

AUDIT AND STANDARDS COMMITTEE

Wednesday, 20th September, 2017
6.30 pm





AUDIT AND STANDARDS COMMITTEE

BURNLEY TOWN HALL

**Wednesday, 20th September, 2017 at
6.30 pm**

Members are reminded that if they have detailed questions on individual reports, they are advised to contact the report authors in advance of the meeting.

Members of the public may ask a question, make a statement, or present a petition relating to any agenda item or any matter falling within the remit of the committee.

Notice in writing of the subject matter must be given to the Head of Governance, Law & Regulation by 5.00pm on the day before the meeting. Forms can be obtained for this purpose from the reception desk at Burnley Town Hall or the Contact Centre, Parker Lane, Burnley. Forms are also available on the Council's website www.burnley.gov.uk/meetings.

AGENDA

1) *Apologies*

To receive any apologies for absence.

2) *Minutes*

To approve as a correct record the minutes of the previous meeting.

5 - 10

3) *Additional Items of Business*

To determine whether there are any additional items of business which, by reason of special circumstances, the Chair decides should be considered as a matter of urgency.

4) *Declarations of Interest*

To receive any declarations of interest from Members relating to any item on the agenda, in accordance with the provisions of the Code of Conduct.

5) *Exclusion of the Public*

To determine during which items, if any, the public are to be excluded from the meeting.

6) *Public Question Time*

To consider questions, statements or petitions from Members of the Public.

PUBLIC ITEMS

7) Annual Audit Letter 2016/17	11 - 22
To receive the Annual Audit Letter from the external auditors.	
8) External Review Report	23 - 46
To inform members of the report from the external review of Internal Audit against the Public Sector Internal Audit Standard.	
9) External Audit Appointment	47 - 52
To inform members of the progress in the appointment of an External Auditor for 5 years commencing 2018/19.	
10) Internal Audit Report Quarter 1 , 2017/18	53 - 58
To inform members of the work undertaken by Internal Audit for the period 1st April to 30th June 2017.	
11) Work Programme	59 - 60
To consider the Work Programme for the current year.	

MEMBERSHIP OF COMMITTEE

Councillors

Councillor Jean Cunningham (Chair)
 Councillor Tony Harrison (Vice-Chair)
 Councillor Joanne Greenwood
 Councillor Margaret Lishman

Councillor Andrew Newhouse
 Councillor Ann Royle
 Councillor Andrew Tatchell

Co-opted Members

Colin Crowther, Burnley College
 Louise Gaskell, East Lancashire
 Chamber of Commerce
 Councillor Kathryn Haworth, Habergham
 Eaves Parish Council
 Councillor Gill Smith, Cliviger Parish
 Council

External Auditor

Karen Murray, Grant Thornton - External
 Auditor
 Marianne Dixon, Grant Thornton - External
 Auditor

Published: Tuesday, 12 September 2017

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AUDIT AND STANDARDS COMMITTEE

BURNLEY TOWN HALL

Wednesday, 26th July, 2017 at 6.30 pm

PRESENT

MEMBERS

Councillor Jean Cunningham, In the Chair.

Councillors T Harrison (Vice-Chair), M Ishtiaq, A Newhouse, A Royle and A Tatchell

OFFICERS

Ian Evenett	– Internal Audit Manager
Asad Mushtaq	– Head of Finance
David Donlan	– Accountancy Division Manager
Howard Hamilton-Smith	– Finance and Commercial Manager
Imelda Grady	– Democracy Officer

CO-OPTED MEMBERS

Louise Gaskell
Councillor Kathryn
Haworth
Councillor Gill Smith

EXTERNAL AUDITORS

Karen Murray	– Grant Thornton - External Auditor
Marianne Dixon	– Grant Thornton - External Auditor

1. Apologies

Apologies were received from Colin Crowther and Councillors Joanne Greenwood and Margaret Lishman.

2. Minutes

To Minutes of the meeting held on 8th March 2017 were approved as a correct record and signed by the Chair.

3. Annual Governance Statement

The Annual Governance Statement 2016/17 was submitted for approval.

Members were advised that the statement had been produced in accordance with the proper practice using guidance from CIPFA (Chartered Institute of Public Finance and Accountancy) and SOLACE (Society of Local Authority Chief Executives).

The strategic partner Liberata had also submitted a Certificate of Assurance covering the services they provide for Burnley Borough Council and no issues had been reported.

The Internal Audit Manager informed the Committee that no weaknesses had been identified in the process and no actions were required to be taken.

The statement had been signed off by the Council Leader and the Chief Operating Officer and would accompany the Council's Statement of Accounts.

RESOLVED:

That the Annual Governance Statement 2016/17 be approved.

4. Audit Findings Report

Karen Murray from the external auditors Grant Thornton presented the audit findings report for 2016/17 and confirmed that there were no issues that needed to be brought to the attention of the Committee and was satisfied that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The Value for Money assessment had concluded that the Council had proper arrangements in place to address any risks identified and that it could demonstrate delivery of value for money in its use of resources.

Karen drew the Committee's attention to the additional disclosure around the ethics workshops that Grant Thornton had facilitated and explained that it had been delivered by a separate audit team and there had been no conflict of roles of the Auditors.

She thanked the finance team for their assistance which had enabled the report to be completed ahead of time and that Burnley Council would be the first Authority in Lancashire to have its accounts signed off.

IT WAS AGREED:

That the report be noted.

5. Management Processes and those charged with governance

The Head of Finance explained that this report was the key communications tool between the external auditors and the Council 's Audit and Standards Committee as those charged with governance and management.

This two-way communication assisted all parties in understanding the audit and supported the Committee in fulfilling its responsibilities in relation to the financial reporting process.

IT WAS AGREED:

That the report be noted.

6. Statement of Accounts 2016/17

The Accountancy Division Manager presented the 2016/17 Statement of Accounts. In doing so he drew members attention to the Auditors report which had been added to the Statement of Accounts document at pages 13 -15; the added narrative in respect of an adjustment of an element of the Towneley Hall valuation which had been included twice in the prior year (page 34); a line added in to show the non-audit fees of £7k for the ethics and governance training (page 52); and to show the amended figures in the audit report and additional narrative(page 59).

The report on the Annual Governance Statement elsewhere on the agenda was be considered alongside the Statement of Accounts.

He said that the accounts showed a revenue outturn underspend of £377k and a balance at the end of the year on earmarked reserves of £8.032m, a General Balance of £1.379m and a Capital spend for the year of £6.8m.

