



External Auditor Assessment Tool:

A Tool for Audit Committees

October 2025

CAQ

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Contents

4

Introduction and assessment process

6

Part 1: Quality of services and sufficiency of resources provided by the external auditor – the engagement team

11

Part 2: Quality of services and sufficiency of resources provided by the external auditor – the audit firm

16

Part 3: Communication and interaction with the external auditor

19

Part 4: Auditor independence, objectivity, and professional skepticism

22

Sample Form: Obtaining input from company personnel about the external auditor

25

Appendix I: Relevant US requirements and standards

29

Appendix II: Resources and suggested reading

Introduction and assessment process

Among other important duties, audit committees of US public companies and registered investment companies have direct responsibility to oversee the integrity of a company's financial statements and to hire, compensate, and oversee the external auditor. There continues to be interest from investors, regulators, and others regarding how audit committees perform their responsibilities, including their oversight of the external auditor.

Audit committees should regularly (at least annually) evaluate the external auditor in fulfilling their duty in order to make an informed recommendation to the board whether to retain the external auditor.

Robust, two-way dialogue that includes constructive feedback to the external auditor may improve audit quality and enhance the relationship between the audit committee and the external auditor. The evaluation should encompass:

- + an assessment of the qualifications and performance of the external auditor;
- + the firm-level approach to promoting and monitoring audit quality;
- + the quality and candor of the external auditor's communications with the audit committee and the company; and
- + the external auditor's independence, objectivity, and professional skepticism.

To this end, the assessment questionnaire included in this tool can be used by audit committees to inform their evaluation of the external auditor. The

term "external auditor" is intended broadly and comprises the lead audit engagement partner, the engagement team, and the audit firm. The lead audit engagement partner¹ is responsible for proper supervision of the work of engagement team members and for compliance with Public Company Accounting Oversight Board (PCAOB) rules and standards, including standards regarding using the work of specialists,² other auditors,³ internal auditors,⁴ and others who are involved in testing controls.^{5,6}

The sample questions highlight some of the more important areas for consideration; they are suggested for consideration and not intended to cover all areas that might be relevant to a particular audit committee's evaluation of its external auditor, nor do they suggest a "one-size-fits-all" approach. Moreover, this assessment tool is not meant to provide a summary of legal or regulatory requirements for audit committees or external auditors. An overview of portions of the relevant standards on required external auditor communications with the audit committee (appendix I) and sources of additional information on hiring and evaluating the external auditor (appendix II) are included at the end of this document.

ASSESSMENT PROCESS

The external auditor assessment should draw on the audit committee's experience with the external auditor during the current engagement (presentations, reports, and dialogue during formal meetings; ad hoc meetings; and executive sessions) and should be informed by prior-year evaluations, as applicable. Further, each assessment is more meaningful when

¹ Throughout this publication, the term lead audit engagement partner is generally used to refer to the member of the engagement team with primary responsibility for the audit. AS 1201, *Supervision of the Audit Engagement* (AS 1201), uses the term engagement partner.

² Auditor-engaged specialist in accordance with AS 1210, *Using the Work of an Auditor-Engaged Specialist*; Auditor-employed specialist in accordance with Appendix C of AS 1201; Company specialist in accordance with Appendix A of AS 1105, *Audit Evidence*.

³ AS 2101, *Audit Planning*.

⁴ AS 2605, *Consideration of the Internal Audit Function*.

⁵ Paragraphs .16-.19 of AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements*.

⁶ AS 1201.03.

informed by the risks the company faces and the external auditor's views regarding how management is addressing those risks. It is appropriate to obtain observations on the external auditor from others within the company, including management and internal audit, accompanied by discussions with other key managers. A suggested survey for obtaining observations from others within the company follows the assessment questionnaire. In evaluating information obtained from management, the audit committee should be sensitive to the need for the external auditor to be objective and skeptical while still maintaining an effective and open relationship with management. Accordingly, audit committees should be alert to whether management displays a strong preference for or a strong opposition to retaining the external auditor—and follow up as appropriate to understand the reasons.

Audit committee members can assess the external auditor throughout the audit process via both formal and informal assessments. Informal assessments can include experience based on private meetings between the audit committee chair and the lead audit engagement partner, which can help build a constructive and mutually respectful working relationship. These contemporaneous assessments provide important input into the annual assessment. Audit committees may wish to consider those contemporaneous observations during a more

formal assessment process, perhaps by using a questionnaire or guide, such as the one included in this tool. To ensure that multiple views are considered, audit committees may wish to finalize their assessment in group discussions (as opposed to collecting audit committee member comments separately) during formal committee meetings or conference calls.

