Responses to Recommendations from the External Quality Assessment

Generated on: 11 May 2017

Tamworth
Borough Council

PSIAS Compliance Area	Findings	Recommendation	Priority	Management Response	Implementation Date	Assigned To
Page 261 Competency	**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 assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council. The analysis uses different definitions of risk impact to those approved within each Council's risk management strategy. There should be a direct and identified link between the internal audit plan content discussed with Management and the Audit Committees and the risk based reasoning for inclusion of the assignment in the audit plan as the plan finally 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 the preparation of the terms of reference for each assignment. The focus for assignments can therefore	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.	Medium Priority	Agreed. Where risk registers are in place, they are included in the audit needs assessment. It is recognised that this is the correct way to assess the audit needs, but until all risk registers are in place, this cannot be achieved. This is a long term objective to improve risk registers.	31-Mar-2019	Angela Struthers

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	be shown to directly relate to the value of the 'control risk' and as a result an opinion based upon the robustness of the controls and assurances available to management and the Council. Tamworth BC and Lichfield DC both use an annual 'Managers Assurance Statement' process to support the Governance Statement.					
Page 262 Competency	**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 assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council. The analysis uses different definitions of risk impact to those approved within each Council's risk management strategy. There should be a direct and identified link between the internal audit plan content discussed with Management and the Audit Committees and the risk based reasoning for inclusion of the assignment in the audit plan as the plan finally 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 the preparation	The internal audit planning process should further identify and document other sources of assurance that are available and upon which Councils can place reliance, which may be available if formally recorded within the annual Governance process.	Medium Priority	Agreed. Other assurance sources identified are recorded on the audit needs assessment. Will review the assurance gathering process for the Annual Governance Statement to ensure that additional sources of assurance are identified.	31-Mar-2018	Angela Struthers

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	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 upon the robustness of the controls and assurances available to management and the Council. Tamworth BC and Lichfield DC both use an annual 'Managers Assurance Statement' process to support the Governance Statement.					
Competency	**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 assessment devised by internal audit; rather than reflecting wider risk issues identified by each Council. The analysis uses different definitions of risk impact to those approved within each Council's risk management strategy. There should be a direct and identified link between the internal audit plan content discussed with Management and the Audit Committees and the risk based reasoning for inclusion of the assignment in the audit plan as the plan finally approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures,	The starting point for the development of the Terms of Reference is a preliminary discussion with management regarding the inherent and residual risks relevant to the audit area under review. This process could be more robust. It may aid assignment planning, if the management objectives for the area under review were also identified. This should result in the formation of a direct link with the Authority's risk register and the key	Medium Priority	Agreed. Risks are identified on the prelim audit assessment and the audit pre meet document. Whilst some risk based audits are being completed, it is recognised these need to increase. The audit templates will be changed to show the risks to the area being audited rather than control objectives	31-Mar-2018	Angela Struthers

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	controls and assurances upon which the Council relies. In turn this should drive the 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 upon the robustness of the controls and assurances available to management and the Council. Tamworth BC and Lichfield DC both use an annual 'Managers Assurance Statement' process to support the Governance Statement.	mitigating controls highlighted, thereby aiding the understanding and ability of members of the Audit Committee to contribute to the assurance agenda.				
Competency	**Approval of Internal Audit Plans** Current arrangements provide for the Audit Committee to 'receive, but not direct' the internal audit plan; this importantly retains the independence of internal audit.	The HoIA should continue to observe priorities that are discussed at Audit Committee and reflect on the degree to which attention should be given to these within the developing risk based planning process.	Medium Priority	Agreed. Already in place		Angela Struthers
Competency	**Audit Manual** The internal audit manual represents a comprehensive record of the practices to be followed by internal audit staff and aligns with the PSIAS. Instruction regarding the use of Covalent also exists in a form which reflects a user guide.	The internal audit manual should be updated to reflect greater alignment with the risk management policies of the client authorities particularly in relation to the various aspects	Low Priority	Agreed The manual will be updated to reflect the risk management policy	31-Mar-2018	Angela Struthers