He thanked the external Auditors for their assistance.

RESOLVED:

- (1) That the audited Statement of Accounts for 2016/17 be approved and signed by the Chair;
- (2) That the letter of representation to the External Auditor from the Head of Finance be approved and signed by the Chair and the Head of Finance; and
- (3) That the findings of the external auditor be noted.

7. Internal Audit Opinion

The Committee considered a report detailing the opinion of the Head of Finance as the Chief Audit Executive on the internal controls of the Council for the financial year 2016-17.

The Head of Finance confirmed that the controls of the Council continued to operate effectively, including compliance with policy, separation of duties, authorisation, monitoring and internal checks.

IT WAS AGREED

That the report be noted.

8. Internal Audit Charter Strategy

The Internal Audit Manager presented his report on the Internal Audit Charter and Plan for 2017/18.

Members were advised that the Charter needed to be revised periodically and was required to fulfil proper practice arrangements and provide a framework for good governance.

He drew members attention to the internal audit mission and its 10 core principals which had been adopted by the team and included in the Charter.

He informed members that the Audit Team had been involved in an external Peer Review and the outcomes of this exercise would be reported to the next meeting.

The audit plan at appendix 2 sought to identify any risks faced by the organisation and allocate sufficient days for associated assessments and activity to be completed.

Louise Gaskell asked if the Council was prepared for the changes to data protection that were being introduced in 2018 and it was confirmed that the audit team were developing arrangements for these changes and that the organisation would be compliant by the time the data protection rules changed.

RESOLVED:

- (1) That the changes to the Internal Audit Charter and Strategy be noted and approved;
and
- (2) That the Internal Audit Plan for 2017/18 be approved.

9. Regulation of Investigatory Powers Act inspection

Members considered a report detailing the outcome of the latest inspection by the Office of Surveillance Commissioner (OSC) and providing an update of authorisations issued under the Regulation of Investigatory Powers Act 2000 (RIPA).

The report detailed three recommendations made by OSC and the actions that had been taken.

There had been no surveillance activity necessitating authorisation under RIPA in the financial year 2016/17.

IT WAS AGREED:

That the recommendations made by the OSC and the update on authorisations issued under RIPA be noted.

10. Work Programme

Members gave consideration to the work programme for the committee for 2017/18 and noted that the Annual Governance Statement 2017/18 Arrangements and the Annual Accounts 2017/18 Arrangements would be moved from the March meeting to the January meeting; that the Annual Audit Letter would be submitted to the September meeting; and that the draft Annual Governance Statement 2017/18 would be taken to the March meeting.

IT WAS AGREED:

That the Work Programme be noted.

11. Exclusion of the Public

There were no public present for the following report.

12. Outside Bodies Audit Report

Member received an audit report prepared for an outside body. The outside body no longer traded and there was no way to progress the audit report.

IT WAS AGREED;

That the report be noted.

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The Annual Audit Letter for Burnley Borough Council

Year ended 31 March 2017

11 September 2017

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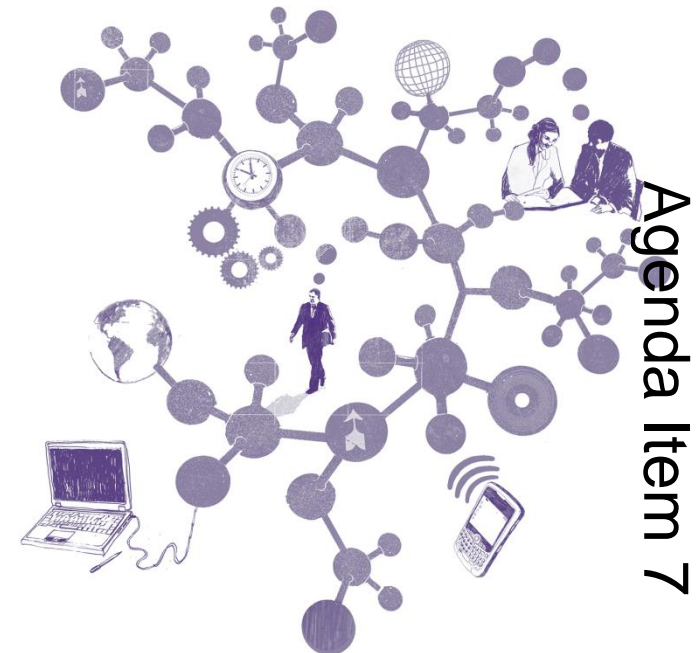
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Agenda Item 7

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A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Burnley Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Standards Committee (as those charged with governance) in our Audit Findings Report on 26 July 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 26 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 26 July 2017.

Certificate

We certified that we had completed the audit of the accounts of Burnley Borough Council in accordance with the requirements of the Code on 26 July 2017

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Standards Committee in our Annual Certification Letter.

Working with the Council

During the year we have met regularly with the Chief Executive and Head of Finance. We have continued to share the firm's national publications and provide thought leadership in emerging issues that impact on the public sector.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.19 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions.

We set a lower threshold of £59,400, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Chief Finance Officer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We completed the following work:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed of the competence, expertise and objectivity of the Valuer. • reviewed the instructions issued to valuation experts and the scope of their work • held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • tested revaluations made during the year to ensure they were input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work did not identify any significant issues.</p>
<p>Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We completed the following work:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • obtained assurance from the auditor of the Pension Fund on the controls in place over accuracy of information provided to the actuary. • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • gained an understanding of the basis on which the valuation is carried out. • carried out procedures to confirm the reasonableness of the actuarial assumptions, made including the use of an audit expert and considered whether known outturns are within acceptable tolerances to confirm the reasonableness of the actuary's approach • reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any significant issues.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 26 July 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts, together with comprehensive working papers available for audit on 31 May 2017, in line with the agreed timetable. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Audit and Standards Committee on 26 July 2017.

The key messages arising from our audit of the Council's financial statements were:

- the draft accounts were of a good standard and there were no significant amendments required to the main financial statements;
- our audit did not identify any adjustments affecting the Council's expenditure or level of useable reserves
- the audit matters related mainly to disclosure matters regarding the financial statements and supporting notes; and
- due to the good standard of the draft accounts and supporting working papers it was not necessary to raise any actions or recommendations.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that have required us to apply our statutory powers and duties under the Act.

Value for Money conclusion.

