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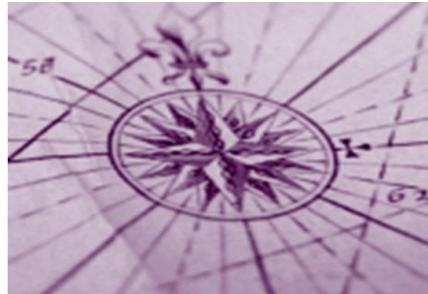


Kent County Council

External Quality Assessment

Internal Audit Services

Executive report – April 2021



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External Quality Assessment

Kent County Council

Opinion

Overall assessment: Kent County Council is delivering internal audit services to a standard that **generally conforms** with the Public Sector Internal Audit Standards.

Key matters arising from the review:

- The service would benefit by increasing integration of the use of risk-based internal audit techniques with the risk appetite of its clients regarding planning and the scoping of engagements,
- Developing a clear alignment through working papers for each assignment to focus on the achievement of agreed Management (Business) objectives and agreed significant risks and relevant key controls would likely enhance the benefit of and value gained from audit reports.
- Consideration should be given to the revision of the basis for expressing internal audit issues and opinions in line with risk impact definitions recognised by each client in Risk Management Policies.
- The Head of Internal Audit Annual Report should be enhanced through inclusion of a summary of the significant risks being faced and those other assurances available to the Head of Internal Audit in reaching an annual opinion.

Good Practice identified during the review

- The approach to maintaining a Quality Assurance Improvement Programme (QAIP) reflects best industry practice.
- Appropriate attention is given to gaining feedback and demonstration of the quality of services through use of KPI's which are routinely presented to Audit Committees.
- The Internal Audit team has a strong commitment to training, with service delivery being supported by a comprehensive skills matrix and a detailed Internal Audit Manual cross referenced to the PSIAS and use of Pentana Audit Software.
- Audit planning is supported by appropriately detailed notes of discussions with management.
- Where a shortfall of resources occurs, there is a commitment to the use of external resources with relevant skills and experience.

Executive summary

Kent County Council (KCC) internal audit services has developed a commercial approach to the delivery of services in addition to the core service to the County Council; this should enable the team to develop an appropriate depth and breadth of skills to successfully meet the needs of clients. The team now also provides services under service level agreements to Tonbridge and Malling Borough Council, Kent Fire and Rescue Services, HoldCo, IC24 and a number of Academies. The service also provides Grant Audit, although this has not been subject of this review. The Internal Audit service aims to continue to grow its client base and the range of clients with which it contracts, providing both full Internal Audit services as well as ad-hoc services, tailored to meet the needs of clients.

Services are provided by a dedicated team of in-house staff, which is headed by Jonathan Idle as Head of Internal Audit and Counter Fraud, who assumes the role of Chief Audit Executive for the purposes of this review and regarding all internal audit appointments. The team is supported by contracted in resources when required with regard to both specialist services such as technology and more general audit provision.

In 2020/21 services have been impacted by the effects of the pandemic which has led to 'remote auditing' being required; this appears not to have adversely impacted on the methodology but has been reflected in the availability of client staff to engage whilst dealing with other front-line priorities. A number of vacancies have also been experienced during the year and as a consequence the CAE has now undertaken a planned restructure.

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 recently been updated to reflect this.

From an internal audit perspective, considerable advantage may be gained through increasing recognition of management objectives and inherent risk, as this will enable internal audit plans and assignments to focus on the value of 'Control Risk' and therefore attention on significant key controls and the assurances available. This represents recognition of those key controls which management feel reduce risk to an acceptable level (risk appetite) and aligns with current initiatives within internal audit and in discussion with the Corporate Risk Manager to identify sources of assurance.

Nevertheless, with a constantly changing risk environment, particularly as the service responds to the changing needs of clients 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, thereby increasing its awareness of the assessment of risk at each client and as a consequence informing its own approach.

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

Overall assessment

1	RESOURCES		Excelling – Processes in this area are fully embedded within every-day practices and reflect best practice that is at least 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 further development would be beneficial.

