

BURNLEY COUNCIL

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

OCTOBER / NOVEMBER 2022

Review Team

*Colin Ferguson – Head of Audit and Assurance, Blackburn with
Darwen Council*

*Dawn Highton – Head of Audit and Risk, South Ribble and
Chorley Council.*

Introduction

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.
2. A professional, independent and objective internal audit service is one of the key elements of good governance in local government.
3. The PSIAS require that an external assessment of an organization's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organization. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.
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 Burnley Council.
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 organization to which the internal audit activity belongs." This review has been carried out by the Head of Audit and Assurance at Blackburn with Darwen Council and the Head of Audit and Risk at South Ribble and Chorley Council. Their 'pen pictures', outlining background experience and qualifications, are included at **Appendix A**.

Approach/Methodology

6. 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 on-site part has been carried out remotely via Microsoft Teams. The Internal Audit Annual Report for the year ending 2021/2022 has been considered and the time scale is from 1st April 2021 to 31st March 2022, although evidence demonstrating key points or aspects of the Standards has been considered from examples relating to earlier financial years where

necessary.

- Burnley 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 (via Teams) 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 and Charter, the Head of Internal Audit Annual Report and Opinion, Quality Assurance and Improvement Programme and examples of final audit reports.
- To support what would have been the on-site review, a customer survey was carried out via Survey Monkey which was issued to key personnel within Burnley Council.
- The review itself comprised a combination of desktop evaluation and a series of meetings via Teams which equates to what would normally be the '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. Burnley Council's Internal Audit Team 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.

Summary Findings

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

Area of Focus	Judgement
Purpose & Positioning	Does not Conform
Structure & Resources	Partially Conforms
Audit Execution	Partially Conforms
Overall Judgement: Partially Conforms	

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

As the judgement awarded for this peer review has significantly changed since the last review undertaken in 2017, the views of the LDCAG Moderation Team were sought to ensure a consistent approach was applied. After considering the findings of the review, they were in agreement that the judgement awarded above was a true and fair reflection.

Overall Opinion

8. Overall the Peer Review was a positive exercise and there was evidence that the Internal Audit Manager is held in high regard throughout the whole authority with many managers seeking his support and advice. This was particularly noted for the support provided during the COVID pandemic.
9. Whilst there are many benefits to the fact that the advice and guidance of the Audit Manager is sought, there was evidence that his role as Audit Manager is being blurred with his other non-audit roles. All interviewees highlighted support received from the Audit Manger appertaining to his other duties rather than as Audit Manager.
10. The Peer Review report issued in 2017 highlighted the following risk to Burnley Council. The report contained the following statement:

The Chief Audit Executive (CAE) cannot claim that they are truly independent when responsible for the organisations financial affairs, aspects of which fall with the Internal Audit work remit. It is recognised that this structure has only existed since January 2017. The Peer Review Team must highlight this as a potentially significant area that could impact on the Audit Team's ability to conform with the Standards in future."
11. This risk has now materialized as whilst it is clear that the Internal Audit Manager is experienced and extremely competent in his role, Burnley Council are not conforming with the Standards as the independence of Internal Audit is being significantly compromised with the Section 151 Officer acting as the CAE.
12. Whilst it is understood that there have been resourcing issues, it is the view of the Peer Review Team that for the financial year 2021-2022 there was insufficient coverage of the whole authority to form an accurate opinion on the adequacy and effectiveness of governance, risk management and controls to support the Annual Internal Audit Opinion. No limitations of scope were reported to the Audit and Standards Committee for the 21-22 financial year.
13. It is unclear how embedded risk management is within Burnley Council as there is little or no reference to current risks within the audit engagements. From the evidence reviewed, standard audit programmes appear to be in use without taking into consideration new and emerging risks.
14. The peer review identified 15 points for consideration into the service's QAIP (Quality Assurance & Improvement Programme).