Other sources of input into the audit committee's assessment of the external auditor may include discussions with the external auditor regarding its firm-level approach to promoting and monitoring audit quality, as well as information published by the firms that addresses audit quality issues (such as firm transparency and audit quality reports), regulator inspection reports, and peer review findings, as applicable.

Finally, the audit committee should consider advising shareholders that it performs an annual evaluation of the external auditor. The audit committee also should consider explaining its process, scope of the assessment, and factors considered in selecting or recommending the audit firm or assessing its performance in its audit committee report included in the company's proxy statement. The audit committee should consider benchmarking and enhancing such disclosures as applicable.⁷

⁷ 2024 *Audit Committee Transparency Barometer*, an annual report issued jointly by the Center for Audit Quality and Audit Analytics. The Barometer provides year-over-year comparisons of key audit committee disclosure areas for companies of all sizes.

Part 1

Quality of services and sufficiency of resources provided by the external auditor – the engagement team

The audit committee's evaluation of the external auditor begins with considering the quality of the services provided by the engagement team during the audit and throughout the financial reporting year.

Because audit quality is highly dependent on the individuals who conduct the audit, the audit committee should assess whether the primary members of the engagement team demonstrated the knowledge, skills, and experience necessary to address the company's risks of material misstatement.⁸ The engagement team should have provided details regarding its overall audit strategy, timing of the audit and significant risks identified during the auditor's risk assessment procedures at the outset of the audit, including an assessment and discussion regarding fraud risks and the results of such procedures. During the engagement, the engagement team should have demonstrated a good understanding of the company's business, industry, and the impact of the economic environment that might reasonably

be expected to have a significant effect on the risks of material misstatement of the company's financial statements. Moreover, as part of obtaining an understanding of the nature of the company the engagement team should have considered risks related to changes in the company or its industry, or changes in applicable accounting and auditing requirements, as applicable.

As part of communicating the overall audit strategy and results of the audit, the auditor should communicate the nature and extent of other accounting firm(s) participation in the audit in various domestic locations, or in other countries through the audit firm's global network or by other audit firms, the nature and extent of specialized skill or knowledge needed, the extent to which the auditor plans to use the work of others, such as the work of internal auditors. Understanding these matters provides the audit committee with additional information to monitor the quality of audit work overall and in the applicable jurisdictions.⁹

⁸ Such consideration includes the impact of any recently issued US generally accepted accounting principles (GAAP).

⁹ PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*, requires disclosure of the engagement partner name and the extent of participation of other accounting firm(s) on Form AP, which is filed with the PCAOB.

SAMPLE QUESTIONS**1. Engagement team competence, resources, and responsiveness***Engagement team competence*

- Did the lead audit engagement partner and engagement team demonstrate the necessary knowledge, skills, and experience (company-specific, industry, accounting, auditing, and reporting) to perform the audit of the company's financial statements?

Engagement team resources

- Were appropriate resources available to complete the audit timely, effectively, and efficiently?
- If applicable, were additional resources added as appropriate based on changes in the audit requirements and scope?
- Did the engagement team have sufficient access to specialized expertise (information technology, tax, valuation specialists, etc.) during the audit?
- Did the engagement team have access to appropriate technological resources and skills to perform the audit?

Responsiveness of the lead engagement partner

- Was the lead audit engagement partner accessible to the audit committee and company management?
- Did the lead audit engagement partner devote sufficient attention and leadership to the audit?

Responsiveness to feedback

- Did the external auditor seek feedback on the quality of the services provided?
- How did the external auditor respond to feedback?

OBSERVATIONS

SAMPLE QUESTIONS	2. Engagement team hours and workload • Did the lead audit engagement partner discuss trends in engagement hours and related timing such as: 1. total audit hours by various levels, including partner(s), manager(s), and staff (e.g., percentage of planned hours for the current year and actual audit hours for the prior year); 2. changes in audit hours from year to year (e.g., comparing the current year's planned hours with the prior year's actual hours); and 3. the breakdown of audit hours incurred by phase of the audit cycle, particularly the allocation for planning, execution, and completion? • Did the lead audit engagement partner discuss key engagement team members' workloads and workload information (compared to a standard workload by level as determined by the audit firm)?
OBSERVATIONS	
SAMPLE QUESTIONS	3. Audit plan and risks • Did the lead audit engagement partner discuss the audit plan, including the use of technology and how it addressed risks of material misstatement relevant to the company's financial statements (including fraud risk and other significant risks) with the audit committee? • Did the lead audit engagement partner identify the appropriate risks in planning the audit? • Did the external auditor use appropriate technology and analytics to identify risks? • Did the external auditor adjust the audit plan to respond to significant changes in risks and circumstances? • Did the audit committee understand the changes in risk and the auditor's rationale?
OBSERVATIONS	

