

External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Reading Borough Council

Final Report

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

Internal QA: Policy and Technical, CIPFA.

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1. Introduction

- 1.1 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). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period. This is Reading Borough Council's Internal Audit Services second external quality assessment (EQA) of conformance to the PSIAS that the Internal Audit Service has undergone.

2. Background

- 2.1 Reading Borough Council's Internal Audit Service provides internal audit services to the Council and to 'Brighter Futures for Children', the Council's wholly owned arm's length management company for its Children's Services. Internal Audit comprises an in-house team of six full time equivalent (FTE) 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. The Service is managed by the Chief Auditor who is CMIIA qualified, and he is supported by two experienced Principal Auditors, one of whom is a qualified IT auditor. Below the management level of the Service is a team of four experienced Senior Auditors who all hold relevant professional qualifications.
- 2.2 From an operational perspective, Internal Audit reports directly to the Council's Corporate Management Team (CMT) and the Audit and Governance Committee and these two bodies fulfil the roles of 'senior management' and 'the board', as defined by the Public Sector Internal Audit Standards. The Chief Auditor reports quarterly on the audit plan and its delivery to the Corporate Management Team and Audit and Governance Committee, together with the annual report and assurance opinion.
- 2.3 Internal Audit has a comprehensive audit manual in place, and they use standard template documents for their engagement working papers and testing schedules, engagement terms of reference, action plans and audit reports. All audit working papers and audit reports are reviewed and cleared by the Principal Auditors or the Chief Auditor before they are issued to the clients.
- 2.4 The Service has a comprehensive quality assurance process in place that includes supervision and monitoring of live audit assignments, file reviews of completed audits, customer satisfaction surveys, and an annual self-assessment of their conformance to the PSIAS and LGAN. The output from these feed into the Service's Quality Assurance and Improvement Programme (QAIP).

3. Review Process

- 3.1 The EQA comprises a combination of a review of the evidence provided by Reading Borough Council; a review of a sample of completed internal audits; questionnaires that were sent to and completed by a range of stakeholders from the Service's clients; and a series of (virtual) interviews using MS Teams with key stakeholders. The questionnaire and interviews focused on determining the strengths and weaknesses of Internal Audit and assessed them against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

3.2 Internal Audit provided a comprehensive range of documents, and these were available for examination prior to and during the EQA. These documents included the:

- self-assessment against the standards and the LGAN;
- quality assurance and improvement plan (QAIP);
- the audit charter;
- the annual report and opinion;
- the audit plan and strategies;
- audit manual;
- a range of documents and records relating to the team members; and
- progress and other reports to the Audit and Governance Committee.

All the above documents were examined during the EQA.

3.3 The EQA process took the form of a full assessment of the Service's conformance with the standards, and this was carried out during April and May 2022.

3.4 The EQA primarily included four elements. The first involved an examination of the Service's standard documentation.

3.5 The second element involved interviews with the key personnel from the Service plus a sample of key stakeholders from the Council, made up of members of the senior management team and the chair of the Audit and Governance Committee. Overall, the feedback from the interviewees was positive with clients valuing the professional and objective way Internal Audit delivered services.

3.6 The third element involved capturing the views of a range of other stakeholders using an electronic survey that was sent to them, and the results analysed during the review.

3.7 The final element involved a review of a sample of completed audits to confirm the Assessor's understanding of the audit process used by Internal Audit.

4. Conclusion and Opinion

4.1 Reading Borough Council has a professional and well-respected internal audit service that is effective and not only follows best practice but is itself an example of good 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 has been identified that relates to the audit charter and we have made a recommendation to address this matter. In addition, we have made three further recommendations to address some minor issue relating to the audit charter and the recording of the management review of audit working papers.

It is our opinion that Reading Borough Council's Internal Audit Service FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

4.2 Whilst Internal Audit is a professional and well-run Service, they are also keen to enhance and improve their operations. With this in mind, we have made some advisory suggestions for the Chief Auditor to consider relating to regarding maintaining the resilience of the Service, enhancing documentation and service delivery. These have been set out in the body of the report that follows and have also been included in the action plan at the end of this report.

