

BRISTOL CITY COUNCIL

Audit Committee

19th April 2013

Report of: Service Director: Finance

Report Title: External Audit / Bristol City Council Joint Working Protocol

Ward: Citywide

Officer presenting report: Melanie Henchy-McCarthy/Alison Mullis, Chief Internal Auditor (J/S)

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RECOMMENDATION

The Audit Committee note, comment as appropriate, on the External Audit / Bristol City Council Joint Working Protocol.

SUMMARY

The External Audit / Bristol City Council Joint Working Protocol clarifies the responsibilities, timescales and actions for both the External Auditor and Bristol City Council in their joint working arrangements.

The significant issues in the report are:

- This protocol will aid transparency and openness between the two parties and assist the Council in assessing the effectiveness of its External Auditor both now and in the future
- Clear responsibilities, accountabilities and deadlines for both Grant Thornton and Bristol City Council have been laid out for agreement by both parties, this should result in an effective and efficient working relationship

Policy

It is considered good practice to monitor the performance of the service provided by the External Auditor. The Audit Committee agreed at their 8th April 2011 meeting that a reporting protocol should be developed.

Consultation:

Internal: None considered necessary

External: Grant Thornton

1. Background

- 1.1 An internal survey was undertaken in March 2011 of Key Officers and Audit Committee members on the effectiveness of External Audit. The survey results concluded that the overall opinion of Members and Officers is that the current External Auditor (Grant Thornton) is providing a valuable service with good support to the Audit Committee and the Council as a whole.
- 1.2 Areas for further improvement were also identified and recommendations to address these issues were agreed by the Audit Committee at the 8th April 2011 meeting. In general all of the recommendations have been implemented in the intervening years, however one remained outstanding and that was:
 - 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.
- 1.3 A joint working protocol has been in place between Grant Thornton and Internal Audit for a number of years but this did not address the Council's responsibilities with regard to joint working with the External Auditor. It was felt by the External Auditor (Grant Thornton) and Internal Audit that one protocol encompassing all of the External Auditor and Council responsibilities would be more appropriate and avoid confusion.
- 1.4 Additionally, with the demise of the Audit Commission and the need for Local Authorities to drive their own tendering process to appoint an External Auditor in the future, a protocol which documents the service level in place could inform the specification for external audit requirements and as such aid the appointment process.
- 1.5 The Protocol has now been completed and is presented as a draft to the Committee at Appendix A.

2. Conclusion

- 2.1 Once the Audit Committee have approved the Protocol it is proposed that it will be signed by both External Audit and the City Director on behalf of the Council.

3. Other Options Considered

- 3.1 None necessary.

4. Risk Assessment

- 4.1 The Council is required by statute to have an External Auditor. However a robust collaborative working relationship between both parties aides the use of the resource and the ultimate benefit derived from an independent review of Council functions. A Protocol with clear roles and responsibilities will aid

transparency and openness between the two parties and assist the Council in assessing the effectiveness of its external auditor and whether value for money is being achieved.

5. Equalities Impact Assessment

5.1 None necessary for this report

6. Legal and Resource Implications

7 **Legal** - None required

8 **Resource** - None as a result of this report.

APPENDICES

Appendix A - Draft Protocol

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers N/A

External Audit Working Protocol with Bristol City Council**Why we need a protocol**

Bristol City Council is required by statute to have an External Auditor. However a robust collaborative working relationship between both parties aides the use of the resource and the ultimate benefit derived from an independent review of Council functions. A Protocol with clear roles and responsibilities will aid transparency and openness between the two parties and assist the Council in assessing the effectiveness of its external auditor and whether value for money is being achieved.

Aim of this protocol

To clarify responsibilities, timescales and actions for both the External Auditor (Grant Thornton) and Bristol City Council in their joint working arrangements. This should provide both parties with clear processes to enable effective and efficient co-working.

