

Periodic Comprehensive Review of the External Auditor

TOOL FOR AUDIT COMMITTEES

January 2014, updated September 2018



CPA

CHARTERED
PROFESSIONAL
ACCOUNTANTS
CANADA



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES



Institute of Corporate Directors
Institut des administrateurs de sociétés

DISCLAIMER

This paper was prepared by the Chartered Professional Accountants of Canada (CPA Canada), the Canadian Public Accountability Board (CPAB) and the Institute of Corporate Directors (ICD), as non-authoritative guidance.

CPA Canada, CPAB, and ICD do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material.

Joint Copyright © 2018 Chartered Professional Accountants of Canada, Canadian Public Accountability Board and Institute of Corporate Directors.

All rights reserved. This publication is protected by copyright. Written permission is required to reproduce, store in a retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise).

For information regarding permission, please contact permissions@cpacanada.ca.

Table of Contents

Commentary on 2018 Updates	1
Introduction	3
1. Determine the Scope, Timing, Process and Selection of AQIs	7
2. Obtain Input from Entity Personnel	9
3. Obtain Audit-Firm Input	13
4. Assess Areas for the Audit Committee to Consider	16
5. Conclude on the Comprehensive Review and Communicate the Results	23
Notes on Completing the Annual Assessment Tool	25
Appendix—Example AQIs	32

Commentary on 2018 Updates

While originally issued in January 2014, this publication has been updated in September 2018 to include commentary on audit quality indicators (AQIs). These changes have been prepared jointly by the Chartered Professional Accountants of Canada (CPA Canada), the Canadian Public Accountability Board (CPAB), the Institute of Corporate Directors (ICD), and a specially formed AQIs advisory committee.

The other content remains unchanged. Updates from original content are highlighted with a light blue flag in the margin.

Audit Quality Indicators

Background

AQIs have been gaining traction among audit committees and management as a way to quantitatively measure various aspects of the external audit. In this regard, AQIs can provide useful information for purposes of external auditor oversight and assessment by the audit committee.

Even though AQIs are primarily quantitative in nature, they are most useful when supplemented by contextual information and open dialogue among audit committees, management and the external auditor. However, because certain factors such as professional skepticism cannot be easily quantified, AQIs on their own are not a complete measure of quality.

The updates in this *Guide* are aimed at supporting the implementation of AQIs as part of the oversight and assessment process of the external auditor.

Sample AQIs

For a non-exhaustive list of commonly used AQIs, please refer to the Appendix.

Implementation and Additional Resources

Canadian experience has shown that audit committees are best served when they customize AQIs to their specific circumstances and information needs. Effective use of AQIs requires prior collaboration among audit committees, management and the external auditor to determine the AQIs relevant to their common objectives.

In order to facilitate the implementation of AQIs, we have prepared a broader document entitled, [*Audit Committee Guide to Audit Quality Indicators*](#). This guide provides a useful step-by-step process to help audit committees and management identify relevant AQIs, and establishes a general understanding of how they can be used to spark a discussion both internally and with the external auditor about improving audit quality.

For a practical application of AQIs as it relates to external auditor oversight, we have updated three of the Enhancing Audit Quality (EAQ) publications, including: this comprehensive review tool, along with companion publications, [*Annual Assessment of the External Auditor—Tool for Audit Committees*](#) and [*Oversight of the External Auditor—Guidance for Audit Committees*](#).

Finally, to help new audit committee members feel confident in understanding the various aspects of the external audit, CPA Canada has also developed a series of short training videos as follows:

1. [*What External Auditors Do: A Primer for Audit Committee Members*](#)
2. [*What External Auditors Do: The Audit Process*](#)
3. [*What External Auditors Do: The Audit Process Continued*](#)

By better understanding the external auditor's role, audit committee members may find it easier to select and evaluate AQIs and to assess the external auditors' performance.

Introduction

The Enhancing Audit Quality (EAQ) initiative examined how to enhance audit quality in light of global developments.¹ The initiative considered various alternatives for safeguarding against institutional familiarity threats—threats arising from long tenure of the audit firm—ranging from subjecting external auditors to term limits to calling for mandatory tendering of audits. The initiative concludes that the alternative most likely to safeguard against institutional familiarity threats and enhance audit quality is for audit committees to carry out a comprehensive review of the external auditor at least every five years.

A key oversight activity of audit committees is annually assessing the effectiveness of the external auditor. This helps audit committees meet their responsibility to make an informed recommendation to the board on whether or not the external audit firm should be put forward in the proxy material for reappointment at the annual general meeting. An audit committee uses the tool contained in the companion publication [*Annual Assessment of the External Auditor—Tool for Audit Committees*](#) for this purpose. In addition, as recommended by the EAQ initiative, audit committees should periodically (at least every five years) conduct a comprehensive review. The comprehensive review is deeper and broader than an annual assessment. For example, the annual assessment focuses on the engagement team, the engagement partner, their independence and objectivity and the annual quality of audit work performed; the comprehensive review focuses on the audit firm, its independence and the application of professional skepticism. The passage of time allows the audit committee to identify issues that may not be readily apparent on an annual basis. In the year that the comprehensive review is conducted, audit committees would usually use the comprehensive review tool in this publication rather than the annual assessment tool to assess the effectiveness of the most recent audit as well as any significant observations and trends during the comprehensive review period.

