

Governance *in focus*:  
Effectiveness of the external audit process

A framework for assessing the effectiveness of the external audit process



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# Foreword

It is somewhat unusual for one of the “Big 4” to stick its neck out on a quality benchmark. No doubt it is a bold move as, for sure, Deloitte may be found wanting in some instances. However, the publication of this framework for assessing the effectiveness of the external audit process is so plainly the right thing to do, that we have decided to go ahead. We are determined to make a significant contribution to the raising of standards and to make our conviction available to all in order to support trust and confidence in audit and in the auditing profession.

At its heart, we believe that audit is not just about the auditor providing assurance on the financial statements but also about the auditor making a contribution to the raising of standards at the audited entity. This is a broader mission that has to be embedded in attitude and behaviours. In other words, the raising of standards is brought about in part by the regulatory framework and in part also by the expertise, experience, challenge, perspectives, questioning and often just by the outside in view, interest and enthusiasm of the trained and experienced professionals on the audit team. The framework set out here captures this mission and more.

We also wanted to share a glimpse of our mission to make the Deloitte Audit truly distinctive – and when we achieve what we have set out in this framework we will have reached this goal. What does the “Distinctive Audit” really mean? The perception of this will differ, of course, by the audience, whether shareholders, the Audit Committee, the management of the audited entity and regulators. However, the standards and aspirations can be articulated and are set out within this framework. At Deloitte, our partners and teams aspire to be distinctive in the manner in which we perform our professional work, by the robustness of our challenge, by the insights we deliver, and overall by the way we support the raising of standards at the organisations we audit and at our firm, alike.

We are passionate about this. A Distinctive Audit is one that thinks ahead, bringing tomorrow’s challenges forward for the attention of boards today, with a perspective and a point of view. At Deloitte we have articulated and are implementing our vision: the Deloitte Audit will become a truly distinctive audit which promotes excellence in the boardroom for the benefit of shareholders and other stakeholders. Distinctive in our approach and challenge, distinctive by our people, by our values, by our engagement with the culture of the organisations we are privileged to be selected to audit and distinctive by the way we go about our professional work. A distinctive audit experience is not just about what we do, but how we go about it.

We know we have more to do in certain areas – and we are sure that we may sometimes not match the ambition we have set for ourselves. However, by announcing our aspirations we will hold ourselves to account to the mission we have set for ourselves and our profession. We hope that you will endorse and embrace our stated intention and engage with us to help us serve the public interest with distinction.

This framework is not just about Deloitte and our mission and our passion: This is a framework for all to use as they wish. By making this framework public and available to all we hope we are making a valuable contribution to the profession, to the shareholders we serve and the boardrooms we are privileged to frequent.

**Panos Kakoullis**

Managing Partner, Audit



# Purpose of the framework



Audit committees in the UK have been reviewing the effectiveness of their external auditors for a number of years but recent changes to the UK Corporate Governance Code focus attention on the robustness of the audit process and **how** the external audit process has been assessed by the Audit Committee.

For periods commencing on or after 1 October 2012, audit committees will need to, on **an annual basis**:

- explain in the annual report **how** they have assessed the effectiveness of the external audit process; and
- **report to the board on the effectiveness** of the external audit process.

The new requirements are part of a wider package of changes to provide a transparent picture of the activities of the audit committee, in part to provide shareholders with further information with which to engage their investee companies, but also to support market confidence.

A major thrust of recent regulatory developments has been to enhance the accountability of the audit committee to shareholders both for the financial statements and for the audit process which the audit committee is responsible for supervising on behalf of shareholders. The Deloitte framework has been designed with this in mind – to set out the key areas where audit committee members ought, in our view, to have an opinion about the audit process.

In other words, this framework provides a comprehensive tool for use by audit committees not only raising the bar for external auditors but also providing a solution for audit committee members themselves who feel the pressure of greater accountability but who may feel a bit distant from the detail of audit and would like to understand more.

The framework also provides a mechanism for audit committees to form a view on the role of management in an effective audit process. Does management believe in “right first time”, produce good quality papers, operate good systems and controls, respect and value independent audit as an opportunity to be challenged? In addition, the framework asks about the attitude of management to the recording of audit adjustments, an area that has been much overlooked. But why this focus on management too? In our view this is needed as management are after all the preparers of the annual report, and their attitude to and engagement with the external audit process is also fundamental to its effectiveness.