4.3 The table below shows the Service's level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	Fully Conforms
Core principles	Fully Conforms
Code of ethics	Fully Conforms
Attribute standard 1000 - Purpose, Authority and Responsibility	Fully Conforms
Attribute standard 1100 - Independence and Objectivity	Fully Conforms
Attribute standard 1200 - Proficiency and Due Professional Care	Fully Conforms
Attribute standard 1300 - Quality Assurance and Improvement Programmes	Fully Conforms
Performance standard 2000 - Managing the Internal Audit Activity	Fully Conforms
Performance standard 2100 - Nature of Work	Fully Conforms
Performance standard 2200 - Engagement Planning	Fully Conforms
Performance standard 2300 - Performing the Engagement	Fully Conforms
Performance standard 2400 - Communicating Results	Fully Conforms
Performance standard 2500 - Monitoring Progress	Fully Conforms
Performance standard 2600 - Communicating the Acceptance of Risk	Fully Conforms

5. Areas of full conformance with the Public Sector Internal Audit Standards

5.1 Mission Statement and Definition of Internal Audit

The definition of internal audit from the PSIAS is included in the audit charter, however the mission statement from the PSIAS is not included. Paragraph 2.2 in the audit charter contains some elements of the mission statement but not all of it. We have made one recommendation relating to this in section 9 of this report. **(Paragraph 9.2)**

5.2 Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate an internal audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance standards of the PSIAS.

The clear indication from this EQA is that the Core Principles are embedded in the Service's working methodologies and demonstrates that Internal Audit are a competent and professional service that, on the whole, conform to all ten elements of the Core Principles. We have made some suggestions under the relevant Standards below that will, once implemented, strengthen their conformance to the Core Principles.

5.3 Code of Ethics

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.

The clear indication from this EQA is that Internal Audit conforms to the Code of Ethics, and this is embedded in their audit methodologies. Conformance to the code of ethics is part of their overarching culture and underpins the way the Service operates. We have made some suggestions under the relevant Standards below that will, once implemented, strengthen their conformance to the Code of Ethics.

5.4 Attribute Standard 1000 – Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The internal audit charter must be reviewed regularly and presented to senior management and the audit panel for approval.

Internal Audit has an up-to-date audit charter in place, and this is reviewed on an annual basis. We reviewed this document and the processes used to present it to the Audit and Governance Committee for approval and found the audit charter to be a comprehensive and well written document that contained most of the elements required by the standards. We are satisfied that Internal Audit conforms to attribute standard 1000 and the LGAN although we have observed the audit charter does not formally define the 'board' or 'senior management' as required by the Standards. It is noted that this was also an observation that was made in the last EQA in 2017.

We have therefore made one recommendation in section 9 relating to this observation. **(Paragraph 9.3)**

5.5 **Attribute Standard 1100 – Independence and Objectivity**

Standard 1100 states that the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is an integral part of the Service's culture. The Chief Auditor reports in his own name and directly to the Council's Corporate Management Team and to the Audit and Governance Committee. Similar arrangements are in place for Brighter Futures for Children. All the Service's employees sign a declaration of interest form each year and declare any potential impairment to their independence or objectivity. The audit charter includes a section setting out the independence and objectivity of the Service and the Chief Auditor includes a statement in his annual report to confirm that there have not been any impairments to Internal Audit's independence during the year just ended.

We have reviewed the Service's audit procedures, their standard documentation, quality assurance and improvement plan, their audit charter and annual report and opinion, and a sample of completed audit files, together with their reporting lines and their positioning in the Council. We are satisfied that Internal Audit conforms with attribute standard 1100 and the LGAN although we have made one suggestion of good practice for the Chief Auditor to consider in section 9 of this report. **(Paragraphs 9.4)**

5.6 **Attribute Standard 1200 – Proficiency and Due Professional Care**

Attribute standard 1200 requires Internal Audit Service's engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

It is evident from this EQA that Internal Audit has a professional and experienced workforce providing a largely traditional based audit service. The Service is a well-respected and professional operation that is valued by the Council's management. Whilst having an experienced workforce enhances the quality of the services provided by Internal Audit it also means that it is a mature team, some of whom will undoubtedly be considering retiring during the foreseeable future. We have observed that the Service does not currently have any form of succession planning in place to preserve the resilience of the Service. Should any of the team choose to leave or retire, the Service may struggle to find suitable replacements as nationally there is a shortage of qualified and experienced internal auditors wanting to take up posts in the local government and wider public sectors.

