



How to assess the performance of your auditor

MHA MacIntyre Hudson “How to Guides” are designed to provide practical assistance with meeting legal or regulatory obligations, aid operational effectiveness, or improve management/governance processes. They often include models, pro-formas or templates that can easily be adopted by organisations.

The Guides address a wide range of areas from major strategic methodologies and policies to operational processes where advice on good practice is needed. Accordingly they vary in length and format. All have the key characteristic of being practical not theoretical, and based on our team’s decades of real-life experience working both with and within a very wide range of not for profit organisations.

Legal/Regulatory Background

A statutory audit is a legal requirement for many charities, and the obligation to appoint an auditor is normally set out in the charity’s constitution, such as its articles of association. The individuals responsible for making the appointment may be the trustees (or company directors if incorporated) or members, albeit often on the recommendation of charity management and a sub-committee such as the audit or finance committee. Often due to constitutional requirements the members will approve the appointment annually at an AGM and then delegate the agreement of audit fees to the directors.

There is seldom any formal requirement to consider the performance of an organisation’s auditors, but clearly this is an important aspect related to the appointment process. The responsibility for this may ultimately lie with the board, but often the detailed considerations are undertaken by the charity’s finance or audit committee, or other similar committee. Indeed model terms of reference for such committees will often make reference to

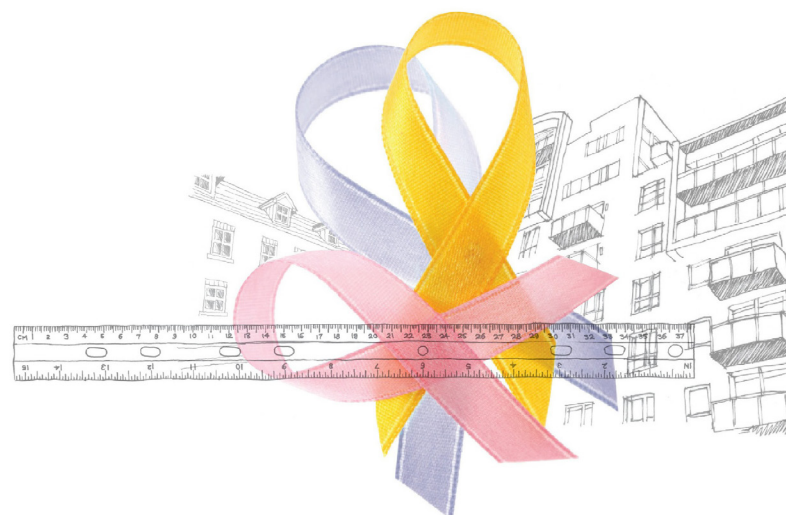
the review of auditor performance being a specific responsibility.

Why is reviewing auditor performance important? As with any professional advice or services, trustees have a duty to consider if their audit services meet adequate standards and provide appropriate levels of assurance over the charity’s financial affairs. Sector expertise and the specialist nature of charity auditing is evident in that the auditing profession is required to follow Practice Note 11, tailored guidance issued by the Auditing Practices Board. Additionally, there should be an expectation that high quality audits provide added value.

Detailed guidance

Charities may undertake a review through an informal discussion, initiated when something has gone wrong, or periodic retendering of audit services, perhaps on a fixed term basis. Both may be an appropriate response but run the risk that either poor performance is not identified or management time and resources are spent on a process that is not necessary.

An annual process, undertaken in a formal manner, is probably the best approach. It may unearth concerns that are not obvious or avoid the need





for time consuming and costly tender processes when there are in fact no concerns about the audit relationship. Even where concerns exist, a formal process can help both parties agree an improved approach for the future.

This guide provides a structure to assist organisations to adopt a formal approach to the assessment of auditors' performance. There may be specific criteria that are essential for your organisation's audit requirement, but typically key criteria fall into 3 areas: ability, performance, and engagement.

Ability - Demonstrable sector experience at sufficient depth; understanding of, and commitment to professional and quality standards established by the accounting profession and the audit firm; commitment to training in specialist areas; adequacy of resourcing; relevant quantifiable experience of all members of the team.

Performance - Efficiency and effectiveness of the planning, execution, and completion of the audit; professionalism of the audit team; adherence to ethical standards and actively demonstrated independence; strong project management and timeliness of service.



Engagement - Active engagement with charity staff, management and "those charged with governance" (which may include committees such as audit or finance, as well as the full trustee board); good written and face-to-face communication; demonstrable value derived from the relationship.



