

**READING BOROUGH COUNCIL
INTERIM STRATEGIC DIRECTOR OF FINANCE**

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	28 September 2017	AGENDA ITEM:	7
TITLE:	INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT (EQA)		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 Internal Audit within the Public Sector in the UK is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since April 2013 (updated April 2016).
- 1.2 The Professional Standards require an external quality assessment at least once every 5 years as part of Internal Audit's Quality Assurance Framework. This report provides the Committee with information on the result of the external quality assessment undertaken in July 2017.
- 1.3 The assessment report shows that the Council's Internal Audit function 'generally conforms' to the requirements of the Public Sector Internal Audit Standards and the associated Chartered Institute of Public Finance and Accountancy (CIPFA) advisory note. The Assessor concluded that, *"Reading Borough Council has a professional and well-respected internal audit service that is effective and not only follows best practice, but is itself a good example of best practice in local government internal audit"*. From the evidence reviewed as part of the external quality assessment, no areas of non-compliance with the standards were identified, nor were any significant areas of partial non-compliance identified, that would affect the overall scope or operation of the internal audit activity. One minor area of partial compliance and some issues relating to the Audit and Governance committee were identified, and some recommendations (R) have made to address these issues.

2. RECOMMENDED ACTION

- 2.1 The Audit & Governance Committee note the outcome of the External Quality Assessment for RBC internal audit as attached and are assured over the quality and effectiveness of the Council's Internal Audit Service.

3. BACKGROUND

- 3.1 The Council's Internal Audit function is delivered by an in-house team and currently only provides internal audit services to Reading Borough Council, although there is a section 113 agreement in place that allows them to provide internal audit services to Bracknell Forest and Wokingham Councils. The Internal Audit team comprises six full time equivalent experienced and qualified staff (including the Chief Auditor), and three experienced and qualified counter-fraud specialists (to be increased to four in 2018/19).
- 3.2 The Public Sector Internal Audit Standards (PSIAS), which have been in place since April 2013 (updated April 2016) consist of the following elements:
- Mission Statement
 - Definition of Internal Auditing
 - Code of Ethics, and
 - Attribute and Performance Standards for the Professional Practice of Internal Auditing
- 3.3 They aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit assurance
- 3.4 In local government the PSIAS are mandatory, as required by the Accounts and Audit Regulations 2015. The Internal Audit function must also comply with the CIPFA Advisory Note associated with the Standards.
- 3.5 The Standards require an external assessment at least once every 5 years as part of an Internal Audit's Quality Assurance Framework. They must be conducted by a qualified, independent assessor or assessment team from outside the organisation. Our assessment was conducted by CIPFA.
- 3.6 CIPFA is ideally placed to carry out the quality review. They are one of the professional bodies who set internal audit standards for public bodies and provide professional guidance on the Standards as well as other aspects of internal audit. CIPFA is therefore very familiar with internal audit standards in policy and in practice. They have undertaken a number of External Quality Assessments.
- 3.7 The review was carried out between the 17th and 21st July 2017 through a process of interviews with employees of RBC's Internal Audit Service, key officers within the Council, and members of the Audit and Governance Committee, together with a review of the key documents used. Our practice was assessed against 56 fundamental principles and over 150 points of recommended practice and was compared with other Internal Audit Functions, who have been externally assessed by CIPFA.

3.8 The Assessor concluded that:

There were no areas of non-compliance with the standards have been identified, nor have any significant areas of partial non-compliance been identified, that would affect the overall scope or operation of the internal audit activity.

3.9 It was also added that:

Reading Borough Council has a professional and well-respected internal audit service that is effective and not only follows best practice, but is itself a good example of best practice in local government internal audit

3.10 The Internal Audit function are very pleased with the outcome of the External Quality Assessment, it is a very rigorous and challenging assessment. They pride themselves on being an experienced, competent internal audit team, who strive to maintain and develop its service by embedding quality in all elements of internal audit activity. This assessment helps provide confidence to the Council over the quality of the service and the excellent people who deliver its internal audit work and plan.

3.11 A copy of the External Quality Assessment report for is attached at Appendix A.

3.12 All recommendation and suggested actions have been agreed, with some already implemented.

4. CONTRIBUTION TO STRATEGIC AIMS

7.1 Audit Services aims to assist in the achievement of the strategic aims of the authority by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes contributing to the strategic aim of remaining financially sustainable.

