

Issue identified	No.	Recommended action	Grading	Comments/actions to address recommendation
<p>Quality Assurance Improvement Programme (QAIP) The service has developed a QAIP which was updated for 2022/23. The QAIP includes various aspects of the review and assessment process but could beneficially be extended to also reflect training needs and satisfactory completion of agreed training requirements.</p>	R1	<p>Consider introducing further performance related information arising from the completion of half yearly PDR's and the completion of training programmes. Ensure that the Annual Report confirms that all aspects of the QAIP have been completed during the year. PSIAS 1320</p>	Consider	<p>Action to be completed. It would not be appropriate to include information about individual staff member PDR's but the training elements included in the QAIP will be looked at again as part of the annual review in December 2023.</p> <p>This review will also be after the pilot phase of the Medpay review has been concluded, which the Internal Audit team forms part of, when we will have a much clearer competency framework specific to the team.</p> <p>The annual report for 2022-23 will also be amended to better reflect references to completion of the QAIP.</p>
<p>Internal Audit Processes The internal audit methodology has been documented in accordance with standards with the latest version of the engagement programme template reflecting best sector practice as the basis for evidencing and supervision of each engagement.</p>	R2	<p>Following conclusion of the EQA update the internal audit assurance engagement process for the latest versions of documentation and any revisions in order to support use of a consistent approach to completion of all reviews. PSIAS 2040</p>	Consider	<p>Action completed. All template documents and process maps are reviewed annually, and a consistent approach applied and reflected in the Internal Audit Engagement Process. It is possible that an old version of a document was picked up in a sample, but old templates are no longer available.</p>
<p>Internal Audit Charter The Internal Audit Charter provides a formal identification of the role and responsibilities of the Internal Audit Service. Section 9 details the responsibilities regarding establishment of internal audit plans.</p>	R3	<p>Section 9 could beneficially align production of the plan with the CAE's ability to provide a positive opinion regarding risk management, governance and control within each Council. PSIAS 2010</p>	Consider	<p>Action to be completed. The HIACF will add reference to the plan being designed to enable an opinion on risk management, internal control and governance as part of annual review of the Internal Audit Charter in late 2023.</p>
<p>Definition of significance The PSIAS emphasises a focus on 'Significant Risk' which is terminology used within the definitions used for establishing opinions in relation to assurance on each engagement.</p>	R4	<p>Consider aligning the terminology used for defining grading of recommendations and the levels of assurance given to each Council's risk management process where the risk appetite is established in terms of impact and likelihood.</p>	Review	<p>Rejected. There are currently no definitions within either council risk strategy, so it is not possible to align our opinions with them. In addition, this creates practicality issues with operating two sets of definitions across the shared service. The</p>

<p>Review of internal audit reports shows that the use of the term is flexible and is based on judgement of the internal auditor and the supervision process.</p> <p>Reports at engagement level and to Audit Committees contain considerable detail rather than emphasis on the assurance opinion and significant risk.</p>		<p>This would assist in communication with clients at both planning and reporting phases of each engagement and ensure that there was a focus on that which is agreed to be of significant risk with management and Members</p> <p>Further development of this process would enable limited assurance opinions to relate to directly to where risks deemed to reflect the highest categories of risk within each Councils risk management system were observed. This may align with a single High (Red) recommendation/action or a stated multiple of medium (amber) recommendations, which together compromise the likelihood of achieving objectives.</p> <p>PSIAS 2060</p>		<p>current gradings and explanations for agreed actions (previously recommendations) were a hybrid model of the those previously used by each council to best reflect the work of the service.</p> <p>It would not be practical to align opinions to the number/priority of agreed actions and this is something that was previously flagged as poor practice. The opinions are based on the overall findings of the review.</p>
<p>Internal Audit Planning</p> <p>There is significant evidence of a consistent approach to the recognition of significant risks at both strategic planning and engagement planning stages.</p> <p>This may be enhanced through greater recognition of the concept of 'Control Risk' being the difference between assessed inherent and residual risk values.</p> <p>Where assurance sources are identified which confirm that the control framework is effective these may be used as part of the services role within assurance mapping.</p>	R5	<p>Identification of the value of control risk in addition to inherent risk would allow internal audit to focus on particular areas where management have recognised concerns, these may relate to:</p> <ul style="list-style-type: none"> - Areas where control risks scores are highest and where failure of controls may expose the Council to critical risks, or where - Areas where control risk is zero or negative, being areas where controls are either not having the desired impact or where further mitigating controls need to be introduced in order to reduce the residual risk to an appropriate level against the established risk appetite. <p>An additional benefit may also arise through identification of existing assurance sources.</p> <p>PSIAS 2010/2300</p>	Consider	<p>Rejected.</p> <p>Control risk levels in the current Audit Needs Assessment are awarded based on knowledge of level of changes to the control environment that could lead to a differing level of risk, rather than the difference between inherent and residual scores.</p> <p>For example, a restructure in a service, new systems, new processes etc. would result in a higher score for an auditable area. Whereas auditable areas where there have been no recent changes, and positive assurance has previously been provided may result in a lower score.</p> <p>The HIACF is comfortable that this scoring system allows resources to be directed appropriately.</p>
<p>Purpose of the system subject to review</p> <p>Internal Audit Engagement Programmes specify the objective of the audit and focus on identification of agreed significant risks and those key controls which it is expected will be identified within the area subject to review.</p>	R6	<p>This process provides for a robust engagement however the further inclusion of a Management Objective is regarded as good practice, perhaps replacing the objective of the audit. This may be beneficial to increasing focus on the specific aims of management in each review and enable increasing</p>	Consider	<p>Rejected.</p> <p>Risks to service objectives are identified at the commencement of each review, both as part of the Opening Risk Assessment and opening meetings with clients, which are used to determine the scope of the review.</p>

