

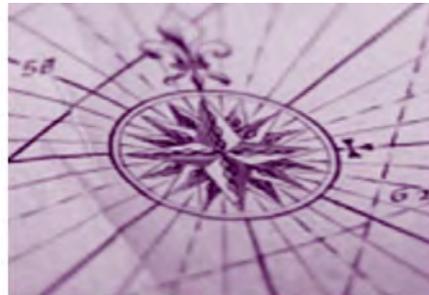
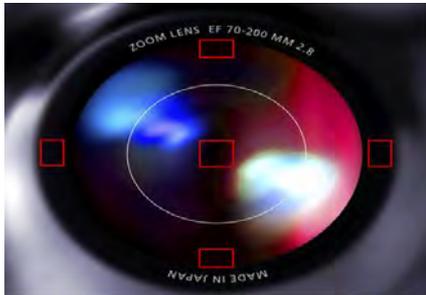


Tonbridge and Malling Borough Council

External Quality Assessment

Internal Audit Services

Executive report – March 2021



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External Quality Assessment

Tonbridge and Malling Borough Council



BUSINESS
RISK
SOLUTIONS

Opinion: Tonbridge and Malling Borough Council internal audit service is delivering to a standard that **generally conforms** with the Public Sector Internal Audit Standards.

Key matters arising from the review:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of the Council particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Developing a clear alignment through working papers for each assignment to focus on agreed management objectives, significant risks and relevant key controls that will support the content of the assurance provided in the final audit report would enhance the focus of engagements.
- Consideration should be given to the revision of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by the Council within the Risk Management Policy.
- Development of an appropriate Service Level Agreement for the provision of a future internal audit service by Kent County Council in which routine requirements which demonstrate quality and compliance with the Public Sector Internal Audit Standards become the basis for provision.
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.

Good Practice identified during the review

- The service has developed a documented internal audit methodology and supporting templates that delivers a consistent service.
- Self-assessment identifies areas in which future development will be beneficial
- Appropriate attention is given to gaining feedback and demonstration of the quality of services through use of KPI's; these reflect a position where the service is well regarded.
- In respect of Counter Fraud – the service has developed a tri-partite arrangement with other Councils that provides independent review of services.

Executive summary

Tonbridge and Malling Borough Council (TMBC) internal audit services are delivered through an arrangement with Kent County Council (KCC) through which the service is managed and supported by an allocation of specific staff to complement commitment of a part-time employee and contracted-in resources. The staff allocated to the agreement reflect the skills and experience needs of each years' annual internal audit plan.

Services are managed by Jonathan Idle as Head of Internal Audit, who assumes the role of Chief Audit Executive for the purposes of this review. The team is supported by contracted in resources when required, with regard to both specialist services such as technology and more general audit provision.

The service has responded to the changes of focus in professional standards by developing an increasingly risk based approach with regard to planning and the completion of assignment work; the Internal Audit Manual has been updated in April 2020 to reflect this along with outcomes from the previous external quality assessment.

From an internal audit perspective, considerable advantage is to be gained from recognition of the Councils Risk Management processes and the effectiveness with which they operate. The degree to which those key controls which management feel reduce significant risk to an acceptable level (risk appetite) and arising from which the assurance sources that exist to demonstrate application are identified, represents a platform against which internal audit can provide an assurance opinion in relation to risk, governance and control. Alignment will enable internal audit plans and assignments to focus on the value of 'Control Risk' and thereby focus its attention on key controls and the assurances available to mitigate risk. Continuing to develop this thread will enhance both the efficiency and effectiveness of internal audit as well as its benefit to the Council.

Consequently, with a constantly changing risk environment, particularly as the service responds to the changing needs of TMBC post COVID-19; there is a need and opportunity for the internal audit service to continue to enhance its delivery through acting as a catalyst to ensure that robust risk management systems are operational, increasing its awareness of the assessment of risk and as a consequence informing its own approach. This will help ensure that internal audit focuses on the most appropriate areas and can demonstrate that it continues to provide a service that effectively contributes towards the achievement of the Council stated objectives, through the provision of independent assurance.

Current services are assessed to '**generally conform**' with the PSIAS standards. A series of specific recommendations are made in the report that follows to reflect building on the existing strengths in relation to resources, competency and delivery in order to enhance future services.