¹ The EAQ initiative, Enhancing Audit Quality: Canadian Perspectives, was a collaboration of the Chartered Professional Accountants of Canada (CPA Canada) and the Canadian Public Accountability Board (CPAB). Further information about the EAQ initiative can be found at www.cpacanada.ca/enhancingauditquality.

The comprehensive review tool identifies three key factors of audit quality for the audit committee to consider and assess:

1. *Independence, objectivity and professional skepticism*—Do the auditors approach their work with objectivity to ensure they appropriately question and challenge management's assertions in preparing the financial statements?
2. *Quality of the engagement team*—Does the audit firm put forward team members with the appropriate industry and technical skills to carry out an effective audit?
3. *Quality of communications and interactions with the external auditor*—Are the communications with the external auditor (written and oral) clear, concise and free of boilerplate language? Is the auditor open and frank, particularly in areas of significant judgments and estimates or when initial views differ from management?

Within each of these factors, a number of sub-questions are listed as possible indicators of audit quality. The audit committee needs to determine which of these indicators are most relevant in their circumstances and what information is available to assist them in their assessment. The accompanying notes provide more detail on the steps an audit committee may follow in conducting a comprehensive review of the external auditor, including factors to consider at each step.

The comprehensive review tool does not require audit committees to come to an overall measure of audit quality. Rather, it helps audit committees identify potential areas for improvement for the audit firm (and for the audit committee's own processes) and reach a final conclusion on whether the auditor should be reappointed or the audit should be put out for tender.

Reference can also be made to the companion document [*Oversight of the External Auditor—Guidance for Audit Committees*](#) which summarizes activities that audit committees perform to assess the external auditor, including the audit committee's comprehensive review of the external auditor.

The tool's questions should be adapted to meet the entity's specific circumstances. Audit committees may identify questions that are particularly relevant to their circumstances on which they need to focus, and ignore those that are less relevant. Audit committees may need to address additional questions

to focus more deeply on the most important matters for the comprehensive review of the external auditor. The tools allow space for the addition of other questions and points to consider as necessary.

Normally, the audit committee should consider matters that have arisen since the last comprehensive review. Where there has been no previous comprehensive review, the audit committee will need to determine when the first comprehensive review should be performed and what period the review should cover. It may be appropriate to conduct a comprehensive review before having five years' experience of annual assessments of the external auditor. For example, an earlier comprehensive review may be advisable on the initial application of the guidance in this publication if the audit firm's tenure is already long. More frequent comprehensive reviews may be needed if problems are identified or another triggering event occurs, such as a change in the entity's corporate structure.

The comprehensive review tool presumes the audit committee has conducted robust annual assessments of the external auditor throughout the review period prior to the comprehensive review. With this assumption, the comprehensive review tool focuses on the results of prior annual assessments and the incremental work over and above annual assessments required of an audit committee to conduct a comprehensive review, including observations from the most recent audit. If the audit committee has not conducted or has no record of annual assessments over the comprehensive review period, the audit committee may need additional background information. For example, the audit committee may need to ask entity personnel to refer to the *Obtain input from entity personnel* section of the comprehensive review tool, and use it as a reference for providing input on the external auditor to the audit committee with respect to any significant observations and trends arising during the comprehensive review period.

A possible step-by-step approach for using this tool is as follows:

1. *Determine the scope, timing and process of the comprehensive review*
The audit committee chair, perhaps in conjunction with other audit committee members, determines the scope, timing and process of the comprehensive review. This includes determining what period of time should be covered, what information on the external auditor is required from entity personnel, and what input is required from the audit firm. It also includes determining what questions the audit committee needs to consider in conducting the review. The appropriate sections of the tool are amended by the audit committee chair to reflect these determinations.

A determination and selection of AQIs relevant to the audit committee's assessment of the external audit can also be done at this stage. For more information on how to do this, please see the [*Audit Committee Guide to Audit Quality Indicators*](#).

2. *Obtain input from entity personnel*
Entity personnel, such as the CEO, the CFO and internal auditors, complete the tool's Obtain input from entity personnel section and return it to the audit committee.
3. *Obtain audit firm input*
The audit firm completes the tool's *Obtain audit firm input* section and returns it to the audit committee.
4. *Assess areas for audit committees to consider*
The audit committee chair distributes to the audit committee relevant background information, the input received from entity personnel and the audit firm, and the tool's amended *Assess areas for the audit committee to consider* section. Audit committee members complete this section of the tool. At a meeting of the audit committee, members share their views on each area of the comprehensive review tool, comparing their views with those of entity personnel and the audit firm.
5. *Conclude on the comprehensive review, and communicate the results*
Following this discussion, the audit committee concludes whether to recommend to the board to retain the current audit firm or put the audit out for tender and identifies matters that should be reviewed with the external auditors to improve their future performance and effectiveness. The audit committee records and communicates the results of the comprehensive review and determines the nature, extent and timing of public disclosures relating to the comprehensive review.

