| | g) previously identified issues were followed through to a satisfactory conclusion? | | | | |
| | h) technology would be used where appropriate to increase the effectiveness of the audit? | | | | |
| 17. | Did the auditor communicate an update on recent sector developments, regulatory, accounting/financial reporting standards relevant to the entity and identify their impact on the audit as part of the strategy? | | | | |
| 18. | Was the timing of the auditor's procedures and their communication with the audit committee tailored to the organisation's annual reporting cycle? | | | | |

| | | | | | |
|--|---|---|---------------------------------------|----------------------------------|-----------------|
| 19. | Taking the above into account, has the auditor demonstrated sufficient understanding of the business through their interaction with the organisation and reporting? | | | | |
| <p>Communication of adverse or unexpected findings Auditor communications include all significant points from the audit and are clear, relevant, and prompt. All key findings have been escalated appropriately. The auditor demonstrates the competence and skills to undertake a high quality audit throughout the audit cycle.</p> | | | | | |
| 20. | Did the auditors explain to the audit committee the timetable for the audit and for verbal and written communication, e.g. the audit strategy, any half year review report, adverse and unexpected findings, and the final report to the audit committee? | | | | |
| | | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
| 21. | Were issues, including adverse or unexpected findings, communicated on a timely basis? | | | | |

| | | | | | |
|---|---|--|--|--|--|
| 22. | Did the auditors identify the extent to which anticipated audit and accounting issues might have an impact on the year-end process? | | | | |
| 23. | Was the actual or potential resolution of significant audit and accounting issues discussed and agreed with organisation and group management and documented for audit committee consideration and, if necessary, what follow up has there been? | | | | |
| 24. | Has the auditor demonstrated effective communication, rigour in conducting audit procedures, challenge and professional scepticism, technical competence, organisational/sector knowledge and judgement throughout the audit cycle both at audit committee and finance team level (as appropriate)? | | | | |
| <p style="text-align: center;">Reporting</p> <p>The auditor's report and presentations at the audit committee are complete and demonstrate competent delivery of their statutory duties, technical competency and understanding of the organisation.</p> | | | | | |

| | | | | | |
|-----|--|--|--|--|--|
| 25. | Did the audit scope, plan and fees change from that reported at the previous audit committee meetings and have such changes been satisfactorily explained in the report? | | | | |
| 26. | Has a schedule of fees for non-audit services been provided in the report, and has this been approved by the audit committee? | | | | |
| 27. | Did the report to management summarise the key features of the final phase of the audit cycle? | | | | |
| 28. | Did the auditors provide the audit committee with a final report on the full year audit in advance of the board meeting to approve the annual accounts? Did it provide an overview of results and highlight key audit matters particularly those accounting issues of a subjective or judgemental nature? | | | | |

| | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
|--|---|---------------------------------------|----------------------------------|-----------------|
|--|---|---------------------------------------|----------------------------------|-----------------|

| | | | | | |
|-----|--|--|--|--|--|
| 29. | Did the auditors provide details of adjustments, misstatements or errors? | | | | |
| 30. | Did the auditors identify significant issues relating to accounting treatments where management's view of the preferred treatment differed from their own and explain unadjusted items? | | | | |
| 31. | Did the auditors ask for written representations as to the reasons why these errors were not adjusted? | | | | |
| 32. | Did the auditors provide details of any occurrences of material fraud or errors and discuss these with the audit committee? | | | | |
| 33. | Did the auditors request from the management, board of directors or audit committee details of any suspected or actual non-compliance with laws and regulations, tipping off and were any material matters discussed with the audit committee and appropriately taken forward? | | | | |
| 34. | Did the auditors properly address the issue of going concern/financial sustainability with the audit committee? | | | | |

| | | | | | |
|-----|--|--|--|--|--|
| 35. | <p>Have any concerns around the financial sustainability of the organisation been identified?</p> <p>If so, has there been appropriate discussion of the areas of significant judgement and non-compliance with standards which may influence results to provide assurance that the accounts present a true and fair view?</p> | | | | |
| 36. | <p>Did the auditor comment on the organisation’s IT security, cyber and any risks or vulnerabilities?</p> | | | | |
| 37. | <p>Did the auditors provide their views on the qualitative aspects of the organisation’s accounting practices and financial reporting including views on whether the annual report was fair, balanced and reasonable?</p> | | | | |

| | <p>No issue/ good practice identified</p> | <p>Minor issue to monitor</p> | <p>Issue to be addressed</p> | <p>Comments</p> |
|--|--|--|---|------------------------|
|--|--|--|---|------------------------|

| | | | | | |
|-----|--|--|--|--|--|
| 38. | Did the final phase of the audit reveal any significant audit and accounting issues which had not been identified in earlier communications to the audit committee? | | | | |
| 39. | Did the auditors carry out a thorough and robust subsequent events review, including enquiry of, and discussion as appropriate, with management or the audit committee? | | | | |
| 40. | Did the auditors request details of related parties and controlling parties, including enquiry of, and discussion as appropriate, with management or the audit committee? | | | | |
| 41. | Did the auditors identify any areas for improvement in their audit approach and discuss these with the audit committee? | | | | |
| 42. | Did the auditors provide details of significant weaknesses in the accounting and internal control systems found during the audit, and were any recommendations for improvement considered to be practical and effective? | | | | |