Last Peer Review (2017)

15. The Peer Review Team considered the 10 recommendations arising from the previous peer review carried out in 2017. It became apparent during the course of the review, that many of the issues identified have not been comprehensively addressed. The issues pertaining to the independence, the QAIP, and audit engagements have been carried forward as part of this review as these are not yet considered to be fully implemented.

Significant Observations

Purpose and Positioning

1100 Independence and Objectivity

16. The previous review carried out in 2017, identified the potential for the conflict of interest arising from the Chief Audit Executive also being the Head of Finance and S151 Officer. Whilst arrangements have been put in place to mitigate this risk, these are insufficient to ensure that the independence and objectivity of the CAE is maintained for the following reasons:
- It is unclear how the arrangements for maintaining the independence of the CAE actually work in practice. Responses from senior officers interviewed as part of this process contradict the arrangements set out in the Audit Charter;
 - There is a lack of clarity about how independence is managed when the Finance Manager deputizes for the CAE, as this relates to instances whereby the financial affairs of the authority are reviewed meaning that the deputy CAE is equally conflicted;
 - Reports to Audit and Standards Committee are not presented in the name of the CAE or the Audit Manager in all instances. This dilutes the independence and functional reporting of the service.
17. A key aspect of the Purpose and Positioning Standards is to ensure the Audit Committee can effectively discharge its duties. In order to facilitate the work of the Audit Committee, the CAE should:
- participate in the audit committee's review of its own remit and effectiveness;
 - seek to ensure that the audit committee receives and understands documents that describe how internal audit will fulfil its objectives (eg the risk-based plan, annual work programmes, progress reports).
18. Confirmation was received during the review that the Audit and Standards Committee have not undertaken a review of its remit and effectiveness for a number of years albeit this could be due to the Covid pandemic. In addition, the Peer Review Team interviewed two members of the Audit and Standards Committee, both of whom expressed concern regarding the lack of training provided to the Committee.
19. The Peer Review Team identified that the quality of information presented to the Audit and Standards Committee could be strengthened to ensure there is a comprehensive understanding of how Internal Audit fulfils its objectives. Examples of this are included at paragraphs 21 and 32.

2010 Risk Based Plans

20. It is understood that 2021/2022 was a challenging year for the Internal Audit Team in relation to resourcing, which was highlighted by interviewees and by the submission of evidence for this review. This evidence confirmed that whilst a detailed planning exercise and process exists, it is unclear how the results of this inform the development of the risk-based plan. A large majority of the reviews identified through the planning process failed to appear in the annual plan presented to the Audit and Standards Committee. Furthermore, the planning documentation did not contain sufficient evidence to demonstrate how the plan aligned to the Council's Corporate Plan, Corporate Risk Register and reflects requests from Service Areas based on their assessment of their risks.
21. Due to the issues with resourcing, the Audit plan was only approved by the Audit and Standards Committee in September 2021. The Audit and Standards Committee received quarterly progress reports however the Peer Review team identified errors or omissions between the risk-based audit plan and the progress reports including:
- Significant amendments to the plan. Whilst resourcing issues were highlighted to the Audit and Standards Committee, there is a lack of detail as to the impact on the delivery of the plan and how the reviews will be prioritised based on the level of risk;
 - Reviews which are additional to the agreed audit plan without explanation of why they had been completed or identified for inclusion;
 - Inconsistent reporting of incident reports;
 - Incorrect appendices being attached to reports.

2050 Other Sources of Assurance

22. The Peer Review Team were unable to establish how other sources of assurance were obtained. PSIAS 2050 requires the CAE to make arrangements to share information and coordinate activities with other internal and external providers of assurance to ensure there is adequate coverage and to minimise duplication of effort.

Structure and Resources

1200 Proficiency and Due Professional Care

23. PSIAS 1200 states that the CAE must be professionally qualified and suitably experienced. As highlighted above, the role of the CAE is undertaken by the S151 officer with support from the Internal Audit Manager. Whilst it is acknowledged that the Internal Audit Manager has extensive experience, the S151 Officer confirmed that his knowledge and experience of internal audit was limited.