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in the table overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Management provide regular updates to members detailing the Council's medium-term financial position. Whilst the Council has been successful in recent years in reducing the Council's net expenditure, the Council still needs to find significant savings over the period 2018-2020.</p> <p>This links to the Council's arrangements for sustainable resource deployment</p>	<p>Reviewed the Outturn position for 2016/17</p> <p>Reviewed the latest medium term financial plan to confirm that it reflects an accurate assessment of the Council's financial position and consideration of the progress made by officers in developing plans to address that gap.</p> <p>Reviewed evidence that the Council has taken sufficient steps to ensure it has a realistic expectation that the savings required can be achieved.</p>	<p>The Council has a good understanding of its financial position and has historically been able to deliver savings as required. In 2016/17 a significant part of the savings have been achieved through the delivery of a strategic partnership whereby a range of council services are now being delivered in partnership with an external service provider.</p> <p>The 2016/17 revenue outturn reported is generally consistent with that originally anticipated.</p> <p>In determining the Council's net budget of £15,223k, the Council had originally estimated the budget would be supported by £1,057k from general fund (earmarked) reserves although £839k would also be added to earmarked revenue reserves. During the year, the budget was revised to utilise a further £157k of reserves. The actual revenue outturn delivered a surplus of £377k which has been added to earmarked reserves to give a total at 31 March 2017 of £8,032k.</p> <p>The Council originally set a capital budget of £6,931k, subsequently revised to £7,501k following further approvals. The outturn was £6,789k, with almost all of the variance of £712k being carried forward to 2017/18.</p> <p>The Council set a balanced budget for 2017/18 at its meeting in February 2017. The net budget of £14,596k included updated forecasts for: necessary budget growth; business rates growth, council tax increases, new commercial approach to fees and charges and use of strategic earmarked reserves. The 2017/18 budget setting process also included updating the three year budget forecast for the Medium Term Financial Strategy (MTFS) to 2020/21. The MTFS sets out the required cumulative budget reduction of £4,016k which equates to 27.5% of the Net Budget over the 3 year period.</p> <p>The Medium Term Financial Strategy (MTFS) clearly sets out the assumptions that have been made about future levels of income and expenditure, clearly identifying any risks attached to them and demonstrating an accurate assessment of the Council's financial position.</p> <p>The Council has a strong track record of delivering efficiency savings and its commercial strategy which includes improving procurement and optimising income from fees and services, remains a key part of addressing the medium term budget shortfall. The ongoing drive to improve internal efficiencies through its plans for automation and 'self service' are part of the organisation development strategy. The Council's strong relationships with its strategic partner and other local authorities are helping develop the plan to achieve these objectives.</p> <p>We have concluded that the Council has effective arrangements in place for sustainable resource deployment.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Actual fees £
Statutory audit of Council	50,567	50,567
Housing Benefit Grant Certification	9,675*	TBC
Total fees (excluding VAT)	60,242	TBC

* Housing Benefit Grant Certification work is still underway. The final fee will be confirmed in due course.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Reports issued

Report	Date issued
Audit Plan	8 March 2017
Audit Findings Report	26 July 2017
Annual Audit Letter	September 2017

Fees for other services

Service	Fees £
Audit related services:	Nil
Non-audit services	
Ethics training workshop 2016	6,776

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

Non-audit service	Service provided to	Fees (£)	Threat identified	Safeguards
Ethics training workshop 2016	Burnley Borough Council	£6776	None	Workshop developed using advisory expertise from the Grant Thornton's Local Government Advisory team, which is separate from the audit team. Audit team input limited to facilitation support.
	TOTAL	£6776		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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External Review Report

REPORT TO AUDIT AND STANDARDS COMMITTEE



DATE	20/09/2017
PORTFOLIO	Resources and Performance Management
REPORT AUTHOR	Ian Evenett
TEL NO	01282 425011 Ext 7175
EMAIL	ievenett@burnley.gov.uk

PURPOSE

1. To inform members of the report from the external review of Internal Audit against the Public Sector Internal Audit Standard.

RECOMMENDATION

2. The Committee considers the report and comments on the planned actions.

REASONS FOR RECOMMENDATION

3. Members can monitor the performance of the Internal Audit Section.

SUMMARY OF KEY POINTS

Public Sector Internal Audit Standards (PSIAS)

4. The PSIAS were first introduced as required internal audit practices in 2013. Annually Internal Audit is required to comment on its compliance with the standards and at least once every five years the compliance must be externally assessed. The assessment was undertaken in June 2017 by the Heads of Internal Audit in Hyndburn and Pendle in the form a peer review.
5. This peer review process is available from the Lancashire Districts Chief Auditor Group and the process used is a standard for this type of external review. The reviews are provided with access to officers and evidence from ourselves and interviewed a range of key officers (Chief Executive Officer, Monitoring Officer, Section 151 Officer. Heads of Service, auditors and auditees). The Chair of the Audit and Standards Committee was also interviewed.

Report

6. The main outcome from the review was that they considered that the Council complied with the PSIAS requirements (Appendix 1).
7. The standard requires over 300 points of compliance and the assessment was that

Internal Audit complied with 95%, with no major areas of non-compliance.

Actions

8. There were 4 points for consideration impacting on 14 points of the standard which the Reviewers considered important to bring to the attention of the Council. As the Audit and Standards Committee is an important part of the delivery of an effective internal audit service these actions are reported in the report as an action plan with our responses and plans to improve these areas. These will be included into Internal Audit's Quality Assurance and Improvement programme (QAIP).
9. There were additional points which were identified during the interviews which were comments in connection with the impact that internal audit has within the Council and the Council's response to internal audit. These are about the value that the Council obtains from the service and it's perception in the Council.
10. The proposed actions have been presented to Management Team and the final action plan developed from those responses. (Appendix 2)
11. One of the actions is to increase the information in the Quality Assurance and Improvement Programme. The revised QAIP is attached. (Appendix 3)

Thanks

12. The peer review could not be undertaken without the provision of this service from the Lancashire District Chief Auditor Group and the full co-operation of the colleagues and members who participated.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

13. None

POLICY IMPLICATIONS

14. The provision of an effective internal audit service is a statutory requirement as is compliance with proper practice as defined in the PSIAS.

