

Internal Audit

External Quality Assessment Follow Up – Final Report

Sevenoaks District Council
February 2018



Adrian Rowbotham
Sevenoaks District Council
Council Offices
Argyle Road
Sevenoaks
Kent
TN13 1HG

05 February 2018

Dear Adrian,

Please find enclosed our memorandum in relation to the follow up of the 2015 External Quality Assessment of the Sevenoaks District Council Internal Audit function (“the Internal Audit function” or “Internal Audit”) in accordance with our Engagement Letter dated 8 August 2017 and the related Terms and Conditions.

The PwC team, including Stuart Brown, Sam Wilkinson and myself, would like to recognise the contribution, support and assistance we received from the Internal Audit team and management during the course of the review.

Yours faithfully,

For and on behalf of PricewaterhouseCoopers LLP

A handwritten signature in black ink, appearing to read 'Justin Martin', with a horizontal line drawn across the middle of the signature.

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External Quality Assessment Follow Up Memorandum

1. Background

The purpose of the review was to follow up on the implementation status of the External Quality Assessment (EQA) review undertaken by us in 2014-15. Our follow up review included a self-assessment against the previous recommendations raised, including corroboration to supporting documentation and internal audit working papers; and interviews with key business and Internal Audit stakeholders.

The Internal Audit service for Sevenoaks is shared with Dartford Borough Council and this assessment has been undertaken as a joint exercise but is reported separately to each Council. We have considered the context and organisation of the Internal Audit service at each council separately.

2. Scope of our work

The scope of our follow up review was as follows:

- We reviewed the progress made against the action plan that was agreed to address the findings raised in the Internal Audit EQA completed in May 2015. Results of the progress that has been made is summarised in sections 3 and 4, and detailed in full in Appendix A.
- As part of the work in 1 above, we have undertaken a high level review of whether the Internal Audit service aligns to the needs of audit stakeholders and good practice seen at other councils. This is detailed in sections 5 and 6.
- In addition, we considered the current structure of the Internal Audit team and identified points for consideration to help the Internal Audit service meet the needs of audit stakeholders. This is detailed in section 7 and we have included a summary of some of the options available within Appendix B and C.

3. Summary of progress against EQA recommendations





We have found that positive progress has been made in many areas to improve the Internal Audit service due to the efforts of the Internal Audit team and management. However, further work is required to ensure that the service is aligned to good practice and wider stakeholder needs. The table below summarises the progress made against the EQA recommendations raised in each area:

	EQA Rating (2015)*	Number of recommendations				EQA Follow Up Rating (2017)	Direction of travel
		Raised in the EQA	Not implemented	Partially implemented	Fully implemented		
Organisation and independence	●	3	2	1	-	●	↔
Audit team	●	2	2	-	-	●	↔
Quality assurance and audit management	●	6	1	2	3	●	↑
Communication and Reporting	●	6	-	3	3	●	↑
Quality, Tools and Performance Management	●	4	-	2	2	●	↑
Total		21	5	8	8		

*an explanation of the ratings used are detailed on page 2

EQA Ratings

The following ratings were been to assess each area in the initial EQA:

- | | | | |
|--|---|--|--|
|  Good practice and in some areas at leading practice based on PwC experience and benchmarks |  Good practice with some minor improvements or opportunities to align to management expectations |  Satisfactory with scope for improvement |  Unsatisfactory with significant issues |
|--|---|--|--|

The EQA recommendations raised in 2015 have been assessed and RAG rated as follows: not implemented, partially implemented, or fully implemented.

Where applicable, follow-up actions have been raised which are required to fully implement the findings from the External Quality Assessment. These are detailed in Appendix A.

4. Key observations from follow up of EQA recommendations

5. The observations from our review of the implementation of the EQA recommendations are detailed in Appendix A alongside an action plan to take the recommendations forward. The key observations are summarised below:

1. Organisation and Independence

A coherent strategy and vision still needs to be developed to ensure that the Internal Audit team, and the wider organisation, has a clear understanding of what Internal Audit can deliver and what it wants from its Internal Audit service going forward. Consideration should be given to the needs of stakeholders (section 4), alignment with best practice (section 5) and considerations for the future (section 6).

In addition, we noted that independence safeguards and updates are required to the Internal Audit Charter and Service Level Agreement to ensure these remain fit-for-purpose.

