

What is an effective audit and how can you tell?

Paper prepared for the Audit Committee Chair Forum
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The Audit Committee Chair Forum (ACCF) is convened by the CBI and Ernst & Young working in association with Cranfield University, which facilitates the meetings and produces the outputs.

The Forum comprises a group of audit committee chairs from the UK's leading companies. It exists for senior audit committee chairs to:

- network, debate best practice and share concerns, and/or
- identify lobbying points for the CBI.

The forum provides an opportunity to contribute to the debate, influence its direction and improve the performance of audit committees.

The forum is currently chaired by Sir Anthony Greener, Deputy Chairman of BT Group with Gerald Russell, Senior Partner at Ernst & Young, and John Sunderland, President of the CBI, as vice chairs.

This is the fourth paper produced by the ACCF. Previous papers include:

- 'The role and function of the Audit Committee', raised some interesting points about the effectiveness of audit committees and is available electronically.
- 'Financial literacy' – what does it mean?', discussed the interpretation of recent and relevant experience within audit committees.
- 'The drivers of audit quality', summaries the discussion that took place with the FRC and poses the questions that all audit committee chairs should be asking of themselves and their committee when considering audit quality.

To obtain copies or discover more about the ACCF please contact the forum secretary, Kay McCulloch at the CBI, at kay.mcculloch@cbi.org.uk.



Executive summary

- The Combined Code requires that audit committees conduct an annual evaluation of the effectiveness of the audit process. In order for this to be done properly, committees need to determine what they mean by effectiveness, and to implement appropriate procedures for the evaluation.
- Audit effectiveness means different things to different people. Formal definitions revolve around the quality, competence, procedures and independence of the audit firm.
- In practice, the effective audit is less easy to identify than the ineffective audit. However, the latter may only come to light if problems surface at some future time. If there are no underlying problems, the fact that an audit was ineffective may not be apparent.
- The output of an audit is in the form of a series of reports and presentations. To some extent, the effectiveness of the audit is judged on these, and on the level of service given by the audit firm.
- The outcome of an effective audit includes financial statements that present a true and fair view, and advice on how the company's processes may be improved. An effective audit is completed to schedule, and with minimal disruption to the company.
- Prerequisites for an effective audit are an effective audit firm and team. The firm needs sound procedures; the team needs an understanding of the company and industry, together with judgement, objectivity and independence of mind.
- Some audit committees use checklists as a means to evaluate the effectiveness of their audits. Others choose to do the evaluation in a less formal way, by means of a discussion. In either case, the input of management is essential to the process, as the audit committee members are at a remove from the detail of the audit process.
- Increased regulation over the past few years has led to pressure on auditors. There is some fear that too much time is being spent on boilerplate and audit checklists, in order to meet review requirements. Audit working papers have improved, but not necessarily audit effectiveness.
- There is a commercial requirement for auditors to keep fees down, by working more efficiently. However, this must not lead to the audits being less effective.



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Introduction

The Combined Code (2006), restating earlier Codes, declares that one of the duties of the audit committee is to

“... review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements”

This requirement is elaborated upon in the Smith Guidance (2003), which requires the committee to

“... assess the qualification, expertise and resources, effectiveness and independence ... of the external auditors annually. The assessment should cover all aspects of the audit service provided by the audit firm, and include obtaining a report on the audit firm’s own internal quality control procedures.”

In order to conduct such an assessment, the audit committee needs to understand what is meant by audit effectiveness, and determine the most appropriate methods of evaluation.

This paper reflects the discussions of a meeting of the Audit Committee Chair Forum (ACCF) held on 2nd November 2006 to address the issue of audit effectiveness and evaluation. Additionally it draws upon published sources, upon telephone interviews with four members of the ACCF and upon interviews and discussions previously conducted with members of the ACCF.

The interviews and meeting directly related to this matter solicited the views of ten Chairs of the audit committees of leading companies, and three audit partners from Ernst & Young.

The formal questions addressed in the briefing document circulated prior to the ACCF meeting are set out in Appendix 1.

What is an effective audit?