SAMPLE QUESTIONS	4. Audit participants • If other accounting firm(s) participated in the audit in various domestic locations, or in other countries through the audit firm's global network or other audit firms, did the lead audit engagement partner provide information about the technical skills, experience, and professional objectivity of those other accounting firms? • Did the lead audit engagement partner explain how he or she reviews and supervises those other auditors (such as component teams or audit teams in other locations), specialists, or personnel at shared service center(s), if applicable?
OBSERVATIONS	
SAMPLE QUESTIONS	5. Engagement team succession • If applicable, has the audit firm sufficiently explained how the changes or rotations of lead audit engagement partner or senior engagement team personnel would be managed? (See part 4 for more questions related to compliance with independence rules.)
OBSERVATIONS	

SAMPLE QUESTIONS	6. Complex accounting and auditing matters, including consultations • Did the lead audit engagement partner bring the resources of his or her firm to the audit and advise the audit committee of the results of any consultations with the audit firm's national professional practice office or other technical resources on accounting or auditing matters? • Were such consultations executed in a timely and transparent manner? • Were planned and actual allocation of resources associated with significant risks appropriate?
OBSERVATIONS	
SAMPLE QUESTIONS	7. Scope and cost considerations • Were the scope, hours, and cost of the audit reasonable and sufficient for the size, complexity, and risks of the company? • Were the reasons for any changes to scope, hours, and cost communicated to the audit committee? • Did the audit committee understand the rationale for the reasons?
OBSERVATIONS	

Part 2

Quality of services and sufficiency of resources provided by the external auditor – the audit firm

Evaluating the external auditor is broader than the engagement team. Important considerations for an audit committee include:

- + whether the audit firm has the relevant industry expertise, geographical reach, sufficient resources, appropriate specialists and/or national office resources necessary to continue to serve the company; and
- + the audit firm's system of quality control designed to deliver timely, efficient, effective audits in accordance with applicable professional standards.

A key part of the assessment process is the audit committee's understanding of how an audit firm promotes and monitors audit quality. The Center for Audit Quality (CAQ) released its [Audit Quality Disclosure Framework \(Update\)](#) in June 2023. This voluntary Framework can help promote an important dialogue between audit firms and audit committees related to the external auditor's ongoing efforts to determine, assess, and communicate information that may be useful to audit committees

in understanding how audit quality is supported and monitored at the firm-level. The Framework provides illustrative Points of Focus for the following seven elements that are important to audit quality:

1. Governance and Leadership
2. Relevant Ethical Requirements, Including Independence
3. Acceptance and Continuance of Client Relationships and Specific Engagements
4. Engagement Performance
5. Resources
6. Information and Communication
7. Monitoring and Remediation Process

Audit committees are encouraged to read a firm's audit quality report, if applicable, and use the Framework to assist in asking questions about a firm's approach to promoting and monitoring audit quality.

ELEMENTS IMPORTANT TO AUDIT QUALITY

In its *Audit Quality Disclosure Framework*, the CAQ describes seven elements important to audit quality:

- + *Governance and Leadership.* The firm's leadership sets the tone for the effectiveness of the firm's system of quality control and emphasizes the importance of audit quality and the auditor's role in providing trust in the capital markets. Together with firm leadership, the foundation of audit quality is the establishment of policies and procedures designed to promote an internal culture that recognizes that quality is essential in performing audit engagements. The composition of a firm's governing body and leadership structure give insight into who is responsible for oversight of audit quality initiatives.
- + *Relevant Ethical Requirements, Including Independence.* Adherence to relevant ethical requirements, including independence, are foundational principles underlying the auditing profession. In recognition of this, professional standards require firms to establish policies and procedures to provide reasonable assurance that firm personnel maintain independence (in fact and in appearance) in all required circumstances, perform professional responsibilities with integrity, and maintain objectivity in discharging professional responsibilities.
- + *Acceptance and Continuance of Client Relationships and Specific Engagements.* Firms establish policies and procedures to determine whether the firm should accept or continue a client relationship and whether to perform a specific engagement for that client. These policies are used to assess whether the firm has the necessary capabilities and has appropriately considered associated risks, among other considerations.
- + *Engagement Performance.* Engagement performance encompasses processes such as planning and performing the audit; supervision and review, including engagement quality review (EQR); and communicating audit results. Policies and guidance related to these processes are often developed at the firm level. These processes help professionals perform audit procedures in accordance with the applicable professional standards, including exercising appropriate professional skepticism.
- + *Resources.* Resources encompass Human Resources, Technological Resources, and Intellectual Resources. These resources are in part designed to mobilize an engagement team that has the appropriate mix of knowledge, relevant experience by staff level and industry, and sufficient time to design and execute a quality audit under professional standards.
- + *Information and Communication.* The flow of information is important, from firm senior leadership to the audit practice, from the audit practice to firm senior leadership, and to external parties. The strategies firms utilize to effectively communicate are of critical importance in an ever-changing regulatory environment.
- + *Monitoring and Remediation.* Monitoring activities are important to audit quality because they provide a firm with information about whether the policies and procedures relating to the system of quality management are suitably designed and are being effectively applied. Monitoring procedures include, but are not limited to, such procedures as external and internal inspections and root cause analysis. These processes are generally performed by qualified individuals who are not directly associated with the performance of the engagement. The nature and extent of monitoring procedures may vary given the nature and complexity of a firm's operations. Upon identification of deficiencies in its system of quality management as a result of its monitoring procedures, firms determine appropriate actions and remediate such deficiencies.