The protocol has been divided into seven separate areas with detailed responsibilities in the attached tables:

- General
- Statutory Accounts work
- Reviews to support the Value For Money conclusion
- Grant work
- Other reviews
- Follow Up of previous recommendations
- Fraud

External Auditor and Bristol City Council responsibilities

To maintain an open and transparent working relationship in order to maximise the available resource and value obtained from the external audit service. To undertake to work in a co-operative and helpful manner.

Protocol Agreed By:

..... representing Grant Thornton Date.....

..... representing Bristol City Council Date.....

Area	External Auditor's responsibilities	Council's responsibilities	Internal Audit's responsibilities
General			
General	<p>To ensure reports for presentation to Committees (Audit Committee and Resources Scrutiny Commission) are supplied to Democratic Services by the prescribed deadlines and copied to Internal Audit.</p> <p>Regular attendance at Audit Committee by Engagement Lead and/or Audit Manager. Attendance at Audit Committee by other external auditors for specific agenda items only.</p> <p>To include in Progress Reports to the Audit Committee performance against agreed indicators:</p> <ul style="list-style-type: none"> • Value For Money and other work - Timeliness of external audit reporting for draft and final with respect to protocol • Follow Up - Percentage of recommendations implemented/resolved by management • Accounts – key deadlines for delivery measured against targets in the timeline. <p>To provide to Internal Audit with each Progress Report supporting information as to how the performance indicators were calculated.</p>	<p>Notification of any relevant events or incidents to External Audit that would contribute to the understanding of the Council's environment or governance.</p> <p>All timescales included within this document are maximum timescales</p>	<p>To provide External Audit with the Internal Audit Plan and liaise regularly to ensure appropriate coverage of work areas and avoidance of duplication.</p> <p>To discuss with External Audit the key financial systems coverage required to enable reliance to be placed on Internal Audit's work.</p> <p>Regular attendance at Audit Committee by Chief Internal Auditor. Attendance at Audit Committee by other members of Internal Audit for specific agenda items only.</p>

Area	External Auditor's responsibilities	Council's responsibilities	Internal Audit's responsibilities
	<p>If management comments or information are not supplied within the timescales required by this document, the lack of response will be escalated to the Service Director Finance, Strategic Director Corporate Services or Chief Executive as required. Additional fees may be incurred by the External Auditors if excessive delays by the Council have resulted in the Auditor spending additional time on the process.</p> <p>These additional fees will be calculated on the basis of the Auditors hourly charge out rates and details of these can be received by request.</p>	<p>and all effort should be made to ensure that where it is reasonably practicable, all queries are dealt with as soon as possible. To action items which have been escalated in a timely manner.</p>	
Statutory Accounts Work			
Audit Planning	Preparation of the planning documentation, which includes Value for Money work, highlighting initial high risk areas and planned responses.	Communication of risks and potential audit issues to External Audit Manager in December.	Communication of risks and potential audit issues to External Audit Manager in December.
Arrangements Letter	<p>Preparation of the arrangements letter and issuing this to Corporate Finance. Liaising in February with representatives from the Council to ensure that staff understand the requirements.</p> <p>Copy of Arrangements Letter to be provided to Internal Audit in February.</p>	<p>Service Manager, Corporate Finance, has overall responsibility for the delivery of the working papers. Disseminate responsibility through Finance Business Partner meetings and Finance Officer Working Group.</p> <p>Individuals identified for each working paper and appoint them as responsible individuals for the delivery of the working papers. The appointment process is to be completed by the end of February.</p>	Notify External Auditors in February of any potential issues arising regarding the requirements detailed in the Arrangements Letter.

