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Assessing external audit quality and auditor performance

A practical guide for boards and audit committees

November 2026

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A concise guide to assessing external audit quality and auditor performance, followed by a practical annual assessment.

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01 Foreword

Culture, leadership and trust

Quality audits matter because people make decisions on the information they support. The audit report is addressed to shareholders, but trust extends to directors, trustees, supervisors, lenders, regulators, employees and the wider market. Trust supports confident capital allocation. Once lost, it is difficult to rebuild.



Richard Day
Assurance Leader
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I have spent most of my career in audit and assurance, as a team member, engagement leader and now as leader of PwC New Zealand's Assurance business. One lesson has become clearer: quality is not created when the opinion is signed. It is built throughout the audit through a series of everyday choices: whether the right people are assigned, specialists are involved early, teams are coached and supported, leaders make time for review, difficult matters are raised promptly, and the evidence changes the team's view.

Those everyday choices are culture in action. Culture determines whether people feel safe to speak up, leaders welcome challenge, teams consult when needed, and whether deadline or fee pressure crowds out quality. Leaders shape that environment through what they prioritise, reward, act on and tolerate.

Audit quality is not created by the audit firm alone. Boards and management teams also help shape it. Effective boards and audit committees have their own responsibility to independently challenge management on financial reporting, significant judgements and key risks, drawing on the external auditor's work and insights to inform and strengthen that challenge. They set expectations early, remain accessible, use private sessions well, ensure timely and complete information, and respond constructively to uncomfortable messages. Trust matters, but it must never lead to complacency. The strongest audit relationships combine mutual respect with the freedom, and expectation, to challenge.

Scrutiny of auditor performance is healthy. Shareholders are entitled to ask when the relationship was last tested, what the board assessed, what evidence it considered and why the firm remains the right auditor. A statement that the committee is 'satisfied' is less persuasive than explaining the work performed and judgement reached.

Sometimes a tender or change is the right response. But change alone does not demonstrate quality. In New Zealand, boards also need to weigh sector knowledge, specialist depth, geographic reach, independence, conflicts, market capacity and transition risk. Good governance is not change for change's sake. It is a disciplined process, open to every outcome, that reaches the decision that best serves shareholders.

At PwC New Zealand, we are committed to transparency about audit quality and publish information on our approach and performance through our Audit Transparency Report. We want boards to use this guide to support informed, evidence-based discussions with their auditor and strengthen accountability for audit quality.

"The test is not how often the auditor changes. It is whether the board can explain, with evidence, why its decision is right for shareholders."

02 Executive summary

Assess the audit. Evidence the decision.

A high-quality audit should earn the board's confidence each year. The most useful approach is a proportionate assessment of what was delivered, supported by evidence and followed by an explicit decision.

What this guide recommends



Build evidence

Throughout the audit, observe the quality of challenge, senior involvement, issue resolution and communication.



Assess five areas

Use the annual assessment on the following pages. Focus on what directors can see, ask about or reasonably evaluate.



Decide and explain

Record the board's conclusion, actions, tenure considerations and rationale for shareholders.

Five areas for the annual assessment

Area	The core judgement
01 **Independence and objectivity**	Can the auditor act, and be seen to act, independently?
02 **People, capability and capacity**	Does the engagement have the leadership, skills and time it needs?
03 **Audit execution and challenge**	Did the audit address the key risks and challenge management?
04 **Culture and sustained quality**	Do behaviours and firm-wide practices support quality?
05 **Technology, resilience and future fit**	Is the audit contemporary and the firm capable of serving future needs?

An assessment is a point of review, not a predetermined conclusion

Review performance every year. Periodically step back to consider long association, changing needs and realistic alternatives, and act earlier if a concern emerges. FMA guidance describes an approximately 10-year frequency for assessing a long-standing relationship as good practice. It is not a requirement to tender the audit or rotate the audit firm.

The outcome may be continued appointment, continued appointment with actions, a deeper review or consideration of a change. The test is the strength of the evidence and judgement, not the frequency of auditor change.

03 Guidance: The case for oversight

Why audit quality assessment matters

A robust, evidence-led review helps directors satisfy themselves that the auditor remains independent, capable and effective, and explain their decision to shareholders.