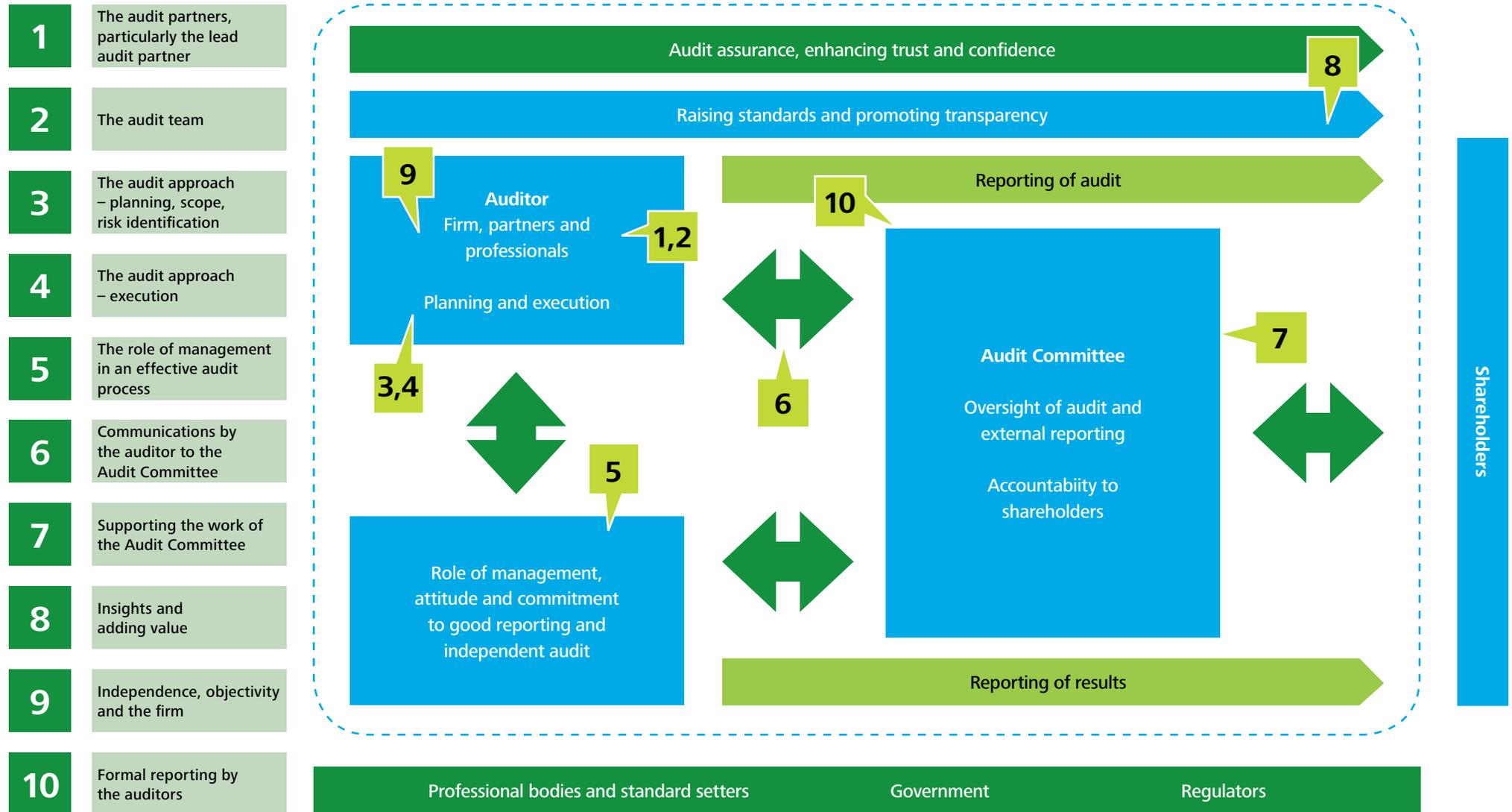
There is no doubt in our mind that this framework contains much that is leading and aspirational. For example, the proposed disclosure suggests that the audit committee comment on engagement with shareholders by the audit committee chairman. Whilst this appears to be the desired direction of travel in the minds of regulators to enhance accountability, there is currently little evidence of this happening in practice.

We intend to keep this framework alive and refreshed on a regular basis so if you wish to provide feedback, please do so directly. It will be very much welcomed.

**William Touche**  
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# How is the framework structured?

The framework is divided into ten areas and each section sets out the qualitative characteristics which we believe should be present in a distinctive audit:



# Guidance for use

## **The framework is comprehensive but long. Should it be used annually?**

The requirement set out in the Corporate Governance Code is to assess the effectiveness of the external audit process annually, but we acknowledge that it is unlikely that audit committees will wish to do such a comprehensive review suggested by the Full Framework (Appendix 3) every year. We have therefore set out certain questions in an annual framework (Appendix 1) which we believe could be reviewed every year with perhaps the Full Framework being used on a three year cycle.

## **When should the review be completed?**

The Corporate Governance Code requires a statement in the Report of the Audit Committee in the annual report about how the audit committee has assessed the effectiveness of the external audit process. The assessment must be conducted annually, but clearly it must be timed in the audit cycle, after an audit is concluded.

## **Who should complete the assessment?**

Our recommendation is that each member of the audit committee reviews and completes the questions set out in the framework individually and the answers be collated. That way, gaps in understanding will be highlighted, which will stimulate additional questions or perhaps the need for additional reading or education.

The views of the Finance Director and key members of the finance team should be sought together with those of key relevant functions, such as the tax director and the head of internal audit, but the responsibility for the review rests with the audit committee.