Many head of internal audit services have realised that this is going to be a problem and have started to look at ways of building up their services by taking on apprentices or trainee internal auditors. Some have also started to consider working with higher education establishments and looking at the feasibility of work placements and internships. Unfortunately, not only does the Service not have a succession plan in place, they also do not have any trainee or apprentice auditors in the team, and the Chief Auditor is not currently considering recruiting any, primarily due to the resources required to manage, supervise, and train them. We have made two suggestions in section 9 relating to these observations. **(Paragraphs 9.5 & 9.6)**

We have also observed that Internal Audit team members often struggle to demonstrate that they have undertaken sufficient and relevant learning and development during the year. In the current climate of economic pressure on local authorities it is acknowledged that it can be difficult for staff to fulfil this requirement. An area of learning and development that is often overlooked by staff and not recorded on their development logs is the research that they have undertaken prior to carrying out an audit or when required to provide advice to a client. Whilst we appreciate that time spent on these activities is, quite rightly, allocated to the individual assignments, it is also good practice to record the activities on the respective auditor's learning and development logs. We have made one suggestion in section 9 relating to this observation. **(Paragraph 9.7)**

It is evident from this review that Internal Audit perform their duties with due professional care, and we are satisfied that they comply with attribute standard 1200 and the LGAN, although there are three operational enhancements for the Chief Auditor to consider.

5.7 Attribute Standard 1300 – Quality Assurance and Improvement Programmes

This standard requires the Chief Audit Executive to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Internal Audit has developed a robust and effective quality assurance process that ensures engagements are performed to a high standard within the available resources. It is effective and feeds into their quality assurance and improvement programme. As part of this process, Internal Audit issues a post audit questionnaire to clients on completion of each audit, and they also undertake an annual client satisfaction survey, which is a useful way of obtaining feedback from clients as it prompts them to consider everything that Internal audit has done during the year. We have examined the Service's quality assurance processes during the EQA and are satisfied that the Service conforms to attribute standard 1300 and the LGAN.

5.8 Performance Standard 2000 – Managing the Internal Audit Activity

The remit of this standard is wide and requires the Chief Audit Executive to manage the internal audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when internal audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Chief Audit Executive must produce an audit plan and communicate this and internal audit's resource requirements, including the impact of resource limitations, to senior management and the Audit and Governance Committee for their review and approval. The Chief Audit Executive must ensure that internal audit's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Chief Audit Executive to establish policies and procedures to guide the internal audit activity, and to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Last, but by no means least, the standard requires the Chief Audit Executive to report periodically to senior management and the Audit and Governance Committee on internal audit's activities, purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including

fraud risks, governance issues and other matters that require the attention of senior management and/or the audit panels.

Internal Audit has a comprehensive audit manual, supervision, and quality assurance processes in place that meet the requirements of the PSIAS. They also have a comprehensive audit planning process in place that enables them to produce robust risk-based audit plans that are designed to enhance the Council's risk management and governance frameworks and control processes; and objectively provide them with relevant assurance. We have observed that the published audit plan is not cross-referenced to the relevant Council priorities that each of the individual audits relate to. Doing this would enable the reader to see how the work of Internal Audit fits in with the Council priorities.

Details of the completed audits and the risk and control issues found, together with the progress being made on delivering the audit plan and the performance of the Service, are reported to the Audit and Governance Committee, along with an annual report and opinion that is issued at the end of the year.

The clear indication from this EQA is that Internal Audit is effectively managed and conforms to standard 2000 and the LGAN. We have made one suggested enhancement relating to the published audit plan in section 9 of this report. **(Paragraph 9.8)**

5.9 Performance Standard 2100 – Nature of Work

Standard 2100 covers the way the internal audit activity evaluates and contributes to the improvement of the organisation's risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

This is the approach adopted by Internal Audit and is set out in their audit manual and their working methodologies. During this EQA, we selected a sample of completed audit engagements and examined them to see if they conformed to standard 2100 and the Service's own methodologies. We found that the sample audits complied with both.

Internal Audit's credibility and value is enhanced when they offer new insights and consider future impact on the organisation. Overall Internal Audit's clients value the work they do in this area and some look to them for advice and guidance when faced with emerging risks or issues, and occasionally when they are developing or changing systems. The indication from some senior managers is they would like the Service to move away from delivering the more traditional style of audits and become more proactive and insightful by engaging more with the service departments and be seen as being more of a business partner rather than a pure inspection service. For example, one senior manager would welcome a representative from Internal Audit regularly attending their departmental management meetings to keep the department informed of emerging risks and issues, best practice etc, and for the department to appraise Internal Audit of planned changes, system developments, legislation changes and issues that they have identified.

