

PENDLE BOROUGH COUNCIL

**PEER REVIEW OF INTERNAL AUDIT AGAINST THE UK
PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

NOVEMBER 2016

Final Report – Issued 6th December 2016

Review Team

Mark Beard, Head of Audit and Investigations, Hyndburn Borough Council
Ian Evenett, Internal Audit Manager, Burnley Borough Council

1 Introduction

- 1.1 All principal local authorities and other relevant bodies subject to the Accounts and Audit (England) Regulations 2015 (amended), the Accounts and Audit (Wales) regulations 2005, section 95 of the Local Government (Scotland) Act 1973 and the Amendment to the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS) as well as the (CIPFA) Local Government Application Note.
- 1.2 A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
- 1.3 The PSIAS require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
- 1.4 The Lancashire Districts Chief Auditor Group (LDCAG) has established a 'peer-review' process that is managed and operated by the constituent authorities. This process addresses the requirement of external assessment by 'self-assessment with independent external validation' and this report presents the summary findings of the review carried out on behalf of Pendle Borough Council.
- 1.5 "An independent assessor or assessment team" means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs." This review has been carried out by the Heads of Internal Audit at Hyndburn and Burnley Borough Councils. Their 'pen pictures', outlining background experience and qualifications, are included at **Appendix A**.

2 Approach/Methodology

- 2.1 The LDCAG has agreed a detailed Memorandum of Understanding (MoU) that outlines the broad methodology for the conduct of this review. A copy of the MoU is available upon request. However, in summary, the key elements of the process are:
 - The peer review is undertaken in three stages: pre-review; on-site review; post-review and covers audit activity during the period covered in the latest Head of Internal Audit Annual Report and Opinion. For this review the Internal Audit Annual Report for the year ending 2015/16 has been considered and so the time scale is from 1st April 2015 to 31st March 2016.
 - Pendle Borough Council has completed and shared its self-evaluation of the Internal Audit service together with any relevant supporting evidence/documentation in advance of on-site review commencement. The LDCAG has agreed that the self-assessment will use the **CIPFA**

Local Government Application Note (LGAN) questionnaire. Typically, supporting evidence will include the Internal Audit Plan & Charter, The Head of Internal Audit Annual Report and Opinion, Quality Assurance and Improvement Programme and examples of final audit reports.

- To support the on-site review, a customer survey form has been issued to key personnel within the authority being reviewed.
- The review itself comprised a combination of 'desktop' and 'actual on-site' review.
- The review cannot reasonably consider all elements of the LGAN self-assessment and the review team used the 'desktop' period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. Pendle's Internal Audit has been assessed against the three broad themes of: Purpose and Positioning; Structure and Resources; and Audit Execution. Impact is considered an overarching theme within these areas.
- Upon conclusion, the Review team offers a 'true and fair' judgement and each Authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** against each thematic area of the LGAN, from which an aggregation of the three themed scores gives an overall Authority score.

3 Summary Findings

3.1 Following a detailed examination process, the review team has concluded the following judgements:

Area of Focus	Judgement
Purpose & Positioning	Conforms
Structure & Resources	Conforms
Audit Execution	Conforms
Overall Judgement: Conforms	

Assessment against the individual elements of each area of focus is included in the table at **Appendix B**.

Within the checklist there are 327 questions on CIPFA LGAN Checklist with the Standards. The Peer Review identified only 4 points for consideration into the service's QAIP (Quality Assurance & Improvement Programme). This is a significant and remarkable level of compliance with the Standards at 99%. Whilst not specifically covered by the Peer Review there were some specifically positive points of action. The service's benchmarking outcomes indicate an economic and efficient service. The auditors were experienced

and knowledgeable on the audit areas which enables this and the audit process is streamlined to achieve tight delivery timescales. The assurance coverage was tailored to the requirements of the organisation.

The internal audit recommendations database or IARD was a particularly good way of ensuring accountability for the timely implementation of recommendations. There was comprehensive management feedback on every audit. The working papers and audit documenting process was lean and enabled the rapid reporting by exception which the service has developed. The impact of the service within the organisation was very positive and all the responders to the questionnaires sent out gave agree (84%) or partially agree (16%) return.

3.2 Significant Observations (i.e leading to a 'does not conform' judgement)

There are no significant observations

3.3 Minor Observations (i.e areas for improvement/development, minor elements of non-conformance, gaps in 'good practice' statement)

The minor observations are detailed in 3.3.1 to 3.3.11 below.

Purpose and Execution

- 3.3.1** The employment of Furness Audit Ltd as providers of IT audit did not include the provision of working papers or specific assurance on the application of the PSIAS requirements in the Audit. When employing other assurance providers it would assist in the demonstration of compliance if the external supplier provided supporting working papers for retention or a statement of conformance with the PSIAS.
- 3.3.2** The PSIAS requires the inclusion of the chief executive and the chair of the audit committee in the performance appraisal of the Chief Audit Executive. In Pendle's case this would require input from the Strategic Director and Chair of the Accounts and Audit Committee in the appraisal of the performance of the Audit and Performance Manager in respect of his internal audit duties.

Audit Execution

- 3.3.3** There should be a process of approval of work programmes prior to implementation for the audit and the prompt approval of subsequent alterations to the work programmes.
- 3.3.4** The Audit and Performance Manager has set standards for access and retention of audit records, these should be considered for formal recording in

a procedure or policy, specific to the requirements of the service and Council.