Summary of good practice identified within EQA

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Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with client Audit Committees (AC).	The combination of the Charter and the Service Level Agreement 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 team wide 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 of its performance.	Performance review is embedded within QAIP procedures and supported by a staff appraisals process which identifies and supports performance development needs.
2020	Active engagement at Board and management level	Represents the establishment of a good understanding of key issues through routine interaction with Executive Management and Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other sources.	This represents a firm basis for the consideration of the successful delivery of the internal audit plan and the use of support from other parties, if required.
2040	A detailed Internal Audit Manual is in place which aligns with the PSIAS.	Provides the basis for a consistent approach to delivery of internal audit services delivered through a series of templates and administered through use of Pentana software
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely obtained at the conclusion of each engagement and at year end.	Demonstration of a consistent approach for communication which is generally well received by management and the AC's – effective follow-up ensures issues are not lost.
2400	Reports are clear and express opinions in a manner that is understood by stakeholders.	Reports are produced on a timely basis, with comprehensive detail of internal audit activity being produced for AC attention including detailed key performance indicators.
2500	Establish and maintain a system to monitor the disposition of results communicated to management.	A formal process for follow-up and reporting on actions taken regarding recommendations has been established.

Part one

Compliance with the Public Sector Internal Audit Standards (PSIAS)

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</p> <p>Whilst the Head of Internal Audit's Annual Opinion is correctly expressed in relation to Risk Management, Governance and Internal Control – the reference in the Internal Audit Charter does not comply with the PSIAS expectation and should be amended to include Governance.</p>	<p>When the Internal Audit Charter is next revised update the requirement for the Head of Internal Audit to provide an Annual Opinion in relation to Risk Management, Governance and Internal Control.</p> <p style="text-align: right;">PSIAS 1010</p>	
2	<p>Internal Audit Management</p> <p>The Internal Audit Team has experienced a number of changes at management level over the last two years and have gained a number of new clients.</p> <p>This has necessitated providing a flexible response to the provision of leadership to staff allocated to contracts and with communication with client management.</p> <p>It would be beneficial to consider within the current re-structure:</p> <ul style="list-style-type: none"> a) Where it is both desirable and practical for the Head of Internal Audit to act as the Chief Audit Executive (CAE), and b) Where a manager is nominated as the CAE at a client appointment, how supervisory arrangements will be arranged to allow the Head of Internal Audit to act in a 'Managing Director' role. 	<p>Specific arrangements should be implemented for client management within the new structure that allow for the Head of Internal Audit to act in a Managing Director role whilst still retaining CAE responsibility for key clients and therefore responsibility for issue of reports.</p> <p style="text-align: right;">PSIAS 2440</p>	

Resources continued

	Issue identified	Recommended action	
3	2020/21 engagement completion <p>Current year provision has been impacted by Covid and the team holding a number of vacancies.</p> <p>The shortfall in resources has been supported through use of contracted in services particularly using SWAP.</p> <p>At the time of the review, internal audit plan outcomes for 2020/21 were not available,</p>	Where these events impact upon completion of the internal audit plan and therefore the content of the Head of Internal Audit Annual opinion, a reflection on the advice provided by CIPFA should be referred to.	PSIAS 2450

Issue identified	Recommended action
<p>1 Audit Planning</p> <p>"KCC's Internal Audit mission statement is, 'To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives, manage their risks effectively and, where relevant, provide advice and insight'"</p> <p>and is supported by a statement regarding a focus on risk: "Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates', annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual plans."</p> <p>The internal audit service no longer completes a strategic plan for KCC but does for some clients.</p> <p>Current plans are supported by evidence of review of risk registers particularly at a Corporate and to a lesser extent Directorate level, being supported with comprehensive notes of meetings with managers.</p> <p>KCC Risk registers do however focus on Residual and Target risk, therefore not seeking to quantify inherent risk.</p>	<p>The current KCC corporate risk management framework is not fully based on a full three lines model; an assessment of inherent risk, existing controls and assurances is therefore not consistently available to support internal audit planning at a strategic level. Where existing mitigating controls are shown at a departmental level these should represent a basis for internal audit review.</p> <p>Consideration of risk is therefore focused largely on residual and target levels and consequently Internal Audit should determine and evidence:</p> <ul style="list-style-type: none"> a) how successive annual internal audit plans provide assurance regarding each client's business objectives and risks at a corporate and directorate level, where in the latter case at KCC 'High' risks (above 16) are identified. b) Resources are not available to provide assurance on all content within the organisations risk registers and therefore increasing documentation of how conflicting priorities have been resolved on an annual basis to focus on 'what matters most', whilst also providing continuous assurance over time would be beneficial, and c) how the intended original focus on areas included in the annual plan is aligned with the constantly changing risk environment and movements when reviewing engagement plans (see also observations regarding use of Management Objectives as a basis for each engagement, which follows). <p>Note: Risk Management processes have not been examined at all clients.</p>