2. Audit team

We identified that only limited progress has been made against the recommendations raised as part of the EQA in 2015. We understand that this is due to staffing pressures within the Internal Audit team. A skills assessment of the current team should be undertaken to identify any gaps against the Internal Audit strategy once developed. Once completed, a schedule of training should be implemented to help develop individuals in the team to meet any skills gaps and to ensure the continual personal development of the Internal Audit team.

3. Quality assurance and audit management

The majority of the EQA recommendations raised in this area have begun to be implemented. However, training is required to help embed the new processes and ensure there is adequate focus on quality. In addition, the audit manual requires updating to ensure it is a useful tool for the Internal Audit team. Any review of the operating model or structure of the function should ensure robust quality assurance and audit management processes remain in place.

4. Communication and reporting

Improvements have been made to the communication of the annual opinion to the Audit Committee, and the reporting to them over audit and implementation performance. The majority of EQA recommendations in this areas have now been implemented. However, we found that key audit stakeholders remain unclear on the range of services offered by Internal Audit, and where they can add further value.

5. Quality, tools and performance management

There has been good progress against the EQA recommendations in this area, including the implementation of the audit management system, *Teammate*. However, improvements should be sought to ensure the Internal Audit team fully utilises the functionality of Teammate and that they have access to appropriate technology, for example data analytics tools, and adequate knowledge sharing is in place to share good practices across each Council.

6. The needs of stakeholders

As part of our follow up to the EQA, we met with key stakeholders across both of the councils in the shared service to understand whether the Internal Audit function currently meets their needs. The following themes were identified from our interviews:

Engagement and alignment with the wider business - In general, stakeholders noted that engagement between the wider-business and Internal Audit requires improvement. The interviewed stakeholders noted that Internal Audit needs to solidify its position as a trusted advisor within the Council to ensure it has the engagement and buy-in from the wider-business.

Skills within the Internal Audit team - Stakeholders noted improvements in the service delivery, though there remained concerns regarding the team's ability to provide deep insight in complex areas. Stakeholders noted that due to staff changes within the team there had been historic issues in the consistency of understanding of service areas.

Understanding what Internal Audit can deliver/ value-add reviews - It was noted that stakeholders had begun to use Internal Audit to undertake 'value add' reviews, rather than more traditional, compliance-based audits. However, there was a lack of understanding of where Internal Audit had the skills and ability to deliver these types of reviews. In particular, there was a lack of understanding of how and where Internal Audit could add value, and what other services they could offer.

Improvements in the delivery of Internal Audit work - We found through interviews with key stakeholders that there has been an overall improvement in the perception of the Internal Audit service. There was positive feedback in how the audit plan was being managed and the timeliness of delivery. Stakeholders noted that the insight within reporting had begun to improve, however, there was a need to ensure that the Internal Audit team had the relevant skills to deliver deep value.

Aligning with stakeholder needs

To align to the needs of the stakeholders, identified above, the Internal Audit service requires robust leadership to ensure that a clear strategy and vision is developed to meet stakeholder needs. This will help solidify Internal Audit's position within the Council and help foster greater engagement with the wider-business. As noted in the section above, this has not yet been implemented from the previous EQA recommendations.

Internal Audit should ensure it truly understands, and therefore aligns its work to, the key risks facing the Council. This should include assessments of all current risks, and those risks emerging across the sector and from changes in the way that the Council operates. We noted improvements in this area, from the previous EQA, and an Audit Needs Assessment is now undertaken annually. In addition, Internal Audit is represented on the Procurement Working Group and Safeguarding Group. The Acting Internal Audit Manager is also a member of the Council's Risk Management Working Group, which helps to ensure that the Internal Audit team are aware of current and emerging risks.