Area	External Auditor's responsibilities	Council's responsibilities	Internal Audit's responsibilities
		<p>Disseminate the arrangements letter to appropriate staff members in February.</p> <p>Individuals to understand items required and raise queries if any issues or concerns arise.</p> <p>Appoint individual by end of February to be responsible for collating and reviewing working papers to ensure that working papers are of adequate quality and available by the required target date.</p>	
Controls Evaluation	<p>Liaise with Council in February / early March to notify them of areas likely to be examined during the controls evaluation and confirm date of the interim visit.</p> <p>Evaluate controls in operation and raise queries in a prompt and efficient manner. Subject to annual leave and staff arrangements, all queries to be raised by the end of April.</p> <p>Notify Council and Internal Audit in March whether full or interim review of the Internal Audit section against the CIPFA Code for Internal Audit will be undertaken.</p>	<p>Notify the External Audit Manager of any staff absences expected before and during the interim visit.</p> <p>Answer queries raised in a prompt and efficient manner. Subject to annual leave and staff arrangements, all queries to be answered within 10 working days.</p>	<p>Provide External Audit with reports issued on controls during the year by the end of February.</p> <p>Notify External Audit of any on-going reports on controls and the likely timescale for completion.</p> <p>Answer queries raised in a prompt and efficient manner. Subject to annual leave and staff arrangements, all queries to be answered within 10 working days.</p>
Accounts submitted to	No direct involvement	Ensure that draft accounts have been prepared, signed off by S151	No direct involvement

Area	External Auditor's responsibilities	Council's responsibilities	Internal Audit's responsibilities
Auditor		<p>Officer and presented to Audit Committee by the end of June.</p> <p>Submit accounts to External Audit by end of June. The accounts must include cross references to the working papers.</p>	
Working papers issued to Auditor	<p>In early July, conduct an initial high level review of working papers to identify that a full set has been provided, they are of adequate quality and are set out in a clear manner.</p> <p>Raise queries in a prompt and efficient manner. Subject to annual leave and staff arrangements, queries to be raised within 10 working days of receiving the working papers. Please note that the audit work at the final stage would not have commenced at this point and audit queries will be raised in due course.</p>	<p>Working papers are to include the name or initials of the preparer, the date prepared, details of the source information, evidence of review, a reference, evidence that the arithmetic has been checked and evidence that the working papers have been agreed to the accounts.</p> <p>Ensure that working papers are presented in a suitable format by end of June.</p>	Provide the draft Annual Governance Statement to Audit Committee by the end of June.
Audit Approach Report published	<p>Preparation of the audit approach report based on the conclusion of the controls evaluation, including review of risks and updating planned responses where necessary and highlighting focus areas for the audit. Report to be prepared by the end of March.</p> <p>Report discussed with Management in early April and Management invited to make comments.</p> <p>Report to be presented to the Audit Committee in April.</p>	Answer queries raised in a prompt and efficient manner. Provide comments to External Auditors within 10 working days, subject to annual leave and staff arrangements	No direct involvement

Area	External Auditor's responsibilities	Council's responsibilities	Internal Audit's responsibilities
On-going advice and technical queries	Respond to queries raised in a timely and efficient manner. Aim to respond within five working days if the query needs to be passed to the National Technical team or within two working days if the query can be resolved by the local team (subject to annual leave and staff arrangements).	Ask for advice and raise queries in a prompt and efficient manner.	No direct involvement.
Audit Fieldwork	<p>Completion of the audit fieldwork during July and August and raise queries in a prompt and efficient manner.</p> <p>Audit queries to be raised by mid-August, subject to quality of working papers and access to staff.</p> <p>Review the Annual Governance Statement and Foreword to the Accounts and agree to supporting evidence.</p>	<p>Notify the External Audit Manager of any staff absences expected before and during the final audit fieldwork.</p> <p>To produce a complete draft AGS in June/Early July to enable detailed review and scrutiny.</p> <p>Answer queries raised in a prompt and efficient manner. Subject to annual leave and staff arrangements, all queries to be answered within 3 working days.</p>	<p>Notify the External Audit Manager of any staff absences expected before and during the final audit fieldwork.</p> <p>Provide External Auditors with working papers and evidence for information and figures included in the Annual Governance Statement.</p> <p>Answer queries raised in a prompt and efficient manner. Subject to annual leave and staff arrangements, all queries to be answered within 10 working days.</p>
Whole of Government Accounts	<p>Audit WGA pack and queries to be raised by mid-August, subject to quality of working papers and access to staff.</p> <p>WGA pack and reports to be submitted to relevant bodies by 30 September.</p>	<p>WGA pack to be prepared, along with supporting schedules and evidence of review.</p> <p>WGA pack to be submitted by end of June.</p> <p>Copy of pack to be submitted to Auditors by end of June.</p>	No direct involvement