Overall assessment

1	RESOURCES		Excelling – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
2	COMPETENCY		Established – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.
3	DELIVERY		Established – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit Committee (AC).	The combination of the Charter and the Internal Audit Manual is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A process is in place regarding the identification and management of potential conflicts and/or declarations of interest.
1311	The service has conducted internal assessment exercises regarding its performance.	Performance review is embedded within quality control procedures and supported by a staff appraisals process which identifies and supports performance development needs. Further quality assurance is undertaken which has highlighted a number of areas where the team feel development would be beneficial.
2020	Active engagement at Member and management level	Represents the establishment of a good understanding of key issues through routine interaction with TMBC including Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other sources.	This represents a firm basis for the successful delivery of the internal audit plan and the use of support, if required.
2040	A detailed internal audit manual is in place which aligns with the PSIAS.	Provides for a consistent methodology, within the service which is delivered through a series of templates.
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely requested.	Demonstration of a consistent approach to communication which is well received by management and the AC – effective follow-up ensures issues are not lost.
2300	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Effective supervision and review of progress ensures a consistent approach and delivery of the approved methodology.
2400	Internal auditors must communicate results of engagements.	The internal audit team routinely conducts exit meetings with regard to the findings emerging from engagements.

Part one



Compliance with the Public Sector Internal Audit Standards

Business Vision and Mission, Governance arrangements, Recognition of standards, Charter, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action	
1	<p>Internal Audit Charter (IAC)</p> <p>The IAC requires an annual assurance opinion to be provided to the Audit Committee regarding governance, risk management and control.</p> <p>The Annual Opinion for 2019/20 stated in para 1.2.4 the “The opinion on the framework for governance, risk management and control is principally based upon the evaluation of the findings, conclusions and assurances from the work of the Internal Audit function during 2019/20”.</p> <p>Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks and information from other assurance sources.</p>	<p>Consider the need to develop the annual internal audit plan for approval by the Audit Committee on the basis of a programme of internal audit activity required to provide an annual opinion reflecting the changing risk environment in which the Council operates and where independent assurance from internal audit is required in order to support the Governance Statement.</p> <p style="text-align: right;">PSIAS 1000</p>	
2	<p>Resources</p> <p>The internal audit plan for 2020/21 does not provide an allowance for management time that is required to provide planning, oversight and reporting in relation to internal audit activity.</p>	<p>Include an appropriate allocation of time for use by the CAE to deliver the specific managerial activities as outlined in the job description.</p> <p style="text-align: right;">PSIAS 1110</p>	

	Issue identified	Recommended action	
1	<p>Audit Universe</p> <p>The self-assessment states that the current model reflects a “basic audit universe’ and an intention to “further develop an Authority wide audit universe to ensure key processes and systems are identified,”</p> <p>Further development of this approach would enhance internal audits’ ability to demonstrate a commitment to helping the Council achieve its objectives .</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded with the risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance.</p> <p>It would be beneficial therefore to increasingly align development of the internal audit planning system with the Councils risk management processes in order to ensure that resources were consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level</p> <p style="text-align: right;">PSIAS 2000/2010</p>	
2	<p>Skills matrix/training</p> <p>The team currently utilises a skills matrix that is aligned with both the Appraisals process and training needs.</p> <p>Consideration of the needs of the Council when compiling the Audit Plan would support decisions regarding the use of appropriate staff from KCC or when contracting in resources.</p>	<p>It would be beneficial to extend the current skills matrix to reflect the needs of the Council and therefore the experience and training required to provide the specified services.</p> <p>Extension of the matrix should include reference to mandatory training and whether this should be within the TMBC processes or reflected within the expectations of services provided by KCC.</p> <p style="text-align: right;">PSIAS 1210</p>	

