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## AUDIT COMMITTEE

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**Monday, 18th July, 2022**

**Present:** Councillor Dominik Allen (in the Chair), Councillors Noordad Aziz, Bernard Dawson, Peter Edwards (Vice Chair) and Carole Haythornthwaite

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**67 Apologies for Absence**

There were no apologies for absence submitted.

**68 Declarations of Interest and Dispensations**

There were no Declarations of Interest or Dispensations notified.

**69 Minutes of the Last Meeting**

The minutes of the last meeting of the Audit Committee held on the 7<sup>th</sup> March 2022 were submitted for approval as a correct record.

**Resolved** - **That the minutes be received and approved as a correct record.**

**70 Annual Internal Audit Report and Audit Opinion 2021/22**

Mark Beard, Head of Audit & Investigations provided a report to inform and update the Committee on the Annual Internal Audit Report and Audit Opinion for 2021/22 and to give details on the performance of the Internal Audit Team and final outturn position for 2021/22.

The production of an Annual Internal Audit Report & Audit Opinion was a requirement of the Public Sector Internal Audit Standards (PSIAS) which were jointly published by the Chartered Institute of Internal Auditors (CIIA) and the Chartered Institute of Public Finance and Accountancy (CIPFA). The Annual Internal Audit Report & Audit Opinion was also an aid to those charged with governance in their consideration of the Annual Governance Statement in support of the Council's Financial Statements. The report also enabled those charged with governance to gain an independent viewpoint on the Council's Control Environment.

The Annual Internal Audit Report & Audit Opinion was a supporting piece of evidence and did not replace or prevent the Council's requirement to produce the Annual Governance Statement.

A copy of the Annual Internal Audit Report & Audit Opinion 2021/22 was provided as an appendix to the report and included the following sections:

- Executive Summary;
- Audit Opinion;
- Purpose and Boundaries;
- Review of Internal Control;
- Significant Issues Arising;

- Audit Performance; and
- Analysis of Audit Time – 2021/22.

The key information arising from the report was as follows:

- The Head of Audit & Investigations was able to issue a positive opinion on the systems of Internal Control based on the work carried out in 2021/22. The opinion score had very slightly dropped from 1.36 in 2020/21 to 1.40 in 2021/22. The number of recommendations had increased from 8 in 2020/21 to 13 in 2021/22.
- Internal Audit had not identified any issues in 2021/22 during the course of their audit work that would have had a material effect on the Council's Financial Statements.
- Internal Audit had achieved audit plan coverage of 97.21% in 2021/22. This was 0.79% below the annual target of 98%.
- Production and publication of the report was a requirement of the Public Sector Internal Audit Standards. The report satisfied the requirements for those charged with governance and formed a supplementary piece of evidence to the Annual Governance Statement.

Mr Beard highlighted trends from the information contained within the Tables set out in the report.

The Chair asked about Project Management in Table 6 (Block 2 on p.20) and whether this was expected to overrun further. Mr Beard indicated that the work had been paused because key individuals were not available. Some areas had had to be covered again with new staff and in some areas the remit had been extended.

The Chair asked about the 8 audit engagements that had not been completed mentioned at a Paragraph 4.4 and when these would be ready. Mr Beard reported that detail should start to come through at the next meeting and that Project Management was, in fact, already mentioned in the Appendix 1 of the report at Agenda Item 5. There were some 16 engagements currently being progressed.

Councillor Dawson asked about staff numbers within the internal audit team. Mr Beard responded that there were 2 staff plus himself. He also reported that a significant proportion of his time was spent on wider Council responsibilities, not audit, including anti-money laundering, safety, anti-fraud & corruption and data protection roles.

Councillor Carole Haythornthwaite enquired about the Ad Hoc Work and Investigations in Table 6 (Block 3 on p.20), particularly with regard to Discretionary Business Support Grants and Financial Controls work. Mr Beard commented that both of these engagements had been deferred. The latter was a niche piece of work requested by the Deputy Chief Executive which had been deferred due to a change of personnel, namely the Head of Accountancy. Regarding Discretionary Business Support Grants, a significant amount of time had been spent by the Audit Team discussing this with the Revenues Manager, but the nature of the engagement had been to dip in and out and to provide on-going monitoring. Therefore, the time spent had been recorded elsewhere under Audit Advice.