DETAILS OF CONSULTATION

15. Management Team.

BACKGROUND PAPERS

16. None

FURTHER INFORMATION

PLEASE CONTACT:

Ian Evenett (Internal Audit Manager) Ext 7175

ALSO:

Nadeem Ukadia (Senior Auditor) Ext 3150

BURNLEY BOROUGH COUNCIL

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

JUNE 2017

Final Report – Issued 19th July 2017

Review Team

Mark Beard, Head of Audit and Investigations, Hyndburn Borough Council

Farhan Khaliq, Audit Manager, Pendle 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 Burnley 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 Pendle 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 although evidence demonstrating key points or aspects of the Standards has been considered from examples relating to year ending 2016/17.
 - Burnley 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. Burnley’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). Whilst there are only 4 areas these do collectively impact on 14 of the standards.

This is a significant and remarkable level of compliance with the Standards in excess of 95%.

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 and the Audit Manager is providing significant added value to numerous processes and areas for the Council which go beyond the Internal Audit role he has. However, this could create risk to internal audit independence and the ability to independently audit these areas with plans to move the Senior Auditor into Accountancy Team in September 2017. It must also be noted that all interviewees spoke in extremely high regard of the Audit Manager too.

The audit working papers and documenting process was well organised and provided a clear audit trail. The reports were found to be concise yet the reader was able to fully understand the issues arising and reasons for recommendations.

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 3.3.10 below.

Purpose and Positioning

3.3.1 The Peer Review Team identified the potential for conflict of interest / priorities arising from the Chief Audit Executive also being the Head of Finance and s151 Officer, therefore the needs of the s151 role could clearly outweigh the needs of the CAE role. This is closely linked to independence which is set out in 3.3.2 below.

3.3.2 The Peer Review Team identified potential independence conflicts arising from the Head of Finance also acting as the Chief Audit Executive. Some functions of the CAE are not carried out by him but are in reality carried out by the Audit Manager. The CAE cannot claim that they are truly independent when responsible for the organisations financial affairs, aspects of which fall within 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.

Audit Execution

- 3.3.3** The Peer Review Team found that the Quality Assurance & Improvement Programme (QAIP) whilst technically in existence lacked detail. The QAIP could contain more information including more detail on how issues that do not conform with the Standards are going to be addressed to enable future compliance.
- 3.3.4** The Standards state that certain documents produced by an Audit Team should be presented to Senior Management and the Board which in Burnley's case would be the Management Team and Audit & Standards Committee. Whilst the key documents referred to in the Standards exist, not all had been to both Management Team and Audit & Standards Committee. This should be addressed to ensure continued conformity with the Standards going forwards.

Aspects of the Audit Process

- 3.3.5** The Peer Review Team believes the Audit Charter could be updated to include some areas currently not detailed and expand some of the other areas slightly with more detail. The Charter has not been updated in line with the changes to the Standards which came into effect on 1st April 2017 which include the Mission and 10 Core Principles. These changes reflect the changes to the mandatory elements of the International Professional Practices Framework which came into effect on 1st January 2017. Inclusion of these elements would link bank to the Standards and would improve the quality of the Audit Charter itself.
- 3.3.6** The Audit Manager stated that only high risks are monitored as part of the follow-up process but also stated that there have been no high-risks identified in audit work during recent financial years. This in effect means that no-follow work takes place. Follow-up work is defined within the Standards and this could lead to non-conformance with the Standards in the future.
- 3.3.7** An issue highlighted to the Peer Review Team was the scoping of an Audit Engagement. We were told that Audit only include parts of some areas and it was felt that they miss the obvious or key parts of an area out of the scoped work on some occasions. The Peer Review Team realise that there are potential explanations for this but include the issue in this report to enable the Audit Team and Management to be satisfied that no issues on scoping could impact on future conformity with the Standards.

Audit Presence & Visibility

- 3.3.8** The interview process highlighted comments that whilst the Audit Team is certainly not invisible within the Council which is very positive, there were comments that it was not clear of what else the Audit Team can do or provide

in addition to the anticipated scheduled Audit Engagements which could help and support Services in achieving their objectives.

- 3.3.9** The Peer Review Team also believes that the Audit Team is not easily visible to the Council's Senior Management Team. This is not a criticism of the Council's Management Team and we recognise that the Council's Head of Finance also acts as the Chief Audit Executive. However, it was clear that the day to day decisions and running of the Audit Team is carried out by the Audit Manager and whilst it was clear reports do go to Audit & Standards Committee it was not as clear as to what does or doesn't go to the Council's Management Team.

Future Risks to the Audit Team

- 3.3.10** The Peer Review Team became aware that there are plans to move the Senior Auditor to the Accountancy Team in September 2017. The Peer Review Team are not commenting on that decision as this clearly is a decision for Management. However, the Peer Review Team felt that they must highlight to Management that this decision could weaken the level of compliance with the Standards after that move takes place. Independence is maintained currently by being able to bypass the Audit Manager and utilise the Senior Auditor with support of the Audit Assistant to carry out audit work that the Audit Manager is unable to do due to independence conflicts as he has been a key part of systems design, contract support & evaluation, bid writing/support etc. This could not be maintained after the move which will in turn reduce Standards compliance.

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 over 26 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.

Farhan Khaliq

Farhan is currently the Audit Manager for Pendle Borough Council and has worked with Pendle's Internal Audit Team for 16 years gaining a variety of experience during that time. He is a fully qualified member of the Association of Chartered Certified Accountants.

Detailed Assessment

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
Purpose & positioning					
1000	• Remit	X			See 3.3.1 above
1000	• Reporting lines	X			
1110	• Independence	X			See 3.3.2 above
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			See 3.3.3 above
2000	• Management of the IA function	X			
2200	• Engagement planning	X			
2300	• Engagement delivery	X			
2400	• Reporting	X			See 3.3.4 above
2450	• Overall opinion	X			

Conforms	X	Partially Conforms		Does Not Conform	
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Burnley 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
Definition of Internal Audit 1110 Organisational Independence 1130 Impairment to Independence or Objectivity 1210 Proficiency	3.3.1	The Peer Review Team identified the potential for conflict of interest / priorities arising from the Chief Audit Executive also being the Head of Finance and s151 Officer, therefore the needs of the s151 role could clearly outweigh the needs of the CAE role. This is closely linked to independence.		
Definition of Internal Audit 1000 Purpose, Authority & Responsibility 1110 Organisational Independence	3.3.2	The Peer Review Team identified potential independence conflicts arising from the Head of Finance also acting as the Chief Audit Executive. Some functions of the CAE are not carried out by him but are in reality carried out by the Audit Manager. The CAE cannot claim that they are truly independent when responsible for the organisations financial affairs, aspects of which fall with the Internal Audit remit. It is recognised that this structure has only existed since January 2017. The Peer Review Team must highlight this as a potentially significant		

