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Beyond the audit opinion

Rethinking the audit committee external auditor relationship



Board Leadership Center (India)

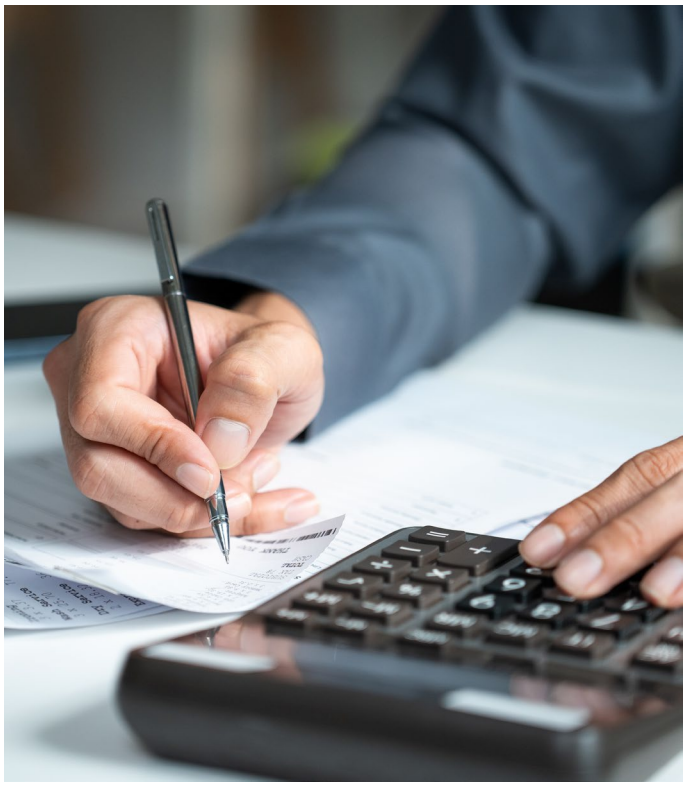
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External audit is one of the most established pillars of corporate governance. Yet for many audit committees, the relationship with the external auditor still follows a familiar rhythm: agree the audit plan, review key findings, assess independence, and conclude with the audit opinion.

But the value of that relationship cannot be captured by the opinion alone. For an audit committee, the more consequential questions often lie beneath the conclusion:

1. **What challenged the auditor?**
2. **What did the auditor see that management—or the board—might otherwise have missed?**
3. **Which assumptions remained uncertain?**
4. **Where did professional judgement matter most?**

This matters because the nature of assurance is changing. Organisations are becoming more complex, technology is reshaping financial and control environments, and emerging risks are increasingly intersecting with financial reporting, from artificial intelligence and cyber threats to third-party dependencies and new forms of corporate reporting. The auditor's ability to understand the business while remaining sufficiently independent to challenge it is therefore becoming increasingly nuanced.



The audit committee plays a central role in maintaining a healthy and effective relationship with the external auditor. Its role is not to manage the audit or duplicate the auditor's work, but to create the conditions for independence, rigorous challenge and candid assurance. The question for today's audit committee, therefore, is not simply whether its external auditor is independent or whether the audit has been completed effectively. It is whether **the relationship enables the auditor to tell the Committee what it needs to hear especially when that is not what management expects to hear.**

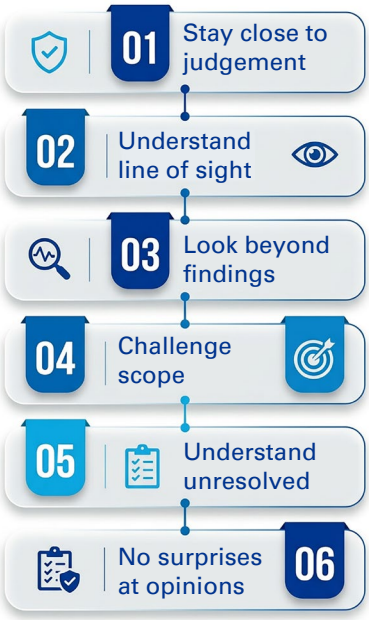
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Selecting the right auditor

An effective audit committee and auditor relationship begins with selecting the right auditor. The appointment should go beyond reputation, credentials and fee, and assess whether the auditor has the capability, independence and perspective required by the organisation's business, risk profile and strategic direction. In overseeing the selection and appointment process, the Audit Committee should:

- **Define the objective upfront:** Align key stakeholders on what the organisation needs from its auditor before commencing the process
- **Assess fit and value:** Consider industry and risk experience, geographical reach, team capability, specialist expertise and understanding of the organisation's strategic priorities, alongside whether the proposed fee is commensurate with the scope, complexity and quality of the audit
- **Evaluate value, not just fees:** Assess whether the proposed fee is commensurate with the scope, complexity and quality of the audit
- **Make the process evidence based:** Use transparent evaluation criteria and document the basis for the recommendation
- **Treat reappointment as a fresh assessment:** Periodically evaluate audit quality, independence, effectiveness and continuing fit, and investigate an unexpected resignation for wider governance or audit concerns.