For groups we have set out in Appendix 2 a suggested simple questionnaire for completion by divisional finance directors.

In our view the Chief Executive should also be asked to express a view perhaps using the key section headings, rather than the framework itself.

## **The framework contains questions about auditing and the audit inspection regime that audit committees may not be that familiar with – why?**

We recognise that many audit committee members left the auditing profession some time ago and many have never trained in the profession at all. Therefore some of the questions may seem a little alien. We believe that this framework provides an effective solution to audit committees who feel the pressure of greater accountability but do not have sufficiently detailed correct knowledge at their disposal. We believe that the thoroughness of the framework will assist in particular those audit committee members whose recent relevant auditing experience or financial knowledge may not be as comprehensive as other members.

### **Can we tailor the framework?**

Yes of course, tailoring is always useful to the circumstances of your company. We can provide a Word copy of this framework on request. Also, if you wish to make suggestions for incorporation in the next edition, please let us know.

### **Can you explain why the framework includes commentary on insight and adding value, when the core mission of audit is to provide assurance?**

It is true that the role of the auditor is to express their audit opinion on the financial statements and the framework does not seek to change that mission that is embedded in law. However, where auditors spot areas of governance interest in the course of their audit, for example areas for improvement in financial reporting processes, they are obliged to raise these. Except in very well run companies we would expect that the greater the expertise and belief in the ancillary mission of raising of standards, the more insight will be generated.

### **Should we share our assessment framework with our auditors?**

We believe that this is a good thing to do, in advance. This is all about raising standards, so why wait?

### **Development and review of action plans**

The framework will inevitably stimulate actions, and we suggest that actions arising are timetabled for review by the audit committee at an appropriate time in the meeting cycle.

### **Does this substitute for an evaluation of the work of the audit committee?**

No, this framework solely focuses on the external audit process.

# Effectiveness of the external audit process – sample disclosure

*Each audit committee will wish to follow their own method and process for evaluating the external audit process. The suggested disclosure set out here includes the following key ingredients: It references a formal framework and gives a flavour of the range of the effectiveness review, it talks to the method and frequency, who is involved and the actions arising. It also touches on the audit committee chairman's availability for interaction with shareholders, which is now actively being encouraged.*

"The Audit Committee has adopted a formal framework in its review of the effectiveness of the external audit process and audit quality which includes the following areas: The audit partners with particular focus on the lead audit engagement partner, the audit team, planning and scope of the audit and identification of areas of audit risk, the execution of the audit, the role of management in an effective audit process, communications by the auditor with the Audit Committee, how the auditor supports the work of the Audit Committee, how the audit contributes insights and added value, a review of independence and objectivity of the audit firm and the quality of the formal audit report to shareholders.

An auditor assessment tool is completed each year by each member of the Audit Committee and by the CFO. Feedback is also sought from the CEO, other members of the finance team, divisional management and the head of internal audit. The assessment tool adopted is comprehensive and includes [xx] questions which are completed by way of formal questionnaire every [xx] years, with the key areas being performed every year. The feedback from this process is considered by the Audit Committee and is provided both to the auditors and to management. Action plans arising are also reviewed by the committee.

The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the value of independent audit and the booking of any audit adjustments arising and the timely provision of draft public documents for review by the auditors and the Audit Committee.

Every three years, the Audit Committee requests that a partner independent of the audit engagement team discusses the quality of the external audit process with the Audit Committee chairman and the CFO using this evaluation framework.

During this year, the Audit Committee's focus was on the effectiveness of the audit of the Company's major acquisition in the period, to ensure the right scope and key audit risks were visible to the committee and the Audit Committee heard directly from the audit partner in Australia who supported the group audit partner in leading this part of the audit. In addition, the Audit Committee received a focused report from the auditors on the implementation of the new accounting system introduced in the year across the group's operations in the USA.

At the request of investors, the Audit Committee chairman holds a meeting every three years to which all investors holding in excess of 5% of the Company's shares were invited to discuss the company's annual reporting to shareholders'.

# About the development of the framework and acknowledgements

The framework has been developed by reference to existing auditor evaluation checklists from the ICAEW and ICAS, but goes way beyond. It incorporates relevant areas of the Financial Reporting Council's Audit Quality Framework, the IAASB's Consultation Paper: A Framework for Audit Quality, the latest Audit Quality Review reports on the major audit firms in the UK, the latest relevant auditing standards and FRC consultations as well as the transparency reporting regime for audit firms in the UK.

We have then gone further to incorporate the qualitative feedback and experience gathered from Deloitte's quality assessment processes and in-depth interviews with board members of public companies audited by Deloitte. This feedback represents the institutional knowledge built up over many years from interviews of chairmen and non executive directors, the representatives of shareholders, as well as the Chief Executives, Finance Directors and members of the finance teams, principally of the FTSE 350.

A further important input to this framework has been a review of the public representations on audit reform from shareholder representative bodies in the UK and of course the UK's Competition Commission inquiry into the audit market.