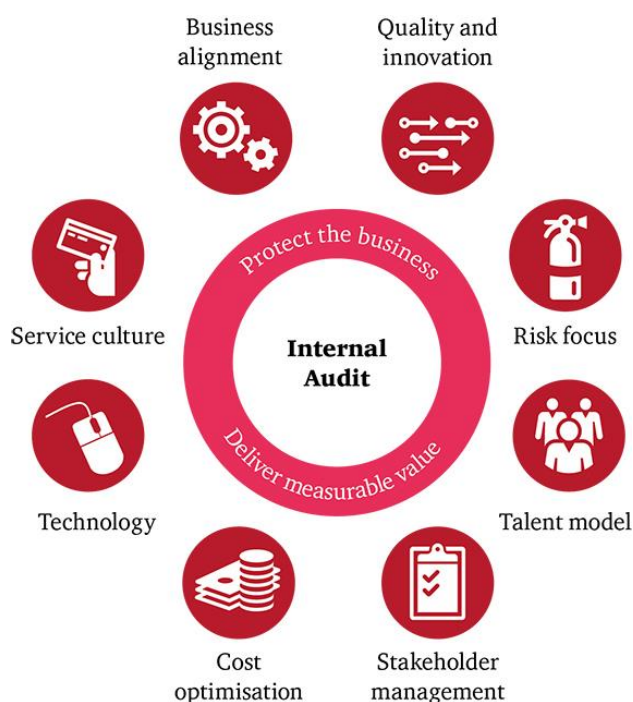
Where specialist skills are required to provide assurance over these key risks, Internal Audit should ensure that the team have the skills and ability to do so. Where built up, these skills and abilities should be communicated to the wider-business, and key audit stakeholders, to ensure they are utilised effectively.

In developing the Internal Audit service, consideration should be given to the needs of audit stakeholders alongside good practice seen across the sector, which is detailed below.

7. Alignment with good practice

We have set out above what stakeholders across different service areas value from Internal Audit and the level at which they feel Internal Audit is operating at the moment. This has identified that there is more to do in the areas of leadership of the Internal Audit function, skills and capabilities and the value and insight that Internal Audit can add.

PwC has identified Eight Attributes of Internal Audit Excellence, which are set out in the diagram below:



These attributes are framed around the two key functions of a successful Internal Audit function: **to protect the business** and **to deliver measurable value**.

From discussion with key Internal Audit stakeholders, our review identified the following:

- **Business alignment:** The Internal Audit service needs to ensure that it understands the key objectives of the business and the associated risks and focus its work around this. This included the need for the Internal Audit to be more forward looking, providing support and input to projects.
- **Stakeholder management:** Internal Audit should ensure they continue to build on their current relationships with senior management to help the function further align with the organisation's direction of travel and to focus on the key risks and priorities.
- **Talent model:** The need for Internal Audit to be able to draw down on specialist skills to cover emerging risk and complex risks, for example, those within IT.
- **Technology:** Internal Audit has successfully implemented Teammate as its audit management software. This is a positive step forward which should help to promote a consistency of approach and enforce quality assurance processes.
- **Risk focus:** Due to resource constraints and limited access to specialist skills the Internal Audit plan does not pick up on some of the key risk areas facing the Council, for example, IT risk, contract management and key programme reviews.
- **Service culture:** Feedback was that the experience of working with Internal Audit has improved, due to improved personnel and processes developed over the last 12 months.
- **Quality and Innovation:** The quality review process has improved with all working papers and deliverables being reviewed by the Acting Internal Audit Manager. Innovation in audit, including the use of data to enhance the audit approach is limited and although the Acting Internal Audit Manager does interact with peers at the Kent Audit Group further work is needed to refresh and bring new ideas to further progress the audit approach.
- **Cost optimisation:** We are unable to comment on cost optimisation as cost benchmarking has not been undertaken as part of this review.

8. Future considerations

Key considerations for the future

From our consideration of the progress made against the action plan raised during our EQA (section 4), the views of stakeholders (section 5) and alignment with good practice (section 6), there are a number of considerations and decisions which need to be made to ensure the Internal Audit service provides the best value to the Council.

In Appendix C, we have detailed some questions for the Council (along with Dartford Borough Council) to consider. These should be discussed to decide upon Internal Audit's strategy, vision and thus what the best delivery model would be for both councils. Below, we have provided some insight, which should be considered.

Structure and Delivery Model

Having the right structure and delivery model is important to have an effective and efficient Internal Audit function. There are several different models for the delivery of an Internal Audit service. These include:

- In-house;
- Co-source;
- Outsource; and
- Shared service.

There are advantages and disadvantages with each model and the Council will need to decide which model would work best to meet its requirements. In Appendix B, we have summarised the key pros and cons that should be considered for each model.

The Council is currently in a shared service with Dartford, which involves the core principles of a shared service, albeit the staff are currently still employed by their original Council and no separate vehicle has been set up to house the shared service. This is a model that we have seen elsewhere in local government. We have also seen similar models where the shared service is fully hosted by one Council, with all employees directly employed by that Council on harmonised terms and conditions (for example, the Ealing Shared Service).