Audit Execution

1300 Quality Assurance and Improvement Programme

24. The review from 2017 identified that whilst the Quality Assurance and Improvement Programme (QAIP) was technically in existence, it lacked detail and could contain more detail on how issues that do not conform with the Standards would be addressed to enable future compliance. Despite the recommendation being accepted, the Peer Review Team found that key requirements of the Standards 1300 remained absent from the QAIP.

2200 Engagement Planning

25. It is unclear from the documentation provided how risks to the Service are being addressed as the audit programmes provided for review primarily comprise of standard key controls. It is unclear from the Audit Briefs that the approach and key risks have been identified and agreed with Service areas.
26. The Peer Review Team were surprised to note from the interviews conducted that the number of recommendations emanating from Internal Audit reports was low (approx. 12 per annum). This opinion was further compounded by the lack of high priority actions identified for implementation and reported to the Audit and Standards Committee. Given the challenges facing local authorities with budgetary pressures, recruitment and retention issues and key large-scale projects being undertaken, it is even more important that the scope of the engagement is capturing and reviewing key risks relevant at the time of audit.

2300 Engagement Delivery & 2400 Reporting

27. The Peer Review team identified that the quality of working papers should be considered as key components were incomplete. Standard 2310 requires that internal auditors identify sufficient, reliable, relevant and useful information to support the engagement results and so that a prudent, informed person would reach the same conclusion. Whilst some working papers were sufficiently detailed, this was not the case in all instances.
28. It is unclear how effective the Internal Audit quality assurance process is as described in the QAIP. The Peer Review Team noted a range of issues with the reports issued to auditees. These ranged from failure to provide date of issue for final reports, reports still being in draft format despite being finalized, and management actions recorded as pending, again, despite the review being finalized.

2450 Overall Opinion

29. PSIAS 2450 requires that the CAE must provide an annual report to the board timed to support the annual governance statement and that it must include an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework. The Standards further expand to clarify that opinion' means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined.
30. Given the resourcing issues which were reported to the Audit and Standards Committee and the low volume of work completed, the Peer Review team were concerned that an opinion had been provided without highlighting the limitations of scope to form the opinion.
31. The annual opinion contained within the report only concluded on the control environment of the Council and did not reference the adequacy and effectiveness of the organisation's governance and risk management arrangements.
32. The annual report did not contain the following requirements as set out in the Standards:
 - a comparison of the work actually undertaken with the work that was planned;
 - lack of detail regarding work which commenced in quarter 2 but remained incomplete at the year end without explanation;
 - the consideration of all related projects including the reliance on other assurance providers;
 - definitions of assurance scores
 - any other issues that the CAE judges is relevant to the preparation of the governance statement.

Minor Observations

Purpose and Positioning

1000 Purpose, Authority and Responsibility

33. PSIAS 1000 also requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter and should provide information on the accountability, reporting lines and relationships. The current Internal Audit Charter fails to clearly set out the functional reporting relationship of the CAE with the Audit and Standards Committee.

2010 Risk based audit plan

34. Various interviewees confirmed that the advice and guidance of the Internal Audit Manager had been sought in relation to large scale projects ie the procurement of Charter Walk and was invaluable to the organisation, however this consultancy work does not appear in the risk based plan.
35. No evidence was provided to the Peer Review Team of the Risk based plan including resource requirements being communicated to senior management for review and approval. Further, it was unclear how the timings of reviews were established. Whilst the Audit Plan contained a priority rating, these did not appear to be the order in which reviews were undertaken.

Audit Execution

2040 Policies and Procedures

36. The self assessment highlights that the Audit Manual is only partially adapted for PSIAS despite the Standards being introduced some time ago. It is important that audit documentation is up to date and complete to provide clarity and guidance to the audit team in any event of non-availability of the Audit Manager.