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1300 Quality Assurance & Improvement Programme 1310 Requirements of the Quality Assurance & Improvement Programme 1320 Reporting on the Quality Assurance & Improvement Programme 1321		area that could impact on the Audit Team's ability to conform with the Standards in future.		
	3.3.3	The Peer Review Team found that the Quality Assurance & Improvement Programme (QAIP) whilst technically in existence lacked detail. The QAIP could contain more information including more detail on how issues that do not conform with the Standards are going to be addressed to enable future compliance.		
2020 Communication & Approval	3.3.4	The Standards state that certain documents produced by an Audit Team should be presented to Senior Management and the Board which in Burnley's case would be the Management Team and Audit & Standards Committee. Whilst the key		

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
		documents referred to in the Standards exist, not all had been to both Management Team and Audit & Standards Committee. This should be addressed to ensure continued conformity with the Standards going forward.		
N/A Identified by Observations	3.3.5	The Peer Review Team believes the Audit Charter could be updated to include some areas currently not detailed and expand some of the other areas slightly with more detail. The Charter has not been updated in line with the changes to the Standards which came into effect on 1 st January which include the Mission and 10 Core Principles. Inclusion of these elements would link bank to the Standards and would improve the quality of the Audit Charter itself. Management should therefore consider whether they are satisfied with current Charter and whether to ask for it to be updated.		
N/A Identified by Interviews	3.3.6	The Audit Manager stated that only high risks are monitored as part of the follow-up process but also stated that there have been no high-risks identified in audit work during recent financial years. This in effect means that no-follow work takes place. Follow-up work is defined within the Standards and this could lead to non-conformance with the Standards in the		

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
		<p>future.</p> <p>Management should consider whether follow-up of other risks should take place if no risks are deemed high risk which automatically results in follow-up.</p>		
N/A Identified by Interviews	3.3.7	<p>An issue highlighted to the Peer Review Team was the scoping of an Audit Engagement. We were told that Audit only include parts of some areas and it was felt that they miss the obvious or key parts of an area out of the scoped work on some occasions. The Peer Review Team realise that there are potential explanations for this but include the issue in this report to enable the Audit Team and Management be satisfied that no issues on scoping could impact on future conformity with the Standards..</p> <p>Management and the Audit Manager should consider whether they are satisfied with current arrangements on scoping of audit work or if some change in processes is required.</p>		
N/A Identified by Interviews	3.3.8	<p>The interview process highlighted comments that whilst the Audit Team is certainly not invisible within the Council which is very positive, there were comments that it was not clear of what else the Audit Team can do or provide in addition to the anticipated scheduled Audit Engagements which could help and</p>		

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
N/A Identified by Interviews		support Services in achieving their objectives. Management should consider whether they are satisfied with the current position of whether the Audit Team should make Services more aware of how they could support Services.		
	3.3.9	The Peer Review Team also believes that the Audit Team is not easily visible to the Council's Senior Management Team. This is not a criticism of the Council's Management Team and we recognise that the Council's Head of Finance also acts as the Chief Audit Executive. However, it was clear that the day to day decisions and running of the Audit Team is carried out by the Audit Manager and whilst it was clear reports do go to Audit & Standards Committee it was not as clear as to what does or doesn't go to the Council's Management Team. Management and the Audit Manager should consider whether they are satisfied with current arrangements and what could be done to change these perceptions which could impact on future conformance with the Standards.		
N/A Identified by Interviews	3.3.10	The Peer Review Team became aware that there are plans to move the Senior Auditor to the Accountancy Team in September 2017. The Peer Review Team		

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
		<p>are not commenting on that decision as this clearly is a decision for Management. However, the Peer Review Team felt that they must highlight to Management that this decision could weaken the level of compliance with the Standards after that move takes place. Independence is maintained currently by being able to bypass the Audit Manager and utilise the Senior Auditor with support of the Audit Assistant to carry out audit work that the Audit Manager is unable to do due to independence conflicts as he has been a key part of systems design, contract support & evaluation, bid writing/support etc. This could not be maintained after the move which will in turn reduce Standards compliance.</p> <p>Management should consider how they will maintain the necessary levels of independence with the Audit Team to enable continuing conformance with the Standards in this area.</p>		

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
Definition of Internal Audit 1110 Organisational Independence 1130 Impairment to Independence or Objectivity 1210 Proficiency	3.3.1	The Peer Review Team identified the potential for conflict of interest / priorities arising from the Chief Audit Executive also being the Head of Finance and s151 Officer, therefore the needs of the s151 role could clearly outweigh the needs of the CAE role. This is closely linked to independence.	Head of Finance Management Team	<i>In the event of a potential conflict of interest then as required an officer outside of Internal Audit will act as the Chief Audit Executive instead of the Head of Finance. These officers are identified as the Accountancy Division Manager or the Finance and Commercial Manager</i>
Definition of Internal Audit 1000 Purpose, Authority & Responsibility 1110 Organisational Independence	3.3.2	The Peer Review Team identified potential independence conflicts arising from the Head of Finance also acting as the Chief Audit Executive. Some functions of the CAE are not carried out by him but are in reality carried out by the Audit Manager. The CAE cannot claim that they are truly independent when responsible for the organisations financial affairs, aspects of which fall with the Internal Audit 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.	Head of Finance Management Team	<i>In the event of a potential conflict of interest then as required an officer outside of Internal Audit will act as the Chief Audit Executive instead of the Head of Finance. These officers are identified as the Accountancy Division Manager or the Finance and Commercial Manage</i>

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
1300 Quality Assurance & Improvement Programme 1310 Requirements of the Quality Assurance & Improvement Programme 1320 Reporting on the Quality Assurance & Improvement Programme 1321	3.3.3	The Peer Review Team found that the Quality Assurance & Improvement Programme (QAIP) whilst technically in existence lacked detail. The QAIP could contain more information including more detail on how issues that do not conform with the Standards are going to be addressed to enable future compliance.	Internal Audit Manager	<i>We will formally document the QAIP and include a clear action plan.</i>
2020 Communication & Approval	3.3.4	The Standards state that certain documents produced by an Audit Team should be presented to Senior Management and the Board which in Burnley's case would be the Management Team and Audit & Standards Committee. Whilst the key documents referred to in the Standards exist, not all had been to both Management Team and Audit & Standards Committee. This should be addressed to ensure continued conformity with the Standards going forward.	Internal Audit Manager Management Team	<i>We will ensure that key documents are provided to Management Team as well as to Audit and Standards Committee for approval.</i>