SEBI LODR: Audit committee to oversees auditor's appointment, remuneration, tenure, independence and performance.



Safeguarding auditor independence and audit quality

Auditor independence is fundamental to the credibility of the audit, but independence alone does not guarantee audit quality. The audit committee should maintain oversight of both – ensuring the auditor remains objective and professionally sceptical, while holding the engagement team accountable for the quality, effectiveness and value of the audit.

- Annual assessment of actual and perceived threats to independence, including non-audit services, financial or personal relationships, economic dependence and partner rotation
- Evaluation of the audit against agreed objectives, including execution of the audit plan, adequacy of resources and responsiveness to changes in the company's risk profile
- Assessment of the auditor's rigour in challenging management assumptions, significant accounting judgements and areas of heightened audit risk
- Review communication, escalation and the experience, expertise, continuity and appropriate involvement of engagement partners and specialists across the audit
- Assessment of whether the audit effort, scope and fee remain proportionate to the company's size, complexity and risk environment
- Keeping pace with regulatory developments, inspection findings, technology and emerging audit-quality initiatives, and considering their implications for the company's audit
- Establishing clear protocols for hiring former audit-firm personnel, including appropriate cooling-off periods.

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Engage before the opinion

The audit committee's valuable engagement with the external auditor should not begin when the audit is substantially complete. By then, many of the critical judgements have already been formed. The quality of assurance is influenced much earlier - by the risks identified, the questions asked and the areas of judgement that receive attention. The committee should therefore engage with the auditor early and remain connected through the audit cycle, with a focus on:

Understand the auditor's line of sight

Before the audit plan is finalised, understand which risks, balances, transactions and judgements the auditor considers most significant and why

Stay close to judgement-heavy matters

Encourage early dialogue on areas involving significant management judgement, accounting estimates, valuation, revenue recognition, contingencies, going concern or unusual transactions

Look beyond resolved findings

A matter corrected during the audit should not necessarily be considered closed. Recurring adjustments, control deficiencies, late changes or disagreements may reveal patterns in financial reporting or management processes that warrant committee attention

Eliminate surprises by design

Significant matters should reach the committee early enough to allow meaningful challenge and resolution. The final meeting to approve the financial statements should confirm the committee's understanding and not introduce material surprises

Understand what remains unresolved

Uncorrected misstatements, disagreements with management and changes in audit approach can provide important insight even where they do not ultimately modify the audit opinion. The Committee should understand the judgement behind what remains unresolved and its cumulative significance

Challenge the scope, not the auditor

Consider whether the planned scope and coverage adequately address the areas that matter most, including significant subsidiaries, complex transactions, estimates, related parties and emerging areas of risk. The objective is not to prescribe audit procedures, but to ensure that material risks are not overlooked.



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Making relationships work

Differences between management, internal audit and the external auditor should prompt the audit committee to look beyond the immediate issue. Where assessments of a risk, control deficiency, accounting judgement or management response differ, the committee should understand the basis for each view, the evidence supporting it and whether the difference signals a broader weakness in the control or reporting environment.

The committee should also consider whether the external and internal audit functions have sufficient visibility of each other's work, where reliance or duplication exists, and whether gaps in assurance remain. The objective is not to eliminate differences in perspective, but to ensure that material differences are understood, resolved where necessary and visible to the committee.

Leading practices

Move from scheduled meetings to continuous dialogue with the auditor

- Use private sessions to surface concerns management may not hear
- Engage key specialists and partners on significant audit judgements
- Signal that the Committee values challenge, not reassurance
- Escalate disagreements and significant concerns before the audit report.



Considerations for the board

1. Do the auditor's assessment of significant risks align with committee priorities?
2. What evidence demonstrates sufficient professional skepticism over significant judgements?
3. Are recurring issues assessed cumulatively for broader control weaknesses?
4. Are significant audit matters reaching the committee early enough?
5. Are differences between internal and external audit properly understood?
6. Does the private session surface issues management doesn't highlight voluntarily?
7. What patterns does the auditor see that board reporting misses?
8. Could the auditors insight or finding cause the boards to reassess a key risk or judgement?



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