“A lot of the [audit] fee seems to be about ‘do the financial statements comply with two thousand two hundred checklist points?’, rather than ‘do the assets exist?’. In previous years, there was less in the financial statements but more emphasis on the audit. ... We’re looking to the auditor to do two things. ... The technical side [IFRS] is probably harder than the side in which the audit committee has some knowledge – having seen the company throughout the year; does the balance sheet feel right or not?”

A clear understanding of audit effectiveness is a prerequisite of audit evaluation. Effectiveness has many aspects, relating both to the particular audit and to the audit firm in general. Furthermore, effectiveness is to some extent in the eye of the beholder – it means different things to auditors and to audit committee chairs, and may also differ between companies and over time.

Defining the effective audit

A formal definition

“Effectiveness can be regarded as a composite of competence, procedural arrangements, quality control and quality assurance. The procedural arrangements can be regarded as the tools used by firms and individuals to ensure that audits comply with technical standards, i.e. legal requirements, regulators’ requirements and auditing standards set by the APB [Auditing Practices Board], and taking into account the supplementary material in APB Practice Notes and Bulletins”¹

Taking this definition (which is one of several) as a starting point, the audit committee, in evaluating effectiveness, should have regard to: competence, procedures, quality control and quality assurance. Such matters appear often in the professional literature on audit effectiveness². However, the discussion at the ACCF meeting came up with a list of indicators that was felt to be more relevant to the needs of the audit committee, as discussed below.

A practical understanding

“You can answer it in the negative. What is not an effective audit? If you know what is not an effective audit you can see what is. It’s not lots of hassle from the FRC [Financial Reporting Council]; the FD in prison; the chairman of the audit committee close to prison! If something goes wrong you know it’s not effective ... but if there was no underlying wrong, you might never know the audit was not effective.”

The quotation above sets out a key dilemma of the audit committee in assessing audit effectiveness. It is easy to see, with hindsight, what was not effective, but effectiveness itself is less obvious. The matrix in Figure 1 shows four possible alternatives, only one of which will present problems.

Was there an underlying problem? Yes	(1) If the problem is later uncovered, this is evidence, in hindsight, that the audit was not effective.	(4) The audit detects the problem – effectiveness demonstrated.
	(2) No direct evidence to demonstrate that the audit was not effective.	(3) No direct evidence to demonstrate that the audit was effective
No	No	Yes
	Was the audit effective?	

Figure 1 – Audit effectiveness in the presence or absence of underlying problems

¹ Evaluating Your Auditors. Institute of Chartered Accountants in England and Wales, 2003.

² For example, the report of the USA’s Panel on Audit Effectiveness (2000) discusses audit effectiveness in terms of quality control procedures, audit methodologies, and promotion, training and review systems within audit firms. <http://www.pobauditpanel.org/>

Quadrant 1 of Figure 1 highlights the danger to companies, auditors and audit committees. Here, a poor audit fails to pick up an underlying problem, potentially with serious consequences for all. Quadrants 2 and 3 present no danger to the audit committee – after all, there is no underlying difficulty. However, it is difficult for the committee to determine from direct evidence whether or not the audit was satisfactory: has it uncovered no problems because there were none, or because it was inadequately planned or conducted? Only in Quadrant 4 can the audit committee see direct evidence of the effectiveness of the audit.

Given the difficulty, in the absence of detection of a problem, of determining whether the audit was effective, it was suggested at the ACCF meeting that effectiveness might be proxied by examining the characteristics of an effective audit team. The relevant questions were seen to be:

- Is the team competent?
- Do its members have knowledge of the industry?
- Do they have sound judgement?
- Are they objective?
- Do they have integrity?

All of these matters were considered important.