5. COMMUNITY ENGAGEMENT AND INFORMATION

8.1 N/A

6. LEGAL IMPLICATIONS

6.1 Legislation dictates the objectives and purpose of the Internal Audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

6.2 Section 151 of the Local Government act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs" and

to ensure that one of the officers has responsibility for the administration of those affairs.

6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations, in that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices”.

8.1 The Internal Audit Service works to best practice as set out in Public Sector Internal Audit Standards issued by the Relevant Internal Audit Standard Setters. This includes the requirement to prepare and present regular reports to the Committee on the performance of the Internal Audit service.

9. FINANCIAL IMPLICATIONS

9.1 N/A

10. BACKGROUND PAPERS

10.1 Public Sector Internal Audit Standards - Applying the IIA International Standards to the UK Public Sector 2016.

10.2 CIPFA Local Government Application Note - For the UK Public Sector Internal Audit Standards

External Quality Assessment of Reading Borough Council's Internal Audit Service to the Public Sector Internal Audit Standards

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

**Internal QA: Technical Manager, CIPFA, Professional Standards &
Guidance**

16 September 2017

Review of Reading Borough Council's Internal Audit Service – 18 to 21 July 2017

Introduction

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). The standards require periodic self-assessments and an assessment by an external person every five years.

Background

Reading Borough Council's (RBC) Internal Audit Service is based at the Civic Centre and currently only provides internal audit services to Reading Borough Council, although there is a section 113 agreement in place that allows them to provide internal audit services to Bracknell Forest and Wokingham Councils. The Internal Audit team comprises six full time equivalent experienced and qualified staff (including the Chief Auditor), and three experienced and qualified counter-fraud specialists.

The Service has been operating under PSIAS for over four years, so this was deemed a good time for their first external review against the standards and the local government application note (LAGN) produced by CIPFA.

Review Process

The review was carried out between the 17th and 21st July 2017 through a process of interviews with employees of RBC's Internal Audit Service, key officers within the Council, and members of the Audit and Governance Committee, together with a review of the key documents used. With regard to the latter, RBC provided a comprehensive range of documents that were available for examination prior to and during this review. These included the Services self-assessment against the PSIAS; quality assurance and improvement plan (QAIP); the audit manual; the audit plan; individual audit reports and supporting records; and a range of reports and communications that demonstrate the flow of information between Internal Audit and the Audit and Governance Committee.

Whilst all of these documents contributed to the review process, the following documents are regarded as fundamental and a major contributor to the external quality assessment:

- the audit charter and Audit and Governance committee terms of reference;
- progress reports to the Audit and Governance committee for the Council;
- Chief Auditor's annual report and opinion to the Audit and Governance committee;
- audit plan and covering report to the Audit and Governance committee;
- audit manual;
- individual audit reports and working papers;
- staff declarations of interest; and
- staff training and development records.

Conclusion and Opinion

Reading Borough Council has a professional and well-respected internal audit service that is effective and not only follows best practice, but is itself a good example of best practice in local government internal audit. From the evidence reviewed as part of the external quality assessment, no areas of non-compliance with the standards have been identified, nor have any significant areas of partial non-compliance been identified, that would affect the overall scope or operation of the internal audit activity. One minor area of partial

compliance and some issues relating to the Audit and Governance committee have been identified, and some recommendations (R) have made to address these issues.

On this basis it is our opinion that Reading Borough Council's Internal Audit Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that Internal Audit GENERALLY CONFORMS to the requirements of the Local Government Application Note.

Whilst Internal Audit is a professional and well run Service, they are keen to continually enhance and improve their operations. With this in mind, we have also made some recommendations (R) and suggestions (S) to enhance documentation and procedures. These have been set out in the body of the report that follows, and have also been included in the action plan at appendix 1 to this report.

A list of the individuals interviewed during the review is included as appendix 2.

The Chief Auditor has been provided with details of the areas where there is scope to enhance conformity with the standards and incorporate good practice into their operations.