PSIAS Action Table

37. This details suggested actions to improve the service, its status or impact and quality of the service provided. The points raised in 15 to 35 above are contained in this action table at **Appendix C**.

Thank you

38. The Peer Review Team would like to express their thanks to Management, members of the Audit and Standards Committee and the Internal Audit Team at Burnley Council for all the help afforded to the Peer Review Team during the course of the review.

Review Team

Colin Ferguson

Colin is a fully qualified member of the Association of Chartered Certified Accountant with 31 years' experience of internal audit in the local government sector. He is currently Head of Audit & Assurance for Blackburn with Darwen Borough Council. Colin started his finance career working in external audit in the private sector with KPMG. Prior to joining Blackburn Colin worked in internal audit with Lancashire County Council. Colin manages the preparation and delivery of the Blackburn annual audit plan across a wide range of Council services and schools. His responsibilities also include insurance and risk management.

Dawn Highton

Dawn is a fully qualified member of the Chartered Institute of Internal Auditors and has over twenty years internal audit experience in the local government sector and is currently Head of Audit and Risk at South Ribble and Chorley Council. Dawn oversees the delivery of the audit plans across the full range of Council services and two wholly owned companies. Her wider portfolio includes responsibility for risk management, insurance, business continuity, emergency planning and health and safety.

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	
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		
2300	• Engagement delivery		X		
2400	• Reporting		X		
2450	• Overall opinion			X	

Conforms		Partially Conforms	X	Does Not Conform	
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Burnley Council Internal Audit Service – PSIAS Action Table

Appendix C

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

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1100 Independence and Objectivity	10,11,16	<p>Burnley Council should consider how they wish to address the non-conformance with the Public Sector Internal Audit Standard 1100 in relation to the independence and objectivity of the Chief Audit Executive.</p> <p>In addition, the Council should also seek the views of their external auditors and gain an understanding of the impact of the non-conformance.</p>	Head of Finance and Property	<p>The Chief Audit Executive will role will be assigned to the Internal Audit Manager as this removes the main risk of independence and objectivity from this role.</p> <p>The views of the External Auditor will be sought and the understanding of this non-conformance will be considered.</p>

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
<p>1100 Independence and Objectivity</p> <p>1200 Proficiency and Due Professional Care</p>	16,23	<p>The Council should ensure that all future arrangements to achieve independence are accurately reflected in the Internal Audit Charter and that all Audit and Standards agenda items and minutes reference the CAE as the author.</p> <p>Furthermore, any future arrangements should ensure that the CAE is professionally qualified and suitably experienced.</p>	Head of Finance and Property	<p>The CAE arrangements will be reflected in the Internal Audit Charter and Strategy.</p> <p>The CAE will be referenced as the author in all items which relate to the roles of the CAE.</p> <p>The Council will work towards an early achievement of this requirement.</p>
1100 Independence and Objectivity	18	In order to comply with all aspects of the purpose and positioning standards, the CAE should participate and ensure that the Audit & Standards Committee undertake a review of its own remit and effectiveness using the latest guidance issued by CIPFA.	CAE and Democracy Team	This process is underway and the CAE will participate in this process, using the latest CIPFA Guidance.

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1100 Independence and Objectivity	18	<p>The CAE should also assist the Audit and Standards Committee in assessing their collective skills and knowledge and identify any training needs.</p> <p>A comprehensive training plan should be developed to address any identified skills and knowledge gaps.</p>	CAE and Democracy Team	The Council with the participation of the CAE will assess the collective skills and knowledge of the Audit and Standards Committee members to identify any training needs which will be developed in to training plan to address any skills and knowledge gaps.

