

Active Engagement with External Auditors Makes a Difference



An Audit Committee (AC) which actively supports and challenges the external auditor contributes to increased audit quality. With this in mind, the Federal Audit Oversight Authority (FAOA) held a workshop for Board and Audit Committee members in early November, 2018. Approximately fifty engaged and interested participants joined to hear recommendations from speakers including Prof. Dr. Reto Eberle, Prof. Dr. Roland Müller, Sonja Stirnimann, an experienced panel of AC members, as well as FAOA experts.

The FAOA oversees auditors of public interest entities in Switzerland. In this role, the FAOA reviews the audit work performed and meets with AC Chairs to form a view on whether the auditors have performed their work in compliance with the audit standards.

Through its actions, the AC can significantly impact the effectiveness of the external audit function. Encouraging an atmosphere of transparency, engaging the external auditor as a sparring partner, and strengthening the external auditor's position, are ways in which an AC can positively impact the effectiveness of the external audit. Suggested good practices include:

1. **Engaging in regular one-to-one dialogues with the lead auditor to foster an atmosphere of openness, trust and transparency.**

In addition to the interactions which take place at the AC meetings, a regular one-to-one interaction between the lead auditor and the AC Chair is considered very valuable. By developing an open relationship, the AC Chair gains from valuable insights which the external auditor can share as a sparring partner. Also, a foundation is established which fosters direct communication on sensitive topics. Lastly, in the context of rather lengthy Board pre-reading

The workshop was aimed at Board members of entities of public interest entities: quoted on the stock exchange or under FINMA regulatory oversight. Individuals interested in joining future workshops offered by the FAOA, may put their names on the mailing list by informing seminars@rab-asr.ch.

The FAOA is an institution under public law with its own legal identity. The FAOA has the responsibility to decide on applications for the licensing of individuals and audit firms who offer statutory audit services and to oversee audit firms auditing public interest companies.

documents, a one-to-one meeting before each AC meeting helps the AC Chair focus sharply on what really matters.

2. **Encouraging the auditor's independent view if conflicts arise between auditor and management.**

Situations are bound to arise where a financial reporting matter is unclear or debatable. Sometimes conflicting goals exist between financial reporting requirements,



management's incentives and the external auditor's view. It is the AC's, and ultimately the Board's, responsibility to ensure that the financial reporting is suitable and in line with the requirements. Should conflicts between the auditor and management arise, it is important that the AC understands the underlying matters thoroughly and is able to form an independent view. In addition to strengthening the robustness of the decision taken, allowing the external auditor to challenge management also sets the right tone and encourages a culture where conflicting views may be presented and discussed openly.

3. Taking ownership of key engagement terms to place the AC in the driver's seat of the relationship with the external auditors. This includes leading the annual scope and fee discussions.

An external auditor who feels the strong support of an AC will be more likely to bring critical points directly to their attention. At the same time, the external auditor is often very dependent on the relationship with the CFO when it comes to negotiating fees and for achieving good client satisfaction. An AC can reduce this dependency by taking ownership for audit scope and fee discussions.

4. In the event of an audit tender process, taking ownership of the process and focusing on quality first.

In cases where companies decide to put the external audit to tender, the CFO function often has the lead. The

selection, however, should very much be in the hands of the AC and Board, which means that the AC should lead the process. Care should be taken with respect to fee decreases offered in a tender process. The audit scope should be understood and critically questioned by the AC to ensure that the planned scope remains sufficient. As part of its assessment of audit quality, the FAOA regularly reviews audit mandates which have changed auditors, with a particular eye on cases where a significantly lower fee has been offered as this is considered a clear risk for strong audit quality.

Conclusion: The FAOA recognizes the important role a strong AC plays in the quality of external auditors. Through regular communication based on a trusting relationship, the AC can ensure a conducive environment. The obvious result is a lowered chance of missed risks or financial reporting mistakes. In the best case, a valuable sparring partner role results where the AC gains from business insights the external auditor can share.



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