The Chair commented that he was pleased to see that 97.21% of the Audit Plan work had been achieved, against a target of 98%. Mr Beard added that Hyndburn was one of only a small number of Lancashire authorities to get close to its target. However, it was

understood that some of the larger authorities, unitary authorities and county council had seconded staff to Track and Trace during the pandemic.

**Resolved**

- **That the Committee notes the content of this report for informational purposes**

**71 Audit Reports and Key Issues - Progress Report for the Period February 2022 - July 2022**

Mark Beard, Head of Audit & Investigations presented a routine report to inform Members of the Audit Reports issued during the period February 2022 – July 2022 and to bring to the attention of the Committee what the key issues were.

The report included a list of the audits carried out and any key issues, a summary of which is provided below:

<b>Service/Topic</b>	<b>Audit Assurance Opinion Issued</b>	<b>Comments</b>
Creditors	Substantial assurance	<ul style="list-style-type: none"><li>• The audit found that the authorised signature list could be updated to fully reflect changes in staffing which had occurred. Management agreed to update the list.</li><li>• The audit found that a control sheet was not consistently being fully completed with all the required information, this varied from some sheets not being signed to others having some missing information which was particularly where cheques had been used. It should be noted that the majority of payments are electronically made via BACS.</li></ul>
Safeguarding	Substantial assurance	<ul style="list-style-type: none"><li>• The audit found that whilst the majority of staff (13 out of 14 who responded) knew their responsibilities regarding Safeguarding all stated that they would welcome refresher training. It should be pointed out that all new starters have Safeguarding Training as part of their induction and there are number of modules for Safeguarding Training on internal online training platform. Management agreed to facilitate some refresher training during the course of 2022</li></ul>
Project Management	Comprehensive assurance	No issues arising

Members were reminded that the number of audit reports that were issued between each Committee meeting was subject to variation dependent on the size of the audit and any non-routine audit work, such as investigations, that the Team might become involved in. Therefore, for the purpose of reporting, only the audit reports fully completed, issued and agreed would be included.

Any investigations that might be carried out would not be included as a matter of routine in the report, particularly if they related to a specific individual or individuals.

There was a target of 98% of the audit plan to be completed by the end of the 2021/22 financial year in terms of audit days completed.

Position as at end of March 2022 = 97.21% of the plan completed

The position at the end of March 2022 could be broken down as follows:-

Month	% of the Plan Completed that Month
April 2021	7.54%
May 2021	6.35%
June 2021	6.44%
July 2021	10.09%
August 2021	7.89%
September 2021	6.83%
October 2021	8.72%
November 2021	8.46%
December 2021	5.69%
January 2022	10.72%
February 2022	9.77%
March 2022	8.71%

Completion rates fluctuated from month to month as staff leave was factored in. Despite the impacts caused by the pandemic, the Internal Audit Team was 0.79% from achieving the planned target for the year.

With regards to 2022/23 there was a target of 98% of the Audit Plan to be completed by the end of the current financial year in terms of audit days completed. As the Audit Team completed timesheets which then fed into the audit plan, it was possible to state the progress to date and the projected end of year position if that date was extrapolated out. Therefore:-

Position as at end of June 2022 = 19.75% of the plan completed  
Projected out-turn position for 2022/23 = 78.99% of the plan completed

The position at the end of June 2022 could be broken down as follows:-

Month	% of the Plan Completed that Month
April 2022	7.09%
May 2022	7.25%
June 2022	5.41%

The final out-turn position for 2022/23 was likely to be higher than 78.99% as some months would be more productive than others. The Chair asked if the final figure could be estimated yet. Mr Beard indicated that it was too early to give an accurate picture and this could be impacted by external factors, such as a resurgence in the pandemic.

**Resolved** - That the Committee notes the content of this report for informational purposes.

Mark Beard, Head of Audit & Investigations presented a report to inform Members of the outcome of routine follow-ups following the previously agreed action plans for completed Audit Reports.

The report covered the period March 2022 – June 2022. Details of the follow-ups carried out and actions implemented were provided as Appendix 1 and, at the meeting, Mr Beard outlined the actions carried out. A list of the topics/service areas covered is as shown below:-

- Creditors; and
- Facilities.