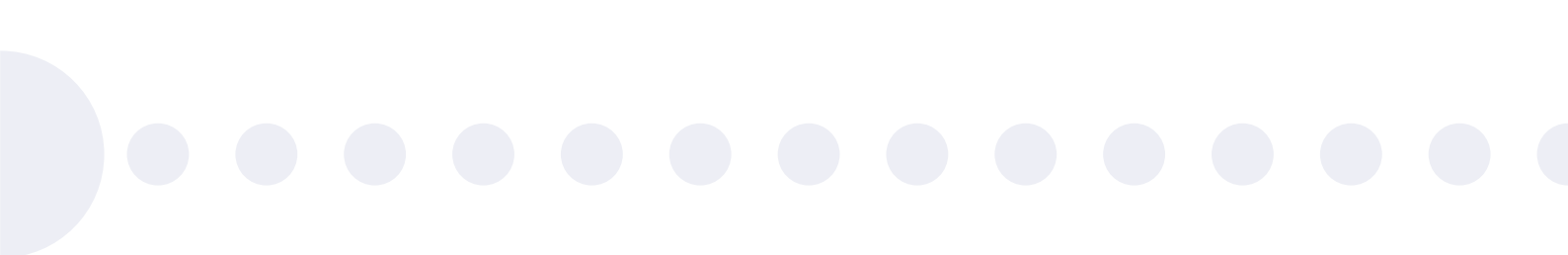
After much discussion, in which the participants were largely in agreement, the ACCF meeting determined the characteristics of an effective audit as being:

- The financial statements presented a true and fair view of the company's financial position.
- Useful areas for improvement in the company's procedures were highlighted.
- Work was completed to schedule, and with minimal disruption to the company.
- The 'boilerplate' (i.e. all of the relevant checklists and disclosures) was covered.
- The financial statements were satisfactory to the Financial Reporting Review Panel (FRRP) of the FRC, or the audit committee was made aware of instances where they might not be acceptable, and had taken an informed decision thereon.

There are two aspects to the effective audit – an effective audit firm, and the particular audit being effective. The participants and interviewees took it for granted that their audit firms would be competent and meet quality control issues³. However, it would be possible for an effective firm to conduct an ineffective audit, due to a failure of procedures in that particular instance. Thus it was felt by and large that committee evaluation of audit effectiveness was appropriate, regardless of regulatory activity aimed at ensuring the effectiveness of audit firms.

A further point raised was that it would be possible to have an effective audit, but an ineffective audit service. This would reflect problems in how the audit was conducted, rather than in the audit outcomes. It could be evidenced in personality problems between the audit personnel and the company's finance department or the audit team. Overall, the level of service was considered to be an important aspect of the whole process.

³ All the companies represented were audited by Big Four audit firms.



A related issue was that it was felt that the term ‘effective audit’ could mean different things to the audit committee and to the auditors. For example, an audit committee Chair at the meeting indicated that he would be satisfied if the financial statements stood a 95% chance of not receiving a critical letter from the FRRP; but he suggested that his auditors, with their own reputation to consider, might consider that as too high a risk.

An audit partner present at the meeting commented on audit effectiveness from his point of view:

“Do I understand the risks in this business? Has the audit dealt with them? Do I understand all the compliance issues? Is it covered in my internal review? Have I understood all of the audit committee’s concerns and expectations? Have I looked at the committee as a whole and at the individual members, as their issues may be different? I have to deliver to standards, but have I understood it from the other side as well as complying with company law?”

To summarise, ‘effective’ was likely to mean different things to different individuals in different companies, and at different times.

The effective audit firm

“In a beauty contest, you assume the people in front of you are all qualified to do the task.”

To conduct an effective audit, the audit firm must have satisfactory procedures in place, and good people in its employ. As the previous section indicates, it was generally assumed that the Big Four firms would have such procedures and people; this was taken as given, and little or no work was done by the audit committees to verify it. It was noted that Group A firms probably also had good people and procedures, but that there might be an issue regarding their capacity and resources to carry out the work at the largest companies. The relationship between the effectiveness of the firm, the team and the audit, represents a Pyramid of Audit Effectiveness, as shown in Appendix 2.

Current best practice is that the audit firm should demonstrably be independent. In order to facilitate such independence, it has become customary for the role of audit engagement partner, and other partner-level contacts, to rotate amongst the partners in a firm. There is no specific requirement for the audit manager to be changed, although the audit engagement partner must review the independence of such individuals, and recommend rotation if appropriate, to safeguard the firm’s independence. There is no requirement for the audit firm itself to be changed regularly.

The view of the ACCF meeting was that partner rotation, although challenging and time-consuming, was not overly disruptive for the company, and, over the cycle, was in general useful. Individual partners take different approaches, and it was good to have a fresh pair of eyes on an audit, although it was noted that

the first year of the new partner can result in a *less* effective audit, as the new individual needs time to learn about the company.