Competency continued

Issue identified	Recommended action
<p>2 Management Objectives</p> <p>The Internal Audit service currently specifies the Audit Objective as part of the Scoping Document for engagements. This reflects a standard statement reflecting the purpose of internal audit.</p> <p>PSIAS 2201 provides advice regarding planning considerations for engagements and states that:</p> <p>“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 and 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”.</p>	<p>The Internal Audit Service should consider focusing each audit on agreed Management Objectives for the area for review as this would help structure the engagement on significant risks and align with the associated controls that are designed to mitigate this risk.</p> <p>Examples of how this approach might have been used as a basis for two engagements in 2020/21 has been provided.</p> <p style="text-align: right;">PSIAS 2200/1</p>
<p>3 Engagement Plans</p> <p>Engagement plans identify any risks that can be identified within the Corporate Risk Register or Directorate risk register and are then supplemented by further risks identified either by management in pre-engagement planning meetings and/or by internal audit.</p> <p>The risks identified are then supported either by a list of areas for review or identification of controls that will be audited.</p> <p>Consequently, different approaches to the structure of audits emerge.</p>	<p>The Internal Audit service intends to commission a Risk Based Audit training session once the current re-structure has been completed. It would be beneficial if this contained both an appreciation of risk management best practice and associated risk-based auditing methodologies and specific instruction on its deployment by the team.</p> <p>It would be beneficial if a direct link were created within the methodology to align achievement of a stated Management Objective with the basis for providing an opinion.</p> <p>This would also align with the functionality of the Pentana software.</p> <p style="text-align: right;">PSIAS 2120/2300</p>

Competency continued

Issue identified	Recommended action
<p>4 Use of Pentana software The Internal Audit service has relatively recently changed the audit software which is used to record engagements.</p> <p>File review identified examples of different use of the functionality of the system,</p>	<p>The team should provide further guidance on how the software is to be used and then provide consistent instruction where necessary regarding its use as this will enhance efficiency and the ability of managers to supervise audit engagements.</p> <p>The team might find it beneficial to create an 'Example file' which could be reviewed by staff as part of mandatory training.</p> <p style="text-align: right;">PSIAS 2300</p>
<p>5 Grading of Issues Issues on which the audit opinion is based currently reflect 'a risk rating' which has been devised by internal audit. This is inconsistent with terminology used by the Council in the Risk Management Policy,</p> <p>The PSIAS use consistent terminology relating to the identification and reporting on 'significant' risk.</p> <p>This will also be the case with other individual clients, where risk impact and appetite will be set according to the local risk environment and nature of the services provided.</p>	<p>It would be beneficial to align future grading of issues with those impact definitions used within the risk management process relating to each clients' risk appetite.</p> <p>In the case of KCC it is suggested that where definitions may result in a risk value of 'High' (16+), this would reflect impact definitions in categories relating to 'Serious or Major' events.</p> <p>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 determining an opinion within assurance reports through use of a consistent understanding and application of risk.</p> <p style="text-align: right;">PSIAS 2120/2201</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 Engagement boundaries <ul style="list-style-type: none"> The Internal Audit Service undertakes audits for both KCC and HoldCo and therefore is responsible for the review of both client and contractor aspects of processes. In an audit of BACS payments which was reviewed, the audit included issues relating to both client and contractor processes, without documented recognition that the objectives of each party may be different. 	<p>Whilst we recognise that HoldCo is a wholly owned subsidiary audit reviews should be focused on the specific client's management objectives.</p> <p>In the case of a commercial entity these may not be the same as that of KCC and therefore it is important that a clear understanding of the system boundaries is established.</p> <p>In other organisations, this is often achieved by allocating the contractor audit to a different team than that which services the client.</p>	PSIAS 2210/(1100)
2 IA Opinions <ul style="list-style-type: none"> 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 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>Internal Audit should consider whether there is merit to moving towards three levels of opinion – Substantial, Adequate and Limited.</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 this would indicate that a 'Limited Assurance' opinion should be used.</p>	PSIAS 2410 A1/2060