Following the agreement of the recommendations between Management and Internal Audit following the completion of the audit assignment, the area was revisited by Internal Audit and the recommendations were reviewed to ensure they had been implemented as agreed. This process was known as the 'Follow-Up'.

Internal Audit assessed the current position against what had been agreed at the end of the audit. Where no action had been taken by the Service Area, then Internal Audit would question why and issue a revised Action Plan. Part of the control within this process was consideration by Audit Committee of any issues that arose. The Committee had the ability to ask questions of Management in the relative service areas why they had not acted upon the agreed Action Plan. The Committee could also express what its expectations would be with regard to such a problem occurring.

Internal Audit aimed to carry out a Follow Up for each completed audit area within 6 months of completion. However there were a number of exceptions to that aim:-

- i.) Follow-Up in 6 months would be pointless if the recommendations were a low enough priority to allow a longer time frame.
- ii.) Work of the Audit Team did not allow the Follow-Up to be carried out. Although Follow Ups were an important part of the process the Head of Audit & Investigations would always have to weigh this against the need for achieving the Audit Plan and auditing the risks the Council faced.
- iii.) There were no recommendations arising from the original audit.

The Chair asked whether partially completed items would continue to be reported. Mr Beard responded that the partial implementation would be noted and picked up again at the next audit. Councillor Dawson asked about the Facilities Service Desk role. Mr Beard responded that it logged the calls for repairs for the Council's estate, which could include anything from a leaky tap, to broken windows, fire safety or structural issues. Health and safety issues would be given priority. Some repairs could be carried out by the Council's handyman, but others required external contractors.

**Resolved**

- **That the Committee notes the content of this report for informational purposes.**

**73 Internal Audit Charter**

Mark Beard, Head of Audit & Investigations presented a report on the revised Internal Audit Charter which had been updated to reflect both good working practices and also to ensure it remained aligned with the Public Sector Internal Audit Standards (PSIAS).

Mr Beard outlined that the Charter set out the rules and ethos within which Internal Audit operated and how it interacted with the Corporate Management Team and the Audit

Committee. It had originally been planned to update this Charter around 18 months ago, but the work had been put on hold due to other priorities. The PSIAS were based on international standards which could be applied equally to the private sector. The 'governing board' in the context of a local authority was generally the Audit Committee. The Charter would be taken into consideration when the Internal Audit function was externally inspected.

The report indicated that the PSIAS were the standards within which Internal Audit worked and had to comply with and stated that an Internal Audit function must have in Internal Audit Charter.

The Internal Audit Charter established the framework within which Hyndburn Borough Council's Internal Audit Service operated to best serve the Council and to meet its professional obligations under the PSIAS.

The previous version of the Internal Audit Charter had been adopted in 2017. The 2022 Charter replaced the earlier version and had been updated to reflect current working practices by the Internal Audit Service and also ensured that it remained aligned to the requirements of the PSIAS.

The Internal Audit Charter covered:-

- Relevant Regulations and Interpretation;
- Definitions;
- Mission & Core Principles;
- Responsibilities;
- Independence, Objectivity and Integrity;
- Reporting Lines and Relationships;
- Access to Information;
- Internal Audit Resources;
- Competency;
- Quality Assurance and Improvement;
- Investigations and Counter-Fraud;
- Engagement Planning;
- Performing the Engagement;
- Communicating Results;
- Monitoring Progress of Actions Agreed; and
- Responsibilities in relation to the Internal Audit Service.

The areas contained within the Internal Audit Charter linked back into the PSIAS requirements.

Councillor Carole Haythornthwaite enquired if there was a requirement to submit the Hyndburn Charter to the overseeing body for the PSIAS. Mr Beard indicated that each authority would produce its own bespoke Charter and there was no requirement to submit the document to any other body. However, it would be subject to scrutiny during the external review of Internal Audit and would be mentioned if there were any issues. Hyndburn's Charter included all of the mandatory elements and some other standards which were considered to be important locally.

**Resolved** - That the Committee notes the content of the report for informational purposes.

Mark Beard, Head of Audit & Investigations presented a report to inform members of the updated self-assessment of the Public Sector Internal Audit Standards (PSIAS) which he had carried out and also the Quality Assurance and Improvement Programme (QAIP) which set out how the Council managed any standards that were not compliant, thus ensuring conformance with the PSIAS overall.