This appreciation of rotation did not apply to audit firm rotation: this was viewed as both inappropriate and disruptive. Auditor independence was considered to be adequately assured by virtue of audit firms' internal procedures and the partner rotation requirement; no requirement for firm rotation was considered necessary.

The effectiveness-efficiency trade-off

“There is increasing pressure on the audit firm to do the work for last year’s fee. But, with the emphasis on governance, you don’t want to push them too far. We need an effective audit.”

“What would we get for half the audit fee?”

Effective: producing a desired or intended result

Efficient: working productively with minimum wasted effort or expense⁴

The effective audit is not necessarily an efficient one; nor does efficiency imply effectiveness. It would be possible for the firm to over-audit, conducting an audit that met all of the effectiveness criteria, but at the expense of too much management time and cost. Such inefficiency would not be satisfactory. Likewise, it would be possible for the audit to be conducted efficiently, but to be lacking in some areas and thus not effective.

As discussed earlier, although unsatisfactory, an ineffective audit actually only causes difficulties if it fails to unearth problems that would otherwise have surfaced. At this point, it becomes dangerous for both the client and the audit firm.

Two views on the effectiveness/efficiency trade-off emerged, relating to the planned scope of an audit. One was that in some instances the audit firm might be able to sign off having examined, say, 75% of the company’s activities, but that the audit committee might demand more assurance, for their own benefit. A contrasting view was that in other instances, the auditors were perhaps doing more work than the committee required, in order to protect their own position. We return to this latter point in the next section.

⁴ Definitions from the Concise Oxford English Dictionary

The impact of changes in audit regulation

“There’s been a huge change in the last couple of years in the tension between the audit firm and management.”

The view of the ACCF meeting was that increasing regulation had changed the auditor-company relationship over the past few years. This was seen in the formalisation of requirements for auditor independence; in the Sarbanes-Oxley legislation in the USA; and in an increased appreciation of audit risk assessment by all parties. In particular, it was suggested that the audit firms had been more demanding of management in recent years, and had pushed more work and representations back to the finance team.

As regards the Sarbanes-Oxley Act, this has had an impact on all large companies, whether or not they fall under its jurisdiction, as it has changed the way that auditors operate. By and large it was considered that Sarbanes-Oxley was making audits less efficient, as the auditors were spending much more time on detailed compliance issues, possibly at the expense of the broader picture.

“... it’s process and mechanisms... huge cost and very little discernable benefit, and it’s taking time away from the audit.”

It was considered that this increased focus on audit processes had led to better audit working papers rather than, necessarily, better audits. Justifying everything in writing had become increasingly important to the audit firms, who are subject to internal and external review, but this was not necessarily a benefit to their clients. Furthermore, the increased level of boilerplate documentation that auditors felt obliged to send to their clients was in some cases believed to obscure the key issues that should be addressed, and made it more difficult to judge the quality of the audit.

How does the audit committee evaluate effectiveness?

Assessing the audit

“It’s extraordinarily difficult for the audit committee – for many people – to know if it’s an effective audit.”

Although it is the responsibility of the audit committee to evaluate audit effectiveness, the participants were unanimous in their view that this is an impossible task for a committee of non-executives (NEDs) to do on its own. Audit committee members spend little time at the company, and their contact with the auditors tends to be limited to set-piece meetings with the audit

partner(s) and senior manager(s), supplemented by informal discussions. They have little direct interaction with the conduct of the audit.

Furthermore, audit by its nature is difficult to evaluate. Referring to the definitions of effectiveness set out earlier, and the practical understanding of effectiveness that arose from the meeting, many aspects of this will not become evident until the process is ended. If, for example, a fraud has gone undetected, this might surface months or years after the audit was completed. Thus, as the quote below indicates, assessing the audit is only true with hindsight.

“It’s hard to know in real time if it was an effective audit. You only know historically if it was not. ... Therefore, all you can do is judge: are they showing the characteristics of an effective audit?”

From this, we may conclude that it is only possible with hindsight to assess an ineffective audit.

