

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	28 September 2022		
TITLE:	External Quality Assessment of Conformance to the Public Sector Internal Audit Standards		
LEAD COUNCILLOR:	COUNCILLOR TERRY	PORTFOLIO:	CORPORATE SERVICES & RESOURCES
SERVICE:	AUDIT & INVESTIGATIONS	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1. PURPOSE OF REPORT

- 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 and 2017).
- 1.2 The Professional Standards require an external quality assessment (EQA) at least once every 5 years as part of Internal Audit's Quality Assurance Framework. This is the second EQA of conformance to the (PSIAS) that the Internal Audit Service has undergone, since 2017.
- 1.3 This report provides the Audit & Governance Committee with information on the result of the latest external quality assessment undertaken in April 2022.
- 1.4 The assessment report shows that the Council's Internal Audit function 'fully conforms' to the requirements of the Public Sector Internal Audit Standards and the associated Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government advisory note (LGAN). 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 was identified that relates to the audit charter, where a recommendation was made to address this matter. In addition, three further recommendations to address some minor issue relating to the audit charter and the recording of the management review of audit working papers.
- 1.5 Whilst the assessor acknowledged that Internal Audit is a professional and well-run Service, in order to further improve service delivery some advisory suggestions for consideration were made regarding the resilience of the Service, enhancing documentation and service delivery. These have been set out in the body of the report attached at Appendix A.

2. RECOMMENDATIONS

- 2.1** The Committee is asked to note the outcome of the External Quality Assessment for RBC internal audit as attached and what it tells the Council about the compliance with audit standards and the quality of the Internal Audit Service.
- 2.2** The Committee is assured over the quality and effectiveness of the Council's Internal Audit Service.

3. SUMMARY

- 3.1** The Council's Internal Audit function is delivered by an in-house team and provides internal audit services to Reading Borough Council and Brighter Futures for Children (BFfC).
- 3.2** The Internal Audit team comprises six full time equivalent experienced and qualified staff (in addition to the Chief Auditor). Of the six, approximately four and half FTE employees are engaged in work for the Council with around one and half FTE employees engaged on assignments for Brighter Futures for Children.
- 3.3** The Public Sector Internal Audit Standards (PSIAS), which have been in place since April 2013 (updated April 2016 and 2017) consist of the following elements:
- Mission Statement
 - Core Principles
 - Code of Ethics, and Attribute and Performance Standards for the Professional Practice of Internal Auditing
- 3.4** They aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors.
- 3.5** They reaffirm the importance of robust, independent and objective internal audit assurance.
- 3.6** In local government the PSIAS are mandatory, as required by the Accounts and Audit Regulations. The Internal Audit function must also comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Advisory Note (LGAN) associated with the Standards.

- 3.7 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.
- 3.8 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.
- 3.9 The review was carried out week commencing the 25 April 2022 through a process of interviews with employees of RBC's Internal Audit Service, key officers within the Council and BFfC, and members of both RBC and BFfC's Audit Committees, 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.
- 3.10 The Assessor concluded that: no areas of non-compliance with the standards had been identified, nor had any significant areas of partial non-compliance been identified, that would affect the overall scope or operation of the internal audit activity.
- 3.11 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".
- 3.12 The demand for qualified auditors significantly outweighs supply and it's becoming increasingly difficult to attract qualified and experienced staff, especially local to Reading. Whilst the service faces more immediate issues, with long term sickness, it is recognised that a succession or work force plan is needed, to address the potential risk of losing mature and experienced staff in the near future, which may well have an adverse effect on the long-term sustainability of the Service. This is under consideration and discussions are taking place with HR colleagues.
- 3.13 The Internal Audit function are very pleased with the outcome of the External Quality 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.

4. CONTRIBUTION TO STRATEGIC AIMS

- 4.1 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. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

5. COMMUNITY ENGAGEMENT AND INFORMATION

- 5.1 N/A

6 LEGAL IMPLICATIONS

- 6.1 Legislation dictates the objectives and purpose of Internal Audit 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”.

7. FINANCIAL IMPLICATIONS

- 7.1 N/A

8. BACKGROUND PAPERS

- 8.1 Public Sector Internal Audit Standards

<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

<https://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>