



RSM InterFinance & Governance **GOVERNANCE NEWSLETTER N° 4**

Practical rule for the evaluation of the external auditor

The audit committee should evaluate the work performed by the external auditor and recommends or not to retain the auditor.

This evaluation should cover different areas :

- Ethics (independence, objectivity, professional skepticism...)
- Qualification & performance
- Communication between the auditor and the company & its audit committee.

During this evaluation process, the audit committee should take into account the opinion of the management & internal audit.

The evaluation should be continuous during the audit process and lead to the final assessment at the end of the 3 years mission.

Shareholders should be informed of the evaluation process led by the audit committee, its scope and results.

In order to perform this assessment, a questionnaire can be used by audit committees. This newsletter includes an example of questionnaire that should be further tailored to the specific needs of each audit committee.

See appendix for an example of :

- questionnaire for the evaluation of the auditor by the audit committee
- questionnaire to obtain input from management regarding the auditor's evaluation



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***Need advice or an answer to your questions ?
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EXAMPLE OF QUESTIONNAIRE FOR THE EVALUATION OF THE AUDITOR BY THE AUDIT COMMITTEE

Auditor ethics (independence, objectivity and professional scepticism-

The auditor must be independent from the company audited and should be in a position to advise the audit committee of services that can be performed by the auditor without causing independence issues. The audit committee also assesses the objectivity and professional skepticism of the auditor, for example concerning the audit of estimates and disclosures made in the financial statements by management. This objectivity will be best evaluated through open ended questions from the audit committee to the audit team.

Examples of questions

1. Did the auditor confirm his/her independence to the audit committee every year in writing ?
2. Did the auditor provide a list of all additional services performed and examine with the audit committee the matters that might be impacting the auditor's independence?
3. Did the auditor explain safeguards put in place to detect any independence issue ?
4. Were there significant different differences of opinion between management and the auditor ? if yes, did the auditor give a clear point of view on accounting issues being the source of difference of opinion ?



Qualification and performance of the auditor-

The audit committee should evaluate the quality of services provided by the auditor as well as the skills and experience of the primary engagement team members.

The auditor should demonstrate a good knowledge of the company and its industry and formulate a correct risk assessment (central to the audit process).

For companies located in various countries, the audit committee should consider the quality of the audit firm's network/local audit teams.

Examples of questions

1. Did the audit team and its engagement partner have the appropriate skills and experience to perform a quality audit ? Did the audit committee consider that appropriate resource were dedicated to the audit ? Was the engagement partner available for the audit committee/management and did he/she seek feedback ?
2. Did the auditor discuss the risk assessment and audit response with the audit committee (and updates of these during the audit)? Was the risk of fraud discussed?
3. Did the auditor give information about the experience and skills of engagement team members in other location (if applicable)? Did the auditor explain the local auditor's work review process ?
4. Did the auditor meet the agreed upon criteria such as engagement letter content and audit scope ?
5. In case of consultations of technical resources on accounting and auditing matters, was the audit committee informed?
6. Was the cost of the audit in line with the size, complexity and risk assessment of the company ?



Communication between the auditor and the company & its audit committee

It is essential to have an open and regular communication between the auditor and the audit committee. Such communication should cover the key accounting/auditing issues that could give rise to a risk of material misstatement in the financial statements as well as any question the audit committee members might have.

Examples of questions

1. Did the engagement partner maintain an open dialogue with the audit committee ?
2. Was the engagement partner able to explain clearly accounting and auditing issues ?
3. Did the auditor discuss the quality of the financial statements including the reasonability of accounting estimates and judgments ? was the company's accounting policy compared to industry trends and leading practice ?
4. Did the auditor inform the audit committee of any lack of cooperation from management and other issues during the audit (e.g. quality of financial management team)?
5. Did the auditor make sure that the audit committee was informed of any changes in accounting standards applicable to the company's financial statement?

EXAMPLE OF QUESTIONNAIRE FOR THE EVALUATION OF THE AUDITOR BY MANAGEMENT

The rating can be on a scale of 1 to 5 (from not satisfied to completely satisfied).

Ethics (independence, objectivity, professional skepticism)	Rating
1. The auditor demonstrates independence	
2. The auditor demonstrates integrity and objectivity	
3. The auditor has enough skepticism to deal with difficult situations	
Quality of service and performance	Rating
4. The services provided by the auditor are meeting commitments	
5. The auditor is proactive during the audit process & identification of risks	
6. The auditor delivers value for money	
7. The engagement team understands the business	
8. The engagement team is technically competent and has the appropriate technical knowledge for the company's audit	
9. The engagement partner assigns the appropriate resources to perform the audit in a timely and professional manner	
Communication between the company and the auditor	Rating
10. The auditor maintains sufficient and efficient communication with management	
11. The auditor communicates about matters related to the firm and its reputation	
Recommendation	
Are there improvements that the auditor should consider to improve the quality of the audit ?	

Prepared by..... Title.....
Date

Signed.....

Form to be returned to :
If you have questions, please contact