Auditors' Key Performance Indicators

We consider it to be good practice for our clients to set indicators with which to judge our performance as external auditors. We set out below key performance indicators that you may wish to consider adopting for the future. These questions are indicative only as it is important for each charity to determine the key performance criteria that are most relevant in their situation. Reference we make to the charity's audit committee should be interpreted as the body responsible for overseeing the relationship with the auditors, so may instead be the board, finance committee, or similar.

Question Number	Question	Yes/No/ Not applicable
Ability		
Q1	Has the auditor provided information about its professional ethics policies and processes for maintaining independence, and has this covered:	
	a) Potential threats to independence including any other services provided to the charity?	
	b) Safeguards established to maintain independence and objectivity?	
Q2	Did the audit team comprise staff of sufficient seniority, experience and expertise?	
Q3	Was there appropriate staff continuity from previous visits?	
Q4	Did members of the audit team have an appropriate knowledge and understanding of:	
	a) The charity sector	
	B) Its accounting and reporting requirements including the Charities Statement of Recommended Practice (SORP), accounting regulations and Charities Act 2011	
	c) The charity regulatory framework, including Charity Commission guidance, governance, taxation etc	
Q5	Did the audit team demonstrate good technical competence (e.g. accounting, audit, business risks)?	



Performance		
Q6	Was the audit work planned with charity management in a timely and appropriate way?	
Q7	Did the auditors communicate in their audit plan or otherwise to the Audit Committee and charity management sufficient in advance of the start of the audit:	
	a) Their desire to enter into a two way discussion on audit matters?	
	b) Scope of the audit and the respective responsibilities of the auditors and the charity?	
	c) The audit approach and key areas of focus?	
	d) The approach to audit materiality adopted for the audit?	
	e) The timetable for the audit and for oral and written reports to the audit committee?	
	f) The extent of any reliance to be placed by the auditors on the work of others (e.g. internal auditors, group auditors, external specialists)?	
	g) Significant matters arising from previous audits?	
	h) The “deliverables” they expected the charity to provide the auditors and when this would be required?	
	i)The fees to be charged or the proposed basis of charges?	
Q8	Was there appropriate liaison with the charity’s other auditors (internal/ group etc) where necessary?	
Q9	Was the audit work carried out on the agreed dates and to the agreed plan?	
Q10	Was the charity kept informed on a timely basis of any material issues arising during the course of audit?	



Engagement		
Q11	Was regular and timely two way communication on matters relevant to the audit encouraged?	
Q12	Were written reports clear, concise and delivered on time?	
Q13	Were significant or sensitive matters, on areas of potential disagreement, dealt with openly, constructively and professionally?	
Q14	Were the recommendations in management reports/ audit findings:	
	a) Discussed with charity management in an appropriate and timely manner?	
	b) Considered constructive, practical, and viewed as adding value?	
Q15	Did the auditors keep management and the audit committee sufficiently up to date on key financial reporting, accounting and regulatory matters relevant to the charity?	
Q16	Where agreed did the auditors attend Audit Committee meetings and deal with queries raised by the Committee adequately?	
Q17	Where appropriate did the auditors discuss with the Audit Committee any areas for improvement in their audit approach?	
Q18	Was there significant access to and contact with senior members of the audit team, including the partner and manager?	



Q19	If any audit report resulted in a qualified or modified opinion, were the issues of concern and the impact on the report discussed with charity management and the Audit Committee at a sufficiently early stage?	
Q20	Has there been a good working relationship between the auditors, charity management and the Audit Committee?	
Q21	Has the auditor been sufficiently and appropriately thorough in approach and robust in dealing with charity management and staff, and demonstrated an appropriate degree of professional scepticism?	
Q22	Have charity staff provided positive feedback on the quality of the audit work and team?	
Q23	Was there sufficient contact during the year and were ad hoc queries during the year adequately dealt with and in a timely manner?	
Q24	Were the auditor's fees in line with their original quote, or where there were additional charges were these communicated appropriately and on a timely basis?	
Q25	Are there actions that the auditor should take to improve their performance?	
Q26	Is it recommended that the incumbent audit provider be re-appointed for the forthcoming year?	



Other Comments and Observations:

Name.....

Title.....

Date.....

If you would like to discuss any matter arising from this please contact Sudhir Singh (sudhir.singh@mhllp.co.uk) or your usual MHA MacIntyre Hudson contact.



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