Other senior managers have indicated that they would like to see Internal Audit become more involved in their change and system development projects, as they are currently doing with the project for the redesign and replacement of the core financial systems, as they feel their knowledge and expertise would add value to the development of the projects by helping project teams to identify control issues and risks as the projects develop rather than once the development work is complete. This will of course require management to engage with Internal Audit and inform them of planned change programmes and will require the Chief Auditor to allocate time in the audit plan for this type of work. The only way of finding these additional resources will be to either reduce the number or scope of the assurance audits in the plan and perhaps the way they are carried out, or by submitting a business case for

additional resources for the Service. We have therefore made one suggestion relating to this observation in section 9 below. **(Paragraph 9.9)**

The clear indication from this EQA is that Internal Audit conforms to performance standard 2100 and the LGAN.

5.10 **Performance Standard 2200 – Engagement Planning**

Performance standard 2200 requires internal auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

As mentioned above, Internal Audit have a comprehensive audit manual, supervision and quality assurance processes in place that cover engagement planning in detail and meet the requirements of the PSIAS. During this EQA, we selected a sample of completed audit engagements, and examined them to see if they conformed to standard 2200. We found that they all conformed to the standards and the Service's own audit procedures and methodologies, and therefore we conclude that Internal Audit conforms to performance standard 2200 and the LGAN.

5.11 **Performance Standard 2300 – Performing the Engagement**

Performance standard 2300 seeks to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

The Service's audit manual, methodologies, supervision, and quality assurance processes all fulfil the requirements of the standards and our examination of a sample of completed audit engagements confirmed that the audits were performed in accordance with the Service's audit manual and the Standards. As the Service is made up of experienced and qualified staff, management supervision of the audits tends to take place towards the end of the audit process and is recorded in electronic format on an Excel control sheet that is held on the audit files. Whilst the review process requires the supervising manager to record their name on the control sheet to indicate who has performed the review, we have observed a degree of inconsistency in that the reviewers name field on the sheet was not always completed, and there is currently no field on the sheet to show when the review took place, although it is acknowledged that it is possible to obtain this information by referring to the Service's 'Audit Tracker'. Nonetheless, the control sheet forms an integral part of the Service's processes, so we have made one recommendation relating to these observations in section 9 of this report. **(Paragraph 9.10)**. Notwithstanding the above observations, it is our view that Internal Audit conforms to performance standard 2300 and the LGAN.

5.12 **Performance Standard 2400 – Communicating Results**

This standard requires internal auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the expectations of their senior management, the audit panels and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".

The communication of engagement results is covered in detail in the Service's procedures, and these fulfil the requirements of the PSIAS. We selected a sample

of completed audit engagements and found that they all conformed to the standards and the Service's own procedures. There is one suggested enhancement to the audit reports that we feel the Chief Auditor should consider and that is to include a statement in each report restricting the distribution and use of the report content without the prior approval of the Chief Auditor. Whilst this will not prevent the problem, it will act as a deterrent and a warning to people not to share the reports or their contents before they enter the public domain through the official channels and may put the Council in a stronger position should they need to take any disciplinary action against an individual for not following procedures. We have made one suggestion regarding this observation in section 9 of the report. **(Paragraph 9.11)**

We have also reviewed the progress and annual reports to the Audit and Governance Committee and found that overall, these also conformed to the standards and the Service's own internal procedures. We therefore conclude that Internal Audit conforms to performance standard 2400 and the LGAN.

5.13 Performance Standard 2500 – Monitoring Progress

There are comprehensive agreed action monitoring and follow-up processes in place which monitor the client's progress towards the implementation of agreed actions, and these are set out in detail in the Service's audit manual. Where an overall limited or no assurance opinion has been issued or the area is considered to be sensitive, or a number of high-risk actions have been agreed with management, a follow up review is undertaken to assess the action taken by management and to establish its effectiveness. Where the result of the follow-up reveals changes that would impact on the original audit opinion, a revised opinion is issued reported to the appropriate level of management. For the priority two and three actions from audits with substantial or reasonable assurance opinions, the follow-up process requires managers to self-certify the progress they have made and, where requested, provide suitable supporting evidence. All agreed actions are recorded on an action tracker spreadsheet and followed-up in accordance with the time scales set out in the audit manual. The results of follow-up reviews and the progress made by management in implementing agreed actions are reported to the Audit and Governance Committee. It is evident from this EQA that Internal Audit conforms to both performance standard 2500 and the LGAN.