Governance expectations

New Zealand governance guidance places responsibility on boards for the quality and independence of the external audit process. An active assessment demonstrates how that oversight operates in practice, rather than simply relying on an unmodified audit opinion.

Shareholder confidence and scrutiny

Shareholders increasingly ask how directors evaluate the auditor, including the effects of tenure and the reasons for continued appointment. A documented assessment provides a clear basis for explaining the board's judgement.

The New Zealand audit market

A concentrated market and specialised expertise can limit realistic alternatives. Boards should weigh the benefits of continuity against familiarity risks, while considering independence, capability, conflicts and transition risk without assuming that tenure alone determines the answer.

Changing risks and capabilities

Audit quality depends on how the auditor responds to emerging business and reporting risks, new standards and the use of technology, including AI. The assessment should test not only current performance but also the auditor's ability to meet the entity's future needs.

04 Guidance: Ownership and timing

Who should assess audit quality, and when?

Assess audit quality throughout the engagement, reach a formal conclusion each year and undertake a broader review when the circumstances warrant it.

When to assess

Timing	What directors should do
Before and during the audit	Set expectations and observe how the auditor plans, challenges significant judgements, involves senior people and communicates issues.
After the audit, annually	Obtain feedback from management and relevant stakeholders, consider information provided by the auditor on audit quality and performance, complete the five assessment areas and reach a documented conclusion on performance and continued appointment.
Periodically	Consider performance across multiple audit cycles, tenure, independence, the changing organisation and credible market alternatives. The FMA considers a 10-year frequency for a comprehensive review good practice.
Earlier if triggered	Bring the review forward for significant quality or independence concerns, repeated delivery issues, major changes in the entity or other material developments.

Who should be involved?

The audit committee should lead the assessment, drawing on its own experience with separate input from management and finance, relevant internal functions, the external auditor and independent information. The full board should have enough evidence to challenge the committee's recommendation and stand behind the outcome.

How tenure influences the review

Longer tenure calls for informed scrutiny of both its benefits, such as institutional knowledge, and its risks, including familiarity and reduced challenge. It should influence the depth of the review, not predetermine a tender or change of auditor.

What evidence should be used, and how is it assessed?

The annual checklist brings together factual confirmations and qualitative judgements. Use several sources of evidence, then form a rating for each of the five assessment areas.

Evidence to consider

Source	What the committee can consider
Direct committee experience	Audit planning, challenge, senior involvement, private sessions, communication and the quality of reporting.
Management and finance feedback	Continuity, accessibility, timeliness, professional conduct and quality of challenge. Management satisfaction is an input, but should not be a key factor in a decision.
Auditor and firm information	Engagement-specific examples, relevant audit quality indicators, independence information, quality reports and improvement actions.
External sources and prior years	Relevant regulator findings, transparency reporting, shareholder observations and progress against earlier actions.

Why the questions are not individually scored

Some questions are binary, while others require qualitative judgement. Giving every question a four-point score would create false precision, particularly where a simple Yes or No is more meaningful. Record factual responses and observations against each question, then consider the evidence as a whole and agree one rating for each assessment area. This keeps the discussion focused on audit quality rather than arithmetic, while allowing comparison of category ratings with prior years.

Rating		Interpretation
4	**Strong**	Clear evidence of high-quality performance and improvement.
3	**Effective**	Expectations met, with minor opportunities to improve.
2	**Improvement required**	Gaps require action, an owner and committee follow-up.
1	**Significant concern**	Material concern requires escalation and a proportionate response.
N/A		Not relevant or insufficient evidence.

Use ratings to inform, not replace, judgement

Do not total or average the ratings. Investigate notable changes from the previous year and record the reasons. A serious independence, integrity, capability or audit-evidence concern can override otherwise favourable assessments and should be addressed explicitly.

06 Guidance: Decision and follow-through

How should the board act on the assessment?

The assessment should result in a clear conclusion, proportionate actions and an explanation that shareholders can understand.

Reach and record a decision

Consider the ratings across the five areas together with any significant matters that override the general pattern. Record the principal evidence, key strengths and limitations, tenure considerations and rationale for continued appointment, further review, market testing or tendering. The audit committee should present its recommendation to the full board.

Resolve matters identified

For each material concern, agree what needs to change, who is responsible and when it should be resolved. Receive evidence that action has been effective, and escalate unresolved matters to the lead partner or firm leadership as appropriate. Follow through on these matters in the next annual assessment.