We are most grateful to representatives from the Financial Reporting Council and from a number of investors and investor representatives for meeting with us and commenting on a draft of the framework: the Association of British Insurers, Blackrock, Hermes Equity Ownership Services, the Investment Management Association; Legal & General Investment Management; National Association of Pension Funds; Standard Life Investments and Threadneedle Investments.

The framework has also been discussed with a number of FTSE 350 audit committee chairmen and this publication also reflects their comments and insights.

If you wish to comment on this framework please get in touch with us at [corporategovernance@deloitte.co.uk](mailto:corporategovernance@deloitte.co.uk)

*"We would like to thank all who have invested their valuable time in developing this framework. We hope it is received as well as its authors and contributors intend."*

# Appendix 1: Framework for annual assessment

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>The audit partners</b>						
1.	1.1	The engagement partner demonstrates a strong understanding of our business, our values and culture, as well as the wider industry in which we operate and the challenges we face.				
2.	1.2	The engagement partner is demonstrably committed to audit quality, has a robust and professional working relationship with management, demonstrates strong technical knowledge and professional scepticism in the challenge of our key judgements.				
3.	1.3	The engagement partner inspires confidence. We value his/her opinion, not just because we need his/her signature.				
4.	1.4	The engagement partner is a strong leader, is able to marshal audit professionals where required in the UK and globally and ensures that quality is maintained to and beyond our expectations.				
<b>The audit team</b>						
5.	2.1	Partners, managers and professional staff demonstrate a strong understanding of our business, the wider industry in which we operate and the challenges we face.				
6.	2.2	The audit team have sufficient experience, technical and industry knowledge and are appropriately directed and supervised by partners and managers.				
7.	2.5	The audit team appears to be well resourced in terms of team structure and time available.				
<b>The audit approach – planning</b>						
8.	3.1	The partners and managers actively and visibly lead the audit planning.				
9.	3.2	The planning process has involved early discussion with management and the audit committee to identify significant issues at the earliest opportunity and to develop an appropriate audit response.				
10.	3.3	The planning process has involved assessment of accounting policies, feedback on prior year disclosure deficiencies or misstatements and relevant accounting/governance developments.				

Column two refers to the full framework in Appendix 3

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>The audit approach – planning</b>						
11.	3.4	The overall audit coverage has been communicated and explained satisfactorily to us and the scope of the audit work at each entity has been individually evaluated and communicated to us under headings such as full scope, limited scope and high level review, with appropriate category description. The role of component auditors is accepted and understood.				
12.	3.5	The audit approach provides a framework and procedures to obtain sufficient appropriate audit evidence effectively and efficiently.				
13.	3.6	Appropriate safeguards and procedures have been put in place where a significant part of the group's operations are audited by a firm other than the parent company auditors, including network firms.				
14.	3.7	The audit approach reflects a clear understanding of our business, the industry in which we operate and the significant business risks and appropriate focus on the right related financial reporting risks.				
15.	3.9	The auditors have demonstrated a good understanding of the group's internal control systems.				
16.	3.14	The level of quantitative materiality adopted for the audit (including component/subsidiary and performance materiality and error reporting thresholds) and qualitative materiality considerations have been explained satisfactorily.				
<b>The audit approach – execution</b>						
17.	4.3	All requests or queries raised with the auditors, at any level, were dealt with promptly and effectively.				
18.	4.4	Audit quality control procedures appear effective, understood and applied.				
19.	4.5	Key accounting judgements, including significant estimates, were identified and addressed in advance where possible. They received appropriate resource, including any necessary specialist involvement and were challenged robustly, demonstrating professional scepticism.				
20.	4.6	Audit team professionals exhibit scepticism in their work and are robust in dealing with issues identified during the audit.				
21.	4.7	Discussions between the auditors and management on fraud risk, prevention and detection were led at the appropriate level and were challenging and comprehensive during the planning, execution and concluding of the audit process.				

Column two refers to the full framework in Appendix 3

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>The role of management in an effective audit process</b>						
22.	5.1	The information provided by management for the audit is timely, clear, complete and presented with a culture of “right first time”.				
23.	5.2	Management papers presented to the auditors and the audit committee analysing key judgements are of good quality and depth and make use of independent experts/advisers and independent data where this would enhance quality and reliability and are balanced in presenting alternative treatments in reaching conclusions.				
24.	5.3	The accounting systems produce reliable information and audit trail, with particular emphasis on control over material judgements, adjustments and journal entries.				
25.	5.4	Management maintains up-to-date process and controls documentation, particularly over financial reporting, and the documentation is subject to regular review.				
26.	5.5	The audit committee is kept informed about development of the control environment by management (and by internal audit).				
27.	5.9	The management team involved in the audit process is well organised, efficient and committed to the value of independent audit and the development of professional relationships with the auditors.				
28.	5.10	Management examines proposed audit adjustments seriously and prefers to book audit adjustments.				
<b>Communications by the auditor to the Audit Committee</b>						
29.	6.1	Communications with the audit committee were appropriately positioned in the annual reporting cycle.				
30.	6.2	Significant audit and accounting issues, including adverse or unexpected findings, were raised on a timely basis with the audit committee.				
31.	6.3	Any significant matters outstanding at the time of the final audit committee meeting to discuss the annual report and financial statements were followed up, resolved and reported to the audit committee in a supplementary final written report on or before approval of the financial statements.				
32.	6.7	The audit committee approves the auditor’s requests for reasonable audit fees, which take account of developments in the business and changes in regulatory requirements.				

