

BLACKPOOL BOROUGH COUNCIL

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

AUGUST 2021

Review Team

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

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Assessment Dates: 22 – 25 June 2021 & 6th July 2021

Final Report Issued: 23 August 2021

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 Blackpool 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 Wyre 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 on-site part has been carried out remotely via Microsoft Teams due to the Covid19 restrictions. The Internal Audit Annual Report for the year ending 2020/21 has been considered and the time scale is from 1st April 2020 to 31st March 2021, although evidence demonstrating key points or aspects of the Standards has been considered from examples relating to earlier financial years where necessary.

- Blackpool 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 (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 Blackpool Borough 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. Blackpool Borough 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.

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**.

Overall Opinion

- 3.2 Overall the Peer Review was an extremely positive exercise with feedback from all interviewees mirroring a consistent view that the Internal Audit Team, in particular the Head of Audit and Risk, is seen as a key strategic partner within the Organisation. It is clear the Audit Service is a highly valued service offering sound, subjective and independent advice across the organisation. The auditors were reported by all interviewees as experienced and knowledgeable in the work they perform and it is clear that the Audit Team have evolved, particularly over the last few years and significant improvements have been made in their approach under the management and guidance of the Head of Audit and Risk. Owing to the trust and abilities of the Head of Audit and Risk, over recent years she has taken on a number of different service responsibilities and whilst this demonstrates the confidence the organisation places in her, it has led to pressures within the Internal Audit Team itself. It is acknowledged that a recent restructure was implemented to address this however the restructure is in its infancy and further development of key audit staff is still required to be fully effective.
- 3.3 All evidence provided supporting the PSIAS Self-Assessment was well organised, detailed and provided a clear audit trail.
- 3.4 The peer review only identified 7 points for consideration into the service's QAIP (Quality Assurance & Improvement Programme) of which 2 had been carried forward from the previous peer review in 2016.

Last Peer Review (2016)

- 3.5 The Peer Review Team considered the 10 recommendations arising from the previous peer review carried out in 2016. A number of recommendations were in relation to carrying out and the reporting of Consultancy Engagements. It was identified that no consultancy work (other than that of the wholly owned companies) had been carried out during the period examined, therefore these earlier recommendations could not be considered as part of this review. However, it is clear from examination of core audit documents e.g. the Internal Audit Strategy, that procedures / working practices have been updated to address the issues raised around consultancy working.
- 3.6 Two recommendations were still found to be outstanding. These relate to obtaining formal feedback from Chair of Audit Committee regarding the performance of the Head of Audit and Risk and the requirement for audit staff

to formally acknowledge acceptance of the Internal Audit Code of Ethics periodically. Both of these issues have been referred to below

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

There are no significant observations

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

The minor observations are detailed in 3.8.1 to 3.8.7 below.

Purpose and Positioning

3.8.1 Whilst it was clear to the Peer Review Team that a collaborative approach is in place for the preparation of the Risk Based Internal Audit Plan which includes involvement from all Directors, Chief Officers and Managers it was reported to the Peer Review Team by the Head of Audit and Risk that often the risks areas identified to be audited exceeds resources available. In order to arrive at an achievable Annual Internal Audit Plan to ultimately deliver an Annual Audit Opinion, the risks need to be condensed to match available resources. It was found that this is more a 'thought process' rather than a clear documented process as described in PSIAS standard 2010.

3.8.2 It was identified that whilst a recent meeting had taken place between the Council's External Auditors (Deloitte UK), s151 Office, Chair of Audit Committee and the Head of Audit and Risk, no regular liaison meetings have taken place since appointed as Blackpool Borough Council's External Auditors in accordance with the current Public Sector Audit Appointments contract. Whilst it has been agreed that going forward regular liaison meetings will take place which is in accordance with PSIAS standard 2050, at the point of writing this report these have yet to be diarised.

3.8.3 The Head of Audit and Risk confirmed that whilst informal discussions take place between the s151 Officer and the Chair of Audit Committee in respect of her performance this is not documented contrary to PSIAS standard 1110.

Structure & Resources

3.8.4 The Peer Review Team identified there was a very high level of reliance on the Head of Audit and Risk which creates a potential risk to the organisation, in addition to her audit role and responsibilities she is the lead on Risk Management, Insurance, Counter Fraud, Health and Safety, Emergency Planning, Business Continuity, Equality and Diversity and Trade Union Management Support. A recent restructure within the Audit Team was implemented to address Team pressures, allow for succession planning and ensure service continuity. Whilst it is acknowledged that some responsibilities had begun to transfer to the two new Senior Auditor posts, a number of the

interviewees felt that this had not progressed as quickly as it could have done and the pressures on the Head of Audit and Risk were still apparent. This, in part, is due to the role that the Head of Audit and Risk has had in the pandemic response which has reduced time available for developing the internal audit team. Resourcing issues in the team have also had an impact. This links back to PSIAS standard 1220.