Maintain a useful record

Keep a proportionate record of the assessment process, evidence considered, ratings, significant judgements, agreed actions and the appointment recommendation. The record should explain why the committee reached its conclusion, rather than simply reproduce the checklist.

Explain the outcome to shareholders

Communicate the process and the most important reasons for the board's decision in company-specific language. Include relevant information on independence, tenure, the last comprehensive review and future review plans, as appropriate. A useful test is whether the chair could explain the decision and its rationale clearly in two minutes.

Annual assessment

An evidence-led checklist for audit committees and boards to evaluate external audit quality and performance.

Five areas, one informed conclusion

Consider each question and the supporting evidence, then agree an overall current-year rating for each area, comparing it with the prior year. Record significant concerns and any actions. The ratings support, but do not substitute for, the board's judgement.

01 Independence and objectivity

02 People, capability and capacity

03 Audit execution and challenge

04 Culture and sustained quality

05 Technology, resilience and future fit

07 Annual assessment (1 of 5)

Independence and objectivity

Begin with essential confirmations, then evaluate independence and professional objectivity in practice.

Factual checks / confirm or investigate

Confirmation	Mark one
Written independence confirmation obtained, including relevant relationships and other services.	☐ Yes ☐ No ☐ N/A
Non-assurance services, fees, threats and safeguards considered under the board-approved policy.	☐ Yes ☐ No ☐ N/A
Partner rotation and any independence or ethics issues assessed, disclosed and addressed.	☐ Yes ☐ No ☐ N/A

All elements of each confirmation must be satisfied before selecting Yes.
A 'No' requires investigation and an explicit conclusion. It should not be offset by a high score elsewhere.

Qualitative assessment

01 **Did the auditor demonstrate objectivity when accounting judgements or management positions were contested?**
Evidence to consider: Examples of disagreement, challenge and escalation to the committee.

02 **Were significant changes that could affect independence identified and discussed promptly?**
Evidence to consider: Transactions, governance changes, key personnel and service relationships.

03 **Does the committee remain confident that familiarity has not reduced professional scepticism?**
Evidence to consider: Conduct in meetings, response to difficult matters and safeguards in practice.

Overall assessment of this area

This year: ☐ **4** Strong ☐ **3** Effective ☐ **2** Improvement required ☐ **1** Significant concern Prior year rating: ☐

☐ Not applicable / evidence unavailable (explain):

Key evidence / judgement

Agreed improvement / owner / when (if applicable)

07 Annual assessment (2 of 5)

People, capability and capacity

Assess the people who performed the audit, using evidence available to the committee rather than assuming visibility over internal procedures.

01 **How effective was lead partner engagement, including access, judgement and constructive challenge?**
Evidence to consider: Planning and completion meetings, direct chair access, and significant matters.

02 **Did the team have sufficient experience, continuity, time and timely access to relevant specialists?**
Evidence to consider: Team changes, handovers, visible specialist contribution and issue-resolution timeliness.

03 **For group audits, did the lead auditor explain the approach to component work and important cross-border risks?**
Evidence to consider: Reporting on significant components, areas of judgement and oversight approach.

04 **Is the committee comfortable with the firm's senior leadership depth and ability to support succession?**
Evidence to consider: Proposed future partner, senior escalation contact and emerging capability needs.

05 **Looking ahead, does the firm have the expertise, resources, geographic reach and capacity to support the entity's strategy and evolving audit needs?**
Evidence to consider: Planned growth, acquisitions, international operations, emerging risks, reporting requirements and investment in future capabilities.

Overall assessment of this area

This year: ☐ **4** Strong ☐ **3** Effective ☐ **2** Improvement required ☐ **1** Significant concern Prior year rating: ☐

☐ Not applicable / evidence unavailable (explain):

Key evidence / judgement

Agreed improvement / owner / when (if applicable)

07 Annual assessment (3 of 5)

Audit execution and challenge

Focus on the quality of the audit delivered and the evidence the committee received about significant matters.

01 Did the audit plan reflect the entity's current strategy, systems and principal financial reporting risks?
Evidence to consider: Changes from prior year; dialogue about audit scope and fraud risks.

02 Were significant estimates, fraud risks and accounting judgements challenged appropriately?
Evidence to consider: Constructive disagreement, sensitivity analysis and difficult conclusions explained.

