

External Quality Assessment Response

ISSUES:

Ref.	Issue	Recommendation	IACF Response and Action Plan
R1	<p>Internal Audit Charter (IAC) (Review) The IAC requires an annual assurance opinion to be provided to the Audit Committee regarding governance, risk management and control. 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”. 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>Response: Recommendation Agreed. Although not made explicit in the annual opinion areas of significant risk are considered in forming the opinion of the CAE.</p> <p>Action Plan: The Audit Pan for 2021/22 includes time allocated to an assurance mapping exercise. This will assist in forming the CAE’s opinion for the coming financial year.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: March 2022</p>
R2	<p>Resources (Consider) 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. (Consider)</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>Response: Recommendation Agreed</p> <p>Action Plan: Allocation time for Audit and Fraud Management has been included in the 2021/22 audit plan that was agreed at April Audit Committee.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: Complete</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
C1	<p>Audit Universe (Review)</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>Response: Recommendation Agreed</p> <p>Action Plan: The current needs assessment that is in place will be further developed and updated to ensure it is accurate and used in future annual planning exercises.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: October 2021</p>
C2	<p>Skills matrix/training (Consider)</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>Response: Recommendation Agreed. The current matrix is based on a range of business skills but does not include specific council systems or mandatory training.</p> <p>Action Plan: Develop the training matrices to include mandatory training and knowledge of key TMBC systems.</p> <p>Action Owner: Audit and Assurance Manager</p> <p>Due Date: September 2021</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
C3	<p>Specialist skills (Consider) 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>Response: Recommendation Agreed</p> <p>Action Plan: An Inter Authority Agreement is to be approved and move to an outsourced/shared service planned in the coming months. Once complete, there will be a significant increase pool of auditors, skills and expertise available to TMBC.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: September 2021</p>
C4	<p>Internal Audit Engagement Planning (Review) 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. 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</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</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: Control's risk will be considered during planning engagements to identify key controls. To assist development of Risk Management practices may have to occur. Discussion with management and the risk management lead will take place to enhance this.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: October 2021</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
	<p>assessment of inherent and residual risk. This will allow internal audit resources to be more effectively targeted to areas of greatest potential risk exposure. 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>be gained within assignment work through targeting resources to issues of greatest importance or concern.</p>	
C5	<p>Grading of recommendations (Review) 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>Response: Recommendation Agreed - to be reviewed and implemented appropriately.</p> <p>Action Plan: The Internal Audit Management Team will review the recommendations and consider whether enhancements to the grading of recommendations are beneficial for TMBC.</p> <p>Action Owner: Audit and Assurance Manager</p> <p>Due Date: October 2021</p>
D1	<p>Audit objective (Review) 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. 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>Response: Recommendation Agreed</p> <p>Action Plan: Engagement plan templates will be amended to state service objectives rather than objectives set for the audit engagement.</p> <p>Action Owner: Audit and Assurance Manager</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
			<p>Due Date: September 2021</p>
D2	<p>Work Programme (Review) 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. 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</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>Response: Recommendation Agreed</p> <p>Action Plan: Once work programmes and audit documentation are recorded on the audit management software, Pentana, the need for word templates will be removed. Engagement plans and work programmes will be focused on Objectives/Risks/Controls as opposed to scope areas</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: October 2021</p>
D3	<p>Focus on risk (Consider) 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>Response: Recommendation Agreed</p> <p>Action Plan: Internal Audit will continue to engage with service areas to promote the use of operational risk registers to improve risk based Internal Audit.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
			<p>Due Date: December 2021</p>
D4	<p>Working Papers (Consider) Current processes are based on the use of a template system which utilises standard Microsoft Office applications. 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>Response: Recommendation Agreed. There is currently no audit management software in use at TMBC as it is cost prohibitive for the size of plan and budget of the function.</p> <p>Action Plan: Once an outsourced/shared service is in place TMBC will have access to Pentana software for the planning, execution, and reporting of audit engagements.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: September 2021</p>
D5	<p>IA Opinions (Review) 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. CIPFA guidance on setting definitions relating to opinions suggests there is general recognition that four levels is sufficient with some organisations now using three. 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</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. 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. 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>Response: Recommendation Agreed This will be considered while acknowledging that stakeholder and client expectations are also relevant to the review. As a shared service a key factor should also be that having one basis for reporting opinions is paramount to consistency and efficiency of the service.</p> <p>Action Plan: The Internal Audit Management Team will review the recommendation and consider whether moving to three levels of opinion and updating the issue grading definitions are beneficial for TMBC and external clients.</p> <p>Dependent upon this review, any proposed changes</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
	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>would be discussed with senior management from TMBC, proposed to Audit Committee.</p> <p>Action Owner: Head of Internal Audit Audit and Assurance Manager</p> <p>Due Date: December 2021</p>
D6	<p>HoiA Annual Report (Review)</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. 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>Response: Recommendation Agreed. This will enhance the Annual Internal Audit Report and Opinion.</p> <p>Action Plan: For the 2020-21 Annual Opinion, other sources of assurance will be considered where known, and included within the overall assessment for the Head of Internal Audit Opinion.</p> <p>Moving forward, the Internal Audit service will work closely with services in developing assurance mapping across the Council. There is time included in the 2021/22 Audit Plan to undertake this work.</p> <p>Action Owner: Audit and Assurance Manager</p> <p>Due Date: August 2021</p>

SUGGESTED ENHANCEMENTS FOR CONSIDERATION

Ref.	Issue	Recommendation	IACF Response and Action Plan
1	<p>Exit meeting template Discussions with management regarding the findings identified within engagements are discussed with management and based upon extracts of a first draft of the report. 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. This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report.</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: A template will be prepared. It will be communicated to the team, incorporated in the Audit Manual and its' usage monitored during quality assurance reviews as business as usual.</p> <p>Action Owner: Head of Internal Audit Audit and Assurance Manager</p> <p>Due Date: September 2021</p>
2	<p>Client surveys 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>	<p>Response: Recommendation Agreed.</p> <p>This can be considered. Another method has previously been reviewed, however there were data /GDPR issues associated with its usage.</p> <p>Action Plan: The use of MS Forms Survey will be progressed. The template will be prepared and utilised as part of the ongoing feedback arrangements relating to each audit at the earliest opportunity. Summary</p> <p>Action Owner:</p>

			<p>Head of Internal Audit Business Support Officer</p> <p>Due Date: July 2021</p>
3	<p>Contractual arrangements 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. 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. 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>	<p>Response: Recommendation Agreed. Management of the service has historically been in place under secondment agreements.</p> <p>Action Plan: An Inter Authority Agreement is currently being agreed that will formalise the management and running of the TMBC Internal Audit and Counter Fraud Team.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: September 2021</p>
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>	<p>Response: Recommendation Agreed</p> <p>Action Plan: Internal Audit will keep under consideration as practice develops.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p>

			<p>Due Date:</p> <p>March 2022</p>
5	<p>Internal Audit Reports</p> <p>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> <p>a)The audit being conducted in accordance with professional standards (PSIAS), and</p> <p>b)Any/no limitations being placed on the scope of the review.</p>	<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>	<p>Response:</p> <p>Recommendation Agreed. This will enhance existing reporting arrangements.</p> <p>Action Plan:</p> <p>Relevant inserts will be incorporated into report templates.</p> <p>Action Owner:</p> <p>Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date:</p> <p>September 2021</p>