

The Practice Aid was developed at the request of audit committee members, who asked for guidance to support their assessment of the external audit. It has been developed using feedback gathered at roundtables.

The audit committee assessment uses evidence obtained in the course of undertaking normal oversight of the financial reporting process. It draws on the audit committee's observations of, and interactions with, the auditors. Audit committees obtain further evidence through interactions with management, company personnel and from external parties such as regulators.

The 'evaluation pyramid' can be applied by audit committees to assess audit quality in the particular circumstances of the company. Most critically the auditor's mindset and culture; skills, character and knowledge; and quality control, are necessary to support them in making reliable and objective judgments, at all stages of the audit. These judgments underpin their audit opinion and are critical to delivering high audit quality.

The Practice Aid includes examples of audit committee practice and can be found by following this link:

<https://www.frc.org.uk/Promoting-audit-quality.aspx>

## Contact details and further information

### Financial Reporting Council

8th Floor  
125 London Wall  
London  
EC2Y 5AS  
United Kingdom

Tel: +44 (0)20 7492 2300  
Fax: +44 (0)20 7492 2301

### Press Office

Tel: +44 (0)20 7492 2395

Follow us on twitter: @FRCnews

[www.frc.org.uk](http://www.frc.org.uk)

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**Audit  
Quality  
Practice Aid**  
For Audit Committees

# Overview of an assessment

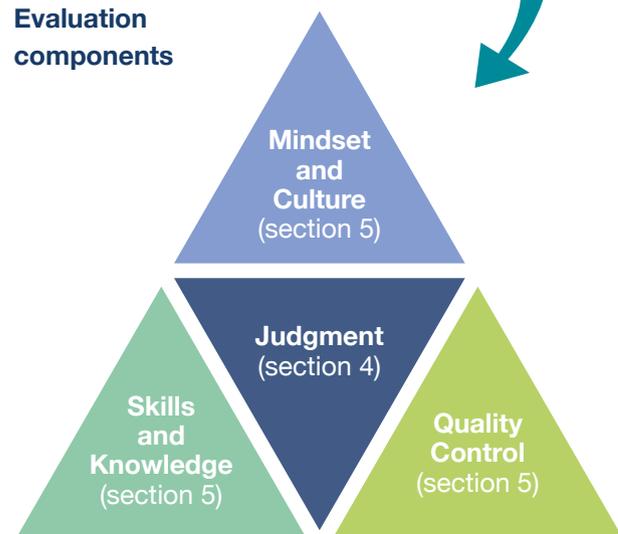
(See Section 2 of the Practice Aid)

## Inputs

(sources of evidence)



## Evaluation components



## Concluding and Reporting

(see Financial Reporting Lab report 'Reporting of audit committees')

## Carrying out the evaluation

To obtain evidence of quality throughout the audit, audit committees might:

- **Hold an initial audit committee discussion without the auditor** to 'brainstorm' factors that could affect audit quality for the current year;
- Ask the auditor, to **explain the risks to audit quality that they identified** and how they intend to address those risks by reference to the specific circumstances of the company's audit;
- Ask about the **key audit firm and network level controls the auditor expects to rely on** to address the identified risks to audit quality;
- Enquire about the **findings from internal and external inspections** of their audit and their audit firm; and
- Probe and **challenge the auditor's strategy and plan** in light of the outcome of the audit committee's initial discussion.

When discussing the auditor's findings, the committee might:

- Ask the auditor to **explain how they addressed the risks to audit quality** identified and discussed at the planning stage;
- Hold an audit committee discussion to **weigh the evidence they have received** in relation to each of the areas of significant judgment; and
- Ask the auditor for their **perception of their interactions with senior management** and other members of the finance team.

## Examples of Audit Committee Practice

Audit Committee (AC) Chair attended regular meetings with the Engagement Partner (EP) throughout the year without management being present. This provided the AC Chair with an opportunity for open dialogue. The EP demonstrated their understanding of the company's business risks and the consequential impact on the financial statement risks. Was also able to obtain feedback on the conduct of the audit from the EP's perspective to determine if any challenges in the prior year audit would be sufficiently addressed in the next audit cycle.

The EP challenged the Finance Director (FD) with tough questions about how the FD reviews the company's supply chains and its business-disruption policies. In those discussions the EP could clearly articulate how improvements to the FD's review process could change the EP's approach to the audit. The FD noted that they were impressed with the EP's understanding of the business and industry challenges.

The EP called a meeting with the AC to discuss some of the findings in the audit quality inspection report. The AC raised a specific concern regarding a statement that the inspection team had found insufficient involvement in the subsidiary auditors' risk assessment. The EP shared several papers with the AC to demonstrate how the EP had addressed the matter to ensure appropriate challenge of the risks presented by the component would be undertaken.