1. Determine the Scope, Timing, Process and Selection of AQIs

These determinations are key drivers for conducting an effective comprehensive review process. See section 1 of Notes on completing the comprehensive review tool for more guidance.

Points to Consider	Observations
Consider the scope, timing and process for the comprehensive review. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
1. When was the last comprehensive review conducted and what period should this review cover?*	
2. What is the appropriate timing of the comprehensive review in relation to the audit committee's planned meeting agendas?	
3. Do the results of prior annual assessments indicate areas that need particular attention in this comprehensive review?	
4. What additional information from entity personnel will be needed to help the audit committee conduct the review? (Amend the <i>Obtain input from entity personnel</i> section of this tool as necessary.)	
5. What additional information from the audit firm will be needed to help the audit committee conduct the review? (Amend the <i>Obtain audit firm input</i> section of this tool as necessary.)	
6. What changes need to be made to other sections of this tool to reflect the approach to comprehensive review?	

* Note that it may be appropriate to conduct a comprehensive review before having five years' experience of annual assessments of the external auditor, for example, when applying this publication's guidance for the first time, when the audit firm's tenure is already long, if problems have been identified, or if another triggering event has occurred, such as a change in the entity's corporate structure.

Audit Quality Indicators

AQIs can provide audit committees with useful quantitative and qualitative information for the purposes of external auditor evaluation. Audit committees should therefore request a summary of selected AQIs and results from the previous annual assessments (i.e. the past five years) from either

management or the external auditor. This can provide a useful trend analysis for the comprehensive review as well as help identifying if other relevant AQIs are needed. The following table illustrates how AQIs can be used for your comprehensive review of the external auditor. Audit committees should also consider the firm level indicators outlined in the Appendix to help in their review of the external audit firm.

Note that these are illustrative examples only. The selection of AQIs should be based on an organization's specific circumstances and information needs. For step-by-step guidance to help you identify relevant AQIs, refer to the [Audit Committee Guide to Audit Quality Indicators](#). A list of commonly used AQIs can also be found in the Appendix.

Audit Quality Factor	Example AQIs
1. Independence, objectivity and professional skepticism Do the auditors approach their work with objectivity to ensure they question appropriately and challenge management's assertions made when preparing the financial statements?	Audit hours by risk - The time spent by the engagement team on significant risk areas can help audit committees and management better understand the amount of effort spent in certain areas of the audit. This information can help in determining whether a sufficient amount of time was allocated for the auditor to work objectively and challenge management's assertions. Reporting on independence matters - A common way of assessing the auditor's independence is the reporting on independence breaches.
2. Quality of the engagement team Does the audit firm put forward team members with the appropriate industry and technical skills to carry out an effective audit?	Experience of engagement team - A common way to help assess the quality of the engagement team is to understand the industry experience and client knowledge of individual team members. This can be measured by obtaining information about the number of years spent auditing the entity and/or companies in the same industry by each engagement team member. Specialist engagement - Depending on the complexity of the audit, certain specialists / subject-matter experts may be required to complement the core engagement team. Where and how much (measured in hours) these specialists / subject-matter experts are used in the audit can be useful information for assessing the quality of the overall engagement team.

Audit Quality Factor	Example AQIs
3. <i>Quality of communications and interactions with the external auditor</i> Are the communications with the external auditor (written and oral) clear, concise and free of boilerplate language? Is the auditor open and frank, particularly in areas of significant judgments and estimates or when initial views differ from those of management?	Communication with audit committee and/or management - Consideration of the timing, format and content of communication from the auditor related specifically to the audit and/or wider issues of importance can help assess the effectiveness of the interactions with the auditor. Consider assigning a rating to the quality and timeliness of each communication. Audit progress milestones - Reports on the timeliness of meeting audit milestones during the engagement can provide audit committees and management with better insight into the progress of the audit and any issues identified.

It is important to note that AQIs on their own are not a complete measure of quality. This is because they will not necessarily convey the whole story since certain elements of audit quality such as the external auditor's professional skepticism cannot be easily quantified. AQIs are meant to be used as a tool to facilitate a more informed and meaningful conversation about audit quality among the audit committee, management and the external auditor.

Once AQIs have been selected, the audit committee chair will request the external auditor to report on them. The results can then be circulated to entity personnel and the rest of the audit committee members as supplemental information for completing their respective sections of the comprehensive review tool.

2. Obtain Input from Entity Personnel

This section of the tool sets out the information that the audit committee requires from entity personnel, together with potential questions for the CEO, the CFO and internal auditors. The audit committee needs to determine from whom input is required, the specific questions to be addressed and whether the audit committee wishes to obtain input in writing or through discussions. The audit committee may wish to address different questions to different personnel, or pose questions to different personnel in different ways. See section 2 of *Notes on completing the comprehensive review tool* for more guidance.

Please provide the following information:

Information Required By the Audit Committee	Yes/No
1. Relevant audit committee meeting minutes and results of annual assessments.	
2. Company policies for awarding non-audit work and any reports by management on how it has complied with those policies.	
3. Whistleblowing reports that may have relevance to the relationship with the audit firm.	
4. Company hiring policies regarding former audit firm staff and analysis of key entity personnel that were previously employed by the audit firm.	
5. Information about any significant financial reporting matters that have been questioned by regulators or the press that may have relevance for the relationship with the audit firm.	