In the Kent area there are a number of established Internal Audit partnerships and shared service models. In Kent we understand that there are the following:

- Dartford Borough Council and Sevenoaks District Council;
- Kent County Council and Tonbridge and Malling;
- East Kent Internal Audit Partnership (Thanet, Canterbury, Dover, Shepway); and
- Mid Kent Internal Audit Partnership (Ashford, Maidstone, Swale, Tunbridge Wells).

The Council should consider these options to understand which would fit best with the needs of the stakeholders across both Councils and deliver greatest value.

Appendices

Appendix A – Detailed outcome of follow up

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
1. Organisation and independence			
1.1 Strategy and vision			
<p>The Audit, Risk and Anti-Fraud Manager should work with key stakeholders including the Chief Executive and the board to understand expectations of Internal Audit; what they want from the service now and in the future. This should be captured in an updated strategy and vision for Internal Audit and an analysis undertaken to determine what additional skills and resources are needed to achieve this vision (see further recommendations below on Audit Team).</p>	<p>There remains a lack of clear strategic vision for the shared Internal Audit service.</p> <p>Through interviews with the Internal Audit team and key audit stakeholders, we noted that there remains a gap in what Internal Audit delivers and where stakeholders would like the service to be. This includes a lack of awareness from some stakeholders of what Internal Audit could deliver to provide better value in their service areas.</p> <p>A clearly defined vision and strategy would provide clarity over Internal Audit's priorities to both the Internal Audit team, and the wider organisation. This would also help to ensure that available resources are prioritised and most effectively utilised.</p>	Not yet implemented	<p>A vision and strategy for the Internal Audit service should be considered with input from key stakeholders and senior management. A clear vision of what role Internal Audit will play, and how this will be achieved, should be developed. This should include any investment that is required to get there, e.g. IT infrastructure and training.</p> <p>The strategy should ensure that Internal Audit's objectives are clear and expectations are managed within the Internal Audit team and the wider organisation.</p>
1.2 Internal Audit Charter			
<p>A number of improvements should be made as follows:</p> <ul style="list-style-type: none"> - The Charter should clearly define the 'board' and 'senior management' within the Authority; - Further detail should be included on work undertaken outside of the audit programme and independence safeguards in place to maintain auditor independence; - The PSIAS state that the Charter should define the role of Internal Audit in fraud related work; this is not captured in the Charter at present; and - Reporting in place, including the annual summary report should be noted in the Charter. 	<p>The Internal Audit Charter was updated following the EQA to include those areas noted in our initial recommendation.</p> <p>However, through discussion with the Internal Audit team, it was noted that there are additional conflicts of interest, where team members are undertaking risk management and procurement roles without any identified safeguards in place.</p>	Partially Implemented	<p>The Internal Audit Charter should be updated to identify all conflicts of interest within the service and appropriate mitigating safeguards. The Charter should be updated periodically to ensure it remains up-to-date.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
1.3 Service Level Agreement (SLA)			
Ongoing operational issues should be resolved as a matter of urgency and the SLA should be updated and finalised to ensure arrangements for the provision of the Internal Audit service are clear.	<p>There is no up-to-date Service Level Agreement ("SLA") in place between the two Council's (Dartford and Sevenoaks) regarding the shared Internal Audit service.</p> <p>A number of operational challenges have been raised, which currently impact the audit shared service. These include IT, office location and differing performance and appraisal systems across the two Councils and thus between audit team members.</p> <p>As noted in 1.1 above, through discussion with stakeholders, it was identified that they would benefit from greater communication over what services Internal Audit can provide. This would help to ensure that Internal Audit provides value and would help to raise the profile of the function.</p>	Not yet implemented	<p>An SLA should be agreed by both Council's regarding the Internal Audit service to ensure that arrangements for the provision of Internal Audit services are clear.</p> <p>The operational issues should be resolved through partnership working and the SLA updated and finalised to confirm arrangements.</p> <p>Once an Internal Audit strategy and vision have been agreed (see 1.1 above), a brief of services offered by Internal Audit should be created. This should be communicated with senior management across the Council and be utilised to drive conversations in the planning of next year's audit plan.</p>
2. Audit team			
2.1 Skills assessment and training/ development plan			
The Audit, Risk and Anti-Fraud Manager should undertake a skills assessment of the current team against audit needs of the Council now and in the future. Where gaps are identified a training/ development plan should be created to align the audit team to the current and future audit needs of the Council.	<p>There has been no skills assessment or formalised training programme for the Internal Audit team to ensure they have the necessary skills and development opportunities in place.</p> <p>Without this it may be impossible to identify the gaps in the skills of the Audit Team, against the</p>	Not yet implemented	Once the Internal Audit strategy and vision have been created, the Internal Audit team should consider the skills and training needs of staff to ensure that the service can meet its strategic objectives.

