

Issue identified	Recommended action		Grading	Comments/Actions to address recommendation
<p>Governance – report approval Clearance or reports at draft and final stage requires input of HoIA, which may not be desirable where reports do not contain high risk or contentious issues,</p>	R1	<p>The HoIA should consider delegating responsibility to team leaders in respect of reports that do not contain recommendations attracting a high risk level or a limited assurance opinion.</p>	Consider	<p>REJECTED: Team Leaders already conduct all reviews of both draft and final reports but each is subject to a quality check from the HoIA&CF before issue. While there may be a minor efficiency saving in allowing the Team Leaders to issue reports with positive opinions and low risk levels, this is not felt to be sufficient to justify removing the level of quality control. In addition, the HoIA needs to be aware of the opinions issued in respect of individual reviews in order to be able to answer queries from services and Members.</p>
<p>Internal Audit Planning Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on an analytical assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council. There should be a direct and identified link between the internal audit plan content discussed with Management and the Audit Committee and the risk based reasoning for inclusion of the assignment in the audit plan. The plan approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which the Council relies. In turn this should drive preparation of the terms of reference for each assignment. The focus for assignments can therefore be shown to directly relate to the value of the ‘control risk’ and as a result an opinion based</p>	R2	<p>Audit Plans should be constructed through using an audit needs assessment process which achieves the objectives of the service as set out in the Internal Audit Charter. The audit planning process should be designed to reflect the assurance needs of each Council through transparent alignment with the Council wide approach to risk management. The formation of a direct link with the Council’s risk register and the key mitigating controls, supported by documented discussions with Chief Officers and other managers would provide an effective risk based basis for future internal audit plans and create increased understanding and ability of members of the Audit Committee to contribute to the assurance agenda. It would be beneficial to secure improvements in the maturity of each Councils risk management frameworks in order to support this initiative.</p>	Review	<p>IMPLEMENTED: An Audit Needs Assessment (ANA) is already conducted in respect of each authority, which take into account the respective corporate risk registers; however, it is acknowledged that the risk based reasoning for including specific reviews within the annual plan could be better documented. It is also acknowledged that input should be sought from Chief Officers/Directors/Assistant Directors and Service Managers. Individual Directorates will be approached as part of the planning process for 2019-20 onwards.</p>
	R3	<p>The internal audit planning process should identify and document other sources of assurance that are available and upon which each Council can place reliance, and which may if available be formally recorded within the</p>	Review	<p>An Assurance Mapping exercise will be undertaken to identify other sources of assurance that may be available outside of the activities undertaken by internal audit.</p>