CEO and/or CFO

Audit Quality Considerations

Please provide your input in the following areas, noting any significant observations or trends you have identified during the period of the comprehensive review, including for the most recent audit:

Points to Consider	Observations
1. Provide input on the independence, objectivity and professional skepticism of the external auditor. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
a. How does the external auditor demonstrate integrity, objectivity and professional skepticism, for example, by maintaining a respectful but questioning approach throughout the audit?	
b. How does the external auditor demonstrate independence, for example, by proactively discussing independence matters and reporting exceptions to its compliance with independence requirements?	

Points to Consider	Observations
c. How forthright is the external auditor in dealing with difficult situations, for example, by proactively identifying, communicating and resolving technical issues?	
d. To what extent do you have concerns about the relationship between the external auditor and entity personnel that might affect the external auditor's independence, objectivity or professional skepticism?	
2. Maintaining the quality of the engagement team throughout the review period. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
a. How would you assess the technical competence and ability of the external auditor to translate knowledge into practice, for example, by using technical knowledge and independent judgment to provide realistic analysis of issues and by providing appropriate levels of competence across the team?	
b. How would you assess the external auditor's understanding of our business and industry, for example, by demonstrating an understanding of our specific business risks, processes, systems and operations?	
c. How sufficient are resources assigned by the external auditor to complete work in a timely manner, for example, by providing access to specialized expertise during the audit and assigning additional resources to the audit as necessary to complete work in a timely manner?	
d. To what extent has the engagement team consulted and used specialists on complex technical matters?	
e. To what extent has the engagement partner maintained quality control over work performed in domestic locations or abroad?	

Points to Consider	Observations
3. The communication and interaction with the external auditor throughout the review period. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
a. How candid and complete was the dialogue between the engagement partner and management? How well did the engagement partner explain accounting and auditing issues?	
b. How effectively does the external auditor provide timely and informative communications about accounting and other relevant developments?	
c. How does the external auditor communicate about matters affecting the firm or its reputation, for example, by advising management on significant matters pertaining to the firm while respecting the confidentiality of other clients' information and by complying with professional standards and legal requirements?	
4. Provide your overall views on how your relationship with the external auditor contributed to your ability to produce reliable financial reporting throughout the comprehensive review period.	

Quality-of-Service Considerations

Points to Consider	Observations
Provide input on the quality of service provided by the external auditor. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
1. To what extent is the external auditor effective in completing the audit on a timely basis?	
2. To what extent does the external auditor keep management informed about the progress of the audit and difficulties encountered?	
3. To what extent has the engagement team maintained a respectful and professional attitude during the audit?	

Points to Consider	Observations
4. To what extent is the external auditor proactive in identifying information requirements and timely in requesting information from management?	

Internal Audit

Points to Consider	Observations
Provide input on the relationship with the external auditor throughout the review period. Consider whether the auditor:	
1. Considers how the work of the internal audit function can be used in the external audit.	
2. Has an appropriate working relationship with the internal auditors.	

Other Input Requested from Entity Personnel by the Audit Committee

Input Requested	Observations
1.	
2.	
3.	

3. Obtain Audit-Firm Input

This section of the tool sets out the information that the audit committee may wish to obtain from the audit firm. See section 3 of *Notes on completing the comprehensive review tool* for more guidance.

Please provide the following information (in some cases, this information may be easier to obtain from management):

Audit Quality Considerations

Information Required by the Audit Committee	Yes/No
1. Analysis of total services provided by the audit firm, covering audit and non-audit services and related fees, since the last comprehensive review; explanations for differences between actual and estimated fees and between actual audit fees and cost recoveries. Consider obtaining an analysis of other auditors' fees for similar services to comparable entities, where available.	
2. Summary of auditor's reports (e.g., consolidated financial statements, subsidiary financial statements, reports to regulators, special reports).	
3. Summary of reports issued to the audit committee, including significant matters addressed.	
4. Summary of communications of relationships and other matters bearing on independence. ¹	
5. Summary of reports to management.	
6. Summary of key elements of the firm's quality control processes and how they were applied to the entity's audit.	
7. Transparency reports ² of the audit firm.	
8. Annual reports of the audit firm.	
1 Canadian auditing standards require the auditor of a listed entity to communicate with those charged with governance all relationships between the entity and the firm and network firms that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This includes total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity; and the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. 2 As a result of legal and regulatory requirements, audit firms in certain jurisdictions now issue transparency reports on their governance. Audit firms in other jurisdictions issue such reports voluntarily to demonstrate their commitment to audit quality. Such reports can provide useful information about an audit firm's culture of integrity, professional excellence, accountability and continuous improvement.	

Points to Consider	Observations
Please answer the following questions:	
1. How long has the audit firm been the external auditor? What steps have been taken to address possible institutional familiarity treats?	
2. What are the firm's plans for the training and development of the engagement team?	
3. What are the firm's expectations as to future partner rotation or other changes to senior engagement team personnel?	
4. How are the size, resources and geographical coverage of the audit firm changing?	
5. What efforts are being made to enhance audit quality within the audit firm generally and the external audit of the entity specifically?	
6. How has the audit firm's relevant expertise in the industries and markets in which the entity operates been evolving? What are the audit firm's future plans to serve the entity with an engagement team with appropriate expertise?	
7. How has the audit firm considered systemic audit quality issues identified by CPAB in its public reports?	
8. What reputational challenges, if any, are facing the audit firm and how are these being addressed?	