03 Did the auditor explain the response to significant risks and the basis for important conclusions?
Evidence to consider: Reporting on audit scope, underlying data, controls, specialists and remaining uncertainty.

04 Were matters escalated early enough for thorough resolution and meaningful board input, consideration and challenge?
Evidence to consider: Time to resolve disputes, senior review, private meetings and management responses.

05 Was reporting clear and insightful about audit results, key audit matters and control observations?
Evidence to consider: Useful entity-specific reporting and follow-up of prior findings.

Overall assessment of this area

This year: ☐ **4** Strong ☐ **3** Effective ☐ **2** Improvement required ☐ **1** Significant concern Prior year rating: ☐

☐ Not applicable / evidence unavailable (explain):

Key evidence / judgement

Agreed improvement / owner / when (if applicable)

07 Annual assessment (4 of 5)

Culture and sustained quality

Culture is best assessed through conduct on the engagement, supported by transparent information about the audit firm.

01 Did the team display curiosity, professional scepticism and openness to challenge?
Evidence to consider: Examples of thoughtful questioning, candid conversations and willingness to revisit a conclusion.

02 Did senior leaders support difficult decisions, consultation and appropriate escalation?
Evidence to consider: Timely involvement of experienced people; unresolved issues not deferred.

03 Did the firm provide relevant, comprehensible information about its system of quality management and monitoring?
Evidence to consider: Public transparency information, inspection themes and improvement actions relevant to the engagement.

04 Did the auditor learn from feedback and deliver visible improvement over the previous audit?
Evidence to consider: Agreed actions completed, team continuity and changed practices.

05 Has the firm communicated relevant findings from external regulatory inspections or other independent reviews, including implications for this audit and actions taken?
Evidence to consider: Relevant external findings, transparency about their significance, and how the firm has responded or remediated matters.

Overall assessment of this area

This year: ☐ **4** Strong ☐ **3** Effective ☐ **2** Improvement required ☐ **1** Significant concern Prior year rating: ____

☐ Not applicable / evidence unavailable (explain):

Key evidence / judgement

Agreed improvement / owner / when (if applicable)

07 Annual assessment (5 of 5)

Technology, resilience and future fit

Consider how the audit responds to change today, and whether the firm remains well equipped for the entity's future.

01 Did the auditor explain where technology, including AI, contributed to the audit and how outputs were reviewed?
Evidence to consider: Impact on risk focus or coverage, appropriate human judgement, data governance and security.

02 Did the audit appropriately address the entity's use of technology in reporting, controls and key processes?
Evidence to consider: Changes to risk assessment, technology control findings and reliance on information.

03 Did the delivery model, timetable and resources support audit quality?
Evidence to consider: Senior availability, specialist input, capacity through peak periods and supervision of delivery centres.

04 Does the auditor remain a suitable fit for the entity's foreseeable reporting and assurance needs?
Evidence to consider: Sector, international, technical and technology capabilities; partner succession.

Overall assessment of this area

This year: ☐ **4** Strong ☐ **3** Effective ☐ **2** Improvement required ☐ **1** Significant concern Prior year rating: ☐

☐ Not applicable / evidence unavailable (explain):

Key evidence / judgement

Agreed improvement / owner / when (if applicable)

08 Toolkit: Record the judgement

Annual conclusion and decision

The audit committee should discuss the pattern of evidence, form an overall judgement and provide the full board with enough information to challenge its recommendation.

Five-area summary

Assessment area	This year	Prior year	Reason / most important evidence
01 Independence and objectivity			
02 People, capability and capacity			
03 Audit execution and challenge			
04 Culture and sustained quality			
05 Technology, resilience and future fit			

Critical issue override

☐ No serious issue identified ☐ Serious issue identified and escalated

Describe any independence, integrity, capability or audit-evidence concern and its implications:

Overall judgement and next step

☐ Continued appointment ☐ Continued appointment with actions ☐ Comprehensive review / market assessment ☐ Tender / change

Most significant reasons supporting the recommendation

Priority actions, owner and due date

09 Toolkit: Self-review

The board's contribution to audit quality

An effective external audit also depends on the entity and its governance. Use this short check to identify improvements the board and management can make next year.