upon the robustness of the controls and assurances available to management and each Council.		annual HoIA report and subsequently the Governance Statement.		Any assurance sources identified will be reflected in future opinions.
<p>Audit Manual</p> <p>The internal audit manual represents a comprehensive record of the practices to be followed by internal audit staff and aligns with the PSIAS.</p> <p>The significant emphasis of the PSIAS reflects the use of a risk based approach to internal audit work and in this respect it is felt that greater alignment with the risk management policies and appetite of the Council would be beneficial.</p>	R4	<p>The internal audit manual should be updated to reflect greater alignment with the risk management policies of the Council.</p> <p>Consideration should be given to amending the internal audit methodology by:</p> <ul style="list-style-type: none"> - Including an initial focus on what are the managements objectives for the area under review in terms of reference; - Changing the focus of each audit from identifying a single risk management objective to identifying and agreeing with management the key risks to which the area under review is exposed. - Identifying, evaluating and testing controls and sources of assurance that demonstrate that each residual risk is as stated within the Council risk management process 	Review	<p>A preliminary risk assessment is conducted at the start of each review assignment and forms the basis of the Terms of Reference. This focuses on management objectives and the risks to achieving those objectives (along with other considerations required by the PSIAS).</p> <p>It is acknowledged that the Risk Management Objectives that form part of the reviews could be better linked to risks identified in the service risk registers and this will be addressed going forward.</p> <p>It should however be noted that this is dependent upon the risk maturity of the individual service.</p>
<p>Performance and Development Review (PDR)</p> <p>The annual performance review of the Head of Internal Audit Services is to be undertaken by the line manager as S151 Officer at Medway Council in accordance with the approved policy.</p>	R5	The PDR process should be informed by inviting the Chairs of each Audit Committee and the s151 officer at Gravesham Council to provide input to the process.	Consider	<p>IMPLEMENTED: The S.151 Officer at Gravesham already provides an input into the PDR process of the HoIA&CF.</p> <p>Opinions/comments will also be sought from the Chairs of the respective committees in future.</p>
<p>Assignment Planning</p> <p>Terms of reference state a date for intended completion of the assignment. Whilst it is recognised that there are occasions when auditee availability prevents early closure, setting of maximum time frames by which draft and final reports should be completed would assist in timely completion of reports. The team does use a generic timeframe in relation to forward planning on assignments which provides for standard generic times for</p>	R6	Audits should be planned and supervised within an agreed timeframe that is specific to each assignment in order to ensure that recommendations are timely.	Consider	<p>IMPLEMENTED: Target timescales for audit assignments are already in place and monitored by the A&CF management team, who meet on a weekly basis to assess progress in relation to all assignments. It should be noted that some of these timescales are dependent upon the client as well as the officer undertaking the review. The Terms of Reference template has now been updated to specify the target timescales and to clarify that the officer conducting the</p>

<p>completion of the stages of an audit. Plan monitoring is undertaken against this backcloth.</p>	R7	<p>Reporting deadlines should be imposed for the time allowed following completion of fieldwork for draft and final reports to be received by management.</p>	Consider	<p>review and the client need to work together to meet those targets.</p> <p>IMPLEMENTED: As per the comment above, there are already target timescales in place that are monitored on a weekly basis.</p>
<p>Evidence Some inconsistencies were identified during the file review with regard to the structure of folders and the filing of working papers and evidence. Notwithstanding, this point the extent of documentation which is available to support findings is of a high standard.</p>	R8	<p>Internal Audit staff should be reminded of the approved basis for construction of working files and the cross referencing of supporting documentation as this supports the efficiency of the review process.</p>	Review	<p>IMPLEMENTED: Members of the Audit & Counter Fraud Team have now been advised of the need to ensure that there is consistency with the construction and storing of working files. A folder structure has already been set for 2018-19 to ensure that each review is recorded, and evidence stored, in the same manner.</p>
<p>Supervision Demonstration of effective supervision is necessary in order to both ensure the quality of the review and provide appropriate instruction to staff regarding the delivery of the internal audit methodology. Whilst it is recognised that the staff can consult each other regarding progress on work a common, formal and consistent process should exist in order to demonstrate supervision as each audit progresses.</p>	R9	<p>The service should provide a documented trail of supervision throughout the audit and cross reference to discussions and correspondence by email. It is thought that a record of key interventions could be included as review points within the Controls Evaluation Matrix (CEM) template as a diary of progress?</p>	Review	<p>IMPLEMENTED: The Controls Evaluation Matrix template has now been updated to incorporate a supervision log to record the key dates and any comments as part of the quality control process.</p>
<p>Closing meetings The IAM states that exit meetings should be held with clients. Wash up meetings are held at end of fieldwork At present the draft audit report is used as a basis for an exit meeting with management.</p>	R10	<p>The HoIA should consider whether in using production of the draft report as the basis for the closure meeting this fully engages the auditee in the outcomes process. An exit meeting template could be introduced to support communication regarding the findings of the audit however Auditors should as a matter of course scan any notes taken as part of the exit meeting process in order to support and evidence communication and production and finalisation of the report.</p>	Consider	<p>IMPLEMENTED: A section has also been added to the CEM template on which officers are required to record the outcomes of the wash up meeting; a prompt has also been added to clarify the areas that should be discussed at the wash up meeting.</p>
<p>Communication The PSIAS places significant emphasis on</p>	R11	<p>Definitions for the grading of recommendations and audit opinions should be included with in terms of reference</p>	Review	<p>Definitions of Audit Opinions have always been included at the end of reports issued.</p>