Competency continued

Issue identified	Recommended action
<p>3 Specialist skills</p> <p>Technical or complex audits require specific specialist skills which should be identified at the strategic planning stage.</p>	<p>We anticipate that the proposed new arrangements with KCC will allow a wider pool of staff to be made available to the Council.</p> <p style="text-align: right;">PSIAS 1210</p>
<p>4 Internal Audit Engagement Planning</p> <p>Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends upon the maturity of the current risk management processes adopted by the Council, discussions with the Executive, Audit Committees and Auditee pre-audit meetings. It has been observed within the EQA that the maturity of risk management processes at TMBC is variable with development still required at a Business Unit level.</p> <p>The degree to which principal inherent risks, key controls and assurances are identified will influence the degree to which risk-based audit can be developed; recognition of the three lines of defence methodology within the internal audit methodology will allow internal audit to increasingly identify the value of the 'Control Risk', being the difference between assessment of inherent and residual risk.</p> <p>This will allow internal audit resources to be more effectively targeted to areas of greatest potential risk exposure.</p> <p>The Executive Summary of each Audit Report contains an analysis of key risks and associated controls relevant to the particular focus of the audit.</p>	<p>Audit Plans and individual assignments should be increasingly constructed to reflect assessment of 'Control Risk' in order to focus reviews upon:</p> <ul style="list-style-type: none"> • Those risks where the assessment is that the combined impact/likelihood score has decreased most and where if assumptions are incorrect critical business risk exposure may exist, • Risks where the value of 'Control Risk' is limited or zero and as a result suggesting the controls may be insufficient or ineffective, and • Key Controls (rather than a wide hierarchy of controls which may have little impact on risk reduction or the achievement of business objectives). <p>By focusing on the risks and controls highlighted in the Engagement Plan for each review there may be efficiencies to be gained within assignment work through targeting resources to issues of greatest importance or concern.</p> <p style="text-align: right;">PSIAS 2010</p>

Competency continued

Issue identified	Recommended action
<p>5 Grading of recommendations Recommendations currently reflect 'priority' whilst being defined using terminology which is inconsistent with that used by the Council in its Risk Management Policy.</p>	<p>It would be beneficial to align future grading of recommendations with those impact definitions used within the risk management process relating to the finding being Critical, Significant, Marginal or Negligible. This would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of findings at the exit meeting and in assurance reports.</p> <p style="text-align: right;">PSIAS 2300/2410</p>

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

	Issue identified	Recommended action	
1	<p>Audit objective</p> <p>Engagement Plans currently contain a statement which reflects the objective of the audit, effectively being an intention to provide assurance regarding the area of review.</p> <p>PSIAS 2201 gives guidance regarding planning considerations and states that “In planning the engagement, internal auditors must consider the objectives of the activity being reviewed and the means by which the activity controls its performance”.</p>	<p>It would be beneficial to revise the definition to focus on the Management Objective for the area under review as this would provide a direct alignment with identification of the significant risks which may impact upon achievement of established objectives and upon which the assurance opinion should be based.</p> <p style="text-align: right;">PSIAS 2201</p>	
2	<p>Work Programme</p> <p>The current methodology is based upon use of a template which focuses on ‘Scope areas’ identified within the engagement plan rather than the Significant Risks that have been identified in the planning process.</p> <p>PSIAS 2201 also states that internal audit must consider:</p> <p>a) The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level; and</p> <p>b) The adequacy and effectiveness of the activity’s governance, risk management and control processes compared to a relevant framework or model;</p>	<p>The internal audit service may benefit from introduction of a ‘Control Matrix’ style evaluation process in which there is a direct link between Management Objectives, Significant Risks upon which the audit will focus and the specific key controls that maintain the risk within the risk appetite of the Council.</p> <p style="text-align: right;">PSIAS 2300</p>	
3	<p>Focus on risk</p> <p>The PSIAS requires internal audit to provide a risk-based internal audit service. The current approach does recognise those risks contained in the Corporate Risk Register and provides for discussion of risks at an engagement level within planning meetings with responsible managers.</p>	<p>It appears that the use of the risk register process within the Council is variable. The provision of Internal Audit would benefit if managers were encouraged to identify risks, controls and assurances that exist at a local level as this would help to focus the attention of internal audit work.</p> <p style="text-align: right;">PSIAS 2210</p>	

Issue identified	Recommended action
<p>4 Working Papers</p> <p>Current processes are based on the use of a template system which utilises standard Microsoft Office applications.</p> <p>The review identified inconsistencies regarding completion of documentation and evidencing of supervision.</p>	<p>It is understood that a proposal to adopt the Pentana software approach under the future arrangements with KCC is currently going through approval and if approved will ensure that a standard process can be evidenced in future.</p> <p style="text-align: right;">PSIAS 2330</p>
<p>5 IA Opinions</p> <p>Internal Audit currently uses five levels of opinion – High, Substantial, Adequate, Limited and No – there appears only marginal difference in the supporting statements clarifying the differences between the latter levels.</p> <p>CIPFA guidance on setting definitions relating to opinions suggests there is general recognition that four levels is sufficient with some organisations now using three.</p> <p>Within the profession, we believe it to be increasingly rare to find use of the latter category of ‘No’ on the basis that no system is totally flawed. We therefore believe the profession is moving towards acceptance of the use of three levels with the highest two levels confirming assurance, albeit with a caveat if other than significant control risk issues are found, and a single negative opinion indicating that management action is required to restore the position within the risk appetite defined by the Board.</p>	<p>Internal Audit should consider whether there is merit to moving towards three levels of opinion – Substantial, Adequate and Limited and aligning this terminology with used within the Council's risk management process.</p> <p>Consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified.</p> <p>Where a risk/recommendation of a ‘Critical’ nature is identified by internal audit this would indicate that a ‘Limited Assurance’ opinion should be used.</p> <p style="text-align: right;">PSIAS 2400</p>