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		<p>Provide External Auditors with working papers of adjustments made to the submitted WGA pack, including the reasoning behind the adjustment.</p> <p>Answer queries raised in a prompt and efficient manner. Subject to annual leave and staff arrangements, all queries to be answered within 10 working days.</p>	
Report to those charged with governance (ISA260)	<p>Report prepared to those charged with governance highlighting key issues arising from the audit of the financial statements and the VfM work and details of the resolution, communication of unadjusted and adjusted differences, recommendations resulting from audit procedures and the value for money conclusion. Report to be prepared by end of August.</p> <p>Report discussed with Management in early September and Management invited to make comments.</p> <p>ISA260 to be presented to the September Audit Committee.</p>	<p>Discuss recommendations made in the report with the relevant officers and agree actions with the officers to address the issues raised. Discussions to take place during August.</p> <p>Provide comments and actions to the External Auditors within 10 working days, subject to annual leave and staff arrangements.</p> <p>Process adjustments identified by end of September.</p>	Note any recommendations identified relating to the Council's systems and consider the impact on future work plans.
Opinion and Value for Money Reports	Provide an opinion on the financial statements and prepare individual reports to support the value for money conclusion. Reports and opinions to be drafted by end of August.	Management to discuss the Audit Reports and opinion with the External Auditors and provide comment where necessary. Subject to annual leave and staff arrangements, all comments to be	No direct involvement

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	Discuss reports and opinions with Management in early September and invite Management comment.	provided within 10 working days. Management to agree Audit Report with External Auditors in early September.	
Annual Audit Letter	Preparation of Annual Audit Letter detailing the key issues arising from the audit by end of October. Letter discussed with Management in early November and Management invited to make comments. Letter presented to the Audit Committee in November.	Provide comments on the Annual Audit Letter where necessary and agree the report in a prompt and efficient manner. Subject to annual leave and staff arrangements, comments and agreement to be provided within 10 working days.	No direct involvement
<u>Value for Money Conclusion Reviews</u>			
Value for Money Conclusion Reviews	Each VfM area of work to have agreed project scope. Agreement should be reached by External Audit, Strategic Director Corporate Services, and/or the relevant lead Service Director or Manager (auditee). VfM reviews to be undertaken within the timescales agreed in the project specification to provide the VFM opinion by 30 September. Draft report to be issued to auditee within 10 days of the end of fieldwork for management comment. Final report to be issued within two weeks of receipt of adequate management comment.	Auditee to provide management comment / discuss any issues with the report within 10 days of receipt of draft report. If management comment is not supplied the lack of response will be escalated to the Service Director Finance, Strategic Director Corporate Services or Chief Executive as required. If management comments are not agreed by External Auditor, liaison between the two parties (EA and BCC) to be completed in a timely manner (within 10 days of initial receipt of management comments), so that the subsequent report is not	No direct involvement