Ray Gard, CPFA, FCCA, FCIIA, DMS

Summary findings, recommendations and suggestions

Standard	Compliance	Findings	Recommendations and Suggestions	No
Mission	Partially Conforms	Whilst Internal Audit are delivering a service that conforms to the mission statement in the PSIAS, and it is included in the audit manual, it is not currently included in the 2017/18 audit charter.	Add the mission statement to the audit charter at the next revision	R1
Core principles of internal audit	Generally Conforms	The Internal Audit Service at Reading Borough Council is a well-respected professional team that fully conforms to the core principles of internal audit.		
Code of Ethics	Generally Conforms	The Service and all members of the team are conforming to the Code of Ethics for Internal Audit.		
Attribute Standards				
1000 Purpose, authority and responsibility	Generally Conforms	<p>The Internal Audit Service conforms to all aspects of standard 1000 and the Local Government Application Note (LGAN), with just two minor departures.</p> <p>The Service has a comprehensive audit charter that is clear, concise, and sets out the purpose, authority, and responsibility of the Service, senior managers, and the Audit and Governance committee.</p> <p>The first minor departure from standard 1000 is that it requires the audit charter to contain definitions for two key roles in the organisation, namely the 'Board', and 'Senior Management'.</p>	<p>Add footnotes to the Audit Charter at the next revision to define the terms 'Board' and 'Senior Management' referenced to the actual roles within the Council.</p> <p>The Audit and Governance Committee should undertake an annual review of its remit, effectiveness, and its composition.</p>	<p>R2</p> <p>R3</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>These definitions are not included in the current audit charter, although it is apparent that the Audit and Governance Committee (the Board), and the Corporate Management Team (Senior Management) are fulfilling these roles and are all mentioned in the audit charter. This omission can be rectified by simply adding footnotes to the audit charter to cross-reference these roles to the definitions required by the standard.</p> <p>The definitions for the 'board' is included in the narrative that accompanies the Chief Auditor's annual report.</p> <p>The second minor departure relates to the Chief Auditor participating in the review of the Audit and Governance Committee's remit and effectiveness; however, the committee does not carry out an annual review of its remit and effectiveness.</p>		
<p>1100 Independence and objectivity</p>	<p>Generally Conforms</p>	<p>The Service provides and independent and objective internal audit service that conforms to all aspects of standard 1100, and the LGAN, with one minor departures.</p> <p>The minor departure relates to the audit charter and the terms of reference for the Audit and Governance Committee; neither document specifically mention that the Chief Auditor has direct and unfettered access to the Chair of the Audit and Governance Committee, although in practice this does happen.</p> <p>Whilst the Internal Audit Service is able to demonstrate that it is independent and</p>	<p>Add a paragraph to the audit charter and the terms of reference for the Audit and Governance Committee to make specific reference to the Chief Auditor having direct access to the chair of the Audit and Governance Committee</p> <p>Recommendation R3 above also applies to this standard.</p>	<p>S1</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>objective, the Council’s Audit and Governance Committee may struggle to demonstrate their independence and objectivity to the wider public, due to its current composition.</p> <p>The Audit and Governance Committee currently includes the Council Leader, Deputy Leader, and another lead member, although none of them chair the committee. The CIPFA guidance on audit committees recommends that elected members who form part of a Council’s decision-making process, which is the case with these three members, should not sit on a Council’s audit committee.</p>		
<p>1200 Proficiency and due professional care</p>	<p>Generally Conforms</p>	<p>The Service conforms to all aspects of standard 1200 and the LGAN.</p> <p>The Internal Audit staff are well qualified and highly proficient, and deliver internal audit services to the Council with due professional care.</p>		
<p>1300 Quality assurance and improvement programme</p>	<p>Generally Conforms</p>	<p>The Service conforms to all aspects of standard 1300 and the LGAN, with one minor departure.</p> <p>Internal Audit focuses on delivering a quality service to the Council. The Chief Auditor carries out an annual self-assessment against the PSIAS and the LGAN, which underpins their quality assurance and improvement programme. As required by PSIAS, these self-assessments are being supplemented by this external quality assessment and it is recommended that this is reported to the Audit and Governance Committee.</p>	<p>Supplement the annual performance and effectiveness data by providing data for key indicators over a longer period. Include explanations for the causes of significant variances and the effects these have had on the Services ability to deliver the planned assurance audits.</p>	<p>R4</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>The one minor departure relates to the performance data published by the Services. Although the Service publishes relevant and meaningful information regarding their performance and effectiveness, the data only covers a period of one year; whereas the LGAN suggests that internal audit services should also report comparative data over a period of time, say three years.</p> <p>Providing performance data over a period of time would provide a clearer picture on the sustained performance of the Service, particularly if the data is supported by explanations for the causes of any significant variances, and the effect these have had on the Services ability to deliver the planned assurance audits.</p>		
Performance Standards				
<p>2000 Managing the internal audit activity</p>	<p>Generally Conforms</p>	<p>The Service conforms to all aspects of standard 2000 and the LGAN, with one minor departure from the latter.</p> <p>Senior managers are involved in the audit planning process and the audit plan is linked to the corporate risk register and the Council's objectives.</p> <p>The Chief Auditor believes he has sufficient resources to deliver the high risk assurance audits in the annual plan, but resources are limited and already operating at capacity.</p> <p>However, both internal audit and the external auditor have raised serious concerns regarding</p>	<p>Increase Internal Audit's resources on a temporary basis whilst the Council works towards addressing the serious control issues that have been raised.</p> <p>Provide guidance in the audit manual as to when an auditor should raise serious concerns or risks with managers</p>	<p>S2</p> <p>S3</p>