Building upon this idea, and with reference to Figure 1, one participant suggested that, in order to deal with the issue of being unable to determine the effectiveness of an audit where there were no underlying problems, it might be appropriate for committees deliberately to seed errors in the financial statements, in order to determine whether or not the auditors found them. Although this idea had some appeal for its novelty, it was felt that it could present practical difficulties, and was not pursued.

In order to evaluate audit effectiveness we need to revisit the participants’ views on how such effectiveness is evidenced. As set out earlier, an effective audit demands an effective audit team, one in which at least some members of the audit team have good knowledge of the industry and the business. Furthermore, discussions of audit effectiveness included areas such as the quality of the people on the audit; the setting of scope and materiality levels; and the application of judgement rather than just process. In particular, given that audit practices revolve around risk assessment, an understanding of the auditors’ risk assessment processes was considered important.

Matters such as these are often intangible and difficult to evaluate. Methods used by the ACCF participants in conducting these evaluations are discussed in the next section.

Evaluating the auditors

“The danger in going down the checklist route is that you lose contact with what’s going on in the business.”

“At least if we’ve done it[completed a checklist] we can show them we’ve done it. It’s a sign of the box-ticking age.”

Two broad approaches were taken to the issue of audit and auditor evaluation. Some of the participants made use of checklists made available by auditing firms and professional bodies, others relied on informal discussions.

Use of checklists

Most of the larger audit firms publish checklists on audit evaluation, which are freely available for download. Similarly, the professional institutions have developed such questionnaires. Examples of the issues covered in these are shown in Appendix 3.

Many of the participants had adopted these questionnaires, which they found useful (although some were considered to be much more user-friendly than others). Two main advantages were perceived for the checklist approach:

- It ensured that nothing obvious was missed in the evaluation; and
- It provided an audit trail, should the committee ever be challenged on what it had done.

However, a stated disadvantage was that many of the questions in the checklists were better answered by management than by the audit committee members; as non-executives the latter rarely have the exposure to the auditors that this might require. For example, they are not au fait with the relationships between the auditors and various levels of the company's finance team, or with the quality of audit staff below partner level. Accordingly, in most of the companies discussed, questionnaires were completed jointly by the audit committee and the finance department (sometimes, but not always, with input from the internal audit department as well), or completed separately by the parties, with the results being compared.

A client of one of the audit partners at the meeting had developed its own questionnaire, by selecting questions and issues from a variety of published sources. This instrument focussed some its questions on the audit committee, some on the members of the finance department, and some on both. This was seen to be a useful way to proceed.

A participant also commented that previous years' checklists can be valuably employed as a starting point for the following year's discussion with the auditors as to how the audit should be conducted.

"If a checklist is just a checklist then it's not getting you very far. ... The checklist should be used as a spur to the process."

Informal methods of evaluation

By and large, those ACCF participants who sat on or chaired more than one audit committee either always used checklists, or never did. However, the actual procedures used in each of their committees, whether formal or informal, differed considerably. One Chair stated that he used checklists in some companies where he was on the audit committee, but not in others. This multiplicity of approaches appears to be, as one participant indicated, a matter of "custom and practice" that has developed in individual companies, where no-one has seen any need to change practices that appear to work.

⁵ Of course, nothing prevents the use of checklists on such an ongoing basis.

Reasons given for not using checklists revolved around the perceived need for a less structured process, one tailored to the company's specific context. In such audit committees a discussion was held about audit effectiveness, although the minuting of this discussion might not always be in-depth. Furthermore, it was considered that the judgement of audit effectiveness is a continuous process, rather than just a snapshot at the end of the audit⁵.

Further thoughts on evaluation

“Do I feel comfortable that the senior management and the auditors have an open dialogue?”

Ultimately, whether or not checklists are used, audit evaluation comes down to a matter of judgement. The audit committee needs to be assured that the dialogue between management and the auditors has been extensive and robust. This can be done through one-to-one conversations between the committee chairman/members and the external auditor, the management team, and the internal auditor. The committee then needs to determine whether it is receiving a consistent story from all parties, and whether the appropriate levels of tension between the parties are evidenced.