Delivery continued

	Issue identified	Recommended action	
3	<p>Quality Assurance Improvement Programme (QAIP)</p> <p>The internal audit team has a robust process for undertaking the QAIP which includes aspects of:</p> <ul style="list-style-type: none"> • Self-assessment • Hot reviews • Cold reviews • Internal assessment • External assessment, and • Customer feedback <p>The PSIAS requires a summary of outcomes to be included in the Head of Internal Audit Annual Report.</p>	<p>The Head of Internal Audit maintains a summary of those areas of its service require further development, it would be good practice to include this as an Appendix in the Annual Report.</p> <p>In Annual Reports produced for clients, other than KCC, it would be appropriate to simply include a summary of key areas of development that the service will be focusing on in the coming year.</p> <p style="text-align: right;">PSIAS 1320</p>	
4	<p>Head of Internal Audit Annual Report</p> <p>The Annual Report provides an evidenced approach regarding the basis upon which the opinion regarding risk management, governance and control has been reached.</p> <p>This includes best practice relating to the alignment with the Eight Themes of the Risk Assurance model and the of opinions over recent years provide effective oversight of the approach which works well.</p> <p>The PSIAS does however also require the CAE to bring to the attention of the Audit Committee an assessment of the significant risks facing the Council along with reference to other assurances that are available to support the opinion.</p> <p>Whilst the Council's risk management system does not include an analysis of the sources of assurance, the internal audit team are increasingly undertaking assurance mapping as routine.</p>	<p>The Head of Internal Audit should include a summary of the significant risks facing each client along with significant other sources of assurance that have been recognised when reaching the annual opinion in the Annual Report.</p>	 <p style="text-align: right;">PSIAS 2060/2450</p>

Delivery continued

	Issue identified	Recommended action
5	<p>Communication</p> <p>The feedback received from stakeholders in the review contains a number of negative observations which principally relate to maintaining an appropriate relationship with each client, its business and the service it requires from internal audit.</p> <p>These appear to differ to that gained from surveys by internal audit and may reflect the nature of an independent exercise.</p>	<p>This feedback which is summarised on page 25, may relate to the changes which have been seen in the membership of the senior internal audit management team in recent years.</p> <p>In responding to the recommendation in Resources – item 2 Internal Audit Management – the Head of Internal Audit should consider how the revised arrangements best provide for client engagement at senior levels in order to respond to the issues being raised but particularly in relation to the question ‘Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods’, and other noted comments.</p> <p>The matter of ‘Adding Value’ has been separately addressed within the section on suggested enhancements which follows as Part Two of the report.</p> <p style="text-align: right;">PSIAS 2410</p>

Part two

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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>Within KCC clients, in 2020/21 a - responses rate 47.6% has shown a satisfaction level of 94%.</p>	<p>The level of response is similar to that seen in other organisations and therefore Internal Audit may find it useful to utilise an application such as Microsoft Forms or Survey Monkey for collecting feedback, as this can prove to be an efficient means which helps achieve an early response.</p>
3.	<p>Contractual arrangements</p> <p>Present arrangements for contracting with clients utilise a Service Level Agreement and an Internal Audit Charter.</p> <p>Those matters of a professional nature relating to the PSIAS are best reflected in a detailed Internal Audit Charter that is adopted by all clients, therefore promoting a standard approach.</p> <p>It is standard practice within outsourced arrangements for the SLA therefore to include a broad statement that places the responsibility on the contractor to comply with the PSIAS and for the contractor to ensure that it has arrangements in place to manage staff and adhere to both professional requirements as well as administrative matters such as declaration of interests and PDR's, as these are not the responsibility of the client.</p>	<p>It may be more to develop an appropriate Service Level Agreement for the provision of a future internal audit services by Kent County Council, which could include expectations of each client including appropriate performance measures.</p> <p>Matters of a professional nature regarding routine compliance with the PSIAS should become matters covered within an Internal Audit Charter, which reflects the service provided and appropriate to all clients.</p> <p>Such requirements would then be managed using standard contract and performance monitoring arrangements.</p>