Other items on which input from the audit firm is requested

Input requested	Observations
1.	
2.	
3.	

4. Assess Areas for the Audit Committee to Consider

This section of the tool sets out the areas to be addressed in a comprehensive review, including specific questions for audit committees to consider in each area. During the comprehensive review, the audit committee focuses on significant observations and trends evident during the review period, including the most recent audit, how the audit firm has responded to any audit committee recommendations, and to what extent the observations and trends are consistent with the input of the audit firm and other entity personnel. See section 4 of *Notes on completing the comprehensive review tool* for more guidance.

A. Review for significant observations and trends during the review period, including the most recent audit

Audit-Quality Considerations

Points to Consider	Observations
1. Assess the independence, objectivity and professional skepticism of the auditor throughout the review period. Some or all of the following questions may be relevant in the circumstances of the entity and the audit::	
a. How does the external auditor inform the audit committee about matters that might reasonably be thought to bear on the firm's independence, including exceptions to its compliance with independence requirements and its safeguards in place to detect independence issues?	
b. In obtaining the audit committee's pre-approval for non-audit services, what safeguards were in place to protect the external auditor's independence?	
c. How did the external auditor adjust the audit plan to respond to changing risks and circumstances?	
d. How are the results to be recorded for future reference during an annual assessment or comprehensive review?	
e. What steps does the engagement partner take to ensure that the engagement team exhibits the values, ethics and attitudes necessary to support a quality audit?	
f. How were significant differences in views, if any, between management and the external auditor resolved?	
g. What evidence is there that the engagement team challenges significant judgments made by management in preparing the financial statements?	

Points to Consider	Observations
h. How has the engagement team addressed potential risks of fraud (for example, incorporating an element of unpredictability into audit procedures during the period)?	
i. How would you assess the quality of the significant professional judgments made by the engagement team during the audits?	
j. Which of the entity's accounting policies or disclosures, if any, have been questioned by regulators such that the external auditor's independence, professional skepticism or judgment has been questioned?	
k. Did the engagement quality control reviewer (EQCR) raise specific concerns over any matters when assessing the significant judgments made by the engagement team? Would it be helpful to meet with the EQCR?	
l. Are the audit fees appropriate in relation to costs incurred to enable the performance of a quality audit?	
2. Assess the quality of the engagement team provided by the auditor throughout the review period. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
a. How did the engagement partner and audit team ensure that the necessary knowledge and skills (entity-specific, industry, accounting, auditing) were dedicated to the audit?	
b. What evidence was there that the engagement partner devoted sufficient attention and leadership to the audit? How involved was the EQCR in the audit?	

Points to Consider	Observations
c. If portions of the audit were performed by other teams in various domestic locations, or abroad by the firm's global network or other audit firms, how did the engagement partner assess their technical skills, experience and professional objectivity and maintain quality control over their work?	
d. To what extent are audit activities performed through offshoring arrangements? How did the engagement partner maintain quality control over the parties performing the activities?	
e. To what extent are the external and internal auditors working together constructively?	
f. How does the audit firm provide appropriate continuity of team members and perform an orderly transition when key members of the engagement team change?	
3. Assess the communication and interaction with the external auditor throughout the review period. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
a. How candid and complete was the dialogue between the engagement partner, the audit committee and the audit committee chair? How well did the engagement partner explain accounting and auditing issues? How effective was the resolution of issues?	
b. How would you assess the external auditor's discussion about the quality of the entity's financial reporting, including the reasonableness of accounting estimates and judgments, appropriateness of the accounting policies and adequacy of the disclosures?	

Points to Consider	Observations
c. During in camera sessions, what is your assessment of how the external auditor discussed sensitive issues (for example, were concerns about management's reporting processes, internal control over financial reporting or the quality of the entity's financial management team discussed in a timely, candid and professional manner)?	
d. How promptly did the audit engagement partner alert the audit committee if the engagement team did not receive sufficient cooperation?	
e. How well did the external auditor inform the audit committee of current developments in accounting and auditing standards relevant to the entity's financial statements and their potential impact on the audit?	

Quality-of-Service Considerations

Points to Consider	Observations
4. Assess the quality of service provided by the external auditor throughout the review period. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
a. During the audit, how well did the external auditor meet the agreed-upon performance criteria, such as the engagement letter and audit scope? How well did the external auditor meet its commitments, for example, by meeting agreed-upon performance delivery dates and multiple reporting deadlines and by being available and accessible to management and the audit committee?	
b. How would you assess the professionalism of the audit partner and the engagement team?	

Points to Consider	Observations
c. How responsive and communicative is the external auditor, for example, in soliciting input relative to business risks or issues that might impact the audit plan?	
d. How proactive is the external auditor in identifying opportunities and risks, for example, by anticipating and providing insights and approaches for potential business issues and improving internal controls?	
e. How would you assess the value for money delivered by the external audit; for example, do the audit fees fairly reflect the cost of the services provided given the size, complexity and risks of the entity and a cost-effective quality audit?	
f. How would you assess the reasonableness of the explanations for any changes to fees (for example, change in scope of work) communicated to the audit committee?	