SAMPLE QUESTIONS	8. Audit quality report • Does the firm’s audit quality report, if applicable, provide transparency into how the audit firm promotes and monitors audit quality and how trends and disclosures are calculated?
OBSERVATIONS	
SAMPLE QUESTIONS	9. Governance and leadership • Does the audit firm’s leadership, culture, and firm governance promote audit quality? • Do the firm’s values, principles, and code of conduct emphasize audit quality? • Have there been any changes to the firm structure (including outside investment) and what is the impact of these changes?
OBSERVATIONS	

10. Resources

Financial Resources

- Does the audit firm have adequate financial strength and stability to appropriately execute its responsibilities and serve its client base?

Human Resources

- Does the audit firm support effective engagement team performance through recruitment, retention, and promotion?
- Does the audit firm's approach to professional development and coaching at both the firm and engagement team level promote audit quality?
- Does the audit firm have the necessary industry and specialized accounting and reporting expertise relevant to the company's primary operations?
- Does the audit firm have the resources and geographical reach required to continue to serve the company?
- How does the firm use delivery centers and offshore resources, and is the use of these resources appropriate in size, scope, and scale for the audit?

Technological Resources

- Does the audit firm have appropriate technological resources (including investments in technology) to serve the company?
- Does the firm leverage evolving technology for use in the audit and how is such technology enhancing the audit process?
- Does the firm deploy technology in a way that protects confidentiality and data privacy?

Intellectual Resources

- Does the audit firm have appropriate resources to develop or obtain appropriate written policies or procedures, audit methodology, industry or subject matter-specific guides, accounting guides, standardized documentation and other intellectual resources to support its audit practice and compliance with auditing standards?

SAMPLE QUESTIONS	11. Engagement performance • Do audit firm policies reinforce planning and performing the audit to avoid surprises, promote early detection of issues, and achieve the timely completion of the audit?
OBSERVATIONS	
SAMPLE QUESTIONS	12. Monitoring and remediation • If the audit was subject to inspection by the PCAOB or other regulators—or other internal quality review—did the external auditor advise the audit committee in a timely manner of the inspection, communicate any significant findings, and the impact, if any, on the audit results? • Did the lead audit engagement partner communicate relevant results of the firm’s inspection or internal quality review that may be pertinent to the company, such as themes and types of findings regarding companies in similar industries with similar accounting or audit issues? • Did the lead audit engagement partner explain the audit firm’s root-cause analysis, if applicable, and remediation processes and how, as a result, the audit firm planned to respond to the inspection findings and to internal findings regarding its quality control program?
OBSERVATIONS	

Part 3

Communication and interaction with the external auditor

Frequent and open communication between the audit committee and the external auditor is essential for the audit committee to obtain the information it needs to fulfill its responsibilities to oversee the company's financial reporting process. The quality of communications also provides opportunities to assess the external auditor's performance. In addition to communicating with the audit committee as significant issues arise, the external auditor should also meet with the audit committee on a basis frequent enough to ensure the audit committee has a complete understanding of the stages of the audit cycle (e.g., planning, completion of final procedures, and, if applicable, completion of interim procedures). Such communications should focus on the key accounting or auditing issues that, in the external auditor's judgment, give rise to a greater risk of material misstatement of the financial statements, as well as any questions or concerns

of the audit committee. Audit committees should consider if implementation of new accounting standards and/or reporting requirements relevant to the company's financial statements is being adequately discussed by the company and the external auditor. Audit committees should also consider how the external auditor is implementing new or amended auditing standards.

