



Communications between auditors and audit committees

Effective communications that support audit quality

Effective, two-way communications are a cornerstone of high-quality audits.

In 2018 CPAB interviewed audit committee chairs and audit partners associated with public companies of different sizes and in a variety of industries. We also interviewed executive management of these entities to benefit from their perspectives based on their vantage point to the auditor-audit committee relationship.

Our objective for undertaking the project was to better understand the attributes of effective, two-way communications between auditors and audit committees that support audit quality and to share insights learned with our stakeholders.

Readers should also refer to a recent publication by the International Organization of Securities Commissions (IOSCO) which describes [good practices for audit committees in supporting audit quality](#), including effective communications between auditors and audit committees.

The most significant practices that emerged from our discussions with broad applicability to enhance the effectiveness of auditor-audit committee communications are as follows

- Communication protocols reinforce the auditor's direct reporting relationship to the audit committee
- Communications extend beyond the lead partner
- Audit quality indicators enhance the effectiveness of communications

Other insights

- Written auditor communications are targeted, relevant and timely
- Auditors attend all audit committee meetings for the entire length of the meeting

Direct reporting relationship

A foundation for a high-quality audit is strong audit committee oversight.

The audit committee, acting on behalf of shareholders to appoint and oversee the auditor, is the auditor's most proximate client. CPAB encourages that steps be taken to ensure the auditor is directly accountable to the audit committee and that there is direct and ongoing oversight.

Practices described by participants that reinforce this direct reporting relationship include

- The lead audit partner and audit committee chair have unfettered access to each other to communicate important matters in a timely manner.
- The audit committee retains control of evaluation frameworks and related communications with auditors on key auditor oversight functions including auditor appointment and evaluation, audit scope and fees, approval of non-audit services, and engagement team composition.

Practical tip – this could include early involvement by the audit committee chair and other committee members in key decisions including early negotiation of audit and non-audit fees, interviewing of short list candidates for audit partner rotation, etc.

- Drafts of written auditor communications (intended for those charged with governance) are shared with audit committee and management at the same time to support an open and constructive relationship between the parties and to ensure there is no filtering of information.
- Sufficient time is set aside in audit committee meetings for *in camera* sessions.

Frequency of communications

Effective communications between the auditor and audit committee is about more than annual discussions about the audit plan and audit results. Additional touchpoints described by participants include

- ▶ **Pre meetings** in advance of the audit committee meeting to discuss current issues in more depth.
- ▶ **Post-meeting debriefs** to discuss any issues raised at the audit committee or board meetings and to provide real-time feedback to the auditors on current developments.
- ▶ **Regular touchpoints**, in between audit committee meetings, to maintain ongoing two-way communications about emerging issues relevant to the audit.

Beyond the lead partner

Audits depend on the skills and experience of a wide variety of partners and professionals. Expanding discussions beyond the core engagement team leads to more effective audit committee oversight and provides the audit firm the opportunity to showcase how it differentiates itself in promoting audit quality.

SPECIALISTS

Interaction with the audit firm's specialists will provide the audit committee with an opportunity to probe deeper into judgemental areas of the audit. This could include inviting valuation specialists, actuaries, information technology experts and others to attend the audit committee meeting to discuss their areas of focus in more detail and to be available to answer questions from committee members.

COMPONENT AUDITORS

In many companies, foreign operations can be significant and can create new or different risks. Audit committees may find it useful to have direct interaction with senior members of the audit team from significant foreign jurisdictions. This interaction will assist the audit committee in obtaining a better understanding of the foreign operations and to learn more about the quality of component management.

AUDIT FIRM LEADERSHIP

The performance of an audit involves commitment of many professionals across the audit firm. Internal firm processes and procedures to support the core audit team are not visible to the audit committee. Further, the tone at the top of the firm can influence the culture of the audit firm including the values, ethics and attitudes held by the engagement team. Direct interactions with local, regional or national leadership of the audit firm can help the audit committee to understand the quality of support and oversight provided by firm leadership to support audit quality across the firm's audit engagements.

Using AQIs to enhance communications

Audit quality can be challenging for audit committees to measure and evaluate. Audit quality indicators (AQIs) respond to this by providing quantitative measures about the external audit process.

We have found the tracking and measuring of AQIs can enhance the depth and quality of communications about the audit and audit quality.

Users of AQIs had the following observations:

- The use of AQIs provides more specific measures that could be discussed. The setting of a benchmark and discussing progress made for better discussions in place of abstract and theoretical discussions about audit quality.
- Several audit committee participants noted that the discussion of tangible AQIs helped the non-financial experts on their committees become more involved in the discussion about the audit.

CPAB's AQI Pilot

CPAB recently concluded a two-year exploratory AQI pilot project. Key findings and observations are described in the our final report which can be accessed [here](#).

Pilot participants in their own words:

“ We originally thought the AQI process would be difficult to scale to a small entity with our limited resources. However we were pleasantly surprised at how easy it was to scale and tailor the AQIs to an entity of our size.”

- *Audit committee chair*

“ It was extremely useful for our organization to come up with common language for what audit quality is.”

- *Audit committee chair*

“ I really learned a lot through this process. I have been the chair of the audit committee for six years now, and I'm surprised at how much more I have learned about audit quality.”

- *Audit committee chair*

Other insights

Written communications

A focus on improving the quality of written communications can also provide a strong basis for improving the overall auditor / audit committee communications. Examples of steps taken to improve the communication include

- Emphasizing visuals over dense text using compelling visualizations to illustrate key trends.
- Using interactive templates to allow audit committee members to navigate through the audit plan and audit findings report.
- Including short educational videos in audit committee documents to make complex topics more accessible.

Auditor participation in audit committee meetings

There is a significant amount of important issues discussed in each audit committee meeting across the wide variety of areas the audit committee is responsible for.

Over the past few years we have seen more audit committees that invite the auditor to attend the entire audit committee meeting. Audit committee members have observed that this enables auditors to provide their input on various issues throughout their meetings and improves the auditor's understanding of developments within the company.

Learn More

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