effective communication with clients. It is therefore beneficial that clients are fully familiar with the basis by which recommendations and audit opinions are being made		documents and audit reports.		Definitions of recommendation grading will be added to all template documents once the proposed updates noted in R13 are agreed or rejected.
Report clearance The internal audit manual contains dated instruction regarding the process for clearance of reports and would benefit from revision to reflect the current structure of the shared services team. Revision may help reduce current delays in production of reports.	R12	Timescales for the clearance and draft and final reports should be reviewed with consideration being given to how review and approval can best be recorded. Use of the CEM may provide opportunities for simplification of current processes.	Consider	IMPLEMENTED: Report clearance already takes place via email, records of which are retained in the respective audit files. To further support this, we have now added a supervision log to the Control Evaluation Matrix template to record the key dates and any comments as part of the quality control process.
Audit Opinions - Recommendations These are currently developed and assessed by each internal auditor, prior to release of the draft report and which include a grading of the recommendations as high, medium and low being made against definitions which are generic rather than specific to the Councils risk appetite. Medway High - The finding highlights a fundamental weakness in the system that puts the Council at risk. Management should prioritise action to address this issue. Medium - The finding identified a weakness that leaves the system open to risk. Management should ensure action is taken to address this issue within a reasonable timeframe. Low - The finding highlights an opportunity to enhance the system in order to increase the efficiency or effectiveness of the control environment. Management should address the issue as resources allow. Gravesham	R13	Risk definitions used by internal audit should be developed to reflect the risk appetite within each organisation, and the definitions of impact and likelihood used by the Council. Explanation of the use of these gradings should be included in all reports. It is recognised best practice to use terminology such as High, Medium and Low or Fundamental, Significant and Merits Attention when making recommendations and perhaps support this with RAG rated colours linked to each Council's risk management system. These should be used by each internal auditor to grade the recommendation and discuss the level of risk to which the organisation is exposed with each auditee at the exit meeting by reference to the risk impact definitions used within the Council. A single approach should be deployed across both Councils.	Review	While both councils already use the grading of High, Medium and Low priority for recommendations, the accompanying definitions for each are different. The first two tables at page 8 of this document show the existing priority grading and definitions used by each council. The third table shows the proposed aligned definitions to be used by the Audit & Counter Fraud Shared Service in line with this recommendation. The priority levels also have a colour coding in line with the Red, Amber Green (RAG) rating system. Member's approval is sought to use the updated and aligned recommendation priorities, which will be included with all future reports.
	R14	Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in discussion at the closure meeting and confirmed in a side letter or email to the manager. This would aid the profile of	Consider	Any amendment to the follow up process at either authority will need to be discussed and approved by the respective Management Team and Audit Committee. The views of each management team and