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
In some cases it is not practical or possible to train an in house team to cover all of the specialist areas that an Internal Audit function needs to look at. Therefore, a review of the operating model is required to determine whether such skills and experience can be sought from within Council departments (on a secondment basis), from audit functions at other Councils or from private sector Internal Audit providers	audit requirements of the Council, to fill these as required with training, secondments or purchasing services.		Where gaps are identified a training/ development plan should be created to align the audit team to the current and future audit needs of the Council (see 2.2 below) As previously noted, it is not always practical or possible to train an in house team to cover all of the specialist areas required from an Internal Audit function. Some options for consideration to take this forward have been set out for management's consideration in Appendix B
2.2 Training			
Weaknesses were identified in audit files reviewed, see 2.3.3 and 2.3.4. There are therefore some immediate training needs within the audit team including articulation of risk and identification of controls	As noted in 2.1 above, there remains a lack of formalised training, e.g. skills matrices and training schedules, to ensure the Internal Audit team have the necessary skills and development opportunities in place.	Not yet implemented	Once the Internal Audit strategy and vision have been created, the Internal Audit team should consider the skills and training needs of staff to ensure that the service can meet its strategic objectives. Formalised training should be introduced to support the development of skills within the Internal Audit team. This will help ensure that the team have clear development goals and ensure that Internal Audit provides value to the Councils.
3. Quality assurance and audit management			
3.1 Audit risk assessment and planning			
The Audit, Risk and Anti-Fraud Manager should ensure a full risk assessment is undertaken, this should be kept up to date, discussed with senior management and the audit committee and should drive the audit plan.	Audit needs assessment is undertaken separately for each Council. The risk assessment identifies: <ul style="list-style-type: none"> reviews requested by management; areas that have a high or medium rating on relevant risk registers; those areas that have not been audited in over 3 years; and 	Fully Implemented	No further recommendations noted.

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
	<ul style="list-style-type: none"> areas with major changes in systems. 		
3.2 Audit scoping/ planning meetings These should be mandated in the audit manual and held for all audits to ensure auditors gain a more detailed understanding of the area under review and the key risks. This also helps auditors to build rapport with auditees and manage expectations. The Strategic Management Team should support this approach.	We confirmed with discussion from staff that audit scoping/ planning meetings are now undertaken prior to each review. However, the audit manual requires update to contain information regarding the procedures for audit scoping/ planning meetings. This will ensure it remains a useful tool to the Internal Audit team.	Partially Implemented	The audit manual should be updated to include information on the procedure for holding audit scoping/ planning meetings. This should include guidance over the identification of risks, which should be used across all audits to ensure consistency in approach.
3.3 Content of Audit Brief The audit brief should be expanded to include a section on limitations, generic risks should be tailored to the area under review and risks should be clearly articulated. The Audit, Risk and Anti-Fraud Manager should hold a risk session with auditors to help them more clearly articulate risks.	We obtained and reviewed a recent Internal Audit review audit brief and confirmed that the template contains information regarding limitations of scope and specific risks tailored to review.	Fully Implemented	No further recommendations noted.
3.4 Identification and assessment of controls Test papers require auditors to document controls but this requirement is not being complied with. Additional training and guidance should be provided to all auditors to enable them to effectively identify, document and assess controls to mitigate risks in the processes/ systems under review for all risks identified in the audit brief.	We obtained and reviewed a recent Internal Audit review working paper and confirmed that controls had been appropriately identified. However, we noted from discussion with the Internal Audit team that there has not been any additional training in place to ensure that controls are identified and assessed consistently across the service.	Partially Implemented	Additional training should be considered to ensure that auditors consistently identify key controls and assess their mitigation of identified risks in the audit brief.