Suggested Enhancements for consideration

	Issue identified	Recommended action
4.	<p>Standard Engagement report</p> <p>The current template includes a statement reflecting compliance with the Standards for the Professional Practice of Internal Auditing</p>	<p>Consider whether this should more appropriately reflect the PSIAS for public sector clients.</p> <p>It may also be appropriate to include reference to compliance with the Code of Ethics.</p>
5	<p>Release of Engagement Reports</p> <p>Engagement reports are currently issued under the name of the report Author and Audit Manager.</p>	<p>Consider in conjunction with recommendation Resources (1) releasing the report in the name of the responsible CAE and then referencing any internal staff that have been involved.</p>
6	<p>Adding Value</p> <p>Whilst there is no reference to how internal audit is expected to 'add value' with the PSIAS, the concept can be seen in many different forms. Nevertheless, the definition of internal audit shown below does imply a requirement to make recommendations which make a positive difference being:</p> <p>"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."</p> <p>The client expectation in terms of 'Added Value' is often unique to a client or an individual however observations recorded within the client survey indicate that a number of respondents would like to see more from internal audit in terms of new ideas and best practice.</p>	<p>Whilst it is appreciated that where outsourced service providers have limited access to a range of clients within each of the sectors being serviced, in order to advise on best practice, the internal audit service should consider how it can best react to the feedback provided and consider:</p> <ul style="list-style-type: none"> a) Inclusion of relevant wording of advice to highlight such matters' b) Enhancing the skills and training matrices to focus on specific sector or technical areas. c) Forming a peer group of internal audit providers with whom views regarding alternative approaches can be shared. d) Researching Audit Committee papers from other organisations to identify common themes and recommended practice elsewhere. e) Increasing the range of specialist and professional groups with which internal audit staff engage, and f) Developing a 'best practice' database of relevant management objectives, significant risks, controls and relevant legislation that can be used to support planning.

