



Private session with the auditor

Audit Committee Institute part of
KPMG Board Leadership Centre



Most audit committees want to meet the external auditor in a private session where management is not present. This approach allows the audit committee to ask questions on matters that might not have been specifically addressed as part of the audit. The private session allows the auditor to provide candid, often confidential, comments to the audit committee on such matters. Often this meeting would be held toward the end of the audit committee meeting.

Typically there should be few items to discuss. All key matters related to financial reporting should have been reviewed in a candid and robust manner with management, the audit committee and the auditor during the audit committee meeting. The audit committee can use the private session as a follow-up if members were not satisfied with the answers given at the audit committee meeting or if they thought discussions had been too guarded or uneasy. However, such matters should have been fully aired at the audit committee meeting and generally should not need to be readdressed in the private session.

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.

Overall, private sessions can play an important role in the development of a trusting and respectful relationship between the audit committee and the auditor. Questions often focus on one or more of the following areas:

Attitudes – management’s attitude toward financial reporting, internal controls and the external auditor.

Resources – the adequacy of people and other resources in the financial management area and the internal audit function.

Relationships – the nature of the relationship between the auditor, management and the internal auditor.

Other issues – other issues of concern to the audit committee or the auditor.

The following is a list of illustrative questions. It is not an exhaustive list but is intended to stimulate thought as to the type of issues that could be raised with the auditor. Typically, each private session should address a few matters which may vary from meeting to meeting, in addition to any matters of current concern.

Attitudes

- 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 the uncorrected audit differences?
- Does management have plans to correct these audit differences in the future?
- Was management fully supportive of the 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 or operating personnel to meet financial targets including sales or profitability incentive goals?
- 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:
 - disclosure controls and procedures; and
 - internal control systems and procedures?

Resources

- Do the finance and internal audit functions have the appropriate number of people?
- Do they have a sufficiently broad range of knowledge and experience to be able to deal with the types of transactions faced by the company?
- Are these people competent for their position? Do you have any concerns?
- Has management adequately responded to your management recommendations?
- 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

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

Other issues

- Did you receive everything you requested on a timely basis?
- Did you have adequate time to carry out all your audit procedures?
- Is the audit fee at an appropriate level?
- On what issues 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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