Mr Beard highlighted that a report was provided on this matter to the Committee each year, which might be a short report or a longer format, depending on the circumstances. Because of the new Members on the Committee in 2022/23, the longer format report had been produced this year. The authority needed to explain where it did not comply with standards, otherwise it would need to state that it did not comply on every piece of audit work carried out. For Hyndburn, there were only a small number of 'partiality conforms' and 'this has not occurred'/not applicable' entries on the pro forma. The self-assessment then led to the Quality Assurance & Improvement Programme, which was an Action Plan and living document, which explained how any issues were being addressed. That document provided that evidence of conformity required by the external inspectors of Internal Audit. The inspections were due to take place every 5 years and the next one was due to commence in November 2022.

The report informed Members that the PSIAS was the framework that Internal Audit had to work within and comply with.

In addition to the PSIAS, Internal Audit had to have a Quality Assurance & Improvement Programme (QAIP). The QAIP detailed any standards which were not met or were partially in conformance together with any other key issues linked to the PSIAS. The QAIP included what steps were being taken to progress such issues and should be viewed as an ongoing improvement programme.

The Head of Audit reviewed the PSIAS annually to ensure that the Internal Audit Service conformed to the PSIAS, highlighting if there had been any changes and ensuring that any such changes were reflected in the QAIP.

The 2022 self-assessment of the PSIAS and the 2022 updated QAIP were provided as appendices to the report.

The Chair enquired whether partial conformity with the PSIAS was a major concern and whether the Council should conform. Mr Beard said that not all standards needed to conform, because most of the standards had a high degree of conformity. The Internal Audit Team maintained good, inclusive relationships with Corporate Management Team and individual Heads of Service. He provided an example of partial conformity in connection with Standard 2050 (Coordination) and explained the reason for this assessment.

**Resolved** - **That the Committee notes the updated PSIAS Self-Assessment and the updated QAIP.**

## **75      Public Sector Internal Audit Standards - External Peer Review of Internal Audit**

Mark Beard, Head of Audit & Investigations presented a report to inform and update the Committee about the Public Sector Internal Audit Standards (PSIAS) external peer review process, which would ensure that Hyndburn Borough Council met the requirement under PSIAS that the Internal Audit Service was externally assessed once every 5 years.

The PSIAS stated that a local authority internal audit function must be subject to an external inspection against the PSIAS once every 5 years. The last external inspection of Hyndburn's Internal Audit Service had taken place in February 2018. The next external inspection of Hyndburn's Internal Audit Service against the PSIAS was provisionally timetabled for November 2022.

There were 8 Lancashire Councils including Hyndburn taking part in a Lancashire Peer Review process. Of the remaining Lancashire Councils which were not part of this scheme, two Councils had chosen to buy-in their external review from an outside provider. Four Councils had internal audit provided by Mersey Internal Audit Agency. One Council was part of the Northwest Chief Audit Executives Group and they also supplied internal audit to another Council.

There was a sub-group of the Lancashire District Councils' Audit Group consisting of the Heads of Audit from Burnley, Blackpool, Chorley / South Ribble (one head of Audit covered both Councils), Hyndburn and Wyre. This sub-group had reviewed and updated the methodology for the Lancashire Peer Review process that was based on the one developed previously by the North West Chief Audit Executives Group.

A Memorandum of Understanding (MofU) had been produced that set out the key aspects of the process including:

- The participating Councils;
- Duration of the MofU;
- Confidentiality;
- Governance;
- Moderation and Quality Control;
- Cost; and
- Methodology.

A copy of the MofU was included as an appendix to the report.

The peer reviews had been split into grouped areas to perform the inspections. These groupings were as follows:

- Burnley, Blackburn with Darwen, Chorley / South Ribble;
- Blackpool, Hyndburn, Wyre; and
- Preston

Preston was originally in a triad with 2 other authorities both of whom had now outsourced their internal audit provision to an external provider. As a result, the external review of Preston City Council's internal audit service had been carried out using a shared approach by a number of the other Heads of Audit participating in this process. Mr Beard indicated that it was possible that Ribble Valley might join the Lancashire Peer Review group in the future.