B. Safeguards against institutional independence familiarity threats

Points to Consider	Observations
5. Assess whether there are any significant institutional familiarity threats and, if so, the related safeguards. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
a. What institutional familiarity threats has the audit firm identified? What steps have been taken to address them?	
b. To what extent has the entity employed former audit firm staff in key financial reporting positions?	
c. What personnel changes, if any, in the audit firm or the entity could create a perception that the external auditor is no longer independent?	

Points to Consider	Observations
d. What corporate hospitality has been provided to the audit firm/management by management/the audit firm that could bring the external auditor's independence into question?	
e. What reputational damage or regulatory action, if any, has the audit firm suffered that could bring into question its professionalism, independence, or financial stability?	
f. To what extent does the policy for non-audit work by the external auditor adequately assure the external auditor does not: audit its own work, involve it in management decisions, act in an advocacy role or create conflicts of interest? Has the policy been complied with?	

C. Results of CPAB inspection findings since the previous review and how the audit firm has responded

Points to Consider	Observations
6. Assess the appropriateness of the external auditor's response to suggestions for improvements in audit quality arising from CPAB inspection findings. Some or all of the following questions may be relevant in the circumstances of the entity and the audit:	
a. How has the audit firm responded to audit quality issues raised in CPAB's public reports?	
b. If CPAB has inspected the audit file related to the entity during the review period and made significant inspection findings, what was the cause of these findings and how has the audit firm responded?	
c.	
d.	
e.	

Other Items for the Audit Committee to Consider

Item	Observations
1.	
2.	
3.	

5. Conclude on the Comprehensive Review and Communicate the Results

This section of the tool sets out the audit committee's conclusions from conducting the comprehensive review and how the audit committee will record and communicate the results of the comprehensive review. See section 6 of Notes on completing the comprehensive review tool for more guidance.

Points to Consider	Observations
Conclude on the results of the comprehensive review and make a recommendation to the board whether to retain the current audit firm or put the audit out for tender. Determine how the results will be recorded and communicated. Consider the following questions:	
1. Has sufficient information been obtained to reach a conclusion?	
2. What recommendations for action should be made to the board and/or audit committee, including changes to existing policies and processes?	
3. Should the audit committee present a written report to the board? If not, how will the review's results be recorded for the audit committee's future use?	
4. Does the audit committee need to formally discuss the results of the comprehensive review with the board?	

Points to Consider	Observations
5. What should be the form, timing and locations of public disclosure of the comprehensive review?	
6. Is legal advice required in respect of such public disclosure?	

Items to be raised with the auditor for follow-up or future changes

Item	Person Responsible for Follow-up
1.	
2.	
3.	

Potential future changes to the annual assessment, comprehensive review or other audit committee processes

Potential Change	Person Responsible for Follow-up
1.	
2.	
3.	

Notes on Completing the Annual Assessment Tool

1. Determine the scope, timing and process

- a. Audit committee responsibilities for determining the scope, timing and process for the comprehensive review cannot be delegated to, or influenced by, either management or the external auditor. While management and the external auditor each have a supportive role to play in a comprehensive review, overall responsibility resides with the audit committee.
- b. The comprehensive review of the external auditor also should consider additional entity-specific issues that may have arisen since the last comprehensive review. These issues include restatements, significant financial reporting criticisms related to the entity made by securities regulators or the press, and how the external auditor responded to these issues. In this respect, the audit committee needs to focus on the areas it considers may pose a higher risk of an institutional familiarity threat.
- c. A comprehensive review should be conducted at least every five years. In deciding on when a review should be performed, the audit committee may need to consider the following factors:
 - It may not be necessary to conduct a comprehensive review within five years of the prior comprehensive review if the audit has been put out for tender during the five-year period (for example, due to a change in the corporate structure).
 - The comprehensive review should be coordinated with the ongoing rotation of the engagement partner and other senior firm personnel. For example, a comprehensive review may be most effective toward the end of the current engagement partner's rotation period. This enables the audit committee to maximize the value gained from the engagement partner's accumulated experience and provides useful input for the incoming engagement partner.
- d. The audit committee needs to have adequate resources to perform an appropriate review process. While certain administrative activities can be delegated to others, the audit committee must assume overall responsibility for the review process.

Non-audit services

- e. As part of the comprehensive review, the audit committee may reconsider its policy on what non-audit services may be provided by the external auditor and the processes the audit committee has in place for approving these services and related fees.

2. Obtain input from entity personnel

- f. The audit committee may request specific information from entity personnel to help the audit committee conduct the comprehensive review. The audit committee should consider who the relevant senior entity personnel were during the comprehensive review period. Some personnel who have changed roles during the period may have relevant input to provide the audit committee.

