

**READING BOROUGH COUNCIL**  
**REPORT BY DIRECTOR OF FINANCE**

<b>TO:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>		
<b>DATE:</b>	<b>25 JANUARY 2022</b>		
<b>TITLE:</b>	<b>EXTERNAL QUALITY ASSESSMENT (EQA) OF INTERNAL AUDIT SERVICE</b>		
<b>LEAD COUNCILLOR:</b>	<b>COUNCILLOR MCEWAN</b>	<b>PORTFOLIO:</b>	<b>CORPORATE &amp; CONSUMER SERVICES</b>
<b>SERVICE:</b>	<b>AUDIT, INVESTIGATIONS, &amp; INSURANCE</b>	<b>WARDS:</b>	<b>N/A</b>
<b>LEAD OFFICER:</b>	<b>PAUL HARRINGTON</b>	<b>TEL:</b>	<b>9372695</b>
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**1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This report provides Members of the Committee with an overview of the requirements set out in the Public Sector Internal Audit Standards in relation to an External Quality Assessment (EQA) of the Council's Internal Audit service and to inform Members of the planned approach to ensure an EQA is procured and completed.

**2. RECOMMENDED ACTION**

- 2.1 The Audit and Governance Committee is asked to:
- Endorse the approach for the External Quality Assessment of the Council's Internal Audit function**

**3. BACKGROUND**

- 3.1 The Public Sector Internal Audit Standards (Standards) require that the Chief Audit Executive (Chief Auditor) develop and maintain a quality assurance and improvement programme (QAIP). The Standards demand that this programme includes a process whereby the Internal Audit function is the subject of regular internal and external assessments. The purpose of these assessments is to confirm compliance with the Standards and to provide assurance to all stakeholders that the Internal Audit function is operating efficiently and effectively.
- 3.2 The Standards stipulate that an internal assessment must be completed periodically, and an external assessment, by an independent body, must be completed (as a minimum requirement) at least every five years.

- 3.3 Reading Borough Council's internal audit service had its first EQA in July 2017, the findings reported to Audit & Governance Committee (A&G) in September 2017. Therefore, it is proposed the next external quality assessment is commenced in April 2022, the results of which to be presented to the A&G Committee in July 2022.
- 3.4 Failure of not having an EQA completed at least every 5 years, by a qualified, competent and independent person will mean the Internal Audit function is no longer operating in compliance with the Standards and stakeholders may no longer have assurance that the function is operating efficiently and effectively.
- 3.5 The Standards cover 14 components which Internal Audit functions must adhere to in order to be assessed as operating in compliance with the Public Sector Internal Audit Standards. The sections covered in the Standards are as follows:
- Code of Ethics
  - Attribute Standards - purpose, authority & responsibility, independence & objectivity and quality assurance and improvement programme
  - Performance Standards - managing the audit activity, audit planning, performing audit engagements, audit reporting and monitoring implementation of agreed actions.
- 3.6 The Standards require that the Chief Auditor must discuss the format of the external assessments with the Audit Committee / Audit Board.
- 3.7 The Standards require that an independent and competent person must be sourced to avoid any conflict of interest and impairment to objectivity. The assessor should also be appropriately qualified to carry out the assessment.
- 3.8 The Standards also require that an appropriate sponsor must be sourced for the EQA.

#### **4. THE PROPOSAL**

- 4.1 Following discussions with the Director of Finance, (S.151 Officer), it is proposed to engage CIPFA to perform a full external quality assessment of Reading Borough Council's Internal Audit Service's conformance to the PSIAS and the CIPFA LGAN, to be carried out week commencing 25<sup>th</sup> April 2022.
- 4.2 CIPFA are well placed to carry out this assessment, being a champion in public services, one of the professional bodies who sets and provides guidance on the standards required of public body internal audit services and are therefore very familiar in both policy and practice.
- 4.3 The assignment will be carried out by a Lead Consultant, who not only is well qualified, but competent in practice and has carried out more than 40 EQA's since 2013. The lead consultant is wholly independent of Reading Borough Council and enabling the review to be independent of any conflicts of interest and impairment of objectivity.

- 4.4 Due to the on-going COVID pandemic it is proposed the assessment will be undertaken remotely using Microsoft TEAMS for conducting online meetings and interviews with the Chief Auditor, and other key stakeholders in Reading Borough Council and Brighter Futures for Children such as the Chair and members of the Audit Committee, statutory officers and a selection of Executive Directors and Assistant Directors.
- 4.5 The views of a sample of senior managers will also be sought via a questionnaire in advance of the fieldwork stage. A minimum selection of eight audit files and records will be reviewed along with key documents such as the Audit Charter, results of the self-assessment, the A&G committee terms of reference, and all documents and evidence will be provided either electronically or through a secure sharing platform (SharePoint).
- 4.6 On conclusion CIPFA will produce and issue a detailed report to the Director of Finance setting out how well the internal audit service conforms to the standards, and where applicable the report will contain recommendations and suggestions to further enhance the Service's conformance to the PSIAS and/or LGAN.
- 4.7 When this report is finalised, it will then be presented to the Governance and Audit Committee together with an action plan prepared to address any areas for improvement identified.

## **5. CONTRIBUTION TO STRATEGIC AIMS**

- 5.1 The Internal Audit Team aims to assist in the achievement of the strategic aims of the Council, set out in the Corporate Plan, by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The external quality assessment will provide assurance to the Council on the effectiveness and professionalism of the audit service, identify where improvements may be made, which in turn provides confidence as to the level of assurance that can be placed on the findings made by the audit service.

## **6. ENVIRONMENTAL AND CLIMATE IMPLICATIONS**

- 6.1 There are no environmental or climate implications associated with this report or to the decisions being sought.

## **7. COMMUNITY ENGAGEMENT AND INFORMATION**

- 7.1 N/A

## **8. EQUALITY IMPACT ASSESSMENT**

- 8.1 N/A

## **9. LEGAL IMPLICATIONS**

- 9.1 There is no legislative requirement to fully conform to the professional standards, although CIPFA, the Chartered Institute of Internal Auditors (CMIIA) and the Internal Audit Standards Board's judgement is that conformance with the standards will promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit services across public sector.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 There are no key financial risks identified, with the costs of the assessment met within existing budgets.

## **11. BACKGROUND PAPERS**

- 11.1 Public Sector Internal Audit Standards:  
<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>