<p>High – action addresses a significant weakness to enable the achievement of key objectives Medium – action addresses a weakness identified that is not critical to the achievement of objectives Low – action is a system enhancement or improvement to the efficiency of the service Whilst similar working to different definitions complicates the arrangements required by internal audit regarding training, supervision and communication.</p>		<p>internal audit through concentrating on things that really matter in relation to significant risk as defined within risk management policies.</p>		<p>Audit Committee Members will be sought to determine whether they wish to remove low priority recommendations from formal reports in favour of advisory notes within those same reports.</p>
<p>Finalisation of reports At the time of the review the Shared Service had finalised relatively few audit reports in relation to 2017/18; the position is likely to relate to a number of factors being:</p> <ul style="list-style-type: none"> - Overrun of 2016/17 audits, - Structure and staff changes, - Delays in receiving appropriate feedback from clients at planning and closure stages, - Current processes which reflect review of audit at draft report stage rather than on a continuous basis. 	R15	<p>The HoIA should review processes for managing completion of reports with a view to presenting reports on a timely basis. Consideration could be given to:</p> <ul style="list-style-type: none"> - Introducing target completion dates at the start of the audit. - Agreeing exit meeting dates at the initial meetings with clients, - Amending report authorisation 	Review	<p>IMPLEMENTED: Target timescales for audit assignments, including the issue and finalisation of reports are already in place. Finalisation of audit reports is dependent upon responses from clients, the speed of which are often influenced by the resource demands within individual services and therefore outside the control of the A&CF team.</p> <p>As per the comments in relation to R6 and R7, we have updated the Terms of Reference template to specify the target timescales and to clarify that the officer conducting the review and the client need to work together to meet those targets.</p>
<p>Audit Opinions - Overall opinions These are currently based upon the personal judgement of each auditor, relating to the degree of risk, although the definition of high risk is not related to that stated to each the Councils Risk Management Strategy and is subject to review by the supervisor and HoIA in the draft report prior to release. The overall opinion is based largely on the aggregate of the number of recommendations.</p>	R16	<p>The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon. Best practice would reflect:</p> <ul style="list-style-type: none"> - Where a fundamental risk (red) is identified that limited assurance is given. - Where significant risks (amber) are identified then adequate assurance is given, and - Where ‘merits attention’ (green) risks are identified these are not referred to in the report and 	Review	<p>The assessor has indicated that Wider best practice suggests three levels of assurance in the opinion structure.</p> <p>As per the findings outlined, Medway currently operates a four tier opinion structure while Gravesham operates with a three tier opinion structure based on the RAG rating system. The two tables on page 9 of this document show the opinions and definitions currently used by each council.</p>

<p>The internal audit service currently uses different categories opinion at each Council being:</p> <p>Medway</p> <p>Strong - Appropriate controls are in place and working effectively, maximising the likelihood of achieving service objectives and minimising the council's risk exposure.</p> <p>Sufficient - Control arrangements ensure that all critical risks are appropriately mitigated, but further action is required to minimise the council's risk exposure.</p> <p>Need strengthening - There are one or more failings in the control process that leave the council exposed to an unacceptable level of risk.</p> <p>Weak - There are widespread or major failings in the control environment that leave the council exposed to significant likelihood of critical risk. Urgent remedial action is required.</p> <p>Gravesham</p> <p>Green – Risk management operates effectively and objectives are met</p> <p>Amber – Key risks being managed to enable the key objectives to be met</p> <p>Red – Risk management arrangements require improvement to ensure objectives can be met.</p> <p>Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.</p> <p>By having two bases for opinions this provides</p>	<p>substantial assurance is given.</p> <p>- An example basis for arriving at opinions is included as Appendix B.</p>	<p>As the RAG rating system is recognised nationally and is also widely used by various auditing bodies, It is proposed that Medway council adopt the RAG rating opinion structure used by Gravesham.</p> <p>A Strong opinion would equate to Green while Sufficient and Needs Strengthening would equate to Amber and Weak would equate to Red.</p> <p>This would be more in line with best practice, provides a more constructive and detailed definition of the opinion and will also provide an aligned approach at both councils, which in turn would be easier to manage under the shared working arrangements.</p> <p>Approval is sought from the Members of Medway's Audit Committee to change the opinion structure to a RAG rating system.</p>
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<p>unnecessary complication within the internal audit service and the approach should be simplified to represent best practice and therefore contribute to better communication regarding the risks being faced by each Council.</p>				
<p>Annual Report The HoIA produces an Annual Internal Audit report which summarises the years work and includes analysis of performance. The opinion should reflect a format that takes account of all information and sources of assurance available to the HoIA and therefore: <i>'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'</i>. The Internal Audit Charter reflects this guidance and states in section 3 (p3) that: <i>"In line with the Public Sector Internal Audit Standards, the Head of Audit & Counter Fraud (as Chief Audit Executive) will report annually with an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control of each council, supporting the Annual Governance Statement and Statement of Accounts"</i>. The HoIA Annual Audit Report qualifies this opinion by referring to <i>"My opinion is therefore limited to the risk areas considered in the services and functions that have been subject to review in the year"</i>.</p>	<p>R17</p>	<p>In alignment with recommendations made earlier, the internal audit plan should be constructed to provide an explicit link to risk and the other assurances available, so that the HoIA is able to provide wider assurance to the Council in support of the governance statement. Best practice is that the Annual Report should also contain reference to all significant risks (standard 2060) and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope. An example of the words which may be used has been provided in Appendix C.</p>	<p>Enhance</p>	<p>IMPLEMENTED: The annual opinion within the 2017-18 annual reports for each council have been prepared, taking into account the recommendation and some of the wording provided as an example at Appendix B of the EQA report. It now reflects that assurance has been drawn from reviews conducted internally and those carried out by other assurance providers.</p>