The timetable for carrying out all 8 external reviews was between June 2021 and March 2023. The external reviews of the internal audit service for Blackburn, Blackpool and Preston had already taken place with the rest still being outstanding.

Hyndburn Borough Council's external inspection of Internal Audit was scheduled to take place during November 2022 with the exact dates still to be set. As part of this process the external assessors would interview key personnel as defined within the PSIAS. This would include:

- Chief Executive;
- Director of Finance s151;
- Monitoring Officer;
- Chair of Audit Committee; and
- Head of Audit

These 5 post-holders were essential to the process, but in addition the external assessors would choose to interview at least one member of the audit team and would interview one or more auditees which were usually the Head of Service.

In order to both facilitate the required interviews and to gather information a pre-inspection questionnaire would be issued to all the key people. The answers to this questionnaire would then be used to target areas to explore further in the subsequent interview. This was likely to be sent out to recipients at some point during October 2022.

The Head of Audit & Investigation would provide the external assessors with evidence to demonstrate why Internal Audit did comply with the PSIAS. Internal Audit would be externally assessed by the Head of Audit & Risk from Blackpool Borough Council and the Head of Governance and Business Support (former Head of Audit) at Wyre Borough Council.

Following completion of the inspection process a report would be produced. The judgement of whether an internal audit service conformed to the PSIAS would be based on 3 areas of focus:

- Purpose and positioning;
- Structure and resources; and
- Audit execution.

The judgement would be that Internal Audit Service conformed, partially conformed or did not conform. The external assessment team might make recommendations for an authority to either achieve full conformity, if it had not achieved that, or improvements on service delivery, if improvements could be made even if overall the Internal Audit Service conformed to the PSIAS. Mr Beard commented that the authority would need to pass at least 2 of the 3 areas of focus above.

Once the final report had been issued to the Council it would be presented to both Corporate Management Team and the Audit Committee. The external assessment team was prepared to attend either or both of these meetings if required to answer any questions that might arise.

As different authorities would have different external assessors there was a Moderation / Quality Control process that took place at a number of points until the end of review process in March 2023. The first Moderation / Quality Control meeting had taken place on 8<sup>th</sup> October 2021 with future meetings due to take place during 2022 and 2023. The purpose of these meetings was to look at the reviews carried out and ensure that there was consistency of approach around logical findings and any recommendations made. The Head of Audit & Investigation was a member of the Moderation / Quality Control Panel but would clearly have no involvement when Hyndburn Borough Council's Internal Audit assessment was moderated.

The Head of Audit & Investigation was reviewing key documents that were part of the internal audit process in preparation for the external assessment. The Head of Audit &

Investigation had begun the process of evidencing the self-assessment of the PSIAS. The self-assessment was carried out annually and reported with the Annual Internal Audit Report & Audit Opinion.

The Chair asked about the cost of the Peer review process. Mr Beard responded that the cost to the Council of being involved in the Lancashire Peer Review process was staff time as opposed to direct costs. The preparation time undertaken by the Head of Audit & Investigation was accounted for in the Annual Audit Plan and historical information could be obtained if necessary. The Peer Review process had the added advantage of enabling best practice to be shared across all participating authorities.

Councillor Dawson asked if all authorities had to undergo an inspection and whether peer review was the best method. Mr Beard commented that this method represented the best value of money. An external provider could be used, but there were fewer firms operating in this market at present and prices had risen to around £15k.

**Resolved** - That the Committee notes the content of this report.

## 76 Future Training Requirements

Martin Dyson, Head of Accountancy outlined proposals for Member development in relation to the role and responsibilities of Audit Committee members.

It was acknowledged that for 2022/23 the Committee included several Members who had not served on this body before. Therefore, it would be useful for training to be provided on roles and responsibilities and the processes undertaken or overseen by the Committee. It would be useful for the Committee to participate in an evaluation of its own effectiveness. This could be achieved by undertaking a self-assessment. A self-assessment had not taken place in Hyndburn for a number of years.

Members were asked to consider whether they wanted refresher style training, or training on the basics, which could be delivered in house by officers. It was suggested that the Chair should undertake additional training. The self-assessment should be timed to take place before the Review of Internal Audit.