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	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 client local authorities would be beneficial.	relating to planning and reporting (grading of recommendations and opinions) that have been identified within the EQA.				
Competency	**Performance and Delivery Review (PDR)** The annual performance review of the Head of Internal Audit Services is to be undertaken by the line manager as S151 Officer at Tamworth Borough Council in accordance with the approved policy.	The PDR process should be informed by inviting the S151 Officer at Lichfield District Council and the Chairs of the two Audit Committees to provide input to the process.	Low Priority	Not agreed This will be too complicated to complete		
Delivery	**Assignment Planning** The service currently initiates each audit through engagement with management which provides for creation of Terms of Reference; this is then shared with management as an agreed basis for the audit. At present red priority recommendations are determined and laid in down in the pre meet document , albeit these are not necessarily aligned directly to the Councils risk management system. The assignment is then structured around a framework of expected controls and which is loosely related to risks which have been considered with management.	Internal audit working papers should focus on major risks to the Council that have been identified and discussed with the auditee; this should include an assessment of the inherent risks in each area (regardless of whether these are specifically recorded with the risk management system). Terms of Reference should be constructed based upon the principal risks	Medium Priority	Agreed The terms of reference will be updated to reflect this	31-May-2017	Angela Struthers

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		identified and not expected controls. This will allow the audit to naturally reflect assurance regarding the risks identified within the 'Control Matrix'. The service should also seek to identify and record the other assurances available at an early stage in each assignment as this will aid staff when formulating an overall opinion. An example template is provided at Appendix A.				
Delivery	**Focus on Pre-identified Controls** Assignments are currently undertaken by reference to controls; there is a tendency for these to reflect KLOE based controls or those from previous audit work rather than be generated to reflect the materiality of the current risk involved. The service has more recently commenced consideration of wider risk aspects relating to the area subject to review.	The use of risk as a basis for the control matrix will allow auditors to focus on the key controls and assurances which reflect the most material control risk to the area under review. The service should continue to develop pre-audit communication with management to focus on significant risk and	Medium Priority	Agreed Development in this area will continue	31-May-2017	Angela Struthers

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		key controls.				
Delivery	**Control Matrix Templates** Assignments commence with meetings with officers at which information is gathered relating to how the system works. The control matrix then contains a record of the information including actual controls. The manner and detail in which these notes are made varies considerably from 'brief' to 'comprehensive'. Recording sufficient evidence is an important aspect of internal audit work however extremes are to be avoided if both professional standards and expectations regarding efficiency/effectiveness are to be realised.	Recording the system in note form and the essential detail of interviews is regarded as good practice. The managed service should discuss what is expected in terms of best local practice and provide appropriate instruction to staff regarding required practices.	Medium Priority	Agreed This will be reviewed to ensure that the most efficient and sufficient detail is recorded	31-Aug-2017	Angela Struthers
Delivery	**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.	The managed services should utilise the functionality of the Covalent software to provide a documented trail of supervision throughout the audit and cross reference to discussions and correspondence by email; in addition to the formal record that currently exists when approving the draft report.	Low Priority	Agreed The current practice will be increased to take into account intermediate supervision	31-May-2017	Angela Struthers

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Delivery	**Closing Meetings** At present the draft audit report is used as a basis for an exit meeting with management.	The HoIA should consider whether in using production of the draft report as the basis for the exit meeting, Auditors should scan in any notes taken as part of the exit meeting in order to support and evidence production and finalisation of the report.	Low Priority	Agreed The draft report is used as the basis for the exit meeting. The notes taken here will be scanned and attached to the audit file	31-May-2017	Angela Struthers
Delivery	**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 being made. Different grading structures are used by internal audit at the two Councils. The basis for grading of recommendations should influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest impact category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'. Aligning the grading of internal audit recommendations with the	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 and perhaps support this with RAG rated colours linked to	Medium Priority	Not Agreed The grading of recommendations is included in the pre-audit brief. High, medium and low priority are built into the audit system. An enhancement request has been made to the software supplier to also include the RAG rated colours. The risk appetites within the risk management system are felt to be too far from the audit recommendations and as such the majority of the recommendations will be low and therefore not followed up. The risk management appetites will be reviewed in line with the audit recommendations	31-Mar-2018	Angela Struthers