PCAOB standards, Securities and Exchange Commission (SEC) rules, and stock exchange listing requirements identify a number of matters the external auditor is required to discuss with the audit committee. Audit committees should be familiar with those required communications and consider not only whether the external auditor met all the requirements, but, importantly, the level of openness and quality of these communications, whether held with management present or in executive session.

SAMPLE QUESTIONS	13. Openness of communications • Did the lead audit engagement partner maintain a professional and open dialogue with the audit committee and audit committee chair? • Were discussions frank and complete? • Was the lead audit engagement partner able to explain accounting and auditing matters in an understandable manner?
OBSERVATIONS	

SAMPLE QUESTIONS	14. Nature of communications • Did the external auditor adequately discuss the quality of the company's financial reporting, including the reasonableness of accounting estimates and judgments? • Did the external auditor discuss how the company's accounting policies compare with industry trends and leading practices? • Did the external auditor discuss with the audit committee current developments in accounting principles and auditing standards relevant to the company's financial statements and the potential impact on the audit? • Did the lead audit engagement partner explain the external auditor's responsibilities related to other information in documents containing audited financial statements, such as non-GAAP financial information?¹⁰ • Did the lead audit engagement partner discuss critical audit matters (CAMs) communicated in the auditor's report and how CAMs were identified?¹¹
OBSERVATIONS	
SAMPLE QUESTIONS	15. Communication of concerns • In executive sessions, did the external auditor discuss sensitive issues candidly and professionally, such as: › any concerns about management's reporting processes; › internal control over financial reporting; or › the quality of the company's financial management team? • Did the lead audit engagement partner promptly alert the audit committee if he or she did not receive sufficient cooperation from management including management in other jurisdictions?
OBSERVATIONS	

¹⁰ AS 2710, *Other Information in Documents Containing Audited Financial Statements*.

¹¹ AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

IMPACT OF THE USE OF AI TO THE AUDIT

One emerging area is the use of Artificial Intelligence (AI) – both by the company and by the auditor.

Companies continue to explore ways in which AI can enhance their operations, including processes relevant to financial reporting and internal control over financial reporting (ICFR). The wider use of generative AI (genAI), Agentic AI, as well as other evolving forms of AI, by both companies and auditors raises questions for audit committees to consider in their assessment of the external auditor. Questions of the external auditor the audit committee may want to consider:

Impact of the company's use of AI on the audit:

- + Does the company's use of AI technologies have a significant impact on the planned audit scope?
- + How does the company's use of a foundation model or development of its own model impact the auditor's risk assessment, if applicable?
- + Can the auditor obtain sufficient appropriate audit evidence related to the company's use of AI in financial reporting or internal control over financial reporting?

- + Has the external auditor identified any significant risks or fraud risks related to the company's use of AI technologies? How has the auditor addressed such risks in the audit?
- + Has the auditor identified any deficiencies in or lack of internal controls to mitigate against significant or fraud risks arising from the company's use of AI technologies?

External auditor's use of and knowledge of AI:

- + What is the experience of the engagement partner and other senior engagement team members with AI technologies? Would the firm be able to supplement the engagement team's expertise if necessary (e.g., by engaging qualified specialists)?
- + Does the auditor, including external specialists employed or engaged by the auditor, have appropriate knowledge of and experience with the AI regulatory environment?
- + How is the external auditor using AI in the audit?

Adapted from CAQ resource, [Audit Committee Oversight in the Age of Generative AI](#).

Part 4

Auditor independence, objectivity, and professional skepticism

The external auditor must be independent of the issuer and—in the case of mutual funds—independent of the investment company complex. Audit committees must be familiar with the statutory and regulatory independence requirements for external auditors—including requirements that the external auditor advise the audit committee of any services or relationships that reasonably can be thought to bear on the audit firm's independence—and evaluate the external auditor in light of those requirements.

The technical competence of the external auditor alone is not sufficient to ensure a high-quality audit. The external auditor also must exercise a high level of objectivity and professional skepticism. The audit committee's interactions with the external auditor during the audit provide opportunities to evaluate whether the external auditor demonstrates integrity, objectivity, and professional skepticism. For example, the use of estimates and judgments in the financial statements and related disclosures (e.g., fair value, impairment) continues to be an important component of financial reporting.

The external auditor should be able to evaluate the methods and assumptions used by management to develop accounting estimates and to

challenge those assumptions and application of accounting policies, including the completeness and transparency of the related disclosures as appropriate.