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
N/A Identified by Observations	3.3.5	The Peer Review Team believes the Audit Charter could be updated to include some areas currently not detailed and expand some of the other areas slightly with more detail. The Charter has not been updated in line with the changes to the Standards which came into effect on 1 st January which include the Mission and 10 Core Principles. Inclusion of these elements would link bank to the Standards and would improve the quality of the Audit Charter itself. Management should therefore consider whether they are satisfied with current Charter and whether to ask for it to be updated.	Internal Audit Manager	<i>The Internal Audit Charter will be updated to include these points.</i>
N/A Identified by Interviews	3.3.6	The Audit Manager stated that only high risks are monitored as part of the follow-up process but also stated that there have been no high-risks identified in audit work during recent financial years. This in effect means that no-follow work takes place. Follow-up work is defined within the Standards and this could lead to non-conformance with the Standards in the future. Management should consider whether follow-up of other risks should take place if no risks are deemed high risk which automatically results in follow-up.	Internal Audit Manager Internal Audit Team	<i>A revised approach to Follow-up will be taken to gain responses to audit action plans a set period after the audit is completed. This will be reported to Management Team</i>
N/A Identified by Interviews	3.3.7	An issue highlighted to the Peer Review Team was the scoping of an Audit Engagement. We were told that Audit only include parts of some areas and it was felt that they miss the obvious or key parts of an area	Internal Audit Manager Internal Audit Team	<i>Evidencing of scoping decisions will be documented and clearly communicated</i>

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
N/A Identified by Interviews		<p>out of the scoped work on some occasions. The Peer Review Team realise that there are potential explanations for this but include the issue in this report to enable the Audit Team and Management be satisfied that no issues on scoping could impact on future conformity with the Standards..</p> <p>Management and the Audit Manager should consider whether they are satisfied with current arrangements on scoping of audit work or if some change in processes is required.</p>		<i>to the auditee at the start of the audit.</i>
	3.3.8	<p>The interview process highlighted comments that whilst the Audit Team is certainly not invisible within the Council which is very positive, there were comments that it was not clear of what else the Audit Team can do or provide in addition to the anticipated scheduled Audit Engagements which could help and support Services in achieving their objectives.</p> <p>Management should consider whether they are satisfied with the current position of whether the Audit Team should make Services more aware of how they could support Services.</p>	Internal Audit Manager	<i>As part of the annual planning exercise Internal Audit will contact all heads of service to seek views on areas of internal audit activity and promotion of other services which will support the service.</i>
N/A Identified by Interviews	3.3.9	<p>The Peer Review Team also believes that the Audit Team is not easily visible to the Council's Senior Management Team. This is not a criticism of the Council's Management Team and we recognise that the Council's Head of Finance also acts as the Chief Audit Executive. However, it was clear that the day to</p>	Internal Audit Manager Management Team	<i>We will ensure that key documents are provided to Management Team as well as to Audit and Standards Committee</i>

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
N/A Identified by Interviews		<p>day decisions and running of the Audit Team is carried out by the Audit Manager and whilst it was clear reports do go to Audit & Standards Committee it was not as clear as to what does or doesn't go to the Council's Management Team.</p> <p>Management and the Audit Manager should consider whether they are satisfied with current arrangements and what could be done to change these perceptions which could impact on future conformance with the Standards.</p>		<i>for approval</i>
	3.3.10	<p>The Peer Review Team became aware that there are plans to move the Senior Auditor to the Accountancy Team in September 2017. The Peer Review Team are not commenting on that decision as this clearly is a decision for Management. However, the Peer Review Team felt that they must highlight to Management that this decision could weaken the level of compliance with the Standards after that move takes place. Independence is maintained currently by being able to bypass the Audit Manager and utilise the Senior Auditor with support of the Audit Assistant to carry out audit work that the Audit Manager is unable to do due to independence conflicts as he has been a key part of systems design, contract support & evaluation, bid writing/support etc. This could not be maintained after the move which will in turn reduce Standards compliance.</p>	Head of Finance	<i>Independence within the individual audits will be maintained through the restructuring of the service. All members of the Internal Audit Team will be play an important part of this transformation. The requirements of independence will be built in as part of the new structure.</i>

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
		Management should consider how they will maintain the necessary levels of independence with the Audit Team to enable continuing conformance with the Standards in this area.		

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME - QAIP

SUMMARY

The QAIP is made up of several aspects which all contribute to ensure that the service not only complies with the PSIAS but also continues to improve.

COMPONENTS OF THE QAIP

ANNUAL REVIEW OF EFFECTIVENESS

Internal Audit reviews itself against the Public Sector Internal Audit Standards (PSIAS) each year. Identified gaps and improvements in this process are reported to Management Team and to the Audit and Standards Committee. This is an internal assessment but be externally reviewed on a periodic basis as required by the standards. Actions from this are included in an action plan.

AUDITOR FEEDBACK

Auditors are in a good position to improve the audit process. Internal Audit will continue to improve the process using new technologies and looking to increase the efficiency of the service. This is achieved through Job Chats and 1 to 1's between Auditors and the Internal Audit Manager and Internal Audit Manager and the Head of Finance.

REVIEW OF WORKING PAPERS

All reports and working papers are reviewed by an experienced auditor independent of the audit. This is formally documented and form part of the working papers.

AUDITEE FEEDBACK

Feedback from auditees is requested at the completion of all audits. Points arising from this feedback are discussed with the Auditor and any improvements considered for implementation.

BENCHMARKING

Internal Audit participates in benchmarking with our neighbouring authorities where this is cost effective. This informs areas of potential improvement and best practice to ensure that we are aware of the local service market.

LOCAL GROUPS

There are several groups at the County and regional level which cover internal audit. The service will participate in these groups part of which is to identify best practice and service improvements.

PERFORMANCE INDICATORS

Internal Audit maintains a range of performance indicators which are reported at different levels of the organisation. Indicators are reported in the Corporate Scorecard and in the Annual Internal Audit Opinion.

ACTION PLAN

There is a range of outcomes from the QAIP which can be informal or formal. Informal issues such as management review and feedback will be discussed with the auditor and will not normally form part of any action plan. Issues which impact on the compliance with the PSIAS will be documented into a formal action plan which will be reported to Management Team and the Audit and Standards Committee.

