

**BRISTOL CITY COUNCIL  
AUDIT COMMITTEE****8<sup>th</sup> April 2011****Report of: Strategic Director (Corporate Services)****Title: Review of the effectiveness of External Audit****Ward: Citywide****Officer presenting report: Richard Powell, Chief Internal Auditor****Contact telephone number: 0117 92 22448****RECOMMENDATION**

The Audit Committee note, comment as appropriate, and agree the recommendations with regard to the effectiveness of the External Auditors Grant Thornton.

**Summary**

This report provides a measured assessment of Grant Thornton's performance from the commencement of their contract in 2007/08 to date.

**The significant issues in the report are:**

- overall good assessment of the performance of Grant Thornton
- improvements identified
- Internal Audit recommendations

**Policy**

It is considered good practice to monitor the performance of the service provided by External Auditors. Bristol's External Auditor, Grant Thornton, recommended that the Audit Committee periodically review their effectiveness/performance.

**Consultation**

**Internal:** All Audit Committee Members, Chief Executive, Deputy Chief Executive, Strategic Director (Corporate Services), Service Director Finance, Chief Internal Auditor, other key finance and project staff.

**External:** None necessary

## Background and Introduction

1. There are a number of methods by which the effectiveness of the External Auditor can be measured, which in isolation may only give part of the picture. Therefore a number of options have been utilised in order to gain a fuller picture of the service provided:
  - a survey of Audit Committee members
  - a survey of senior officers who have been subject to a review or are actively involved in discussions with Grant Thornton
  - a review of the work performed and reported on by Grant Thornton against the work originally planned
2. The surveys required a score from 1 (poor) to 5 (very good) with a rationale for the score or comment to be provided where appropriate. The questions for the survey were identified from review of a range of literature around assessing performance of External Auditors from other Local Authorities, KPMG, Grant Thornton and Institute of Chartered Accountants of Scotland.

## Survey Results

### Audit Committee Members Survey

3. The survey contained 10 questions and focussed on:
  - the relationship of Grant Thornton with the Audit Committee
  - the transparency and adequacy of the planning process
  - the quality and timeliness of reporting
4. Responses were received from 5 of the 7 Audit Committee Members. Full survey information is provided in Appendix A. The key results and comments were:
  - average score of 4.5 across all questions - so overall performance of Grant Thornton assessed between Good and Very Good
  - no scores below 4 = Good

Good practice identified from the survey:

- a good working relationship is in place between Grant Thornton and Members which has been helped by the good continuity of Grant Thornton staff and the valuable contributions made at Committee meetings
- reports are felt to be of a high standard, constructive and clear

### Senior Officers Survey

5. The survey contained 24 questions and focussed on:
  - the relationship of Grant Thornton with officers
  - the key judgements made and how these are communicated
  - what has been achieved as a result of completed work

6. Responses were received from seven out of eight officers surveyed. Full survey information is provided in Appendix B. The key results and comments were:

- average score of 3.94 - so overall performance of Grant Thornton assessed as Good
- no scores below 3 = satisfactory

Good practice identified from the survey:

- assignments are undertaken in a professional way by competent staff
- good continuity of staff
- Grant Thornton staff communicate well at Audit Committee meetings and liaise well with the Internal Auditors

Areas for improvement identified from the survey:

- delays in providing feedback and in producing final recommendations for discussion before finalising report
- delays in providing final reports
- a particular report that was below the expected standard
- examples and good practice information promised does not always materialise

### **Review of work performed against planned**

7. The regular Grant Thornton progress report to the Audit Committee does not always clearly address where reviews are no longer going to be completed/are no longer required, who that had been agreed with, and what effect that had on days available for other work, or a reduction in fee.
8. An agreement was made in July 2009 that Grant Thornton would provide Internal Audit with a copy of all reports issued to Bristol City Council to ensure they are aware of all reviews and can monitor implementation of recommendations. Reports to the Audit Committee are currently identified by Internal Audit through their facilitation of the Committee itself and attendance at each meeting. However if the report does not go to the Audit Committee Internal Audit would not necessarily know that a report had been issued, for example Follow Up of Capital Project Management which went to Resources Scrutiny Commission.

### **Conclusion**

The overall opinion of Members and Officers is that Grant Thornton are providing a valuable service with good support to the Audit Committee and the Council as a whole.