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
3.5 Sample sizes Sample size guidance should be included in the audit manual to ensure consistency in sample testing across the audit team. Auditors should then justify sample sizes in working papers.	The audit manual requires update to provide details of sampling methodology and the sample sizes, which should be used by auditors. This will ensure it remains a useful tool to the Internal Audit team.	Not yet implemented	The audit manual should be updated to include detail on sample size selection. The sample sizes utilised by the auditors should be included within all working papers. This should be checked as part of the on-going quality assurance.
3.6 Review of reports and working papers The current review process should be reviewed to ensure adequate challenge, oversight and consistency of all reports and working papers.	We confirmed through discussion with the Audit, Risk and Anti-Fraud Manager that all reports and working papers are reviewed prior to being finalised. The Internal Audit team confirmed that there was regular challenge and oversight of their work.	Fully Implemented	No further recommendations noted.
4. Communication and Reporting			
4.1 Communication of audit risk assessment An audit risk assessment should be undertaken and the results of this should be discussed with relevant stakeholders and then used to inform the audit plan. The audit plan should be presented to the Management team and the Audit Committee in the context of this risk assessment.	It was noted through discussion of key Internal Audit stakeholders that better communication of what audit can offer would help add value to service areas (esp. in project and IT). This should be considered as part of the Internal Audit strategy and the skills assessment to ensure Internal Audit delivers value to the Councils.	Partially Implemented	Internal Audit should consider providing a brief of 'services offered' that can be communicated with senior management. This should help drive conversations in the planning of next year's audit plan to ensure that Internal Audit delivers value to the organisations.

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
4.2 Audit reports The Audit, Risk and Anti- Fraud Manager should review the report template and consider including an executive summary, limitations, the period covered by testing and good practice feedback. When reviewing audit reports the Audit, Risk and Anti-Fraud Manager should ensure adequate context is included in the action plans, and that actions are agreed and assigned a responsible officer and implementation deadline.	We obtained and reviewed a recent Internal Audit review audit report and confirmed that it includes an executive summary, the period covered was noted, as was good practice feedback. We noted that limitations of scope was not noted, however, on review of the audit brief, none were identified.	Partially Implemented	Although Limitations are noted within the scope section of the report, a separate limitations of scope section should be added to the audit report template and noted within all audit reports prepared.
4.3 Annual report The Audit, Risk and Anti-Fraud Manager should review the opinion statement in the annual audit report and update this where necessary to reflect the requirements of the PSIAS.	We obtained the Council's Annual Report for 2016/17 and confirmed that this had been reviewed and updated to reflect PSIAS requirements to state an overall opinion on the control environment at the Council.	Fully Implemented	No further recommendations noted.
4.4 Summary reporting The Audit, Risk and Anti-Fraud Manager should ensure all relevant KPIs are regularly reported to Strategic Management Team and the Audit Committee.	We confirmed through discussion with the Audit, Risk and Anti-Fraud Manager, and Senior Management, that KPI's are reported and discussed regularly at team management meetings, and with the Audit Committee as required. We obtained minutes of the Audit Committee and confirmed that progress against the audit plan is discussed and noted.	Fully Implemented	No further recommendations noted.
4.5 Reporting of audit recommendation implementation The Audit, Risk and Anti-Fraud Manager should make it clear to the Audit Committee that, at present, reporting of implementation is based on confirmation from the audit owner and no audit follow up procedures undertaken.	It was confirmed that evidence is now being sought to verify that recommendation has been followed up where required. We obtained and reviewed the minutes of the January 2016 Audit Committee and noted that a summary of the recommendations outstanding was discussed and noted.	Fully Implemented	No further recommendations noted.

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
<p>4.6 Validation of implementation of audit recommendations</p> <p>Validation of implementation should be brought up to date as a matter of urgency, test papers should also be created so it is clear what evidence has been reviewed to confirm implementation. Guidance on the level of audit evidence deemed appropriate should also be included in the audit manual.</p>	<p>It was confirmed that evidence is now being sought to verify that recommendation has been followed up where required.</p> <p>We obtained and reviewed the minutes of the January 2016 Audit Committee and noted that a summary of the recommendations outstanding was discussed and noted.</p> <p>As noted above, the audit manual requires update. This should be undertaken to provide details of the level of evidence required to assess implementation of a recommendation raised. This will ensure it remains a useful tool to the Internal Audit team.</p>	<p>Partially Implemented</p>	<p>The audit manual should be updated to include detail on the level of audit evidence required to confirm the implementation of follow-up actions. This should be clearly documented in assessing implementation and checked as part of the on-going quality assurance.</p>