Examples of questions that may be appropriate for the committee members to ask are:

- Take us through where there has been tension in the relationship.
- What issues have you, the auditors, already agreed and dealt with that you are not bringing to this meeting?
- What's not on the agenda?

One critical area is the committee members' view of the independence of mind of the auditor, especially when it comes to evaluating subjective issues regarding the financial statements. Other matters for evaluation, of a more routine nature, would be areas such as the quality of the discussions on risk management and audit planning; the audit letters; the timeliness of the audit work and meeting deadlines (which is also dependent on management effectiveness); and the presence or absence of late changes to the accounts.


Having said this, there is a rebuttable presumption, on the part of all parties, that the audit has been effective. This is demonstrated in the following quotes from audit committee Chairs:

“There's a presumption that it's alright unless you find reason to think that they are not.”

“It's three people [senior management, auditors and audit committee] who've all got a vested interest in getting the right result.”

This presumption of trust reflects previous work done with the ACCF, in which Chairs discussed the need for trust between the non-executive directors and the executives and management. It also echoes that of the auditors themselves when approaching the audit, as reflected in a comment made by Mike Rake, retiring senior partner of KPMG:

“When you take on an audit, you assume that everyone is honest, that everyone is competent: if you find that they are not competent you do extra work, if you find that they are not honest you resign the audit. But the primary assumption has got to be that you trust people. So if you get to a point where you are not allowed to trust people at all, you get into an impossible situation. There are not enough people on the planet to do the auditing necessary if you can't trust people.”



One final point on audit evaluation is worth highlighting. As stated above, it is not a process that can be conducted solely by the non-executive directors. Thus the audit committee relies in part on management in its assessment of the auditors – who are, of course, effectively passing an opinion on that self-same management. Interviewees suggested that this had not been a problem, although a comment was made that if the relationship between management and auditors was bad, one might not really understand the reason behind this.

Other issues to consider

The value-added audit

“The auditors did a ton of work to produce the certificate. So please give me your learnings from this work.”

Although the primary purpose of the audit revolves around a set of financial statements that show a true and fair view, the view of the meeting was that the Chairs expected more than just that from their auditors. The audit firm spends a lot of time, and of the company’s money, evaluating a company’s processes, and the committee Chairs were interested in a broader report on the outcomes of this, i.e. a value-added aspect to the audit. It was appreciated that in order to conduct this properly, the auditors would be extending the scope of their work, and would have to charge a higher fee. No firm conclusion was reached as to how audit committees would (a) determine how much extra they would be prepared to pay for a value-added audit, and (b) how they would determine its effectiveness.

Future challenges: the audit committee and the Board

“There’s a risk of creating a huge engine of bureaucracy.” [audit partner]

For financial years beginning on or after 1st April 2005, amendments to the Companies Act 1985 introduced a requirement that the directors’ report must contain a statement to the effect that:

- (a) in so far as [each] director is aware, there is no relevant audit information of which the company’s auditors are unaware, and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company’s auditors are aware of that information.

This formalisation of what used to be an implicit obligation has led to difficulties for some directors, particularly NEDs. They may not have knowledge of what information would be relevant to the auditors, nor knowledge of what has or has not been disclosed. This situation is exacerbated for NEDs who do not sit on the audit committee.

As part of their discussion about audit effectiveness, the ACCF participants considered this issue. Although no firm conclusions were reached, it was agreed that it will be appropriate for the audit committee, as a sub-committee of the Board, to report fully on this matter to the Board, and possibly for the audit partner to make a Board presentation, taking all of the directors through the letter of representation and other key issues.

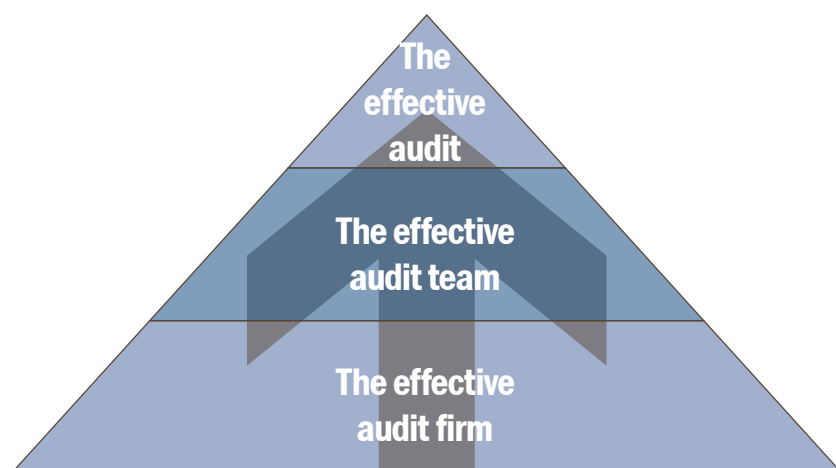
Questions to ask yourself?