Recommendation Priorities

Medway

High	The finding highlights a fundamental weakness in the system that puts the Council at risk. Management should prioritise action to address this issue.
Medium	The finding identified a weakness that leaves the system open to risk. Management should ensure action is taken to address this issue within a reasonable timeframe.
Low	The finding highlights an opportunity to enhance the system in order to increase the efficiency or effectiveness of the control environment. Management should address the issue as resources allow.

Gravesham

High	Action addresses a significant weakness to enable the achievement of key objectives.
Medium	Action addresses a weakness identified that is not critical to the achievement of objectives.
Low	Action is a system enhancement or improvement to the efficiency of the service.

Proposed aligned recommendation priorities

High	The findings indicate a fundamental weakness in control that leaves the council exposed to significant risk. The recommended action addresses the weakness identified; to mitigate the risk exposure and enable the achievement of key objectives. Management should address the recommendation as a matter of urgency.
Medium	The findings indicate a weakness in control, or lack of compliance with existing controls, that leaves the system open to risk, although it is not critical to the achievement of objectives. Management should address the recommendation within a reasonable timeframe.
Low	The findings have identified an opportunity to enhance the efficiency or effectiveness of the system/control environment. Management should address the recommendation as resources allow.

Audit Opinions

Medway

Strong	Appropriate controls are in place and working effectively, maximising the likelihood of achieving service objectives and minimising the council's risk exposure.
Sufficient	Control arrangements ensure that all critical risks are appropriately mitigated, but further action is required to minimise the council's risk exposure.
Needs Strengthening	There are one or more failings in the control process that leave the council exposed to an unacceptable level of risk.
Weak	There are widespread or major failings in the control environment that leave the council exposed to significant likelihood of critical risk. Urgent remedial action is required.

Gravesham

Green – Risk management operates effectively and objectives are being met	Expected controls are in place and effective to ensure risks are well managed and the service objectives are being met. Any errors found are minor or the occurrence of errors is considered to be isolated. Recommendations made are considered to be opportunities to enhance existing arrangements.
Amber – Key risks are being managed to enable the key objectives to be met	Expected key or compensating controls are in place and generally complied with ensuring significant risks are adequately managed and the service area meets its key objectives. Instances of failure to comply with controls or errors / omissions have been identified. Improvements to the control process or compliance with controls have been identified and recommendations have been made to improve this.
Red – Risk management arrangements require improvement to ensure objectives can be met	The overall control process is weak with one or more expected key control(s) or compensating control(s) absent or there is evidence of significant non-compliance. Risk management is not considered to be effective and the service risks failing to meet its objectives, significant loss/error, fraud/impropriety or damage to reputation. Recommendations have been made to introduce new controls, improve compliance with existing controls or improve the efficiency of operations.