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
5. Quality, Tools and Performance Management			
5.1 Performance metrics			
The Audit, Risk and Anti-Fraud manager should consider more formally tracking time between completion of fieldwork and reporting to ensure audit findings are reported and agreed in a timely manner.	It was confirmed through discussion with the Internal Audit team that audit time is tracked on an Excel spreadsheet. However, it was noted that this this will be taken forward through measuring this on the new audit software, <i>Teammate</i> .	Fully Implemented	No further recommendations noted.
5.2 Time delays			
Whilst the Audit, Risk and Anti-Fraud manager has implemented tracking of audit days and auditors are required to provide explanations of additional time/ audit days needed to complete audit work and seek approval, delays are still occurring and explanations are not always sufficiently documented. The Audit, Risk and Anti-Fraud manager should seek to get to the root causes of these delays and incorporating unexplained delays into staff performance appraisals. This also needs to be considered as part of the risk assessment and planning process to ensure that audits are as efficient and effective as possible.	As noted above, we confirmed through discussion with the Internal Audit team that audit time is tracked on an Excel spreadsheet. This allows for the Audit, Risk and Anti-Fraud Manager to better understand delays and mitigate them. From discussion with the Internal Audit team it was noted that though delays may occur these are now better managed and brought into the 1-2-1 meetings with individual auditors.	Fully Implemented	No further recommendations noted.
5.3 Audit tools and technology			
The audit team should consider implementing an electronic audit management tool to document audits to enable greater efficiency. They should also commence the use of Idea before knowledge gained through the training is lost and consider what other tools would be useful in the context of the Internal Audit strategy and vision.	<p>A piece of audit management software, <i>Teammate</i>, was procured to enable electronic management and documentation. This is in the process of being completely embedded to ensure all audit documentation is in one place.</p> <p>It was noted through discussion with the Internal Audit team that investment in key pieces of technology continues to be an issue. Staff noted that there are issues in computer hardware, which may contribute to inefficiencies in the service.</p>	Partially Implemented	Internal Audit and Strategic Management should carefully consider investment in key pieces of audit technology. Hardware allowing staff to work flexibly and collaboratively may increase their efficiency and that of the service.

Details of recommendation made	Outcome Assessment	Outcome RAG	Follow Up actions required
5.4 Sharing knowledge and good practices across Councils The Internal Audit team should consider how they can better share knowledge and good practice across the two Councils where relevant. This is a key benefit of the shared service that is currently not being fully realised.	We confirmed through discussion with the Internal Audit, Risk and Anti-Fraud manager that there is a standard agenda item at monthly audit meetings to discuss shared knowledge and good practice across the Councils. However, it was noted through discussion with key audit stakeholders that this is an area where they would like to see greater emphasis to ensure that lessons learnt, efficiencies and good practice can be shared across the shared service.	Partially Implemented	Internal Audit should consider how benchmarking and good practice can be better shared with key audit stakeholders. Discussion of this as a standard agenda item at all planning and feedback meetings, should be considered. In addition, knowledge sharing could be fostered through greater integration of audit work across the Councils (subject to confidentiality).

Appendix B - Pros and Cons of various Internal Audit Delivery Models

<i>Model</i>	<i>Advantages</i>	<i>Disadvantages</i>
<p>Full in-house</p> <p>Full in-sourcing is more viable where a ready supply of competent Internal Auditors are available from the local employment market. It can be perceived as inflexible from a budgetary perspective and in the local government sector prone to low levels of staff turnover. The main advantages from having solely in-house staff come from deep relationships with the authority and the development of extensive corporate memory for the team.</p>	<ul style="list-style-type: none"> • Continuity of Staff • Corporate Memory • Council relationships • Represents Value for Money where good staff are available and in post 	<ul style="list-style-type: none"> • Limited staff turnover and fresh insights • Restricted access to specialisms • No scope to flex down service costs • In some councils functions become old fashioned and fail to attract new talent and ideas • Limited resilience if staff are absent for any period of time
<p>Co-sourcing</p> <p>Co-sourcing is the current preferred model for resourcing Internal Audit services in London, facilitating both flexibility in budget management and resourcing for the service. Importantly it allows access to specialist auditors on demand and facilitates knowledge sharing with in-house teams.</p>	<ul style="list-style-type: none"> • Maintains succession of the function with an in-house team and retains corporate memory • With the right partner it provides access to a wide range of specialist skills as and when required without incurring the full time employment costs • Allows skills transfer to the in-house team • Provides access to a firm's auditing capability to help develop the in-house team's approach. The costs of the continued enhancement of that approach is borne by the co-sourced partner • Allows flexibility within the service budget • Provides resilience and flexibility in the resourcing model 	<ul style="list-style-type: none"> • Continuity of staff can be low • Specialist skills will be priced at a higher rate than the cost for delivering basic audit work