A two-way assessment

01	Did the committee set clear expectations and engage early with the auditor on significant risks, including fraud, management override and incentives?	☐ Yes	☐ Improve
02	Did management provide complete, timely and well-supported financial reporting, including papers on significant accounting judgements considered by the board in a timely manner, before the auditor was asked to conclude on those judgements?	☐ Yes	☐ Improve
03	Were finance capability, reporting milestones and the audit timetable sufficient for a quality audit?	☐ Yes	☐ Improve
04	Did directors form their own views on significant accounting judgements and satisfy themselves that representations provided to the auditor were complete and accurate?	☐ Yes	☐ Improve
05	Were private discussions candid, disagreements appropriately resolved and audit findings, including management-letter recommendations, addressed promptly?	☐ Yes	☐ Improve
06	Were significant changes, including technology and AI in reporting processes, communicated early?	☐ Yes	☐ Improve

What will the board and management do differently next year?

Accountable owner: Review date:

10 Toolkit: When a deeper review is warranted

Periodically test the longer-term relationship

The annual checklist addresses the most recent audit. A periodic review takes a longer perspective, considering changes in the entity, the audit market and the risks and benefits of continuity.

When to undertake it

Plan periodic, more comprehensive consideration of long association and future suitability, and accelerate it where audit quality, independence, capability or delivery concerns arise. The FMA regards a roughly 10-year cadence for assessing the relationship as good practice, not mandatory audit firm rotation or an automatic tender.

Six strategic questions for directors

01 Has the auditor's challenge, risk assessment and approach remained fresh over successive audits?

02 What benefits of accumulated entity knowledge are still observable, and what familiarity risks have emerged?

03 Have partner succession, team refresh and investment in new capabilities maintained appropriate objectivity, introduced fresh perspectives and strengthened the firm's ability to deliver a high-quality audit?

04 Is the firm's future sector, international, technical and technology capability aligned with our needs?

05 Which alternative firms are credible when independence, conflicts, capacity and transition risks are considered?

06 Would continuing with the incumbent, undertaking a broader review or testing the market best serve the organisation and its shareholders, considering audit quality, independence, value and transition risk?

Suggested outcome

☐ Maintain / document ☐ Targeted further evidence ☐ Market review ☐ Tender

11 Toolkit: A decision worth explaining

From assessment to board recommendation

A concise written recommendation helps the full board challenge the conclusion and supports meaningful shareholder communication.

Board paper: one-page structure

Include	Capture
Conclusion	The recommended outcome and the three most significant reasons.
Evidence	Five-area assessment, notable strengths and any unresolved concerns.
Independence	Services and fees considered, threats, safeguards, partner rotation and any issues.
Tenure	Firm and partner tenure, last comprehensive review, continuity considerations and realistic alternatives.
Next steps	Required improvement, owner, deadline and how the committee will confirm resolution.

Shareholders should understand three things

01	**What was assessed.**	Criteria, contributors and relevant evidence, including the committee's own interaction with the auditor.
02	**What was concluded.**	Key quality observations, independence assessment, any actions and why the chosen outcome best serves shareholders.
03	**When it will be revisited.**	The next assessment or comprehensive review, and triggers for earlier reconsideration.

The two-minute test

Could the chair explain at the annual meeting, in about two minutes, what the board assessed, what mattered, and why it supports the appointment decision?

Monitor resolution of agreed actions through evidence of completion. Escalate unresolved quality matters to the audit partner, firm leadership or other appropriate bodies.

12 Sources and content

Further reading

This guide draws on PwC publications and New Zealand regulatory and governance material. The annual assessment is a suggested governance tool, not a regulatory grading system.

Financial Markets Authority

Director and Board Guide to Quality Audit and Assurance Practices (April 2026)

NZX

NZX Corporate Governance Code, version 1.8 (March 2026)

PwC New Zealand

Audit Transparency Report 2026

External Reporting Board

Trust and Confidence: Views from Audit Committee Chairs (2023)

Australian Institute of Company Directors / AUASB

Periodic Comprehensive Review of the External Auditor (2022)

Scope and usage

This publication focuses on external financial statement audits. Some principles can be applied to other assurance engagements, taking account of their specific legal and professional requirements.

This material is general information. It is not legal, accounting, audit or governance advice and should not be relied on instead of advice tailored to an entity. Requirements and market practice may change.

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