Standard	Compliance	Findings	Recommendations and Suggestions	No
		<p>the Council's budget deficit, the weak controls in the financial systems, and the systemic non-compliance with policies and procedures throughout the authority. The Council are aware that these issues need to be addressed as a matter of urgency.</p> <p>Internal Audit are already supporting management with these tasks and it is likely that this will continue for some time, increasing the pressure on the Service and the Chief Auditor's ability to ensure sufficient assurance work is completed during the year to be able to issue an annual assurance opinion. Consideration needs to be given to increasing Internal Audit's resources, at least on a temporary basis until the issues are dealt with.</p> <p>The comprehensive audit manual covers how an audit should be carried out and is followed by the auditors when performing audits. The one minor departure from the LGAN relates to the audit manual, which does not provide guidance on when an auditor should raise serious concerns or risks with managers.</p>		
<p>2100 Nature of work</p>	<p>Generally Conforms</p>	<p>The Service conforms to all aspects of standard 2100 and the LGAN.</p> <p>The scope of internal audit work includes the whole of the Council's control environment, and the risk management and governance arrangements.</p> <p>As mentioned above, Internal Audit's work is underpinned by a comprehensive audit manual that is consistently applied by the auditors.</p>		

Standard	Compliance	Findings	Recommendations and Suggestions	No
2200 Engagement planning	Generally Conforms	<p>The Service conforms to all aspects of standard 2200 and the LGAN.</p> <p>Detailed terms of reference are produced for each audit and in conjunction with management. Detailed testing schedules are produced for each audit that follow the principles set out in the audit manual.</p>		
2300 Performing the engagement	Generally Conforms	<p>The Service conforms to all aspects of standard 2300 and the LGAN.</p> <p>Internal audits are performed in accordance with the audit manual and there is an effective and robust supervision and review process in place.</p>		
2400 Communicating the results	Generally Conforms	<p>The Service conforms to all aspects of standard 2400 and the LGAN, with one minor departure.</p> <p>The processes for communicating the results of audits is set out in the audit manual and consistently followed by the auditors.</p> <p>The one minor departure relates to Internal Audit not including a paragraph in the audit reports to state that the audit has been "conducted in conformance with the Public Sector Internal Audit Standards". This statement should be added to each audit where this applies, or where it does not apply, a statement of non-conformance should be included instead</p>	<p>Include a paragraph in audit reports stating that the audit 'has been conducted in conformance with the Public Sector Internal Audit Standards'. Where this is not the case, included a statement of non-conformance and explain why this is the case.</p>	S4
2500 Monitoring	Generally Conforms	<p>The Service conforms to all aspects of standard 2500 and the LGAN.</p>	<p>The Audit and Governance Committee should routinely request managers who do not implement audit</p>	S5

Standard	Compliance	Findings	Recommendations and Suggestions	No
progress		<p>There is a detailed follow up process for audit recommendations, including an escalation process where managers fail to implement recommendations in the agreed time scales.</p> <p>The Audit and Governance Committee have acknowledged that they need to do more where managers do not implement recommendations and request them to attend the Committee to explain the lack of progress.</p>	recommendations to attend the committee and explain the lack of progress.	
<p>2600 Communicating the acceptance of risks</p>	<p>Generally Conforms</p>	<p>The Service conforms to all aspects of standard 2600 and the LGAN.</p> <p>The process for communicating the acceptance of risk is set out in the audit manual. There is an escalation process if the Chief Auditor believes management is accepting a level of risk that is greater than the Council's risk appetite. Neither senior management nor the Chief Auditor can recall an occasion where there has been a need to use the process.</p>		