3. Obtain audit firm input

- g. In conducting the comprehensive review, the audit committee may benefit from requesting the external auditor's input. As the audit firm is primarily responsible for audit quality, obtaining relevant information from the audit firm is critical to the comprehensive review process. Audit quality indicators may help in this regard, so care should be taken to select, evaluate and discuss AQIs in an appropriate manner.
- h. When gathering information from the audit firm, the audit committee likely would expect the involvement of senior members of the audit firm, including:
 - the engagement partner
 - the EQCR
 - senior audit firm partners with responsibilities for quality control and audit quality
 - senior audit firm partners with firm leadership responsibilities

4. Assess areas for the audit committee to consider

- i. The audit committee should evaluate the background information and input from entity personnel and the audit firm in relation to the areas covered in the comprehensive review, including the results of and discussions around appropriately selected AQIs. The audit committee members also can draw on their experience from other boards and audit committees about the process they have used in conducting their

comprehensive reviews. Audit committees should consider the following factors, discussed below, when conducting a comprehensive review of the external auditor:

- significant observations and trends identified in annual assessments
- safeguards against institutional independence familiarity threats
- results of CPAB inspections since the previous review and the audit firm's response

5. Review for significant observations and trends during the review period, including the most recent audit

- j. In conducting the comprehensive review of the external auditor, the audit committee takes into account audit quality and quality of service considerations. Audit quality considerations are of primary importance because they reflect whether the external audit can take place in an environment that promotes a quality audit.
- k. Quality of service considerations focus primarily on how the external audit, in terms of being a professional service, was conducted. Although treated separately from audit quality considerations, quality of service considerations can also influence audit quality. For example, if the external auditor's behaviour creates friction with management, the behaviour may affect the open and constructive relationship between the auditor and management needed to enhance audit quality.
- l. Audit committees should consider the following factors, discussed in more detail in the annual assessment tool, when performing the annual assessment of the most recent audit and when reviewing for significant observations and trends during the review period:
 - independence, objectivity and professional skepticism
 - quality of the engagement team provided by the external auditor
 - communication and interaction with the external auditor
- m. The annual assessment of the external auditor's effectiveness is critical to the audit committee's oversight of the external auditor's work and the decision on the external auditor's reappointment. Evaluating an audit firm's responsiveness to suggestions for audit quality improvements and assessing the importance of audit quality to the firm often takes more than one year. As part of the comprehensive review, the audit committee should revisit the annual assessments since the last comprehensive review to assess how the audit firm

has responded to suggestions for improvement. The audit committee focuses on significant observations and trends evident during the review period, including the most recent audit.

Safeguards against institutional independence familiarity threats

- n. As part of the comprehensive review, the external auditor should identify any significant institutional threats to independence and describe the safeguards they have put in place to mitigate these threats.
- o. Factors that audit committees may consider in evaluating safeguards against institutional independence familiarity threats include:
 - number of years the audit firm has served as external auditor for a particular client
 - length of service of key engagement team members
 - the significance of the client's size in relation to the size of the audit firm, the lead office and the engagement partner's portfolio
 - whether the external auditor has identified all familiarity threats and whether sufficient safeguards that have been put in place
 - the transparency of audit firm and entity management interactions and whether the audit committee is aware of any interactions that might impair independence
 - whether the fees are sufficient to provide for an audit of appropriate quality taking into account changes in the entity's business and other factors in the marketplace.

Results of CPAB inspections since the previous review and the audit firm's response

- p. Factors that audit committees may consider in evaluating the results of CPAB inspections and the audit firm's response include:
 - whether CPAB inspection results show trends in audit quality that are not apparent on an annual basis
 - how CPAB's findings and observations in its public inspection reports apply to the audit firm and how the audit firm has responded to those observations
 - if CPAB has inspected the entity's audit file during the review period, whether there were significant inspection findings, the cause of these findings, and how the audit firm resolved them.

6. Conclude on the comprehensive review and communicate the results

- q. The audit committee should confirm its preliminary conclusions from the comprehensive review and evaluate the process it has followed to conduct the review.
- r. If the preliminary results of the comprehensive review are not satisfactory, the audit committee may need to perform further due diligence to determine whether its preliminary conclusions are justified and to consult with those affected by its recommendations.
- s. For example, the audit committee may have a discussion with audit firm partners with leadership responsibilities about:
 - whether the audit committee has correctly interpreted the information it has received from the audit firm
 - the nature and extent of remedial actions that the audit firm might undertake to address audit committee concerns and the likely effectiveness of these actions (for example, whether changes to the engagement team are warranted)
 - potential key milestones for assessing the timing of completion of remedial actions
- t. The audit committee may need to meet with the audit firm and management together to discuss actions that the audit firm and management may need to take jointly to address audit committee concerns and any apparent inconsistencies between the input obtained from the audit firm and entity personnel.
- u. Having completed its due diligence, the audit committee may seek the input of others involved in the review process to help identify potential improvements to the comprehensive review process. Changes to the review's scope, timing and process may be appropriate. For example, the audit committee may identify information for the upcoming review period that is useful to capture on an ongoing basis rather than at the end of the period.
- v. When the audit committee has completed the comprehensive review process, it will be in a position to recommend to the board whether to retain the current audit firm or put the audit out for tender. The audit committee may also recommend other actions to the board. For example, the audit committee may have concluded that the next comprehensive review should be performed earlier than normal or that the next annual assessment of the external auditor should focus on evaluating the effectiveness of planned remedial actions. The audit

committee may also recommend changes to entity policies dealing with such things as the hiring of audit firm staff or the provision of non-audit services.