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	impact/likelihood gradings within the Councils risk management system provides a consistent understanding of the relative importance of findings within both the internal audit team and those being audited. At present the service prefers to retain a basis which provides flexibility for the CIA to determine the grading of the recommendations being made and the overall opinions. This does however lead to inconsistencies with regard to grading of recommendations and overall assurance opinions.	the 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.		assessment and aligned		
Page 269 Delivery	**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 being made. Different grading structures are used by internal audit at the two Councils. The basis for grading of recommendations should influence the overall opinion for each audit directly, for example if a risk falling into a definition of the highest impact category is identified (potential for death, loss greater than £500k) then the assurance level given is reduced. Any risk of this nature should automatically trigger a negative audit opinion of 'limited assurance'. Aligning the grading of internal audit	Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports at Lichfield DC; 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 internal audit through concentrating on things that really matter in relation to significant risk as defined within risk	Low Priority	Agreed Already implemented	10-May-2017	Angela Struthers

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	recommendations with the impact/likelihood gradings within the Councils risk management system provides a consistent understanding of the relative importance of findings within both the internal audit team and those being audited. At present the service prefers to retain a basis which provides flexibility for the CIA to determine the grading of the recommendations being made and the overall opinions. This does however lead to inconsistencies with regard to grading of recommendations and overall assurance opinions.	management policies.				
Delivery	**Audit Opinions - Overall Opinions** These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and CIA of the draft report prior to release. The overall opinion is based on the aggregate of the opinions on the control objectives and not the level of risk identified. 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	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: - Where a fundamental risk (red) is identified that limited assurance is given. - Where significant risks (amber) are identified then adequate assurance	Medium Priority	Not agreed The current practice reflects an acceptable approach		Angela Struthers

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	grading of those recommendations being made.	is given, and - Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given. Provide example as Appendix C.				
Delivery	**Audit Opinions - Overall Opinions** These are currently based upon the personal judgement of each auditor, within the definitions specified as relating and subject to review by the supervisor and CIA of the draft report prior to release. The overall opinion is based on the aggregate of the opinions on the control objectives and not the level of risk identified. 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.	Reducing the levels of opinion to three at both Councils would provide a clearer indication of the assurance being provided and represent a more straight-forward and consistent approach for internal audit staff to administer.	Low Priority	Not agreed The four opinions are felt to be acceptable. Lichfield District Council's opinions have been reduced from 5 to 4		Angela Struthers
Delivery	**Annual Report** The CIA produces an Annual Internal	In alignment with recommendations made earlier, the	High Priority	Agreed The suggested opinion will be	31-May-2017	Angela Struthers

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Page 272	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 AM and therefore: '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'. The report for Lichfield District Council in 2015/16 recorded: "Based on the findings of our work undertaken during the year, our overall opinion on the soundness of the governance, risk management and control arrangements is that it was adequately controlled. The overall opinion for each review conducted is given in Appendices C and D, attached to this report; areas for improvement were identified in a number of reviews and action plans agreed. At Tamworth Borough Council the opinion was expressed as: "Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, my overall opinion on the control environment for this quarter is the "reasonable" assurance can be given." Whilst this reflects a better position it could be beneficially structured to meet the requirements of the PSIAS.	internal audit plan should be constructed to provide an explicit link to risk and the other assurances available so that the AM is able to provide wider assurance to each Authority in support of the governance statement. Best practice is that the Annual Report should also contain reference to all significant risks 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 B		used		

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