Column two refers to the full framework in Appendix 3

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>Supporting the work of the Audit Committee</b>						
33.	7.1	The Audit Partner promotes excellence in governance and financial reporting and endeavours to guide the Audit Committee as to best practice including in relation to the Audit Committee Report in the annual report.				
34.	7.2	The Audit Partner provides support to the Audit Committee between meetings, in the form of briefings and updates on governance developments to the extent the Audit Committee requires.				
35.	7.3	The Audit Committee welcomes the candidness of the audit partner's observations in private sessions with them.				
<b>Insights and adding value</b>						
36.	8.1	The audit process and the audit team have challenged our thinking and contributed to improved standards at our organisation.				
37.	8.2	The audit firm has contributed to improvements in the financial reporting to shareholders at our organisation.				
<b>Independence, objectivity and the firm</b>						
38.	9.1	It is clear from the communications (both written and oral) received from the auditors that the objectives of the FRC's Ethical Standards regarding independence and objectivity have been achieved.				
39.	9.3	Our policy on non-audit services has been complied with and, for non-audit related services, threats and safeguards were communicated to us. Any matters of contention arising in relation to the provision of non-audit services are discussed and resolved at the earliest opportunity.				
40.	9.4	The relationship between the auditors and management is appropriate such that there is no perception that the auditors may lack, or appear to lack, the required degree of objectivity.				
<b>Formal reporting by the auditors</b>						
41.	10.1	The public audit report contains those matters that in our view had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the audit team.				
<b>Overall ratings</b>						

Column two refers to the full framework in Appendix 3

# Appendix 2: Questions for divisional finance directors

		Area for focus	Performing as expected	Special strength	Evidence, comment or action
S.1	The audit partner is demonstrably committed to audit quality, demonstrates strong technical knowledge and professional scepticism in the challenge of our key judgements.				
S.2	The audit professionals we meet demonstrate integrity, good judgement and a robust attitude to dealing with issues identified during the audit.				
S.3	The audit team has sufficient experience and technical knowledge and are appropriately directed and supervised by partners and managers.				
S.4	The planning process involved early discussion with us to identify significant issues at the earliest opportunity and to develop appropriate plans to address them.				
S.5	The scope of the audit work at our entity has been evaluated and communicated to us under headings such as full scope, limited scope and high level review, with appropriate category description.				
S.6	The audit partner gave an informed view on the reasonableness of the statement by the board on going concern in the annual report.				
S.7	The audit approach reflects a clear understanding of our business, the industry in which we operate and the significant business risks and appropriate focus on the right audit risks.				
S.8	The auditors have demonstrated a good understanding of this subsidiary's internal control systems and how those systems contribute to the group's internal control system.				
S.9	The level of materiality and error reporting threshold being used by our local auditor for group reporting and, where relevant, any local statutory audit, together with any qualitative materiality considerations, have been clearly explained satisfactorily.				
S.10	Communication with the group audit team was handled appropriately and effectively.				

		Area for focus	Performing as expected	Special strength	Evidence, comment or action
S.11	Communication of local control deficiencies was clear and timely and there was clarity around which deficiencies would be reported to group.				
S.12	All requests or queries raised with the auditors, at any level, were dealt with promptly and effectively.				
S.13	The audit process and the audit team have challenged our thinking and contributed to improved standards at our subsidiary.				
<b>Subsidiaries – overall rating</b>					