1. What does my audit committee understand by the term 'audit effectiveness'?
2. What procedures do we carry out in order to ascertain whether the audit was effective? Are these procedures achieving the desired results?
3. Are our procedures for determining audit effectiveness sufficiently robust, and documented, that we could defend our position should the need arise?
4. How do we make the trade-off between audit effectiveness and audit efficiency?
5. Would we be prepared to pay extra to extend the scope of our audit to improve the value-add?
Alternatively, if we were to reduce the audit fee, what work that is done now would no longer be covered, and would this matter?

Appendix 1 – Questions circulated prior to the ACCF meeting on 2nd November 2006

1. What does your audit committee understand by the term ‘audit effectiveness’?
2. How does the rotation of audit partners improve or detract from the quality of the audit?
3. Do you believe that changes to governance regulation such as the Smith Guidance, the EU 8th directive, and the Sarbanes-Oxley Act in the United States have made audits more effective?
4. What procedures should the audit committee carry out in order to ascertain whether the audit was effective? How much time should be spent on this?
5. What do you see as the appropriate trade-off between audit effectiveness and audit efficiency? How do you know how this trade-off is being made?
6. In assessing whether an audit is effective, how much reliance should the audit committee place on the views of management?

Appendix 2 – The pyramid of audit effectiveness



The aim is to achieve an effective audit. In order to achieve this aim, both the audit team and the audit firm need to be considered.

It is unlikely that an effective audit could be done by an ineffective audit team, except by accident. Thus the effectiveness of the team is an essential precondition for audit effectiveness. Likewise, an effective audit team is most likely to come out of an effective firm, one that has the ability to attract good people, and the systems in place to train and support them in their professional activities.

An effective firm is no guarantee of an effective team; and an effective team is no guarantee of an effective audit. However, the absence of any of these building blocks must cause concern to the audit committee in its evaluation of the audit.

Appendix – 3 Some areas to consider in evaluating audit effectiveness

- Leadership and structure of the audit firm, and its remuneration policies.
- Culture and professionalism of the audit firm, including training and technical matters.
- Independence of auditor, and the significance of this client to the firm.
- Capacity of the audit firm to undertake this audit.
- Quality and frankness of communication between the auditor and the audit committee, including discussions regarding the company's management and the quality of the accounting policies and information.
- Audit planning, assessment of risks, and how these translate into the level of materiality and the audit work. Were the plans adhered to in practice?
- Scope and timing of the audit – does it cover all relevant areas and is the timetable appropriate? Was the timetable adhered to?
- Level of industry knowledge, of the firm and of the team.
- Knowledge and skills of the audit personnel, at all levels.
- Quality of relationship between the external auditors and the internal auditors, as well as that with the finance team.
- If relevant, quality of relationship between the auditors and firms which audited other parts of the group.
- Technical ability of the firm and the partners and staff involved in the audit.
- How the auditor demonstrated judgement in conducting and reporting the audit.
- How the audit fee compares to that for peers.

Note – this is merely illustrative, taken from various checklists, and does not in any way represent a complete list of issues to consider.

⁸ Sources used include: 'Evaluating the Independent Auditor – Questions to Consider' The AICPA Audit Committee Toolkit <http://www.aicpa.org/audcommctr/toolkitscorp/16.htm>; 'The Report of the Panel on Audit Effectiveness: Recommendations and Implication, Brian W Carpenter; Daniel P Mahoney; Zoe-Vonna Palmrose, *The CPA Journal*; Aug 2000; 'Evaluating Your Auditors', ICAEW.



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