5.14 Performance Standard 2600 – Communicating the Acceptance of Risk

Standard 2600 considers the arrangements which should apply if the Chief Auditor has concluded that management has accepted a level of risk that may be unacceptable to the organisation. Situations of this kind are expected to be rare, consequently, we did not see any during this EQA. From this external quality assessment, it is evident that Internal Audit conforms to performance standard 2600 and the LGAN.

6. Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

- 6.1 There are no areas of partial conformance with the Public Sector Internal Audit Standards

7. Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

- 7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards.

8. Survey results

- 8.1 The results of the survey of key stakeholders from Internal Audit's clients was very disappointing, although not unexpected, with no completed surveys being returned.

9. Issues for management consideration

- 9.1 We have assessed the Reading Borough Council as conforming to the PSIAS and the LGAN. There are two observations and suggested enhancements to the operation of the Service that the Chief Auditor should consider.
- 9.2 Include the mission statement from the PSIAS in section 2.2 of the audit charter.
- 9.3 Formally define the terms "Board" and "Senior Management" in the audit charter as required by the Standards. This can either be done by expanding the relevant paragraphs within the audit charter or using foot notes to the respective paragraphs (i.e., paragraphs 1.3 and 7.2 respectively).
- 9.4 Expand section 7 in the audit charter to make reference to the fact that the Chief Auditor has other managerial responsibilities to internal audit. In particular, the fact that he also manages a service that is subjected to periodic internal audit, namely the Insurance Service. The process for preserving the Chief Auditor's independence should be set out in the audit charter.
- 9.5 The Service does not currently have any form of succession or work force plan in place 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. We suggest that consideration is given to producing a work force and succession plan for the Service.
- 9.6 As there is a shortage of qualified and experienced internal auditors wanting to take up posts in local government, the Service may find it difficult to recruit suitably experienced and qualified staff should any posts become vacant. We therefore suggest that the Chief Auditor considers making a growth bid for funding to be used to finance the employment and development of one or more trainee or apprentice auditor(s) that could be developed over time and be able to move into more senior posts as and when they become vacant. Consideration should also be given to exploring the feasibility of using internships and/or undergraduate work placements with a suitable higher education partner.
- 9.7 Internal Audit team members need to demonstrate that they have undertaken sufficient and relevant learning and development during the year, and in the current climate of economic pressure on local authorities it can be difficult for staff to fulfil this requirement. An area of learning and development that is often overlooked by staff and not recorded on their development logs is the research that they have undertaken prior to carrying out an audit or to enable them provide advice to a client. Whilst we acknowledge that time spent on these activities is, quite rightly, allocated to the individual assignments, it is also good practice to record the activities on the respective auditor's learning and development logs.
- 9.8 The published audit plan is not cross-referenced to the relevant Council priorities that each of the individual audits relate to. Cross-referencing the audit plan would enable the reader to see how the work of Internal Audit fits in with the Council priorities.
- 9.9 Whilst Internal Audit are becoming more insightful and proactive and have started to be involved in some of the major change projects at the Council, such as the replacement financial system, senior managers have indicated that there may be other opportunities where Internal Audit's knowledge and expertise would assist them to identify the potential risks and control issues as change or development projects unfold, rather than identifying them at the post implementation stage when they are usually more difficult and expensive to rectify. This would require Internal

Audit to be involved in these projects from an early stage, as they have been with the replacement financial systems project.

- 9.10 Ensure that managers adopt a more consistent approach when completing the audit control document by recording their names on the review sheet to indicate who carried out the review and the date the review was carried out, although the latter would require the addition of a separate field being added to the control sheet.
- 9.11 Include a disclaimer and limitations of use statement in each audit report. An example of such a statement would be:-

"This report is confidential and has been prepared solely for use by officers named on the distribution list and, if requested, the Council's External Auditor and its Audit and Governance Committee to meet legal and professional obligations. It would therefore not be appropriate for this report or extracts from it to be made available to third parties and it must not be used in response to FOI or data protection enquiries without the written consent of the Head of Internal Audit. We accept no responsibility to any third party who may receive this report, in whole or in part, for any reliance that they may place on it".