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	<p>Final report to be issued to auditee/Service Director Finance/Strategic Director Corporate Services/Chief Executive, as required and copied to Internal Audit.</p> <p>It should be noted that as part of The External Audit VfM risk assessment process, External Audit may identify areas of risk where further work is required, but a formal standalone report is not appropriate.</p>	<p>delayed.</p>	
Grant Work			
<p>Grant Certification Fieldwork</p>	<p>Upon receipt of Certification requirements from the Council, prepare schedule for the Council confirming deadlines for the submission of the grants and returns as well as deadline for the submission to External Auditors.</p> <p>Liaise with Internal Audit to identify whether any work has been conducted which would reduce the testing required.</p> <p>Carry out testing in accordance with the Audit Commissions arrangements and instructions and deliver by the due date specified in the Certification Instruction. Fieldwork to be conducted between July and December.</p>	<p>Notify External Auditors by end of June of Certification requirements for the year.</p> <p>Grants and returns to be submitted by the due date and the working papers to made available to the External Auditor by the deadline set out in the Audit Commission's certification instructions.</p> <p>Answer queries raised in a prompt and efficient manner. Subject to annual leave and staff arrangements, all queries to be answered within 10 working days.</p>	<p>Liaise with External Audit and provide copies of audit reports that potentially cover the areas examined during the certification work.</p> <p>Answer queries raised in a prompt and efficient manner. Subject to annual leave and staff arrangements, all queries to be answered within 10 working days.</p>
<p>Grant Certification Report</p>	<p>Prepare the certification report highlighting key issues arising from our grants and returns certification work and provide recommendations for improvement where considered necessary. Report to be</p>	<p>Answer queries raised in a prompt and efficient manner. Provide management comments within 10 working days, subject to annual leave and staff arrangements</p>	<p>Answer queries raised in a prompt and efficient manner. All queries raised to be answered within 10 working days, subject to annual leave and staff</p>

Area	External Auditor's responsibilities	Council's responsibilities	Internal Audit's responsibilities
	<p>prepared by end of January.</p> <p>Report discussed with Management in January and Management invited to make comments.</p> <p>Report updated in January to include Management comments.</p> <p>Report presented to Audit Committee in January.</p>		<p>arrangements</p> <p>Note any recommendations identified relating to the Council's systems and consider the impact on future work plans</p>
<u>Other Reviews</u>			
Other Reviews	<p>Terms of Reference/Brief for any additional work (excluding grants) to be agreed with the relevant auditee at least 2 weeks prior to commencement of audit (unless audit required more urgently by Bristol City Council or the auditor, acting in accordance with their powers requires a more immediate response).</p> <p>Reviews to be undertaken within the timescales agreed in the detailed terms of reference/brief.</p> <p>Reporting timescales – as above for Value For Money work.</p>	<p>Auditee must accept and agree Terms of Reference/Brief or respond with potential changes within 10 days of receipt.</p> <p>Management comment timescales – as above for Value For Money work.</p>	No direct involvement
<u>Follow Up of Previous Recommendations</u>			
Follow Up of Previous Recommendations	To liaise with lead officers, as indicated in follow-up reports, for progress updates and evidence to support progress and completion for all recommendations, regardless of priority rating.	<p>BCC officers to respond to External Audit within either VfM timelines set out above, or locally agreed timescales.</p> <p>The process to obtain management</p>	To liaise with External Audit to ensure all recommendations are followed up.

Area	External Auditor's responsibilities	Council's responsibilities	Internal Audit's responsibilities
	<p>In order to provide clarity, a clear audit trail and aid timely response times, the Follow up report should always state the original recommendation and agreed management response exactly as in the original report followed by the current status of the recommendation and any further recommendations.</p> <p>Interviews with lead officers may be held to ensure understanding and clarity of progress.</p> <p>Where during follow-up additional new or revised recommendations are identified and made, the management comment for the additional recommendation should be agreed directly with the relevant officer - as per the normal timescales for Value for Money reviews above.</p> <p>Internal Audit to be notified of all outstanding recommendations, regardless of priority rating.</p>	<p>comments and agree an action plan should be the same as for VfM reviews.</p>	
<u>Fraud</u>			
Fraud	To report to the Audit Commission all frauds of £10,000 or more and all instances of corruption using the AF70 survey.	Report fraud and corruption information to Internal Audit.	<p>Notification of significant frauds over £10,000, including a quarterly bulk return for Housing Benefit Frauds, on AF70's to External Audit as they occur.</p> <p>Notification of incidents of corruption to External Audit.</p>