

PRACTICE NOTES

King III Chapter 3

Guidance to the Audit Committee when
Assessing the Effectiveness of the External
Audit Process

June 2010

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Guidance to the audit committee when assessing the effectiveness of the external audit process

Introduction

Principle 3.9 of the King Report states that the audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process.

Chapter 3, paragraph 82 of the Report specifically recommends that, at the end of each annual audit, the audit committee should review the quality and effectiveness of the audit process. The audit committee should obtain feedback as necessary about the conduct of the audit from key members of the company's management, including the finance director and the chief audit executive.

Target audience

This practice note provides guidance to audit committee to evaluate the external audit function. This guideline is not an exhaustive example and assertions should be added or omitted as is appropriate in the circumstances.

Section A: Evaluation by the audit committee

This part contains matters for consideration by the audit committee prior to feedback from other areas of the company. Where audit committee members disagree, detailed comments should be obtained.

Question	Strongly agree	Agree	Neutral	Disagree
RELATIONSHIP WITH THE AUDIT COMMITTEE				
1. The designated partner attends all the audit committee meetings he/she was invited to attend.				
2. The designated partner makes him/herself available for consultation outside of audit committee meetings.				
3. The designated partner expresses his/her views in an open manner to the audit committee.				
4. The designated partner is able to handle difficult or contentious issues.				
5. External audit reports are of an acceptable quality and are relevant and useful to the audit committee.				
6. External audit reports are received on a sufficiently timely basis.				
ROBUSTNESS OF THE AUDIT				
7. External audit discusses with the				



Question	Strongly agree	Agree	Neutral	Disagree
audit committee, at least annually, the steps they take to ensure its independence and objectivity and makes the audit committee aware of any potential issues, explaining all relevant safeguards.				
8. The audit team, and particularly the designated auditor, demonstrate their understanding of the business, its governance processes, risk environment and the business issues that are important.				
9. External audit challenges management, when appropriate.				
10. External audit holds a dialogue with the audit committee, at least annually, or provided the audit committee with information to explain the audit firm's internal quality control procedures.				
11. There is evidence of effective coordination of internal and external audit plans to ensure combined assurance.				
12. There is evidence that the external audit approach takes due account of previous work performed or any known issues relating to the company's internal controls.				
QUALITY OF DELIVERY				
13. The external audit plan is comprehensive and submitted to the audit committee of approval prior to the commencement of the audit.				
14. Any deviations of or change to the external audit plan are discussed in advance and submitted to the audit committee for approval.				
15. Time overruns were justified and communicated in a timely manner.				
16. The significant accounting judgements made by management, their impact on the financial statements and the views of the auditors on the treatment are clearly explained.				
17. Identified issues are satisfactorily and promptly resolved, with no unnecessary surprises.				
18. External audit has a constructive working relationship with management.				
19. The designated partner spent sufficient time on the audit, bearing				



Question	Strongly agree	Agree	Neutral	Disagree
in mind any major issues that arose during the audit.				
QUALITY OF PEOPLE AND SERVICE				
20. External audit demonstrates integrity, good judgement and an independent attitude.				
21. External audit demonstrates appropriate technical knowledge and expertise, including access to specialists, as required.				
22. The audit team consists of sufficient, suitably experienced staff with provision made for knowledge retention on the rotation of the designated partner.				
23. The designated partner and senior audit managers have the personal authority, knowledge and integrity to interact effectively with and robustly challenge management.				
24. The audit committee's expectations are agreed at the outset, including responses to previous feedback, and have been met.				
25. Recommendations made in respect of the business are perceptive, practical and effective.				
26. The coordination with other auditors (for example of subsidiaries or joint ventures) is effective.				

Section B: Evaluation by the chief audit executive (CAE) and the financial director (FD)

This part contains matters for consideration by the CAE and FD separately. Where either disagrees, detailed comments should be obtained.

Question	Strongly agree	Agree	Neutral	Disagree
1. External audit understands the company, its business, governance processes, risk environment and control framework.				
2. The scope, nature, extent and timing of testing performed by external audit are appropriate.				
3. External audit discussed its approach and major areas of audit focus with you.				
4. External audit provided early				



Question	Strongly agree	Agree	Neutral	Disagree
identification and advice of contentious issues and discussed findings with you prior to being tabled at the audit committee and your responses are incorporated within the relevant reports.				
5. External audit worked with internal audit to ensure the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources in the combined assurance model.				
6. The external audit team displayed sufficient professional experience, relevant knowledge, technical and interpersonal skills and abilities to perform the audit work effectively.				
7. There are no major unresolved disagreements with internal audit.				
8. External audit remained independent of the company.				

References:

1. Adapted from the PricewaterhouseCoopers publication "Assessment of the effectiveness of the external audit process".
2. Adapted from the Position Paper 8: The evaluation of the external auditor's audit of the financial statements published by the Audit Committee Forum, sponsored by KPMG.