Suggested Enhancements for consideration

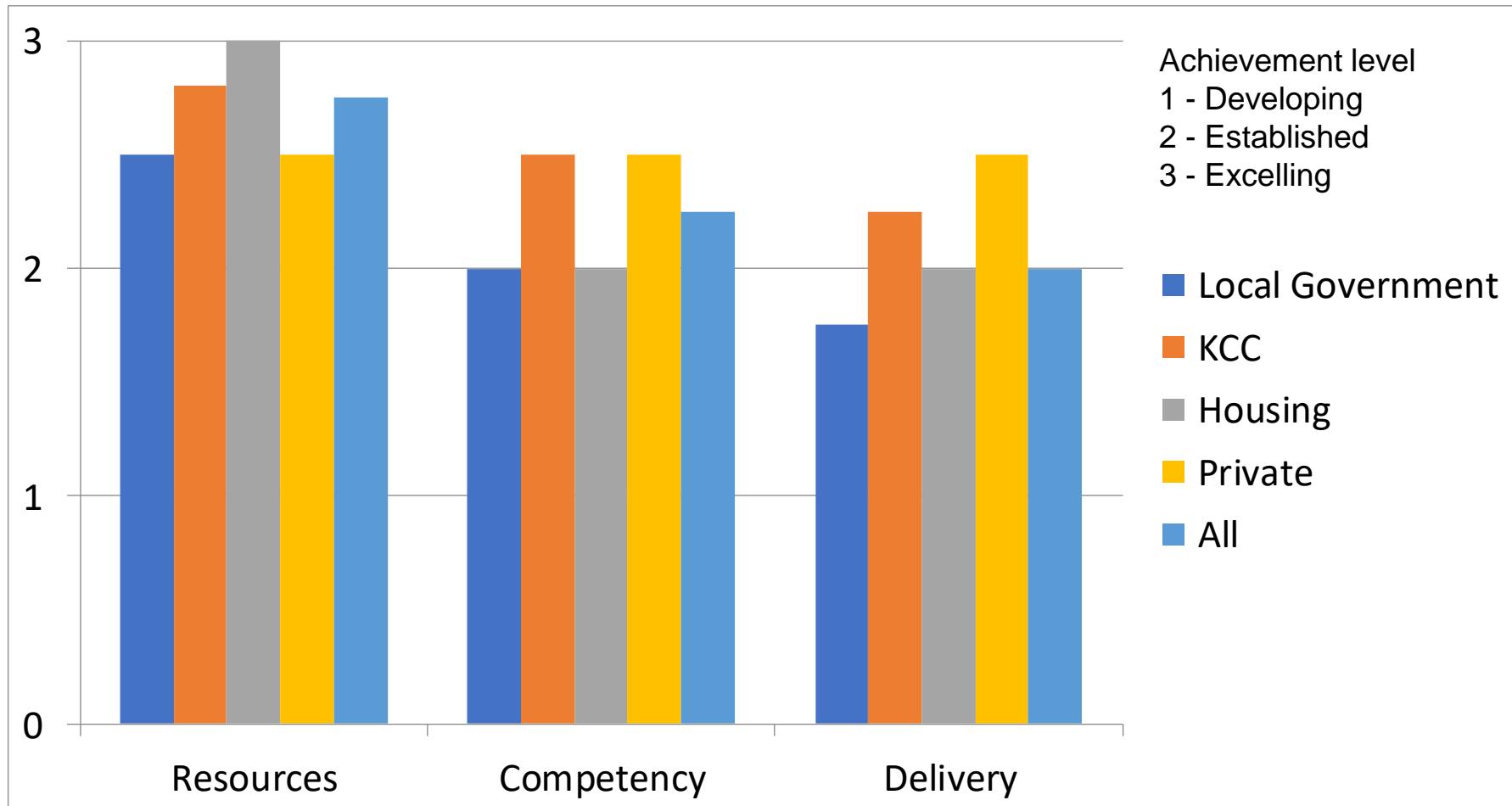
	Issue identified	Recommended action
7.	<p>Internal Audit Manual</p> <p>The current manual provides extensive guidance regarding the policies and procedures which guide internal audit activity.</p> <p>The Manual is cross referenced appropriately to the PSIAS and is supported by detailed instruction regarding the recording of internal audit activity on the Pentana Audit Software.</p>	<p>A previous recommendation noted that the team intended to commission a Risk Based Internal Audit training session.</p> <p>It may be useful to support this with inclusion of a 'softer' explanation within the introduction to each section of the Internal Audit Manual to provide guidance regarding:</p> <ul style="list-style-type: none"> a) The relevance of the section to maintaining a constructive relationship with the client, bearing in mind the nature of their business, b) The aims and anticipated outcomes arising from each element of audit work, particularly in relation to any practices that are amended as a result of this review such as focus on Management Objectives or the conduct of an Exit Meeting using the proposed template, and c) How these relate to the conduct of the engagement particularly in relation to significant risk and its alignment with each client's approach to risk management.
8.	<p>Use of sub-contract support</p> <p>There has been a need to use contracted-in support during 2020/21 to supplement internal audit delivery.</p> <p>Experience in the current market-place shows that the available resources are limited and therefore ensuring that quality is maintained is a key aspect.</p> <p>Support can be obtained from professional firms/outsourced providers and through the use of individual self-employed auditors.</p>	<p>When contracting with external arrangements, it would be good practice to review or confirm the status of the most recent EQA report, where there is available with regard to professional firms and other outsourced providers.</p>