External Audit Appointment Report

REPORT TO AUDIT AND STANDARDS COMMITTEE



DATE	20/09/2017
PORTFOLIO	Resources and Performance Management
REPORT AUTHOR	Ian Evenett
TEL NO	01282 425011 Ext 7175
EMAIL	ievenett@burnley.gov.uk

PURPOSE

1. To inform members of the progress in the appointment of an External Auditor for 5 years commencing 2018/19.

RECOMMENDATION

2. The Committee considers the progress report and comments on its contents.

REASONS FOR RECOMMENDATION

3. Members can monitor the appointment of an external auditor for the Council.

SUMMARY OF KEY POINTS

Public Sector Auditor Appointments (PSAA)

4. The Full Council agreed to opt-in to the sector led body operated by PSAA in February 2017. They have conducted their procurement exercise and are now in the process of consulting with appointed authorities on the procurement outcome.
5. They have contacted the Council and asked if we have any comments on the appointment of Grant Thornton (UK) LLB as the Council's External Auditor for 5 years starting on 1 April 2018. The formal communication is attached at Appendix 1
6. Once the consultation is complete we expect a final decision on this before 21 December 2017. The Scale of fees for the services will be available in March 2018 and the early indication is a reduction of approximately 18%.

Management Response

7. The Chief Executive and Chief Finance officer have considered this and have no objection to the appointment and have consulted with the Chair of the Audit and Standards Committee to respond that they are satisfied with the appointment.

Additional Services

8. It is to be noted that the procurement of an external auditor does not include the requirement to provide some services which in the past have been included with the appointment. This principally relates to the grant claim services for housing benefits.
9. From 2018/19 the Council will have to make a separate arrangement for the provision of these services in line with the requirements of the grant making body, which in the case of Housing Benefits is the Department of Work and Pensions.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

10. Revised fees for External audit will be taken forward in the Budget Setting process for 2018/19.

POLICY IMPLICATIONS

11. None

DETAILS OF CONSULTATION

12. None

BACKGROUND PAPERS

13. None

FURTHER INFORMATION

PLEASE CONTACT:

Ian Evenett (Internal Audit Manager) Ext 7175

ALSO:

Nadeem Ukadia (Senior Auditor) Ext 3150

This is a formal communication to the chief executive and chief finance officer of Burnley Borough Council to consult on the auditor appointment from 2018/19

I am writing to consult you on the appointment of Grant Thornton (UK) LLP to audit the accounts of Burnley Borough Council for five years from 2018/19. The appointment will start on 1 April 2018.

Background

For audits of the accounts from 2018/19, PSAA is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. More information on the [appointing person scheme](#) is available on our website.

About the proposed appointment

PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.

Burnley Borough Council has opted into PSAA's auditor appointment arrangements. We have sent regular email communications to audited bodies about this process, and wrote to you on 19 June 2017 to advise you that we had completed a procurement to let audit contracts from 2018/19. Grant Thornton (UK) LLP was successful in winning a contract in the procurement, and we propose appointing this firm as the auditor of Burnley Borough Council.

Grant Thornton UK comprises around 4,500 employees delivering services to 40,000 clients. The public sector has played a significant role within the firm for over 30 years. The UK Public Sector Assurance team employs 301 people, including 29 Key Audit Partners, based in designated 'centres of excellence', providing it with locally based public sector specialists across the country. The team is solely dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and the Wales Audit Office. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's development of appropriate thought leadership and support, such as its series of publications and workshops on income generation in local authorities. In addition, the team can draw on the commercial skills and experience of a wider assurance team of over 1,516 individuals, to reflect the changing assurance needs of local authorities and NHS bodies.

In developing this appointment proposal, we have applied the following principles, balancing competing demands as much as we can, based on the information provided to us by audited bodies and audit firms:

- ensuring auditor independence, as we are required to do by the Regulations;
- meeting our commitments to the firms under the audit contracts;
- accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
- ensuring a balanced mix of authority types for each firm;
- taking account of each firm's principal locations; and
- providing continuity of audit firm if possible, but avoiding long appointments.

Further information on the [auditor appointment process](#) is available on our website.

Responding to this consultation

We are consulting you on the proposed appointment of Grant Thornton (UK) LLP to audit the accounts of Burnley Borough Council for five years from 2018/19. The consultation will close at **5pm on Friday 22 September 2017**.

If you are satisfied with the proposed appointment, please confirm this by email to auditorappointments@psaa.co.uk. No further action is needed from you.

The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017. We will write by email to all opted-in bodies after this Board meeting to confirm auditor appointments.

Process for objecting to the proposed auditor appointment

If you wish to make representations to PSAA about the proposed auditor appointment, please send them by email to auditorappointments@psaa.co.uk to arrive by **5pm on Friday 22 September 2017**.

Representations can include matters that you believe might be an impediment to the proposed firm's independence, were it to be your appointed auditor. Your email should set out the reasons why you think the proposed appointment should not be made. The following may represent acceptable reasons:

1. there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;
2. there are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or
3. there is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.

We will consider carefully all representations and will respond by Monday 16 October 2017 by email.

If your representations are accepted, we will consult you on an alternative auditor appointment between 16-27 October 2017. If your representations are not accepted, we will confirm this to you. You may choose to make further representations to the PSAA Board, providing any additional information to support your case.

We will write to all bodies to confirm the Board's final decision on the appointment of the auditor before 21 December 2017.

Scale fees for 2018/19

We will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on our website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent should be possible for 2018/19, based on the individual scale fees applicable for 2016/17. Further [information on the audit procurement](#) is available on our website.

Further information

If you have any questions about your proposed auditor appointment or the consultation process, please email us at auditorappointments@psaa.co.uk.

Yours sincerely

Jon Hayes
Chief Officer

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Internal Audit Progress Report

REPORT TO AUDIT AND STANDARDS COMMITTEE



DATE	20/09/2017
PORTFOLIO	Resources and Performance Management
REPORT AUTHOR	Nadeem Ukadia
TEL NO	01282 425011 Ext 3150
EMAIL	nukadia@burnley.gov.uk

PURPOSE

1. To inform members of the work undertaken by Internal Audit for the period 1st April to 30th June 2017.

RECOMMENDATION

2. The Committee considers the progress report and comments on its contents.

REASONS FOR RECOMMENDATION

3. Members can monitor the performance of the Internal Audit Section.

SUMMARY OF KEY POINTS

Audit Reports

4. From 1st April to 30th June 2017 there have been 5 audit reports produced. Details of Burnley Council audits are given in **Appendix 1**.