Appendix 1: action plan

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Add the mission statement to the audit charter at the next revision	Agreed, this will be added when we next review the audit charter (undertaken annually) and will be presented to CMT and the Audit & Governance Committee.	Chief Auditor	April 2018
R2	Add footnotes to the Audit Charter at the next revision to define the terms 'Board', 'Senior Management' and 'Chief Audit Executive' referenced to the actual roles within the Council.	Agreed, this will be added when we next review the audit charter (undertaken annually) and will be presented to CMT and the Audit & Governance Committee.	Chief Auditor	April 2018
R3	The Audit and Governance Committee should undertake an annual review of its remit, effectiveness, and its composition.	Agreed, an annual review will be considered by the Committee when it receives this report.	Chair of the A&G Committee / Chief Auditor / Committee	September 2017
R4	Supplement the annual performance and effectiveness data by providing data for key indicators over a longer period. Include explanations for the causes of significant variances and the effects these have had on the Services ability to deliver the planned assurance audits.	Agreed, this will be included in the next annual report.	Chief Auditor	April 2018

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	Add a paragraph to the audit charter and the terms of reference for the Audit and Governance Committee to make specific reference to the Chief Auditor having direct access to the chair of the Audit and Governance Committee	Agreed, this will be added when we next review the audit charter (undertaken annually) and will be presented to CMT and the Audit & Governance Committee	Chief Auditor	April 2018
S2	Increase Internal Audit's resources on a temporary basis whilst the Council works towards addressing the serious control issues that have been raised.	Agreed, the control issues that lead to the limited assurance opinion indicate that more audit resources are required to assist the Council on its improvement journey. Discussions are ongoing about a call-off arrangement with a private sector partner in order to compare value for money with additional internal resources.	Director of Finance	October 2017
S3	Provide guidance in the audit manual as to when an auditor should raise serious concerns or risks with managers.	Although this happens as a matter of course, a section has been added to the manual, clarifying that where issues/risks are identified during the course of the audit, particularly where they are serious in nature, these should be raised immediately with the relevant manager(s)	Chief Auditor	Complete
S4	Include a paragraph in audit reports stating that the audit has been conducted in conformance with the Public Sector Internal Audit Standards. Where this is not the case, included a statement of non-conformance and explain why this is the case.	This has been added to the 2017/18 report template.	Chief Auditor	Complete

No	Suggestion	Response	Responsible Person	Action date
S5	The Audit and Governance Committee should routinely request managers who do not implement audit recommendations to attend the committee and explain the lack of progress.	Agreed, at the April Audit and Governance Committee, when the limited assurance opinion was received, the Chief Executive undertook that he would ask managers who do not make adequate progress on audit recommendations to attend the Committee.	Chief Auditor	In place

Appendix 2: Interviewees

Person	Position	Organisation
Paul Harrington	Chief Auditor	Reading Borough Council
Peter Sloman	Chief Executive	Reading Borough Council
Peter Lewis	Interim Director of Finance (Section 151 Officer)	Reading Borough Council
Jo Pursar	Acting Head of Social Care	Reading Borough Council
John Barnfield	ICT Technology and Service Manager	Reading Borough Council
Giorgio Framaliccio	Head of Planning, Development and Regulatory Services	Reading Borough Council
Anne Marie Dodds	Acting Director of Children's Services	Reading Borough Council
Zoe Hanim	Head of Customer Services	Reading Borough Council
Chris Brooks	Head of Legal (Monitoring Officer)	Reading Borough Council
Allison Bell	Director of Environment	Reading Borough Council
David Stevens	Chair of Audit and Governance Committee	Reading Borough Council
Jo Lovelock	Member of the Audit and Governance Committee & Leader of the Council	Reading Borough Council
Tony Page	Member of the Audit and Governance Committee & Deputy Leader of the Council	Reading Borough Council
Anthony Kearns	Principal Auditor	Reading Borough Council
Robert Dunford	Senior Auditor	Reading Borough Council
Claire Aspell	Senior Auditor	Reading Borough Council
Kirsty Hancock	Senior Auditor	Reading Borough Council
Kevin Parker	Principal Auditor (scheduled but unable to attend due to another commitment)	Reading Borough Council