An important part of evaluating the external auditor's objectivity and professional skepticism is for the audit committee to gauge the frankness and informative nature of responses to open-ended questions asked of the lead audit engagement partner (and members of the engagement team as appropriate). Examples of appropriate topics include: the financial reporting challenges posed by the company's business model, the quality of the financial management team, the robustness of the internal control environment, changes in accounting methods or key assumptions underlying critical estimates, and the range of accounting issues discussed with management during the audit (including alternative accounting treatments in which the external auditor and management differed). The external auditor also should be able to clearly articulate the processes followed and summarize the evidence used to evaluate management's significant estimates and judgments, and to form an opinion as to whether the financial statements, taken as a whole, were fairly presented in accordance with US GAAP.

SAMPLE QUESTIONS	16. Independence compliance • Did the external auditor report to the audit committee all matters that might reasonably be thought to bear on the audit firm's independence, including exceptions to its compliance with independence requirements? • Did the external auditor discuss processes in place to monitor and remediate independence violations?
OBSERVATIONS	
SAMPLE QUESTIONS	17. Disagreements with management • Were there any significant differences in views between management and the external auditor? • If so, did the external auditor present a clear point of view on accounting issues for which management's initial perspective differed? • Was the process of reconciling views achieved in a timely and professional manner?
OBSERVATIONS	

SAMPLE QUESTIONS	18. Promotion of professional skepticism • Did the external auditor promote the application of professional judgment and exercise of professional skepticism in executing the audit?
OBSERVATIONS	
SAMPLE QUESTIONS	19. Internal audit reliance • If the external auditor is placing reliance on management and/or internal audit testing, did the audit committee understand the rationale for the extent of such reliance? • Were there any significant differences in views between the internal auditors and the external auditor? • If so, were they resolved in a professional manner? • Were there impacts to the auditor's audit approach as a result of internal audit findings, if applicable?
OBSERVATIONS	
SAMPLE QUESTIONS	20. Non-audit services • In obtaining pre-approval from the audit committee for all non-audit services, did the lead audit engagement partner discuss safeguards in place to protect the independence, objectivity, and professional skepticism of the external auditor?
OBSERVATIONS	

Sample Form

Obtaining input from company personnel about the external auditor

Because you have substantial contact with the external auditor throughout the year, the audit committee is interested in your views on the quality of service provided, and the independence, objectivity, and professional skepticism demonstrated throughout the engagement by the external auditor and audit firm.

Please rate the external auditor's performance on each of the following attributes using the following five-point scale:

1 = Very Low/Completely Dissatisfied
5 = Very High/Completely Satisfied

QUALITY OF SERVICES PROVIDED BY THE EXTERNAL AUDITOR		RATING
1	Plans proactively and meets commitments (e.g., by meeting agreed-on performance delivery dates including any interim milestones, and being available and accessible to management and the audit committee).	
2	Is responsive and communicative (e.g., by soliciting input relative to business risks or issues that might impact the audit plan, identifying and resolving issues in a timely fashion, and adapting to changing risks quickly).	
3	Proactively identifies opportunities and risks (e.g., by anticipating and providing insights and approaches for potential business issues, bringing appropriate expertise to bear, and identifying meaningful alternatives and discussing their impacts).	
4	Delivers value for money (e.g., audit fees fairly reflect the cost of the services provided based on the complexity of the business, quality of the management team, maturity of internal controls, etc. and the audit team is thoughtful about ways to achieve a cost-effective quality audit).	
5	Engages in periodic discussion regarding how the audit firm promotes and monitors audit quality.	
SUFFICIENCY OF AUDIT FIRM AND NETWORK RESOURCES		RATING
6	Is technically competent and able to translate knowledge into practice (e.g., by delivering quality services within the scope of the engagement, using technical knowledge and independent judgment to provide realistic analysis of issues, and providing appropriate levels of competence and supervision and review across the engagement team).	

7	Understands our business and our industry (e.g., demonstrating an understanding of our specific business risks, processes, systems, and operations; sharing relevant industry experience; and providing access to firm experts on industry and technical matters).	
8	Assigns sufficient resources to complete work in a timely manner (e.g., by providing an engagement team with the appropriate mix of experience, access to specialized expertise during the audit, coordinating appropriately with national office resources, if appropriate, and any delivery centers, or other auditors, and assigning additional resources to the audit as necessary to complete work in a timely manner).	
9	Invests in and deploys relevant technological resources in an appropriate manner.	
COMMUNICATION AND INTERACTION		RATING
10	Communicates effectively (e.g., by maintaining appropriate levels of contact/ dialogue throughout the year, effectively communicating verbally and in writing, being constructive and respectful in all interactions, and providing timely and informative communications about accounting, auditing and other relevant developments).	
11	Communicates about matters affecting the external auditor or its reputation (e.g., by advising us on significant matters pertaining to the external auditor while respecting the confidentiality of other clients' information, and complying with professional standards and legal requirements, including informing us when the audit is subject to inspection by the PCAOB or other regulatory review and sharing the results of the review that are pertinent to the company's accounting or auditing issues).	
INDEPENDENCE, OBJECTIVITY, AND PROFESSIONAL SKEPTICISM		RATING
12	Demonstrates integrity and objectivity (e.g., by maintaining a respectful but questioning approach throughout the audit, proactively raising important issues to appropriate levels of the organization until resolution is reached, and articulating a point of view on issues).	
13	Demonstrates independence (e.g., by proactively discussing independence matters and reporting exceptions to its compliance with independence requirements).	
14	Is forthright in dealing with difficult situations (e.g., by proactively identifying, communicating, and resolving technical issues; raising important issues to appropriate levels in the organization; and handling sensitive issues constructively).	