- 3.8.5 Following the restructure, 2 Senior Auditors were created in place of an Audit Manager. Whilst both of these Senior Auditors have demonstrated the ability to effectively carry out their roles particularly over the last 12 months when frequently deputising for the Head of Audit and Risk, it is acknowledged that one of the Senior Auditors does not hold the full certified audit qualification. If this Senior Auditor is to take on responsibility of the Audit Committees for the wholly owned Companies, achieving this qualification should be a priority. This links back to PSIAS standard 1200.

Audit Execution

- 3.8.6 The Peer Review Team found that whilst a detailed Quality Assurance and Improvement Programme (QAIP) was in place and regularly reviewed it was not referred to / reported as part of the Annual Internal Audit Report and Opinion as required by the PSIAS standard 1320 Reporting on the Quality Assurance and Improvement Programme.

Other Area for Consideration

- 3.8.7 The previous Peer Review in 2016 highlighted that staff had not formally acknowledged acceptance of the Internal Audit Code of Ethics periodically. Whilst it is acknowledged that this is not a requirement of the PSAIS it is considered best practice to ensure all audit staff are aware of the expected attitudes and behaviours. The Head of Audit and Risk confirmed that no periodic acceptance had been completed for 2019/20 owing to the ongoing pandemic.

PSIAS Action Table

- 3.8.8 This details suggested actions to improve the service, its status or impact and quality of the service provided. The points raised in 3.8.1 to 3.8.7 above are contained in this action table at **Appendix C**.

Thankyou

- 3.9 The Peer Review Team would like to express their thanks to Management, Chair of Audit Committee and the Internal Audit Team at Blackpool Borough Council for all the help afforded to the Peer Review Team during the course of the review.

Review Team

Mark Beard

Mark has been Head of Audit and Investigations at Hyndburn Borough Council for 18 years but has over 30 years Audit experience. He has a wealth of experience in the management and operation of internal audit in district councils and is a chartered member of the Chartered Institute of Internal Auditors. His expertise in counter fraud is well respected in the Lancashire District Chief Audit Group.

Jo Billington

Jo has been Head of Audit at Wyre Borough Council for 12 years, however has over 18 years Audit experience. She recently ran a shared audit service and also manages a number of other services which include Insurance, Elections, Democratic Services, Legal and Human Resources. She is a chartered member of the Chartered Institute of Internal Auditors and also holds a qualification in Internal Audit Leadership.

Detailed Assessment

PSIAS Ref		Conforms	Partially conforms	Does not conform	Comments
Purpose & positioning					
1000	• Remit	X			
1000	• Reporting lines	X			
1110	• Independence	X			See 3.8.3 above
2010	• Risk based plan	X			See 3.8.1 above
2050	• Other assurance providers	X			See 3.8.2 above
Structure & resources					
1200	• Competencies	X			See 3.8.5 above
1210	• Technical training & development	X			
1220	• Resourcing	X			See 3.8.4 above
1230	• Performance management	X			
1230	• Knowledge management	X			
Audit execution					
1300	• Quality Assurance & Improvement Programme	X			See 3.8.6 above
2000	• Management of the IA function	X			
2200	• Engagement planning	X			
2300	• Engagement delivery	X			
2400	• Reporting	X			
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
2010 Planning	3.8.1	The Head of Audit and Risk should formally document the risk based approach used to populate the annual Audit Plan.	Head of Audit and Risk	The Annual Audit Plan will be expanded to set out in more detail the risk based approach used to develop the plan.
2050 Co-ordination	3.8.2	Regular liaison meetings between Internal and External Audit should take place.	Head of Audit and Risk	The external auditor have been asked to have liaison meetings with the Head of Audit and Risk going forward.
1110 Organisational Independence	3.8.3	The Chair of Audit Committee should provide feedback on the performance of the Head of Audit and Risk.	Director of Resources	This will be considered as part of the next IPA cycle.
1220 Due Professional Care	3.8.4	The two new Senior Auditor posts need to be utilised more effectively which will be achieved in part by the transferal of some responsibilities from the Head of Audit and Risk.	Head of Audit and Risk	Once the current issues with staff shortages are addressed development plans

PSIAS Ref	Report ref	Point For Consideration	Responsible	Action
				will be implemented for the two Senior Auditors to enable this to happen.
1200 Proficiency and Due Professional Care	3.8.5	It is recommended that both Senior Auditors hold full Internal Audit qualifications particularly if they are to take on audit responsibilities for the wholly owned companies and / or other higher level responsibilities currently held by the Head of Audit and Risk.	Head of Audit and Risk	One senior auditor is fully qualified. The other is currently studying towards the required qualification.
1320 Reporting on the Quality Assurance and Improvement Programme	3.8.6	The Annual Internal Audit Report and Opinion should make reference to the existence and review of the Quality Assurance and Improvement Programme	Head of Audit and Risk	This will be included in the 2021/22 report.
N/A Outstanding 2016 Recommendation	3.8.7	In accordance with best practice, Audit Staff should formally acknowledged acceptance of the Internal Audit Code of Ethics periodically.	Senior Auditors	This will be implemented in 2021/22.