<i>Model</i>	<i>Advantages</i>	<i>Disadvantages</i>
<p>Outsource</p> <p>Full-outsourcing, involves all of the team transferring to a third party and the head of Internal Audit being provided by the third party. It can be an expensive solution with less flexibility, and is potentially only viable where co-sourcing cannot be established.</p>	<ul style="list-style-type: none"> • Transfer of management failure risk to a 3rd party • Provides access to resources where in-sourcing is not viable • Gives scope for specialist inputs • Gives access to a firm brand to accredit the function • Allows budget flexibility 	<ul style="list-style-type: none"> • Perception that it can be lower cost but this is not always the case • Limited corporate memory within the team • Continuity of staff can be low • Can lead to conflicts of interest if the same provider firm is asked to perform advisory work • No skills transfer to an in-house team • The head of Internal Audit may not be as embedded or knowledgeable of the organisation, as would be the case with an in-house or co-source model
<p>Shared services</p> <p>Many public sector organisations are looking at the scope to share services. This can provide a more efficient and cost-effective alternative to carrying the cost of a service alone. Effective sharing of services can range from an informal agreement to service the needs of combined entities, through to a formal joint working arrangements across process, activity and location.</p>	<ul style="list-style-type: none"> • Can provide good Value for Money if set up correctly • Enables development of specialist skills where there is increased volume • Permits economies of scale for team development • Provides resilience and flexibility in the resourcing model 	<ul style="list-style-type: none"> • Tailor made service can be sacrificed • Staff may not like changes to their working terms and conditions to harmonise process and performance across joined teams leading to inefficiency • Without scale or an external partner the ability to access specialist resources or resource flexibility may be limited
<p>Arms-length bodies, management buy outs or joint ventures</p> <p>Further along the spectrum lies the creation of Arms-Length Bodies as separate legal entities to service the demand created by the abolition of the in-house service. The vehicles available for this include wholly owned subsidiary companies, management buy-outs or joint venture organisations with private sector partnership.</p> <p>This model may be the end evolution of the shared service model set out above.</p>	<ul style="list-style-type: none"> • More cost effective if created on a commercial basis • Ability to trade in open market conditions and generate revenue • Unlimited development opportunities if successful in the market place 	<ul style="list-style-type: none"> • Any performance issues for the in-house resources would undermine a commercial entity • Likely to require significant change to staff conditions TUPE'd over, for example pension sacrifice • Established market might be difficult to break into without a clear differentiation of the offering or price point

Appendix C – Key points to consider

There are a number of questions that both Council's should consider, independently and in collaboration, to help make a decision on what the best model would be for Internal Audit.

These include:

- Are both Councils aligned in their vision, culture and what they want from Internal Audit?
- If both Councils have a different vision and need from Internal Audit can enough flexibility be built into the current model to deliver both?
- Our review has identified the need for strong leadership of the internal audit function to help set the vision and deliver the changes desired by both Councils and the service. To help deliver the change could an interim senior internal audit resource be recruited? If so this individual could help shape the future vision and what model would be the best fit for both councils.
- The team currently has limited resilience due to its size and full in-house set up. Any future model needs to consider resilience, flexibility and development opportunities for staff.
- There is currently no use of apprentices or graduate trainees to support the service. There is an opportunity to create a new generation of auditors in the team, which would be cost effective and bring new ideas and thinking to the team.
- Is there an appetite to expand/merge the shared service with another established partnership in Kent or even London (the vicinity of both Councils would make this possible)?
- Even with greater capacity provided by an expanded shared service/partnership it is likely that access to specialist skills would still be required? Any new model must be able to address this need either through the partnership or through access to an organisation who can provide such specialists

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