

Private sessions with the external auditor

Audit Committee Questions
Audit Committee Institute

Meeting the external auditor in a private session where management is not present allows the auditor to provide candid, often confidential, comments to the audit committee.

Management's
attitude

Adequacy of
the finance
function

Relationship
with internal
audit

Confidential
comments

Ethics and
integrity

Audit committee oversight essentials ...

Private sessions with external audit arguably reinforces the independence of the audit committee and allows it to ask questions on matters that might not have been specifically addressed as part of the audit. It allows auditors to provide candid, often confidential comments to the audit committee on such matters.

Meeting the external auditor in a private session where management is not present allows the audit committee to ask questions on matters that might not have been specifically addressed in the formal part of the audit committee meeting and allows the auditor to provide candid, often confidential, comments to the audit committee.

Typically, there should be few items to discuss. All key matters related to financial reporting should have been tackled in a candid and robust manner with management, the audit committee and the auditor during the audit committee meeting.

Rather, the private session should focus on areas where the auditor can provide additional, candid, and often confidential, comments to the audit committee on other matters. The private session gives the audit committee an opportunity to explore such matters in a frank and open forum. In addition, the audit committee may have more knowledge than the auditor on other matters, and this session allows the audit committee an opportunity to talk to the auditor about them.

However, the audit committee chair should manage such private sessions carefully as they introduce a lack of transparency, in that management does not hear about any problems or issues first hand and may not be given an opportunity to respond. This, in turn, may cause them to feel excluded and even defensive. Introducing such sessions as part of the regular process can alleviate some of these tensions.

Overall, private sessions can play an important role in the development of a trusting and respectful relationship between the audit committee and the external auditor.

Key questions for audit committees to consider:

Attitudes

Management's attitude toward financial reporting, internal controls and the external auditor

- What is your assessment of the tone from the top?
- What is your assessment of the ethics, values and integrity of management?
- What do you believe are the reasons management did not adjust for uncorrected audit differences, if any? Was management fully supportive of corrected audit differences?
- What is your assessment of the quality of the company's financial reporting, narrative reporting, and press releases?
- How does this company's attitude toward financial reporting compare to other companies?
- Is there excessive pressure on management to meet financial targets?
- Is there excessive pressure to meet unrealistic or aggressive profitability expectations by investment analysts or others?
- What is your assessment of management's attitude toward internal control systems and disclosure procedures?

Resources

Adequacy of people and resources in the financial management area and the internal audit function

- How do you assess the competence and integrity of the CFO, including his commitment to transparency in financial reporting and internal controls?
- Do the company's finance and internal audit function have the appropriate number of people?
- Do the finance and internal audit team have a sufficiently broad range of knowledge and experience to be able to deal with the types of transactions faced by the company?
- Has management adequately responded to your prior management recommendations?
- Is the internal audit plan properly focussed?
- Are there other areas where internal audit should focus its activities?
- If the company does not have an internal audit function, what is your assessment of the need to have one?

Relationships

Nature of the relationship between the auditor, management and the internal auditor

- Did you receive full cooperation during the audit and did you get full, honest answers to all questions that were asked?
- Do you believe any information was withheld from you?
- Was management forthcoming, open and candid in discussions with you?
- How are your relationships with financial management personnel? Internal audit? The CFO? The CRO?
- What was the nature of any consultations that were held with other accountants or auditors?

Other issues

Other issues of concern to the audit committee or the auditor

- Did you have adequate time to carry out all your audit procedures?
- Is the audit fee at an appropriate level?
- On what area was the most amount of audit time spent?
- What is the most complex issue that was encountered during the audit that has not been discussed at the audit committee meeting?
- What were the two or three issues that you spent the most amount of time discussing with management?

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