# Appendix 3: Full Framework

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>1. The audit partners</b>						
<b>Distinctive behaviours</b>						
1.	1.1	The engagement partner demonstrates a strong understanding of our business, our values and culture, as well as the wider industry in which we operate and the challenges we face.				
2.	1.2	The engagement partner is demonstrably committed to audit quality, has a robust and professional working relationship with management, demonstrates strong technical knowledge and professional scepticism in the challenge of our key judgements.				
3.	1.3	The engagement partner inspires confidence. We value his/her opinion, not just because we need his/her signature.				
4.	1.4	The engagement partner is a strong leader, is able to marshal audit professionals where required in the UK and globally and ensures that quality is maintained to and beyond our expectations.				
5.	1.5	The engagement partner speaks for the audit firm with authority and clarity.				
<b>Personal Qualities</b>						
6.	1.6	The personal qualities of the engagement partner fit well with our organisation and its key leaders.				
7.	1.7	The engagement partner has inquisitive instincts and takes the time to engage with our organisation with an enquiring mind demonstrating an appropriate degree of professional scepticism and challenges us where appropriate..				
8.	1.8	The engagement partner performs his/her role with enthusiasm, acts as a catalyst for change and, where compatible with the role, brings ideas and insights to help our organisation to be more successful.				
<b>Audit partner – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>Relationship Partner (Where Appropriate)</b>						
9.	1.9	The firm's relationship partner takes an active interest in the company, is well informed and meets with the company sufficiently often to perform the role.				
10.	1.10	The board has confidence that the relationship partner is available as needed to advise and resolve issues.				
<b>Audit Partner Rotation</b>						
11.	1.11	The audit partner rotation process is well planned and communicated allowing sufficient time for relevant stakeholders to be involved in the succession planning.				
12.	1.12	(Where applicable) the transition to the new audit partner was handled efficiently and effectively.				
<b>Relationship partner – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>2. The Audit Team</b>						
<b>Distinctive behaviours</b>						
13.	2.1	Partners, managers and professional staff demonstrate a strong understanding of our business, the wider industry in which we operate and the challenges we face.				
14.	2.2	The audit team have sufficient experience, technical and industry knowledge and are appropriately directed and supervised by partners and managers.				
15.	2.3	The audit professionals have taken steps to understand the culture and values of our business and this is reflected in their behaviour.				
16.	2.4	The personal qualities of members of the engagement team generally fit well with our organisation.				
<b>Resources &amp; Continuity</b>						
17.	2.5	The audit team appears to be well resourced in terms of team structure and time available.				
18.	2.6	Continuity of audit team is generally good and, where required, clear succession planning for the senior members of the audit team has been undertaken and communicated.				
<b>Tax And Other Specialists</b>						
19.	2.7	The appropriate level of tax specialist resource was evident during the audit.				
20.	2.8	High quality and timely financial reporting technical support is available for direct consultations when required.				
21.	2.9	Other specialist resource (e.g. actuarial treasury, valuation, technology) forms an integral part of the engagement team and are appropriately supervised.				
<b>The audit team – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>3. The audit approach – planning</b>						
		<b>Structure</b>				
22.	3.1	The partners and managers actively and visibly lead the audit planning.				
23.	3.2	The planning process has involved early discussion with management and the audit committee to identify significant issues at the earliest opportunity and to develop an appropriate audit response.				
24.	3.3	The planning process has involved assessment of accounting policies, feedback on prior year disclosure deficiencies or misstatements and relevant accounting/governance developments.				
25.	3.4	The overall audit coverage has been communicated and explained satisfactorily to us and the scope of the audit work at each entity has been individually evaluated and communicated to us under headings such as full scope, limited scope and high level review, with appropriate category description. The role of component auditors is accepted and understood.				
26.	3.5	The audit approach provides a framework and procedures to obtain sufficient appropriate audit evidence effectively and efficiently.				
27.	3.6	Appropriate safeguards and procedures have been put in place where a significant part of the group’s operations are audited by a firm other than the parent company auditors, including network firms.				
		<b>Understanding and Risk Assessment</b>				
28.	3.7	The audit approach reflects a clear understanding of our business, the industry in which we operate and the significant business risks and appropriate focus on the right related financial reporting risks.				
29.	3.8	There is good evidence of the auditor’s understanding of the company’s technology strategy and of their approach to the audit of relevant systems.				

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>3. The audit approach – planning (continued)</b>						
<b>Understanding And Risk Assessment</b>						
30.	3.9	The auditors have demonstrated a good understanding of the group’s internal control systems.				
31.	3.10	There is good evidence of the auditor’s involvement in the component auditors’ risk assessment and evaluation of the appropriateness of the audit procedures planned to respond to the identified significant risks.				
32.	3.11	There is good evidence of the audit team’s understanding of the regulatory environment in which the group operates.				
<b>Work Undertaken For The Half Year Review</b>						
33.	3.12	There is early engagement with management and the audit committee on key issues arising from the half year review and this is well integrated with the approach for the year end audit.				
<b>Reliance On Internal Audit</b>						
34.	3.13	Plans for liaison with and, where applicable, for using the work of internal audit and for testing the work of other relevant control functions are clear and appropriate, after consideration of their effectiveness. The impact on the external audit of reliance on internal audit has been communicated clearly.				
<b>Materiality</b>						
35.	3.14	The level of quantitative materiality adopted for the audit (including component/subsidiary and performance materiality and error reporting thresholds) and qualitative materiality considerations have been explained satisfactorily.				
<b>The audit approach – planning – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>4. The audit approach – execution</b>						
<b>Timetabling</b>						
36.	4.1	Partners and staff had sufficient time and resources to deal with difficult issues as they arose.				
37.	4.2	The audit process milestones set at the outset of the audit were achieved and, where not, timetabling issues were discussed openly and honestly.				
<b>Responsiveness &amp; Quality</b>						
38.	4.3	All requests or queries raised with the auditors, at any level, were dealt with promptly and effectively.				
39.	4.4	Audit quality control procedures appear effective, understood and applied.				
<b>Judgements – Challenge And Scepticism</b>						
40.	4.5	Key accounting judgements including significant estimates, were identified and addressed in advance where possible. They received appropriate resource, (including necessary specialist involvement) and were challenged robustly, demonstrating professional scepticism.				
41.	4.6	Audit team professionals exhibit scepticism in their work and are robust in dealing with issues identified during the audit.				
<b>Fraud</b>						
42.	4.7	Discussions between the auditors, the audit committee and management on fraud risk, prevention and detection were led at the appropriate level and were challenging and comprehensive during the planning, execution and concluding of the audit process.				
<b>Innovative Audit Techniques</b>						
43.	4.8	Innovative audit techniques such as data analytics and controls analysis tools were used as part of the audit to enhance the quality of the audit work.				
<b>Global Team</b>						
44.	4.9	All parts of the global network were integrated seamlessly into the audit and communications were handled appropriately.				