Issue identified	Recommended action
<p>6 HoIA Annual Report</p> <p>The terminology used by the HoIA to express an Annual Opinion is correct as this reflects opinion regarding risk management, governance and control.</p> <p>Standard 2060 does however also include reference to bringing the attention of the Audit Committee regarding assessment of the significant risks facing the organisation and any other assurance sources that have been recognised.</p> <p>CIPFA guidance has been issued in November 2020 regarding opinions in 2020/21 taking account of the impact of COVID.</p>	<p>It would be good practice to support the assurance opinion in relation to risk management, governance and control with broader reference to significant risks and other sources of assurance that are available, including reference to those within the risk management process and future assurance mapping.</p> <p>In this form, the opinion would also better align with the required content of the Governance Statement.</p> <p style="text-align: right;">PSIAS 2060/2450</p>

Part two



Suggested enhancements for consideration

Suggested Enhancements for consideration

	Issue identified	Recommended action
1.	<p>Exit meeting template</p> <p>Discussions with management regarding the findings identified within engagements are discussed with management and based upon extracts of a first draft of the report.</p> <p>A summary of the discussion is then recorded in a narrative note, although file review identified this was not on file in two cases.</p>	<p>It may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management responses, as this will both formalise the approach as well as support timely feedback and verify any misunderstandings or factual inaccuracies.</p> <p>This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report.</p>
2.	<p>Client surveys</p> <p>Progress has been made in obtaining feedback from auditees following each audit.</p>	<p>Internal Audit may find it useful to utilise an application such as Survey Monkey for collecting feedback, as this can prove to be an efficient means which supports an early response.</p>
3.	<p>Contractual arrangements</p> <p>Present arrangements for compliance with matters relating to standards of an Attribute nature within the PSIAS currently reflect administration of practices within both the Council and KCC governance arrangements. These may include matters such as Health & Safety, Data Protection, Declarations and Conflicts of Interest and Appraisal processes.</p> <p>It is standard practice within outsourced arrangements for the SLA to include a broad statement that places the responsibility on the contractor to comply with the Councils arrangements and for the contractor to ensure that it has arrangements in place to adhere to these requirements. Those of a professional nature will be reflected in a standard Internal Audit Charter that is adopted by all its clients.</p>	<p>It may be more efficient and transparent to develop an appropriate Service Level Agreement for the provision of a future internal audit service by Kent County Council which could include expectations of the Council for compliance with Council procedures. Such requirements would then be managed using standard contract and performance monitoring arrangements.</p> <p>Matters of a professional nature regarding routine compliance with the Public Sector Internal Audit Standards should become matters covered within the Internal Audit Charter.</p>

