



Audit quality The views of audit committee chairs

KPMG Audit Committee Institute



Following previous large-scale annual surveys, the FRC commissioned YouGov to deliver [50 qualitative in-depth interviews with audit committee chairs of Public Interest Entities \(PIEs\)](#) to explore their views on, and approach to, audit quality. In commissioning this work, the FRC has sought a more detailed understanding of the views of audit committee chairs to help inform its work to support audit committees in their role of driving high quality audits. This paper summarises some of the key findings.

The overarching objective of the research was to provide the FRC with a rich understanding of audit committee chairs' views on, and approach to, audit quality. This included an exploration of the following areas:

- The key drivers of audit quality
- What does a good/bad audit look like?
- Auditor selection and the audit tender process
- Audit planning
- Audit quality considerations during the audit and post-audit
- How audit committee chairs use the results of AQR inspections to drive improvements in audit quality
- How audit committee chairs satisfy themselves as to the independence and suitability of their auditor
- Developments in the audit sector and the future role of audit committees

Fifty-four audit committee chairs were interviewed. These represented 16 FTSE100 companies, 29 FTSE250 companies and 28 companies listed elsewhere or unlisted PIEs.

The FRC intends to use the findings from this research to inform its ongoing work, including that on further reforms to the audit sector.

Key theme

Not unsurprisingly, the key theme that emerges from this research is that audit committee chairs have different views on, and approaches to, audit quality.

YouGov conclude that the audit committee chairs they interviewed had had a range of understanding as to what was expected from them in relation to audit quality. Many commented on how they or their committees assessed quality throughout the entire audit, but this was not always the case.

Some audit committee chairs expressed a desire to improve their understanding of what makes a good audit, and particularly called for clarity on the scope of audit to aid them in this.

Such findings suggest that while some audit committees may be very focused on the quality of an audit, there could be inconsistencies in how they go about promoting audit quality. In The FRC's opinion, this lends weight to proposals for reforms in the audit sector, including the introduction of standards for audit committees – though when audit committee chairs were specifically asked their views on the regulator setting standards for audit committees their appears to have been little support for the idea. Some of the key findings on these areas are summarised below.

Defining a good quality audit

While most audit committee chairs reported measuring the quality of an audit by its assurance of the financial statements, they also frequently defined a good audit with reference to the auditors. For many audit committee chairs, the lead audit partner was synonymous with quality – a good audit partner would have an understanding of the business and its sector, the ability to identify key risk areas and a sensible approach to handling them, along with a focus on timeliness in terms of raising issues and completing work, and good communication skills. Some audit committee chairs mentioned challenge and scepticism as key to ensuring a high-quality audit, but surprisingly these were not explicitly named as key attributes for a good auditor by all those interviewed.

From the interviews carried out, it was not always clear that audit committee chairs distinguished between a good quality service and a good quality audit. In some cases, a high-quality service appeared to be a proxy for a high-quality audit and for a majority, good service was seen as a necessary facet of quality.

Planning and executing an audit

Some audit committee chairs reported difficulties in assessing quality throughout an audit and it appeared to YouGov that many audit committee chairs sought to balance this by focusing their efforts on ensuring a rigorous audit tender process and using a number of proxy measures.

In terms of challenging the auditors, many audit committee chairs reported that this mostly happened during the planning phase of the audit. Challenge was less apparent in relation to auditors' judgements and findings. At the planning stage, challenge often focused on the scope of the audit but did not always seem to concern audit materiality or the level at which misstatements were reported to the audit committee.

Few audit committee chairs explicitly mentioned regularly challenging company management as well as the auditors and, while some acknowledged that there may be tension to an extent between auditors and company management, there was a sense that a good auditor would manage this without audit committee involvement. In terms of receiving external support to help drive challenge, a majority of audit committee chairs suggested shareholders were not engaged in their audits. There was a feeling that shareholders were uninterested, or that audit was not readily accessible to them.

Selecting an auditor

On average, the audit committee chairs started thinking about the audit tender process 12 to 18 months ahead of it starting and invited around four to five audit firms to bid. While around seven-in-ten of audit committee chairs said they had invited non-Big Four firms to participate in tenders, many reported ruling out a non-Big Four firm at the outset because they felt these firms lacked the relevant expertise or capacity. Some mentioned non-Big Four firms choosing not to bid and suggested they could do little in response. Likewise, there were a handful who mentioned that Big Four firms might not bid if they already had more lucrative contracts in place for non-audit work.

Most audit committee chairs cited the lead partner as the key criterion when selecting an audit firm. Another important criterion was the wider audit team. Some audit committee chairs talked about the importance of seeing 'chemistry' within the audit team and between the audit team and company management. No audit committee chairs mentioned price as a primary determinant when selecting an auditor.

In reaching a decision on which audit firms to propose to their Boards, most audit committee chairs said the choice of auditor was often between two Big Four firms

Changes in the audit sector

The audit committee chairs wanted to see a range of outcomes from the recent reviews into the audit sector. Some supported a redefinition of audit and transforming the FRC into ARGA. Many wanted greater transparency of the issues when audits go wrong; to learn lessons from high profile audit failures and from this develop a better sense of what a good audit looks like. The benefits and challenges in relation to potential interventions in the audit market such as the FRC's proposal for managed shared audit and operational separation were also mentioned.

Similarly, the audit committee chairs offered mixed views on the introduction of mandatory tendering and rotation of auditors. On developments with the audit firms' transparency reports, including greater reporting of audit quality indicators (AQIs), many audit committee chairs said they did not consider AQIs in detail and thought they could be made more useful. A majority of audit committee chairs suggested audit firms' transparency reports were fairly 'boilerplate'.

Many of the audit committee chairs reported that the FRC's Audit Quality Review (AQR) reports were more informative in supporting their work on audit quality although these, and AQR ratings, might not be a major consideration when selecting an auditor.

Many audit committee chairs said they would welcome further information and support from the FRC to help in their work on audit quality.

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Contact us

Timothy Copnell
Board Leadership Centre
T: +44 (0)20 7694 8082
E: tim.copnell@kpmg.co.uk



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