RECOMMENDATIONS

Should the external auditor take any actions to improve its delivery of a quality audit?

Please sign, date, and return the form to _____

by _____. Questions may be directed to _____.

Signed

Title

Date

Appendix I:

Relevant US requirements and standards

PROHIBITED NON-AUDIT SERVICES

There are nine statutory categories of non-audit services that may not be provided to companies by the external auditors (Section 10A (g) to the Securities Exchange Act of 1934). For investment companies, these non-audit services may not be provided to any company in the investment company complex (as defined in SEC Rule 2-01(f)(14) of Regulation S-X):

- + Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- + Financial information systems design and implementation;
- + Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- + Actuarial services;
- + Internal audit outsourcing services;
- + Management functions or human resources;
- + Broker or dealer, investment adviser, or investment banking services;
- + Legal services and expert services unrelated to the audit; and
- + Any other service that the PCAOB determines, by regulation, is impermissible.

Audit committees must pre-approve the provision of all other non-audit services by the external auditor.

OVERVIEW OF EXTERNAL AUDITOR COMMUNICATIONS WITH AUDIT COMMITTEES

SEC Rule 2-07 of Regulation S-X requires the external auditor to communicate the following to the audit committee prior to the filing of the company's Form 10-K. For investment companies

that file Form N-CSR, these communications must take place annually, except that if the annual communication takes place more than 90 days prior to the filing, the external auditor must provide an update describing any changes to the previously reported information.

- + Critical accounting policies and practices used by the issuer;
- + Alternative accounting treatments within US GAAP for accounting policies and practices related to material items that have been discussed with management during the current audit period, including the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor;
- + Material written communications between the independent auditor and management of the issuer; and
- + If the audit client is an investment company, all non-audit services provided to any entity in the investment company complex that were not pre-approved by the investment company's audit committee pursuant to SEC Rule 2-01(c)(7) of Regulation S-X.

AS 1301, *Communications with Audit Committees*, requires the following communications with the audit committee:

- + The responsibilities of the auditor in relation to the audit and establish an understanding of the terms of the audit engagement with the audit committee in an engagement letter to the audit committee annually;
- + Any significant issues discussed with management in connection with the auditor's appointment or retention;
- + Inquire as to whether the audit committee is aware of any matters relevant to the audit, particularly any violations of laws or regulations;

- ✦ An overview of the audit strategy, including the timing of the audit and significant risks identified during the auditor's risk assessment procedures, and:
 - the nature and extent of specialized skill or knowledge needed in the audit;
 - plans to use the work of internal auditors in an audit of the financial statements;
 - plans to use the work of internal auditors, company personnel, and third parties working under the direction of management or the audit committee when performing an audit of internal control over financial reporting;
 - firms besides the lead auditor, or others involved in the audit, and any significant changes to the planned audit strategy or the significant risks;
- ✦ The following with respect to the entity's accounting policies and practices, estimates and significant unusual transactions, and the external auditor's evaluation of the quality of a company's financial reporting:
 - Significant accounting policies and practices – Management's initial selection of, or changes in the current period; the effect on financial statements or disclosures for policies that are considered controversial, or where there is a lack of guidance or diversity in practice; and the external auditor's qualitative assessment of such policies and practices. Specifically, the quality, not just the acceptability, of the company's accounting principles as applied in its financial reporting and disclosures, including situations in which the external auditor identified bias in management's judgments and the external auditor's evaluation of the differences between (i) estimates best supported by the audit evidence and (ii) estimates included in the financial statements which are individually reasonable, that indicate a possible bias on the part of company management;
 - Critical accounting policies and practices – The reasons such policies and practices are considered critical, how current and anticipated events could affect this determination, and the external auditor's assessment of related management disclosures;
 - Critical accounting estimates – A description of the process used to develop such estimates, management's significant assumptions in the estimates that have a high degree of subjectivity, any significant changes in management's process to develop an estimate, and the external auditor's conclusion as to the reasonableness of such estimates;
 - Significant unusual transactions – Significant transactions outside the normal course of business for the company—or that appear to be unusual due to timing, size, or nature—and the external auditor's understanding for the business rationale of such transactions;
 - Financial statement presentation – The evaluation of whether the financial statements and related disclosures are presented fairly in accordance with the applicable financial reporting framework;
 - New accounting pronouncements – Any concern identified by the external auditor related to management's application of pronouncements that have been issued but are not yet effective in relation to future periods;
 - Alternative accounting treatments – All alternative treatments permissible under the applicable financial reporting framework for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the external auditor.
- ✦ Other communications from the external auditor including the following:
 - Other information – The external auditor's responsibility with respect to and results of audit procedures performed on other information accompanying the audited financial statements;
 - Difficult or contentious matters for which the external auditor consulted;
 - Management consultation with other accountants;
 - Going concern – (i) If the external auditor believes there is substantial doubt about the company's ability to continue as a going concern, including related events or conditions, (ii) substantial doubt has been alleviated due to management's plan, (iii) substantial doubt remains despite management's plans, and iv) the