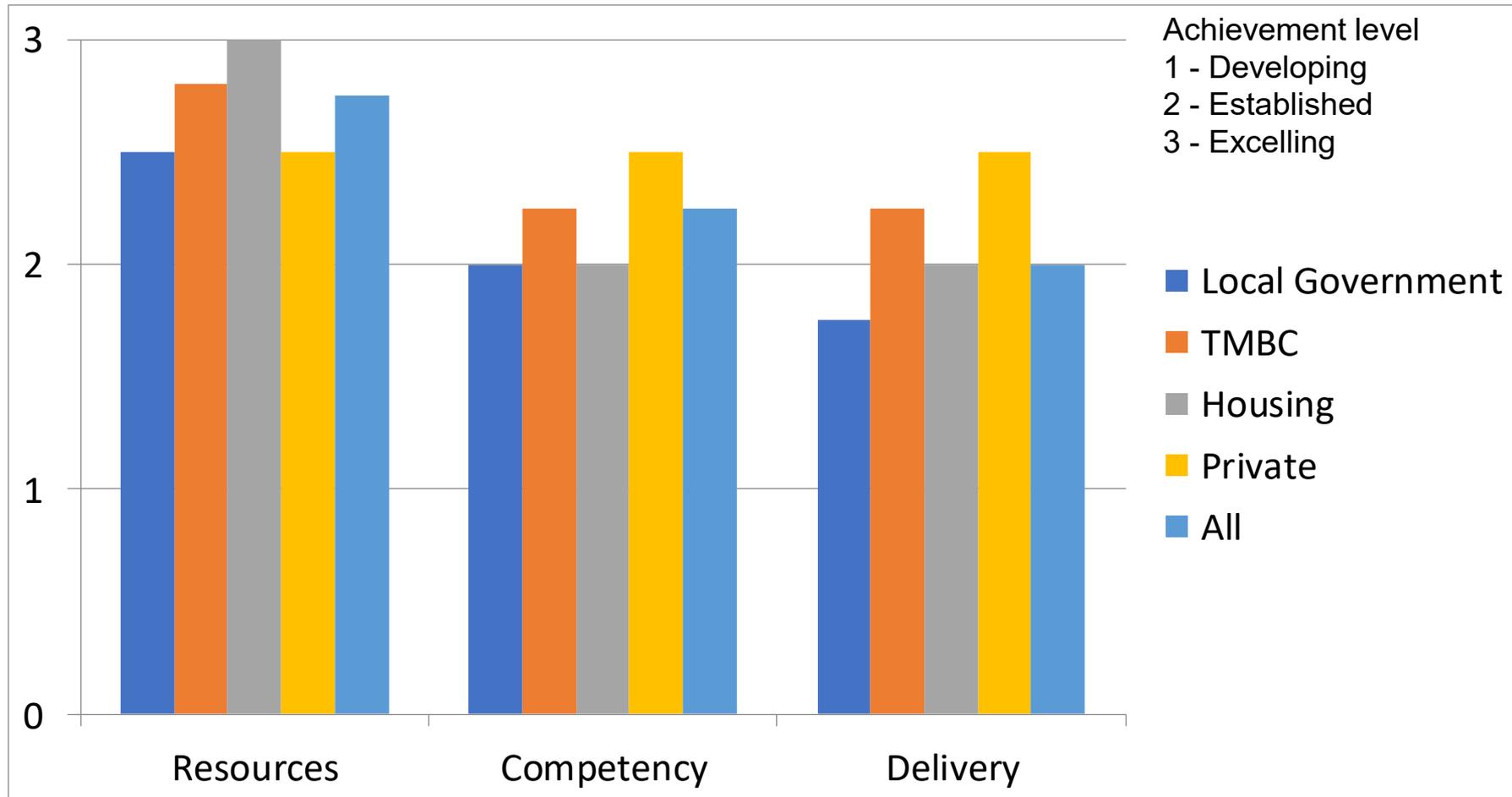
Suggested Enhancements for consideration

	Issue identified	Recommended action
4.	<p>Internal Audit Plan Current arrangements recognise those risks reflected in the risk management processes implemented by the Council</p>	<p>As Council arrangements for risk management mature the internal audit service should ensure that appropriate consideration of details of risks, controls and assurances contained within the system is transparent within the internal audit planning process in order to develop an evidenced alignment with the content of the Annual Governance Statement.</p>
5.	<p>Internal Audit Reports Internal Audit Reports use a standard template, which would be regarded as 'comprehensive' rather than 'concise' by many organisations. Best practice is tending to move towards a risk focused approach which highlights significant risk and the actions that will be undertaken to remedy any weaknesses or control issues. Standard reports should contain a reference to:</p> <ul style="list-style-type: none"> a) The audit being conducted in accordance with professional standards (PSIAS), and b) Any/no limitations being placed on the scope of the review. 	<p>We anticipate that the revised arrangements with KCC for the provision of a single standard audit process across all clients as this will help ensure a common standard is adopted by internal audit staff.</p> <p>Review of the template should therefore include consideration of the matters raised as well as the requirements of the Council and KCC, from a service and training point of view.</p>