**The audit approach – execution – overall rating**

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>5. Role of management in an effective audit process (based on discussions with management and the external auditors)</b>						
<b>Quality of information from management</b>						
45.	5.1	The information provided by management for the audit is timely, clear, complete and presented with a culture of "right first time".				
46.	5.2	Management papers presented to the auditors and the audit committee analysing key judgements are of good quality and depth and make use of independent experts/ advisers and independent data where this would enhance quality and reliability and are balanced in presenting alternative treatments in reaching conclusions.				
47.	5.3	The accounting systems produce reliable information and audit trail, with particular emphasis on control over material judgements, adjustments and journal entries.				
48.	5.4	Management maintains up-to-date process and controls documentation, particularly over financial reporting, and the documentation is subject to regular review.				
49.	5.5	The audit committee is kept informed about development of the control environment by management (and by internal audit).				
<b>Timeliness And Responsiveness</b>						
50.	5.6	Information requested from management is provided to an agreed and structured timetable.				
51.	5.7	Requests for additional information and analysis during the course of the audit are met within a reasonable timeframe.				
<b>Attitude of the management team</b>						
52.	5.8	The management team involved in the audit process has the requisite technical know-how, and business knowledge to explain key judgement areas and provide supporting documentation and audit evidence.				
53.	5.9	The management team involved in the audit process is well organised, efficient and committed to the value of independent audit and the development of professional relationships with the auditors.				
54.	5.10	Management examines proposed audit adjustments seriously and prefers to book audit adjustments.				
<b>Role of management – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>6. Communications by the auditor to the Audit Committee</b>						
<b>Timeliness</b>						
55.	6.1	Communications with the audit committee were appropriately positioned in the annual reporting cycle.				
56.	6.2	Significant audit and accounting issues, including adverse or unexpected findings, were raised on a timely basis with the audit committee.				
57.	6.3	Any significant matters outstanding at the time of the final audit committee meeting to discuss the annual report and financial statements were followed up, resolved and reported to the audit committee in a supplementary final written report on or before approval of the financial statements.				
<b>The Right Focus – Quality And Clarity</b>						
58.	6.4	Audit committee reports are high quality and present information clearly, concisely, and with appropriate priority and emphasis.				
59.	6.5	Reports to the audit committee set out the significant audit risks, key elements of the judgements made by management and the audit challenge of those judgements, including where management’s view of the preferred treatment differs from their own.				
60.	6.6	Qualitative aspects of the entity’s accounting and reporting and potential ways of improving financial reporting are communicated.				
<b>Audit Fee</b>						
61.	6.7	The audit committee approves the auditor’s requests for reasonable audit fees, which take account of developments in the business and changes in regulatory requirements.				
62.	6.8	Financial considerations do not drive actions and decisions which could have a negative effect on audit quality.				
63.	6.9	Fee information, including reasons for any material fee overruns, has been communicated and explained to the audit committee for approval.				
<b>Audit committee communications – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>7. Supporting the work of the Audit Committee</b>						
64.	7.1	The Audit Partner promotes excellence in corporate governance and financial reporting and endeavours to guide the Audit Committee as to best practice including in relation to the Audit Committee Report in the annual report.				
65.	7.2	The Audit Partner provides support to the Audit Committee between meetings, in the form of briefings and updates on governance developments to the extent the Audit Committee requires.				
66.	7.3	The Audit Committee welcomes the candidness of the audit partner's observations in private sessions with them.				
67.	7.4	The Audit Committee welcomes the views of the Audit Partner on how the Audit Committee fulfils its responsibilities and performs its work on behalf of the Board.				
68.	7.5	The audit partner brings an outside perspective on emerging areas such as emerging country risks, technology and process risks and an outside business perspective.				
69.	7.6	The Audit Committee is offered education and training by the audit firm where appropriate.				
70.	7.7	Bespoke training on the Audit Committee's role and responsibilities is offered to new members of the Committee.				
<b>Supporting the Audit Committee – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>8. Insights and adding value</b>						
71.	8.1	The audit process and the audit team have challenged our thinking and contributed to improved standards and behaviours at our organisation.				
72.	8.2	The audit firm has contributed to improvements in the financial reporting to shareholders at our organisation.				
73.	8.3	The audit team provides the following in a clear, focused and timely manner:				
		• information about upcoming financial reporting and governance developments;				
		• insights about our finance function;				
		• insights about our internal controls and systems;				
		• insights about our business;				
		• insights about our risks and risk management processes; and				
		• insights about our annual report (both the “front half” and the financial statements).				
74.	8.4	Where specialists are used as part of the audit, their insights were delivered in a clear, focused and timely manner.				
<b>Responsiveness</b>						
75.	8.5	As events occurred during the year, e.g. transactions and re-financings, the audit firm responded on a timely basis and delivered the experienced team and insight that we would expect.				
<b>Working With Regulators</b>						
76.	8.6	Where appropriate, the engagement team has supported us promptly and efficiently in our dealings with regulators.				
<b>Insights and adding value – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>9. Independence, objectivity and the firm</b>						
<b>Independence &amp; objectivity</b>						
77.	9.1	It is clear from the communications (both written and oral) received from the auditors that the objectives of the FRC's Ethical Standards regarding independence and objectivity have been achieved.				
78.	9.2	Potential conflicts of interest are identified and addressed in an appropriate and timely manner, i.e. as early as practicable.				
<b>Non-Audit Services</b>						
79.	9.3	Our policy on non-audit services has been complied with and, for non-audit related services, threats and safeguards were communicated to us. Any matters of contention arising in relation to the provision of non-audit services are discussed and resolved at the earliest opportunity.				
80.	9.4	The relationship between the auditors and management is appropriate such that there is no perception that the auditors may lack, or appear to lack, the required degree of objectivity.				
<b>Culture</b>						
81.	9.5	Our perception is that this audit firm creates an environment where achieving high quality is valued, invested in and rewarded.				
82.	9.6	There is evidence that this audit firm invests in audit innovation and continuous improvement.				
<b>The Transparency Report</b>						
83.	9.7	The audit firm's Audit Transparency Report shows a robust approach to its own governance and ethics and there is a clear tone set from the very top of the organisation which flows through to audit teams.				
84.	9.8	The audit firm's Audit Transparency Report shows a robust approach to engagement quality control.				