Audit Presence & Visibility

- 3.3.5** Key questions that arose from the interviews posed two fundamental questions regarding the status and visibility of the Audit Team. The following questions were raised by more than one interviewee:
- Is there a lack of Audit presence at Management Team?
 - Is the Audit Team visible to staff at all levels of the organisation?
- 3.3.6** The Audit & Performance Manager is not present at Management Team when key audit reports to Management Team are discussed. This could restrict Management Team's opportunity to question the Audit & Performance Manager and gain additional understanding of the issues being raised.
- 3.3.7** The second issue arose again from more than one interview suggesting that more could be done to raise the profile of the Internal Audit Team as there were often only visible to relatively senior managers within the organisation.

Auditor Development

- 3.3.8** There appeared to be general theme from interviewees posing the question "Are auditors developed sufficiently to address areas with fresh approaches?"
- 3.3.9** In terms of the PSIAS the Audit & Performance Manager does follow the suggested best practice of rotating auditors between assignments. However, the argument put forward during the Peer Review Inspection interviews was that this was not so much rotation as opposed to alternating. Pendle's Senior Management Team members were all in agreement in raising the question of whether there would be benefit from some form of auditor swaps or joined up working between authorities to expand auditor knowledge and experience.

Auditor Skills

- 3.3.10** The final key area arising from the interview process related to the skill sets of the Auditors and just how widely known it was as to what they are able to provide.
- 3.3.11** Comments made during the interviews suggested that skills are not widely known and therefore the Audit Team may not be called upon to advise on, help with, or investigate issues. There was an underlying view that more could be done to promote the team.

3.4 PSIAS Action Table

This details suggested actions to improve the service, its status or impact and quality of the service provided. The points raised in 3.3 above are contained in this action table at **Appendix C**.

Review Team

Mark Beard

Mark has been Head of Audit and Investigations at Hyndburn Borough Council for 15 years but has 25 years Audit experience. He has a wealth of experience in the management and operation of internal audit in district councils and is a fully qualified member of the Chartered Institute of Internal Auditors. His expertise in counter fraud is well respected in the Lancashire District Chief Audit Group.

Ian Evenett

Ian is the Internal Audit Manager at Burnley Borough Council. His internal audit experience spans over 30 years. He is a part qualified member of CIPFA, and has particular specialisms in computer and contract audit areas.

Detailed Assessment

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
	Purpose & positioning				
1000	• Remit	X			
1000	• Reporting lines	X			
1110	• Independence	X			
2010	• Risk based plan	X			
2050	• Other assurance providers	X			See 3.3 above
	Structure & resources				
1200	• Competencies	X			
1210	• Technical training & development	X			
1220	• Resourcing	X			
1230	• Performance management	X			
1230	• Knowledge management	X			
	Audit execution				
1300	• Quality Assurance & Improvement Programme	X			
2000	• Management of the IA function	X			
2200	• Engagement planning	X			See 3.3 above
2300	• Engagement delivery	X			See 3.3 above
2400	• Reporting	X			
2450	• Overall opinion	X			

Conforms	X	Partially Conforms		Does Not Conform	
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Pendle Borough Council Internal Audit Service – PSIAS Action Table**Appendix C**

The following points for consideration to develop the Audit Function arise from the review undertaken:

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
2330 Documenting Information	3.3.1	The employment of Furness Audit Ltd as providers of IT audit did not include the provision of working papers or specific assurance on the application of the PSIAS requirements in the Audit. When employing other assurance providers it would assist in the demonstration of compliance if the external supplier provided supporting working papers for retention or a statement of conformance with the PSIAS.		
1110 Organisational Independence	3.3.2	The PSIAS requires the inclusion of the chief executive and the chair of the audit committee in the performance appraisal of the Chief Audit Executive. In Pendle's case this would require input from the Strategic Director and Chair of the Accounts and Audit Committee in the appraisal of the performance of the Audit and Performance Manager in respect of his internal audit duties.		
2240 Engagement Work Programmes	3.3.3	There should be a process of approval of work programmes prior to implementation for the audit and the prompt approval of subsequent alterations to the work programmes.		

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
2330 Documenting Information	3.3.4	The Audit and Performance Manager has set standards for access and retention of audit records, these should be considered for formal recording in a procedure or policy, specific to the requirements of the service and Council.		
N/A Identified by Interviews	3.3.5 to 3.3.7	Interviewees during the Peer Review inspection stated there is a lack of 'Audit' presence at Management Team when audit specific issues are discussed. Visibility of the audit team to staff beyond senior managers was also questioned by interviewees. Management should therefore consider whether they are satisfied with current arrangements and what could be done to change these perceptions.		
N/A Identified by Interviews	3.3.8 to 3.3.9	Interviewees and particularly Pendle's Senior Management Team members questioned whether Auditors are developed sufficiently to address areas with fresh approaches. The Peer Review established that the Audit & Performance Manager complies with the requirement of the PSIAS for auditor rotation on engagements. Management should consider what additional steps it wishes to implement, which may require discussions with Audit Teams from other Councils.		

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
N/A Identified by Interviews	3.3.10 to 3.3.11	Interviewees stated that the skill sets of the Audit Team are not widely known which may influence their decision to approach Audit for help or advice beyond routine scheduled audit work. Management and the Audit & Performance Manager should consider whether they are satisfied with current arrangements and what could be done to change these perceptions.		