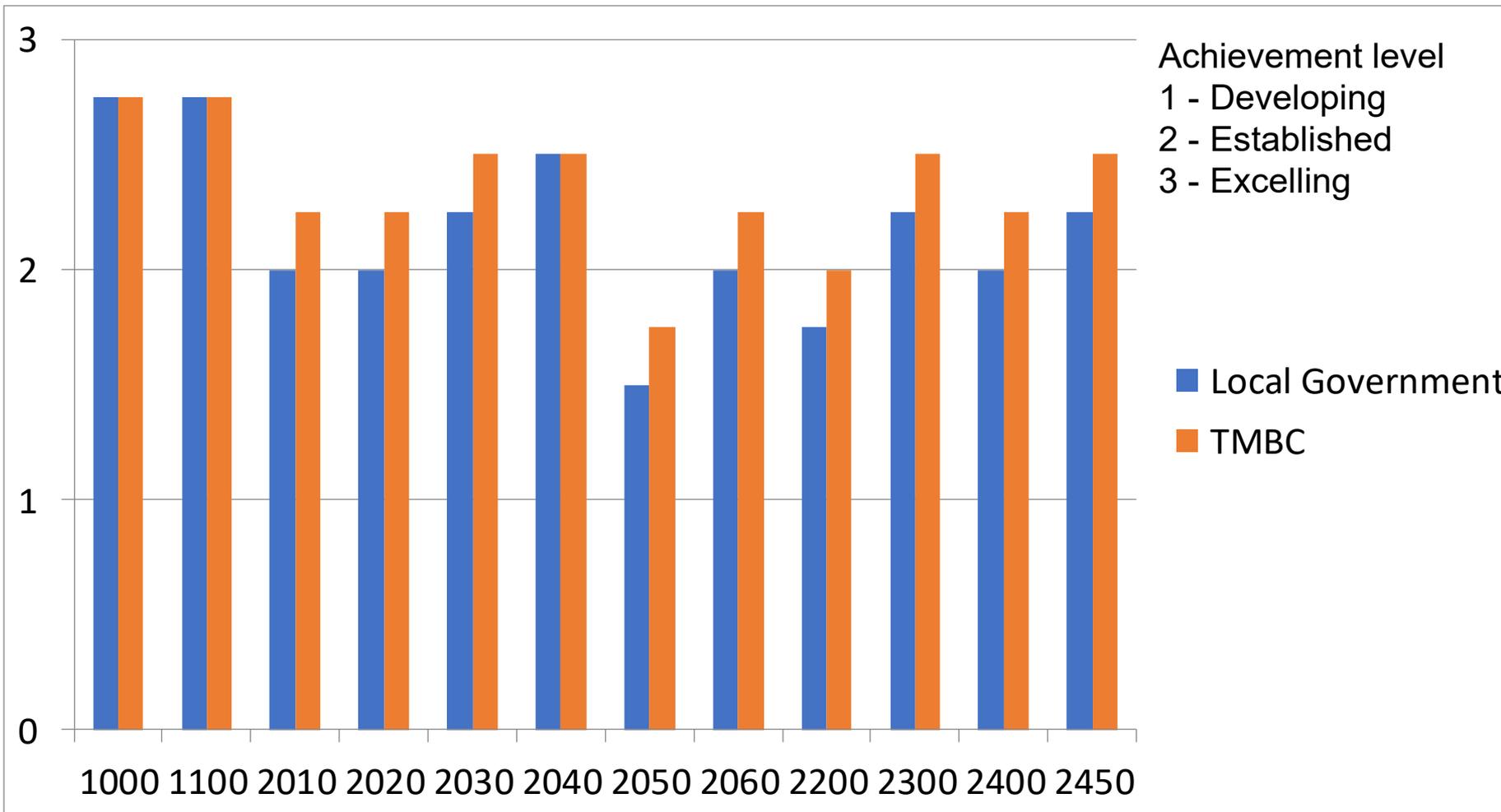
Part three



Benchmarking



Benchmarking - Industry analysis



Appendix

1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations

Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	100	
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	100	
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	100	
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	100	
Average	100	

Conclusion:

Feedback from stakeholders confirms that Tonbridge and Malling Borough Council is considered to provide a good quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded.

Other relevant observations

I consider the internal audits as a valuable assessment tool and an opportunity to consider where improvements are needed.

The whole approach is an opportunity to improve rather than a threat to identify shortcomings

The service we receive is extremely good and there is a good working relationship

Issued	6	Returned	4	Response rate	67%
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Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Basis for EQA

Compliance with IPPF/PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
Review	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.