Performance Statistics

5. The comparison between actual and planned audits can be seen in **Appendix 2**. A number of audits have started, and to date have been completed but due to timing will form part of later quarter statistics to be reported.
6. Performance indicators for Internal Audit are reported in the Finance balanced scorecard. The service currently reports the number of audit reports produced – 5 against an annual target of 22 and the percentage of high-priority actions from audit action plans implemented which was 100% and has a target of 100%.

Other Activity

7. In May 2017 a peer review of Burnley Internal Audit was completed. The method of this review was discussed and agreed by Members at previous committee presentations. The external review is essential for compliance with the standards which is proper practice

and required by the Accounts and Audit Regulations 2015. As part of this assessment selected Officers and Member were also interviewed. The outcome of review is presented elsewhere on your agenda.

8. Burnley Internal Audit has continued to support the Lancashire District Audit Group's programme of independent assessments of Internal Audit. As part of this work has been undertaken to peer review a neighbouring authority.
9. In addition to the Annual Governance Statement, Internal Audit provided additional resources to assist in delivering the 2016-17 Statement of Accounts by the end of May.
10. During quarter 1 Internal Audit also supported the Elections Office deliver the 2017 May and June County and General elections.
11. Internal Audit has supported various corporate projects and working groups including the Financial Transformation Project; where a new Council wide budget monitoring process has been implemented for cycle 1, risk management, business continuity management, information governance; considering the actions required for the new data protection regulations, and procurement projects.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

12. None

POLICY IMPLICATIONS

13. None

DETAILS OF CONSULTATION

14. None

BACKGROUND PAPERS

15. None

FURTHER INFORMATION

PLEASE CONTACT:

Nadeem Ukadia (Senior Auditor) Ext 3150

ALSO:

**Ian Evenett (Internal Audit Manager) Ext
7175**

Summary of Audit reports Issued Quarter 1 2017/18

Audit	Service	Audit Purpose	Audit Opinion	Key Actions Agreed	Implementation Detail	Score
Elections (May)	Governance, Law and Regulation	To audit the staffing payments for the elections in May 2017.	No issues to report.	None	None	1
Annual Governance Statement	Corporate	To provide assurance on the Council's governance system.	No significant issues identified.	None	None	NA (Satisfactory)
Parliamentary Elections 2017	Governance, Law and Regulation	To audit the staffing payments for the elections in June 2017.	No issues to report.	None	None	1
J W Shaw Bequest	Finance	To provide an independent examination report on the charity.	No issues to report.	None	None	1
Mayor's Charity Accounts	Finance	To provide an independent examination report on the charity.	No issues to report.	None	None	1

Audit Score Defined

Score	Opinion	Definition of Opinion
1	Comprehensive Assurance	There is a sound system of controls designed to meet objectives and controls are consistently applied in all the areas reviewed.
2	Reasonable Assurance	There is a good system of controls. However, there are minor weaknesses in the design or consistency of application that may put the achievement of some objectives at risk in the areas reviewed.
3	Limited Assurance	Key controls exist to help achieve system objectives and manage principle risks. However, weaknesses in design or inconsistent application of controls are such that put the achievement of system objectives at risk in the areas reviewed.
4	No Assurance	The absence of basic key controls or the inconsistent application of key controls is so severe that the audit area is open to abuse or error.
N/A	Not Applicable	The audit review undertaken did not have as its primary objective an assessment of system, its controls and their effectiveness.

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Audit	Started	Report Issued	Audit Score
Corporate			
Annual Governance Statement	✓	✓	NA (Satisfactory)
Governance of Partnerships			
Charities			
J W Shaw	✓	✓	1
Mayor's Charity	✓	✓	1
Debts Write-Off	✓		
Strategic Partner Performance Indicators	✓		
Finance			
Benefits Calculation Check	✓		
Payment of Benefits and Overpayments			
Bank Reconciliation			
Final Accounts	✓		
Payroll			
Budget Monitoring			
Council Tax			
General Ledger			
Creditors			
Payroll			
Income Management			
Treasury Management	✓		
Regeneration & Planning Policy			
Burnley Indoor Market	✓		

Audit	Started	Report Issued	Audit Score
Housing and Development Control			
Selective Licensing	✓		
Information Governance			
Data Protection			
iWorld – Application Control			
Website			
Green Spaces			
Cemetary and Crematorium			
Governance, Law, Property and Regulation			
Elections			
County	✓	✓	1
Parliamentary	✓	✓	1
External Clients			
Burnley Leisure – Service Level Agreement			

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AUDIT & STANDARDS COMMITTEE

Work Programme 2017/18

<u>DATE OF MEETING</u>	<u>AREAS TO BE CONSIDERED</u>
26 th July 2017	<ul style="list-style-type: none"> • <i>Annual Governance Statement 2016/17</i> • <i>Grant Thornton – Audit Findings Report 2016/17</i> • <i>Statement of Accounts 2016/17</i> • <i>Internal Audit Charter and Plan 2017/18</i> • <i>Internal Audit Opinion 2016/17</i> • <i>Outside Body Report (Private)</i> • <i>Work Programme 2017/18</i>
20 th September 2017	<ul style="list-style-type: none"> • <i>Internal Audit Progress Report (Quarter One) 2017/18</i> • <i>Partnership Governance and Monitoring Arrangements (Liberata Contract) (moved to January meeting)</i> • <i>PSIAS External Peer Review Report</i> • <i>External Auditor Appointment Arrangments Update</i> • <i>Annual Audit Letter</i> • <i>External Audit Progress Report</i> • <i>Work Programme 2017/18</i>
10 th January 2018	<ul style="list-style-type: none"> • <i>Standards Complaints Update</i> • <i>Partnership Governance and Monitoring Arrangements (Liberata Contract)</i> • <i>Strategic Risk Register 2017/18</i> • <i>Fraud Risk Assessment 2017/18</i> • <i>Annual Governance Statement 2017/18 Arrangements</i> • <i>Annual Accounts 2017/18 Arrangements</i> • <i>Internal Audit Progress Report Q2</i> • <i>Work Programme 2017/18</i>
7 th March 2018	<ul style="list-style-type: none"> • <i>Standards Complaints Update</i> • <i>Draft Annual Governance Statement 2017/18</i> • <i>Internal Audit Progress Report Quarter Three 2017/18</i> • <i>Risk Management Review 2017/18</i> • <i>Internal Audit Plan 2017/18</i> • <i>External Audit Plan 2017/18</i> • <i>Work Programme 2017/18</i>

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