Positive feedback has been provided to Grant Thornton on their performance and effectiveness to date, specifically around:

- the good continuity and capability of staff
- the strong relationships that have been forged with the Audit Committee and Internal Audit

- the generally high standard of reports and constructiveness of recommendations

However, areas for further improvement have also been identified and recommendations to address these issues are detailed below:

## **Recommendations**

The Audit Committee should consider setting performance targets for the External Auditor and receive updates of performance against those targets on a regular basis. From the issues arising from the survey and planned work completed suggested performance targets could be around:

- timeliness of reporting (with respect to an agreed protocol recommended below)
- the percentage of reviews completed against the original plan

The Audit Committee should also consider:

- a reporting protocol that includes timings for production of draft reports, allowing staff to review reports and comment/discuss findings, the provision of management comment and the issue of final reports.
- requesting that Grant Thornton include in their regular progress reports - all reviews originally planned for the year and any reasons for changes to the plan, so that it is clear what reviews are being undertaken.

Should the Audit Committee consider that a reporting protocol between the Council and Grant Thornton would be appropriate, Internal Audit will work jointly with Grant Thornton to agree a suitable format that will be reported back to the Audit Committee in June 2011.

## **Other Options Considered**

None necessary

## **Risk Assessment**

Assessing and improving the performance/effectiveness of Grant Thornton will benefit the Council in ensuring that they obtain Value for Money from the External Audit contract.

## **Equalities Impact Assessment**

None required for this report.

## **Legal and Resource Implications**

Legal - none sought.

Resources - none arising from this report.

## **Appendices:**

Appendix A - Audit Committee Members survey response  
Appendix B - Officers survey response

## **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**Background Papers:** None

## Summary of Responses from Audit Committee Members on the Effectiveness of External Auditor

## APPENDIX (13) A

Scoring: 1 = poor, 2 = Just Adequate, 3 = Satisfactory, 4 = Good, 5 = Very Good

Response received from 5 of the 7 Audit Committee Members

No	Question	Average Score out of 5	Areas of Good Practice	Areas for Improvement
1	The External Auditors relationship with Officers and Members.	4.5	<ul style="list-style-type: none"> <li>- work well with members</li> <li>- where necessary have dealt with difficult situations with tact and diplomacy</li> <li>- excellent communication and willingness to provide information</li> <li>- full attendance at meetings</li> <li>- close working relationship but independent</li> <li>- apart from maternity leave, we have dealt with the same team for as long as I have been on the Audit Committee – this is very reassuring.</li> </ul>	
2	The timeliness and standard of reports and presentations.	4.75	<ul style="list-style-type: none"> <li>- very good in timeliness and standard of reports</li> <li>- good reporting on activities</li> <li>- reports can be lengthy but otherwise very good</li> <li>- the most recent material has been intelligible to the layman</li> </ul>	
3	The impact of the External Auditors at meetings.	4.75	<ul style="list-style-type: none"> <li>- external auditors provide constructive help on all agenda items, not just their own reports before the committee</li> <li>- appropriate representation with thorough knowledge of the subjects being discussed</li> </ul>	
4	The transparency of the External Auditors risk assessment and the agreement of the audit plan and fee.	4.25	<ul style="list-style-type: none"> <li>- reports of a high standard with clear information</li> </ul>	- not involved in fee discussion
5	The level and content of briefings provided by External Audit to the Audit Committee on: new legislation; risk management; corporate governance and updates on accounting standards.	4	<ul style="list-style-type: none"> <li>- external auditors have provided the earliest possible notification of the changes in legislation and their impact upon Bristol City Council</li> <li>- particularly helpful in the transition to IFRS</li> </ul>	
6	Availability of External Audit to meet freely, regularly and on a confidential basis with the Audit Committee.	5	<ul style="list-style-type: none"> <li>- external auditors attend all our meetings and remain when we go into confidential session</li> <li>- perception is that they are always willing and available to meet outside of Audit Committee meetings if required</li> <li>- fully co-operative and helpful</li> </ul>	
7	The adequacy of External Audit in addressing all of the financial reporting risks facing the Council.	4.5	<ul style="list-style-type: none"> <li>- clear reports and up to date information.</li> </ul>	
8	The contribution of External Audit to improving the control environment.	4.5	<ul style="list-style-type: none"> <li>- high value contribution to all discussions and activities</li> <li>- external and Internal Audit co-operate well</li> </ul>	
9	The practicality and constructiveness of recommendations made as a result of reviews completed.	4.5	<ul style="list-style-type: none"> <li>- practical recommendations that appear to be constructive and implementable</li> </ul>	- a few comments seemed synthetic and looked as though they were short of things to criticise
10	The level of communication of External Audit progress against the Audit Plan.	4.25	<ul style="list-style-type: none"> <li>- updates provided regularly in a clear manner.</li> </ul>	

### Overall comments

Our external auditors work with the council is focused on what is best for Bristol and how they can help the Audit Committee in its work to provide that. They are prepared to participate in debates to help us to find the best way forward and they do this on a regular basis. They don't just carry out their statutory and contractual functions to a very high standard but they go above and beyond that to be as helpful as possible.