| | | | | | |
|-----|---|--|--|--|--|
| 43. | Did the auditors make constructive recommendations on improving the organisation's control environment? | | | | |
| 44. | Did the auditors consider the appropriateness and effectiveness of the organisation's broader risk management processes, and were any recommendations for improvement considered to be practical and effective? | | | | |
| 45. | Did the letter of representation address appropriate issues, and had due consideration been given by the auditors to the appropriateness of their reliance on management representations? | | | | |
| 46. | Did the auditors confirm that their independence had continued throughout the audit? | | | | |

| | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
|--|---|------------------------------|--------------------------|----------|
|--|---|------------------------------|--------------------------|----------|

| | | | | | |
|---|---|--|--|--|--|
| 47. | Did the auditors issue a standard unqualified audit opinion on the financial statements or, if the opinion was non-standard (qualified or subject to a significant/ material uncertainty) was the issue of concern and the impact on the audit report identified at a sufficiently early stage in the audit and discussed with the audit committee? | | | | |
| <p>Concluding matters</p> <p>The audit committee is satisfied that the auditor’s conclusion on the financial statements is objective, robust and that the auditor has conducted a quality audit in accordance with their statutory and ethical duties.</p> | | | | | |
| 48. | Did the audit team comprise audit partner(s) and staff at appropriate levels of seniority, experience and expertise? | | | | |
| 49. | Has there been a good working relationship between the members of the audit engagement team and the organisation, in particular, its key executives, its finance department and the chairman of its audit committee? | | | | |
| 50. | Has the finance director, head of internal audit and other members of senior management provided positive feedback on the quality of the audit work? | | | | |

| | | | | | |
|-----|---|---|---------------------------------------|----------------------------------|-----------------|
| 51. | Has the auditor been sufficiently robust in dealings with the finance director and other organisation management? | | | | |
| 52. | Has the auditor met with the audit committee without management present, and been sufficiently transparent and incisive? | | | | |
| 53. | Has the auditor notified and discussed with the audit committee any problems arising in dealings with the finance and other directors and other organisation or group management, including concerns as to the competence and integrity of these individuals? | | | | |
| 54. | Does the audit committee consider that the audit was effective? | | | | |
| | | No issue/ good practice identified | Minor issue to monitor | Issue to be addressed | Comments |
| 55. | Where prior year adjustments have been identified, should they have been identified by the auditor and, if not, why? | | | | |

| | | | | | |
|-----|--|--|--|--|--|
| 56. | Taking into account all the answers above, does the audit committee recommend to the board: a) the reappointment of the incumbent auditors (if mandatory audit retendering is not required); or b) retender the audit contract? | | | | |
| 57. | Has the audit committee properly documented its conclusions? | | | | |
| 58. | Have audit recommendations been implemented and, if not, why? | | | | |
| 59. | If relevant, has the audit firm requested a liability limitation agreement be put in place, and are the proposed terms reasonable and likely to be accepted by stakeholders? | | | | |

Points to note

To help the audit committee undertake the assessment, support and input is needed from internal control functions, the chief executive, the finance director, internal audit and possibly the organisation secretary. They will also need to discuss matters with the external auditors.

The audit committee will need to apply objectivity, judgement and document its assessment and conclusions.

3. APPENDIX A UK GOOD PRACTICE ON AUDIT COMMITTEES

FRC

Guidance on Audit Committees (FRC 2016)

Audit Quality - Practice Aid for Audit Committees (FRC 2015)

OTHER SOURCES OF GUIDANCE FOR PUBLIC SECTOR BOARD AND AUDIT COMMITTEE MEMBERS

Scottish Government

On Board: a guide for members of statutory boards of public bodies in Scotland (Scottish Gov 2017) - high – provides a high level guide and refers to the Audit Committee Handbook (below).

Audit Committee Handbook (Scottish Government 2008) – advises cooperation with internal audit but excludes evaluation of external audit.

HM Treasury

Audit & Risk Assurance Committee Handbook (HMT 2016) Internal Audit Quality Assessment Framework (HMT 2013) - provides guidance on evaluation of internal audit but not evaluation of external audit.

Scottish Funding Council

Handbook for Members of Audit Committees in Higher Education Institutions (SFC 2008) - includes a checklist for assessing external auditors at Appendix 11.

Audit Scotland Quality Framework (2017) explains assessment by Audit Scotland rather than by the bodies themselves.

NAO

Audit and Risk Assurance Committee Effectiveness Checklist (NAO 2017) - makes reference to the Treasury Audit Committee handbook and provides a self-assessment checklist for audit committees (but not evaluation of auditors).

Round up for Audit Committees is a twice-yearly round-up which helps Audit Committees, Boards and other users to find the NAO resources for the strategic management of public sector organisations.

Other documents for Audit Committees, includes **Transformation guidance for audit committees** and **Survival guide to challenging costs in major projects**.

ACKNOWLEDGEMENTS

The ICAS Policy Leadership Board would like to thank the members of the **ICAS Public Sector Panel** for assisting in the preparation and review of this guidance. Members were acting in their personal capacity and were not representing the organisations for which they work.

Authors:

Alice Telfer
Head of Business Policy
& Public Sector
ICAS

Russell Frith
Former Assistant Auditor
General
Audit Scotland, member of
ICAS
Public Sector Panel

Download free:
[icas.com](https://www.icas.com)

Email:
accountingandauditing@icas.com

This document is intended as guidance and no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or the publisher.

All rights reserved. This publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, with appropriate acknowledgement of the publisher and notification to the publisher.

Published March 2019
ICAS
© 2019
ISBN: 978-1-909883-52-9
EAN: 9781909883529

3.1.1 24



CA House 21 Haymarket Yards Edinburgh EH12 5BH enquiries@icas.com +44
(0)131 347 0100 icas.com