- w. The audit committee should present to the board the results of the comprehensive review process, describing the process it undertook and the rationale for its recommendations. The audit committee's presentation could be either oral or in writing. The audit committee should consider how to best engage the board in understanding the audit committee's report. In some cases, a written report to the board may be sufficient for the board's purposes. In other cases, it may be necessary for the board to discuss the results of the comprehensive review in detail with the audit committee chair to gain an understanding of the key matters raised during the review and how the audit committee reached its conclusions. Keeping a record of each comprehensive review, for example in written reports or in meeting minutes, may assist the audit committee when performing a subsequent annual assessment or comprehensive review of the external auditor.
- x. If the audit committee decides to advise the board to put the audit out for tender, the audit committee will need to consider the next steps. While a detailed discussion about tendering the external audit is beyond the scope of this guidance, in making this recommendation, the audit committee may need to consider:
 - how long it may take to conduct an appropriate tendering process
 - when the process should begin to ensure that management and other resources are available to devote to the process
 - the appropriate timing to ensure an orderly transition if the tendering process results in a new audit firm, taking into account the nature and extent of services that the new firm may be asked to provide
 - what to communicate to the incumbent audit firm about its audit responsibilities during the tendering process period and when the changeover to the new firm likely would occur.
- y. Once the board has reviewed and approved the results of the comprehensive review, the board should determine the nature and extent to which the results are to be communicated to management, the audit firm, and any other parties it believes should be informed, such as regulators.

- z. Public disclosure by the audit committee informs stakeholders that the audit committee has conducted a comprehensive review of the external auditor in arriving at its recommendation to the board. Such communication should include some or all of the following information:
- background and context to the external audit, including such items as:
 - the number of years audited by the incumbent external auditor
 - the audit firms involved and their location
 - analysis of the total services provided over the review period with explanations of significant fluctuations
 - overview of the audit approach, including locations visited and use of specialists
 - time period covered by the review
 - outline of the process followed
 - conclusions from the review
- aa. In preparing the public report, the audit committee may need to seek legal advice on when, how and where in the entity's regulatory and other documents to communicate the results of the review.
- ab. When the audit committee's conclusion is to recommend the current auditor for reappointment, public disclosure could be incorporated into existing corporate governance communications, such as in the proxy circular, the entity's annual report or Annual Information Form.
- ac. When the audit committee's conclusion is to recommend putting the audit out to tender, the nature and timing of the public disclosure will depend on the circumstances. For example, if the incumbent is permitted to bid, it may be appropriate to publicly disclose the comprehensive review once the tendering process is complete. In this circumstance, the conclusion from the comprehensive review may indicate whether the incumbent auditor has been retained or a new auditor appointed. In other circumstances, such as where the incumbent auditor is not invited to bid, the audit committee may need to consider more timely public disclosure, including a press release. Legal advice likely should be obtained in this circumstance.

Appendix — Example AQIs

Type	Indicator	Example Definitions
Engagement Team Indicators	experience of engagement team	delivery of agreed upon team skills (industry/ specialty/client knowledge) years of audit experience of key members of the engagement team
	training and professional development	number of hours and types of professional development and technical training attended by key engagement team members
	turnover of engagement team	turnover rates of key engagement team members and/or level
	partner / manager involvement	percentage of audit hours carried out by senior engagement team members compared to the entire engagement team
	partner workload	information about the level of work for which key engagement partners are responsible and the number of claims on their attention
Audit Execution Indicators	audit hours by risk	time spent by the engagement team on significant risk areas
	timing of audit execution	audit hours by phase (planning, interim, year-end)
	audit progress milestones	mapping the timeline for completion of the audit to key milestones within the process
	technology in the audit	use of technology initiatives in the audit, including information about areas of use, types of tools, number of hours, etc.
	specialist engagement	where and how much (measured in hours) persons with "specialized skill and knowledge" are used in the audit
	service delivery centres	amount of audit work centralized at service centres

Type	Indicator	Example Definitions
Management Indicators	management deliverables	success in maintaining agreed-upon deliverables schedule from management to the auditor
	remediation of control deficiencies	efficiency of remediating control deficiencies
	reliance on controls	planned / unplanned reliance on internal controls
Firm Level Indicators	results of inspections	results of internal and/or external inspections specific to the engagement and/or to the audit firm generally (i.e., CPAB inspection findings)
	independence	results of independence findings specific to the engagement and/or to the audit firm generally
	reputation	reputation based upon news reports
	tone at the top	tone at the top determined by audit firm people-survey results
Client Service Indicators	communication with audit committee and/or management	effective and timely communications among the auditor and the audit committee and/or management related specifically to the audit and/or wider issues of importance (i.e., regulatory and accounting changes)
	sharing of insights	number and quality of insights gained and shared with management and the audit committee



CPA

CHARTERED
PROFESSIONAL
ACCOUNTANTS
CANADA

277 WELLINGTON STREET WEST
TORONTO, ON CANADA M5V 3H2
T. 416 977.3222 F. 416 977.8585
WWW.CPACANADA.CA