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>Inspection Results</b>						
<b>9. Independence, objectivity and the firm (continued)</b>						
85.	9.9	The audit firm's public inspection report from the FRC's Audit Quality Review Team does not reveal fundamental matters of concern in the audit quality of this audit firm.				
86.	9.10	It is clear how the audit firm has responded to matters raised by the Audit Quality Review Team and, in particular, how this has impacted our audit.				
87.	9.11	Where there has been a review of our audit by the Audit Quality Review Team, we received a timely explanation from the auditors about the matters arising in the report and the steps being taken to address those matters.				
<b>Independence, objectivity and the firm – overall rating</b>						

			Area for focus	Performing as expected	Special strength	Evidence, comment or action
<b>10. Formal reporting by the auditors</b>						
<b>The Public Report</b>						
88.	10.1	The public audit report contains those matters that in our view had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the audit team.				
89.	10.2	Where appropriate, the public audit report includes a report by exception where:				
		<ul style="list-style-type: none"> <li>information has been identified that is materially inconsistent with the information in the audited financial statements or is apparently materially incorrect based on the knowledge acquired during the audit;</li> </ul>				
		<ul style="list-style-type: none"> <li>the directors' statement that the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy, is inconsistent with the knowledge acquired by us in the course of performing the audit; and</li> </ul>				
		<ul style="list-style-type: none"> <li>a section describing the work of the audit committee that does not appropriately address matters communicated by us to the audit committee.</li> </ul>				
<b>The Private Report</b>						
90.	10.3	The audit partner gave an informed view on whether the annual report is fair, balanced and understandable.				
91.	10.4	The audit partner gave an informed view on the board's statement on whether the annual report included the information necessary for shareholders to assess the performance, business model and strategy of the company.				
92.	10.5	The audit partner confirmed that the significant issues raised at the audit committee have been reflected appropriately in the audit committee report.				
93.	10.6	The private report explained the components of the public auditor's report and the reasons why they selected the risks to report that they did.				
94.	10.7	The audit partner gave an informed view on the effectiveness of internal control based on the audit procedures on the financial statements.				
95.	10.8	The audit partner gave an informed view on the reasonableness of the statement by the board on going concern in the annual report.				
<b>Formal reporting by the auditors – overall rating</b>						

	Area for focus	Performing as expected	Special strength	Comment or action
<b>Summary of ratings</b>				
The audit partners				
The audit team				
The audit approach – planning				
The audit approach – execution				
The role of management in an effective audit process				
Audit Committee communications				
Supporting the work of the Audit Committee				
Insights and adding value				
Independence, objectivity and the firm				
Formal reporting by the auditors				
<b>Overall ratings</b>				

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# Contacts and feedback

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