## Summary of Responses from Officers on the Effectiveness of External Auditor

## APPENDIX (13) B

Scoring: 1 = poor, 2 = Just Adequate, 3 = Satisfactory, 4 = Good, 5 = Very Good

Response received from 7 officers

No	Question	Average Score out of 5	Areas of Good Practice	Areas for Improvement
1	The communication of the audit approach and scope.	4	- outline their work very effectively - Audit Briefs are generally fit for purpose, if a little high level. - regular meetings with lead auditor throughout the end of year and audit process	
2	The competency and experience of the External Audit staff.	4.5	- staff seem very competent and experienced - continuity of staff has been an important factor - staff always knowledgeable of the subject, with access to technical assistance where necessary	
3	The communication and consultation as audit work progresses.	3.5	- regular meetings throughout process of audit with key finance staff	- always room for improvement here. An adhoc piece of work requested by the Strategic Director (Corporate Services) would have delivered better outcomes if there had been better communication through the process. - reports are not always produced on a timely basis.
4	The professionalism and courtesy displayed by the External Auditors during the review.	4.5	- assignments undertaken in a professional way	
5	The engagement by the External Auditors of the relevant key Council staff in the review.	4.17		
6	The level of engagement of specialists to input into reviews of technical areas as required.	3.6	- impressed by the quality of GT staff	- tendency for delay in feedback on specific issues raised
7	The External Auditors understanding of the Council's IT strategy and their approach to the audit of IT systems.	3.33		- no evidence of any detailed work on ICT only high level review of ICT control environment - half of staff surveyed had not experienced any IT review by GT
8	The timeliness of reporting of both draft and final reports	3.83	- Audit Committee reporting very good	- slippage on some reports, probably as a result of dialogue with senior management on content. - room for improvement in producing final recommendations. Not always sufficient opportunity to discuss recommendations before agreeing management responses. - reports sometimes later than promised and also very close to dispatch deadlines giving very little time for comment.
9	The standard of reports and presentations.	4.33	- usually clear and concise	- adhoc work report was below the standard expected.
10	The practicality and constructiveness of recommendations.	4.17		- recommendations sometimes indicate GT intention to work with/assist us to achieve outcomes (eg provision of examples of best practice in the format of local authority accounts; feedback on the proposed approaches to the review of leases under IFRS requirements) this has not always materialised in a timely manner, or at least without further prompting.
11	The improvements achieved following the audit.	3.83		

12	The impact of the External Auditors at meetings.	4.5	- GT play a full and constructive part at all meetings of the Audit Committee	
13	The transparency of the External Auditors risk assessment and the agreement of the audit plan and fee.	3.5	- fully reported to Audit Committee	- this is always an area where improvements could be made
14	The adequacy of External Audit in addressing all of the financial reporting risks facing the Council.	4	- GT risk assessment seems to cover all risks, and they utilise various methods to ensure completeness	
15	The effectiveness of co-ordination between the auditor, Relationship Manager and other statutory agencies.	3.75		
16	The availability of the partner and audit team for meetings and discussions as requested by the Council.	4.25	- always on hand, plus regular liaison meetings	
17	The External Auditors interaction with officers.	4		
18	The overall contribution of External Audit to improving the control environment.	3.75	- very clear via UOR, ISA 260 report and AAIL	
19	The timely achievement of the audit plan within the agreed fee for the audit.	3.5	- fee usually remains as first suggested.	- reporting not always in accordance with the original timetable, not possible to determine whether as a result of GT's issues, or delays/failings on BCC side.
20	The working relationship with the Council's Internal Audit function.	4.25	- good dialogue, regular liaison meetings. First ever joint planning meeting with IA Nov 10.	
21	The level of resources and skills available to the External Audit.	4	- staff always found to be very competent and experienced.	
22	The approach to follow up by the External Auditors in order to consider improvement/ impact.	3.75		
23	The clarity and adequacy of the External Auditors quality control.	3.75	- standard clearance of all reports at managing partner level.	- no indication lately of extent to which Audit Commission's Quality Control Unit have an involvement.
24	The External Auditors overall profile within the Council.	3.75	- regular contact and meetings with Audit Committee, Chief Executive, Director of Corporate Services and Service Director Finance	