related effect on the financial statements and the auditor's report;

- Corrected and uncorrected misstatements and omitted disclosures – Requires the external auditor to provide the audit committee with a written schedule of uncorrected misstatements that was provided to management. The standard also requires communication of: (i) the basis for the determination that uncorrected misstatements were immaterial, including qualitative assessment, (ii) uncorrected misstatements or underlying matters that could potentially cause future-period financial statements to be materially misstated, and (iii) corrected misstatements other than those deemed trivial, that might not have been detected other than through the audit procedures;
- Disagreements with management, whether or not satisfactorily resolved that individually or in the aggregate could be significant to the entity's financial statements or the audit report;
- Significant difficulties encountered with management in performing the audit.

PCAOB standards require the independent auditor to communicate all material weaknesses and significant deficiencies identified during the audit to the audit committee. If the independent auditor concludes that the audit committee's oversight of the company's external financial reporting and internal control over financial reporting is ineffective, the external auditor is required to inform the board of directors.¹²

PCAOB rules also require, at least annually, a written statement delineating all relationships between the independent auditor and the company, including individuals in financial reporting oversight roles at the company that may reasonably be thought to bear on independence.

New York Stock Exchange Rule 303A.07(b), from its Listed Company Manual, requires audit committees to have a written charter that sets forth the committee's purpose, including, at a minimum, certain provisions of SEC Rule 10A-3(b)(2), (3), (4), and (5), as well as other specific duties and responsibilities, to assist board oversight of the integrity of the company's financial statements, and the independent auditor's qualifications,

independence, and performance. Pertinent to external auditor oversight, the rule includes the following audit committee requirements:

- + At least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the listed company;
- + Meet to review and discuss the listed company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including reviewing the listed company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- + Discuss the listed company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- + Discuss policies with respect to risk assessment and risk management;
- + Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with independent auditors;
- + Review with the independent auditor any audit problems or difficulties and management's response;
- + Set clear hiring policies for employees or former employees of the independent auditors; and
- + Report regularly to the board of directors.

Commentary to the rule pertinent to the assessment of the independent auditor further provides that after reviewing the external auditor's quality control report and the external auditor's work throughout the year, the audit committee will be in a position to evaluate the external auditor's qualifications, performance, and independence

¹² AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*.

(including a review and evaluation of the lead audit engagement partner) taking into account the opinions of management and the company's internal auditors. The commentary further provides that, in addition to assuring the regular rotation of the lead audit engagement partner as required by

law, the audit committee should consider whether, in order to assure continuing auditor independence, there should be regular rotation of the audit firm itself. Finally, audit committees are instructed to present their conclusions to the full board of directors.

Appendix II:

Resources and suggested reading



- + BDO. [Audit Committee Requirements Practice Aid](#). 2025.
- + Crowe LLP. [Audit Committee Guide: Evolving from Good to Great](#). 2023
- + Deloitte Center for Board Effectiveness. [Audit Committee Guide](#). 2025.
- + KPMG Audit Committee Institute. [Audit Committee Guide](#). 2022.
- + PwC. [Overseeing the External Auditors](#). 2024.

RELATED CAQ RESOURCES

- + Center for Audit Quality and Ideagen Audit Analytics. [2024 Audit Committee Transparency Barometer](#).
- + Center for Audit Quality. [Audit Quality Disclosure Framework](#). 2023.

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