

Deciphering financial statements for non-financial professionals

10 Essential Questions You Should Ask Your Auditor

Post 10: July 28, 2015

This tenth post in my Deciphering Financial Statements for Non-financial Professionals series discusses the role and responsibilities of the audit committee. In this series of posts, I provide insight into financial reporting and related topics geared toward non-financial professionals who are required to understand financial statements as part of their professional roles. I encourage you to also read the other installments in the series, both past and future, particularly the [introduction](#) as that post establishes the series and includes a number of resources you may find useful.



You are on the Audit Committee—now what?

Involvement in the often underrated, yet highly important audit committee of your company, offers a significant opportunity to impact not just audit quality and efficiency but also the operational efficiency of the company as a whole.

The Audit Committee is in the unique position to oversee a company's auditors on behalf of the Board in collaboration with management and thus plays a vital role in the financial reporting and corporate governance processes.

What are the Audit Committee's responsibilities?

It's important to understand the role and responsibilities of the Audit Committee. In brief, these are comprised of the following items:

- Overseeing the work of the external auditor engaged for the purpose of issuing an auditors' report;
- Resolution of any disagreements between management and the external auditor regarding financial reporting matters;
- Pre-approval of all non-audit services to be provided to the company or its subsidiaries by the company's external auditor;
- Review of the financial statements, Management's Discussion and Analysis, Annual Information Form and annual and interim earnings press releases before the company publicly discloses this information;
- Assessing the appropriateness of the accounting policies selected by management; and
- Understanding the critical judgments and estimates applied to the financial statements by management.

Further information regarding the role and responsibilities of the Audit Committee can be found in [National Instrument 52-110 Audit Committees](#).

How often should the Audit Committee meet with the auditor?

The Audit Committee should meet at least once per year in connection with the annual audit with additional communications in writing where required.

I advise my clients that diligent committees meet with the auditors both before commencement and at the conclusion of the audit in order to get a better perspective and to challenge of the planned audit approach and to understand the results of the auditors execution of that plan towards the completion of the audit.

Where the auditor reviews a company's interim (quarterly) financial statements, it is recommended that a meeting take place in connection with each review, perhaps with the third quarter meeting doubling as the audit planning meeting for efficiency and convenience.

What should the Audit Committee discuss with the auditor?

A key purpose of face-to-face meetings with the auditor is to avoid boiler plate communications, instead engaging in a robust discussion that provides value to the Audit Committee and management, ensuring a thorough and efficient audit process.

It is also an opportunity to outline priorities or concerns that you would like the auditors to focus on. For example, if payments and reimbursements made to senior executives is a concern you can request that your audit pays special attention to that area. Not only is that more cost-efficient than dealing with it as a separate consulting project but the results can be reported in camera without raising unnecessary concerns among shareholders and the market at large.

As you can see, it's important to put thought into discussion topics specifically relevant to your company's operations and financial reporting issues. The following are essential questions you may ask your auditor to ensure a frank and robust discussion as a means to a high quality, efficient audit:

1. Has the scope of the audit changed from last year and, if so, in what areas and why?
2. What industry and business-specific risks have you identified that affect our company's financial reporting?
3. What high-risk audit issues have you identified and what is your planned audit approach for these issues?
4. Where do you see our most significant areas of fraud risk residing in our operations and how will your audit address these issues?
5. How will the auditor evaluate the company's risk management processes related to financial reporting?
6. Will you be collaborating with our internal auditors in order to better understand our risk and operating environments? If so, how?
7. Where does our company have significant tax exposure and what resources does your firm have to assist us in their evaluation? This can be of additional relevance where international operations apply.
8. With respect to international operations: how do the customs, business practices and governance issues differ from the local environment and how will these risks be mitigating during the audit? How do you maintain audit quality and service where you're relying on a component auditor?
9. Would you characterize our company's accounting policies as aggressive or conservative in comparison to our industry peers?
10. How do our information technology (IT) system controls rate in comparison to our peers and in reference to our specific financial reporting issues? What IT-related risks have you identified and how will these be addressed during the audit?

Additional resources for Audit Committees

The responsibilities of the Audit Committee can be challenging, particularly where your company's operations or industry have changed significantly or where there has been a recent change in auditor. Fortunately there is no shortage of high quality resource material available to Audit Committees.

- BDO Governance and Financial Reporting Center: [Audit Committee Disclosure Resources](#)
- CPA Canada: [Guidance and Tools for Audit Committees](#)
- Canadian Public Accountability Board (CPAB) provides numerous resources available on their [website](#) with respect to audit quality and the Audit Committee's role therewith
- The Public Company Accounting Oversight Board (CPAB's American counterpart) recently began publishing its [Audit Committee Dialogue](#), providing insights from their oversight activities.

Thank you for reading my post. I hope that you've found it to be useful and informative. Don't forget to follow me and join our LinkedIn group, [BDO Global Mining](#), so you don't miss my future posts. If you would prefer to receive a PDF copy of this and past/future posts in the series, please message me to receive a copy. Please do reach out to me (or better yet, comment below) if you have specific questions or comments that go beyond the depth I've provided.



About Bryndon Kydd:

As the National Leader of BDO Canada's Mining Sector Group, Bryndon provides practical, customized solutions tailored to fit the needs of each company he works with. His core practice focuses on Canadian and US-listed mining companies with either international or domestic operations. Bryndon currently serves as BDO Canada's representative on the CPA Canada Mining Industry Task Force on IFRS and as Vice-Chair of the Canadian Institute of Mining, Metallurgy and Petroleum's Vancouver Branch.

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