Part three

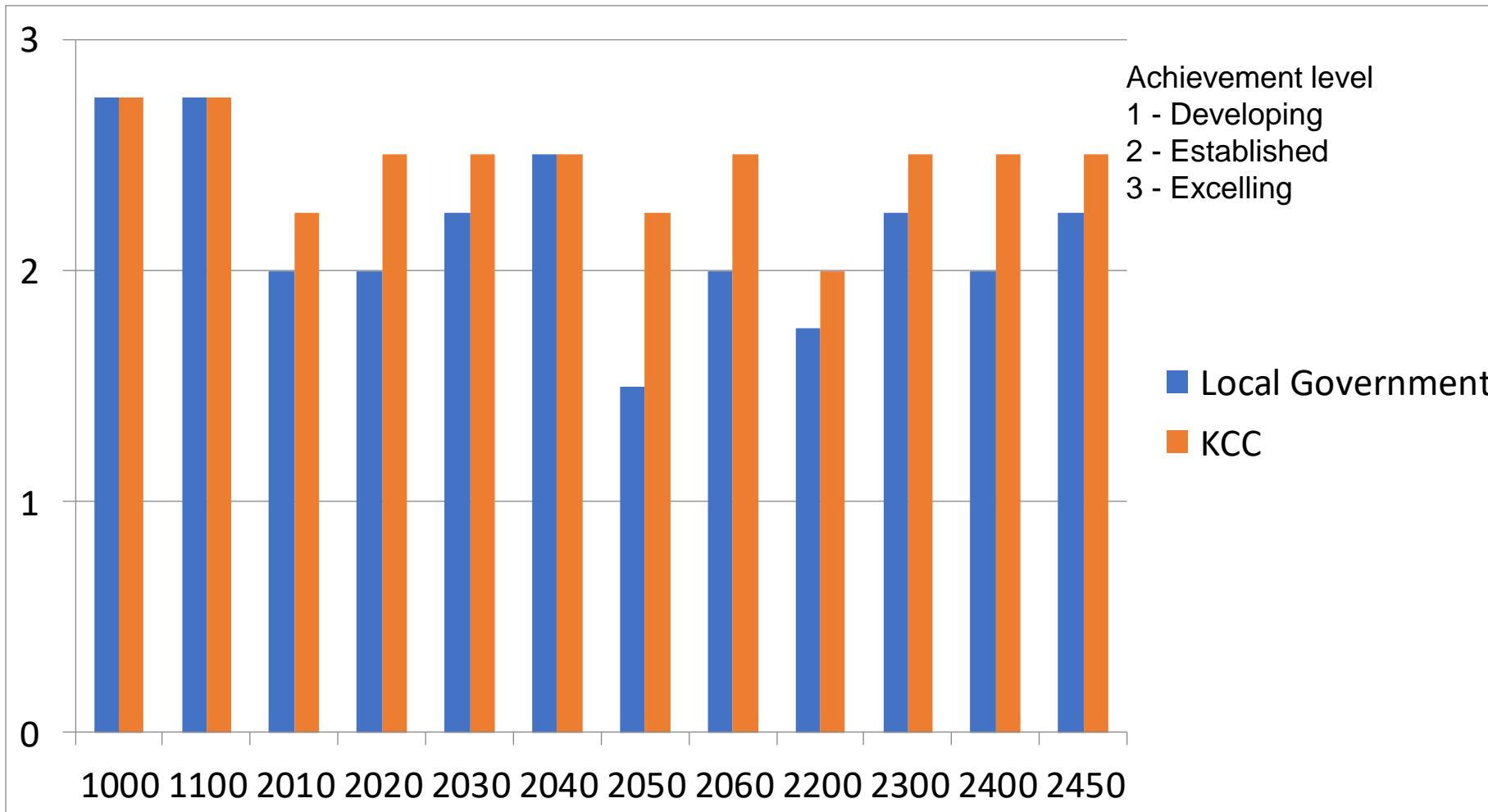
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Benchmarking

Benchmarking - Sector analysis



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.	90	10
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.	90	10
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?	90	10
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	75	25
Average	93%	7%

Conclusion:

Feedback from stakeholders confirms that Kent County Council is considered to provide a high-quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded.

Those responses where negative feedback has been received may reflect a number of the findings of the review in so far as they reflect the potential increased recognition of management objectives and inherent risk in addition to consideration of adding value through continuing to develop client relationships to mutual benefit.

Relevant observations (summarised for purposes of report)

The IA function is stretching itself too thinly. The Audit Plan is too ambitious and doesn't include much of the added value work through embedded assurance. As such, total resources are too limited which is leading to challenges on timeliness of reports (not the quality of reports). IA should really reconsider whether they are sufficiently considering risk in determining the Audit Plan

I think that the service has noticeably transformed over the past 18 months. The culture has moved from being one of bayonetting the wounded towards an evidence-based model of helping the organisation be the best that it can be.

In our experience audits are positive engagements. However, I do believe that IA field operatives need to develop their reference points wider than KCC as those operating as commercial entities have a different risk appetite for some operational activities.

My responses to this questionnaire have been based on what I have seen delivered by our previous Head of Internal Audit.

I agree with the statement about Internal Audit understanding the organisation and what it is trying to achieve, but there is room for improvement as the function sometimes sees disagreement with its views/findings/plans as resistance and obstruction rather than a differing viewpoint.

Internal audit offer a good quality service which is extremely valuable.

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

Issued 26 Returned 22 Response rate 85%

% Client responses received

KCC	80	KFRS	100	HoldCo	100	IC24	100	TMBC	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

Basis for overall opinion

Generally Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

Partially Conforms means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

Does Not Conform means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

Source: Institute of Internal Auditors (2016)

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.