		alignment with the significant risks being faced to the non-achievement of objectives. This will assist with the discussions with client managers and specifically the identification of the significant risks which may impact upon achievement of the established objectives and upon which the assurance opinion should be based. PSIAS 2201		It is not felt that service objectives need to be specifically stated in the terms of reference, with focus instead on documenting the risks and key controls that are to be examined as part of the review.
Consideration of Fraud The Counter Fraud Team are currently compiling a Fraud Risk Register demonstrating compliance with the standards regarding the recognition of potential fraud, however until this is available there is not a direct link to fraud risk assessment when scoping engagements. Finalisation of the Fraud Risk Register would allow the Internal Audit Team to better demonstrate compliance with the PSIAS.	R7	Ensure that the areas reviewed within an engagement include those where the Counter Fraud Team have identified the potential that significant fraud risks exist. PSIAS 2030	Consider	Action to be completed. Internal Auditors already consider fraud risk in all reviews, but we will add a section to our current Opening Risk Assessment to review the relevant fraud risk assessment and consider any implications from this. This change will be rolled out as the programme of fraud risk assessments is completed by the Counter Fraud Team.
Governance The standards require the CAE to provide an annual opinion regarding the effectiveness of governance arrangements. Current planning includes various aspects of the governance process including Ethics, Conflicts of Interests and Members expenses.	R8	In Local Government, each Council establishes a Code of Governance in accordance with CIPFA SOLACE – it would be beneficial to map internal audit activity to the content of the Code in order to provide assurance at a level which contributes directly to the Annual Governance Statement through the Head of Internal Audit Annual Report. PSIAS 2110	Review	Rejected. All areas of governance are included as possible auditable arrears in the current Audit Needs Assessment (risk assessment) and are considered for inclusion when preparing the risk-based plan. We have also completed reviews at both councils specifically relating to governance, which have considered production of a Code of Corporate Governance in line with the CIPFA SOLACE framework, and compliance with those Codes of Corporate Government. It is not felt there is any value in returning to a cycle of reviews in areas that change very infrequently and prioritising them over other areas of high risk.
Risk Management Internal Audit has reviewed risk management as an assignment in Gravesham BC (2021/22) and Medway Council (current 2022/23) providing an ‘Amber’ assurance opinion in both cases.	R9	The standards require an annual opinion to be made in the Head of Internal Audit’s Annual Report regarding the adequacy and effectiveness of each Councils risk management processes. It would therefore be beneficial to support the opinion with	Review	Action to be completed. This recommendation will be factored into the annual opinion for 2022-23 when drafting the Annual Internal Audit Reports.

		evidence of how this has been reached through a combination of the assurances gained at both a strategic level and at an operational level within engagements. PSIAS 2120		
Confidentiality and Limitation of Liability Current reporting regarding engagements and to the Audit Committees fails to recognise the sensitivity and confidentiality of the matters being raised.	R10	The Internal Audit Team should consider the need to include appropriate confidentiality and limitation of liability clauses in reports which are shared with third parties directly or in published Audit Committee papers. PSIAS 2440	Review	Rejected. Internal audit reports are not shared with third parties or published in Committee papers, which are restricted to executive summaries. Confidential information is not included in executive summaries and where there is particularly sensitive information, these summaries are amended for public papers. For example, we would not publicise control weaknesses in areas such as cyber security as this exposes the council to further risk but would share necessary information with Members through private papers. As such, we do not feel that it is necessary to include such clauses.
Head of Internal Audit Annual Opinion The current opinion is supported by an analysis of the evidence that has been recognised in reaching the opinion. This currently fails to recognise the extensive and continuous planning processes that are in place to consider both past knowledge as well as future risks and priorities.	R11	In practice, the opinion is actually based upon the continuous thread or trend of assurance work completed in recent years as a result of the focus of internal audit plans, the wider knowledge of significant risks and the various sources of assurance that exist, including the risk management processes. Future opinions should state the full basis upon which the opinion has been reached and could beneficially reflect on the significant risks which each Council is facing and the wider assurance sources that have been recognised including each clients risk management process. This would establish full alignment with each Council's Corporate Governance Statement. PSIAS 2450	Review	Action to be completed. This recommendation will be factored into the annual opinion for 2022-23 when drafting the Annual Internal Audit Reports.