Mr Beard highlighted the Chartered Institute of Public Finance and Accountancy (CIPFA) document *Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)*, which could be used for learning and development and contained a self-assessment tool at Appendix D. Mr Beard undertook to circulate the document after the meeting. It was suggested that a phased approach to the self-assessment be carried out as follows:

- STAGE 1 – each councillor to read the guidance document.
- STAGE 2 – each councillor to complete the self-assessment questionnaire to be achieved in time for the November 2022 Audit Committee meeting (further guidance would be provided on this process).
- STAGE 3 – Mr Beard to collate the self-assessment questionnaires and produce a report to the November Audit Committee. This would highlight any knowledge / skills gaps too.

Mr Dyson also reported that an additional meeting of the committee would be required before November to provide the updated position on the Annual Statement of Accounts 2020/21. The signing off process had been delayed by approximately 1 year. The authority

was working closely with the new auditors, Mazars, to finalise the accounts. Mazars representatives had been unable to attend the Committee today due to other commitments and sickness.

Councillor Noordad Aziz enquired about the reason for the change of external auditors from Grant Thornton, as he believed that all Lancashire authorities were part of the same cohort audited by this company. Mr Beard indicated that the change had been undertaken by agreement with Public Sector Audit Appointments (PSAA) and Grant Thornton to enable the auditors to better manage capacity and client relationships. Councillor Aziz asked if any other Lancashire authorities used Mazars, as it would be useful to share experience. Mr Beard confirmed that Rossendale Borough Council had engaged Mazars. Councillor Aziz commented that the disestablishment of the Audit Commission in 2015 had not worked well, given that the change had been intended to drive forward efficiencies.

Mr Dyson indicated that delays to the completion of the Annual Statement of Accounts for 2020/21 were largely outside of the authority's control. The external audit process was likely to be completed over a three week period commencing on 1<sup>st</sup> August 2022. It should be possible to bring the final accounts to the Audit Committee before 30<sup>th</sup> September 2022. The 2021/22 Statement of Account should then follow at the November 2022 meeting.

Councillor Aziz asked if there had been any breach of statutory duty regarding the deadlines for approving the accounts, or if COVID Regulations had relaxed the timetable. Mr Dyson responded that there had been an extension to the relevant deadlines, but external auditors had struggled to meet those deadlines. A high proportion of local authorities had been unable to comply with the Regulations, and the practical deadlines for completion had therefore shifted. However, the 2021/22 accounts should be on time. Councillor Aziz enquired if the Mazars were starting from scratch on the accounts. Mr Dyson indicated that most of the preparatory work had been carried out by Grant Thornton, so Mazars should be in a position to finish this work in August. The Accountancy Service recognised the risks around completion of the accounts and were focused on getting up to date. Much of the current situation was due to circumstances beyond its control. A number of Lancashire authorities had accounts from earlier years that remained outstanding, so this was not specifically a Hyndburn issue. Mr Dyson undertook, in consultation with the Deputy Chief Executive, to provide the Members of the Committee with written update of the position on the outstanding Statements of Accounts.

Councillor Aziz proposed a cross party motion to the Government to indicate that the external audit situation was not acceptable. He expressed concern that if something had been awry, the Council and public would not have been made aware of this in a timely manner. Councillor Haythornthwaite considered that the current difficulties might be due to other factors, rather than the demise of the Audit Commission. Mr Dyson responded that the exact reasons were unclear and the situation had generated a lot of debate nationally. Hyndburn, was currently working well with Mazars and building a good relationship, as evidenced by the current year's accounts, which were on target. This was important, as the deadline for the 2022/23 accounts would revert to the normal pre-COVID timetable with the Statement of Accounts published in May 2023 and signed off by September 2023 following external audit. Councillor Aziz acknowledged that there was a shortage of auditors within the profession and that firms might prefer to miss a deadline, rather than to publish incorrect findings.

The Chair advised Members to contact Mr Dyson or Mr Beard if they wished to discuss any specific training and development needs.

**Resolved**

**- That the Committee:**

- (1) notes the proposed arrangements for training and development outlined above, including the self-assessment process; and**
- (2) notes that an additional meeting may be required in September 2022 to consider the final (audited) Statement of Accounts 2020/21.**

Signed:.....

Date: .....

Chair of the meeting  
At which the minutes were confirmed