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1100 Independence and Objectivity	19	The CAE should ensure that reports presented to the Audit and Standards Committee are accurate and free from errors and omissions.	CAE Chair of Audit and Standards Committee	The CAE will ensure that reports they present to the Audit and Standards Committee related to Internal Audit are accurate and free from errors and omissions the best of their abilities.
		Reports should be sufficiently detailed to allow the Audit and Standards Committee to gain an understanding of how the internal audit service will fulfil its objectives.		The format and details in reports will be agreed with the Chair of the Audit and Standards Committee to improve the understanding of how the internal audit service fulfils its objectives.

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1000 Purpose, Authority and Responsibility	33	The Audit Charter should be expanded to include the functional reporting relationship of the CAE with the Audit and Standards Committee.	CAE	The Audit Charter and Strategy will be revised to reflect the changes to include the functional reporting relationship of the CAE with the Audit and Standards Committee
2010 Audit Planning	20	<p>The CAE should ensure that the risk-based plan presented to the Audit and Standards Committee is an accurate reflection of the Internal Audit planning documentation / risk assessment.</p> <p>Evidence needs to be retained to demonstrate that the plan has been produced with due regard to the Council's Corporate Plan, Corporate Risk Register and high risk areas in individual Council services.</p>	CAE	The risk-based plan will be clearly linked to the Strategic Plan, Strategic Risk Register and risk areas identified from the Services. Evidence of this will be retained.

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
2010 Audit Planning	34,35	<p>The Plan should also clearly articulate resources required to complete the reviews and the priority order of the agreed work.</p> <p>The plan should also reflect any agreed consultancy work.</p> <p>This should be presented and agreed by senior management prior to being presented to the Audit and Standards Committee.</p>	CAE	The Plan will clearly record the estimated resources to complete the reviews with the priority order.
2050 Other Sources of Assurance	22	<p>The CAE should ensure that the risk-based plan includes an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources.</p>	CAE	Any other sources of assurance will be identified evaluated and where reliance can be placed on these this will be considered as part of the assurance process.
1300 Quality Assurance and Improvement Programme	24	<p>As identified during the 2017 review, the Peer Review Team found that the Quality Assurance and Improvement Programme (QAIP) whilst technically in existence lacked detail. The QAIP could contain more detail on how issues that do not conform with the Standards would be addressed to enable future compliance.</p>	CAE	The QAIP will include the detail of how the authority will address issues of that do contain more detail of how issues that do not conform will be addressed.

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
2040 Policies and Procedures	36	The CAE should ensure that all policies and procedures to guide the internal audit are reflective of the PSIAS and that they are regularly reviewed and updated.	CAE	The Audit manual will be updated to ensure that the policies and procedures reflect the PSIAS requirements.
2200 Engagement Planning	25,26	Risks identified at the scoping stage should be based upon the current risks facing the Service rather than using standard risk and control matrices. Adopting this approach will ensure assurance is provided on current business risks which will therefore provide added value to the service manager.	CAE	Auditors will be reminded of the requirements to engage with Auditees to identify the current risk issues and to agree these with Auditees.
2300 Engagement Delivery & 2400 Reporting	27,28	The CAE should ensure that all working papers contain sufficient, reliable, relevant and useful information which supports engagement results and conclusions in all instances. The internal quality control process as detailed in the QAIP should be applied in all instances.	CAE	Reviewers will be reminded of the requirement to support the finding clearly in the working papers.

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
2450 Overall Opinion	29,30	<p>The CAE should ensure that the Internal Audit opinion is based upon sufficient evidenced work to form a supportable conclusion.</p> <p>If it is deemed that insufficient work has been completed, the Annual opinion report should be worded to reflect this.</p>	CAE	The CAE will ensure that the Internal Audit opinion is in compliance with the required standard 2450
2450 Overall Opinion	31,32	<p>The annual opinion report should reference the adequacy and effectiveness of the organisation's control, governance and risk management arrangements.</p> <p>The report should also incorporate all the requirements as set out in Standard 2450.</p>	CAE	The CAE will ensure that the Internal Audit opinion is in compliance with the required standard 2450