Whilst this will not prevent the problem, it will act as a deterrent and a warning to people not to share the reports or their contents before they enter the public domain through the official channels.

10. Definitions

Definition	Criteria
Fully Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Action Priorities	Criteria
High priority	The internal audit service needs to rectify a significant issue of non-conformance with the standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The internal audit service needs to rectify a moderate issue of conformance with the standards. Remedial action to resolve the issue should be taken, ideally within six months.
Low priority	The internal audit service should consider rectifying a minor issue of conformance with the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	These are issues identified during the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

The co-operation of the Chief Auditor and the Internal Audit team in providing the information requested for this EQA, is greatly appreciated. Our thanks also go to the chair of the Audit and Governance Committee and the key stakeholders that made themselves available for interview during the EQA process and/or completed questionnaires.

Ray Gard, CPFA, FCCA, FCIIA, DMS

28th July 2022

This report has been prepared by CIPFA at the request of Reading Borough Council, the terms for the preparation and scope of the report have been agreed with them. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues that exist with their conformance to the Public Sector Internal Audit Standards that exist, or of all the improvements that may be required.

The report was prepared solely for the use and benefit of Reading Borough Council and Internal Audit's clients, including the senior management and the Audit and Governance Committee for the Council and the Audit Committee for Brighter Futures for Children, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any other third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Management action plan

1. Incorporate the mission statement from the PSIAS into the audit charters (Low)	
Rationale	Agreed Action
Include the mission statement from the PSIAS in paragraph 2.2 of the audit charter.	Agreed, amendment will be made to the Audit Charter immediately
Action Responsibility	Chief Auditor / Principal Auditor
Deadline	31 August 2022
2. define the terms 'Board' and 'Senior Management' in the audit charter (Low)	
Rationale	Agreed Action
Formally define the terms Board and Senior Management in the audit charter as required by the Standards. This can either be done by expanding the relevant paragraphs within the audit charter or using foot notes to the respective paragraphs (paragraphs 1.3 and 7.2). This was a recommendation in the 2017 EQA.	Agreed, amendment will be made to the Audit Charter immediately
Action Responsibility	Chief Auditor / Principal Auditor
Deadline	31 August 2022

3. Set out the Chief Auditors other managerial responsibilities in the audit charter (Low)	
Rationale	Agreed Action
Expand section 7 of the audit charter to make reference to the fact that the Chief Auditor has other managerial responsibilities to internal audit. In particular, the fact that he also manages a service that is subjected to periodic internal audit, namely the Insurance Service. The process for preserving the Chief Auditor's independence should also be set out in the audit charter.	Agreed, amendment will be made to the Audit Charter setting out the process for preserving the Chief Auditors independence. This will be achieved either through the auditor reporting directly to the Director of Finance (Sec 151 officer) throughout the audit or by commissioning an external review
Action Responsibility	Chief Auditor / Principal Auditor
Deadline	31 August 2022

4. Ensure a consistent approach is followed for recording evidence of the audit file reviews (Low)	
Rationale	Agreed Action
Ensure that managers adopt a more consistent approach when completing the audit control document by recording their names on the review sheet to indicate who carried out the review and the date the review was carried out, although the latter would require the addition of a separate field being added to the control sheet.	Agreed, this will be implemented immediately
Action Responsibility	Chief Auditor / Principal Auditor
Deadline	Immediate

5. To preserve sustainability, develop a work force / succession plan for the Service (Advisory)	
Rationale	Agreed Action
The Service does not currently have any form of succession or work force plan in place 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. We suggest that consideration is given to producing a work force and succession plan for the Service.	This is already under consideration and the team is already in a state of flux, given long term illness and impending retirements. Whilst this has resulted in opportunities for some, it is inevitable that there will be a loss in experienced staff, whom will be difficult to replace.
Action Responsibility	Chief Auditor
Deadline	31 March 2023

6. Consider employing trainee or apprentice auditors (Advisory)	
Rationale	Agreed Action
As there is a shortage of qualified and experienced internal auditors wanting to take up posts in local government, the Service may find it difficult to recruit suitably experienced and qualified staff should any posts become vacant. We therefore suggest that the Chief Auditor considers making a growth bid for funding to be used to finance the employment and development of one or more trainee or apprentice auditor(s) that could be developed over time and be able to move into more senior posts as and when they become vacant. Consideration should also be given to exploring the feasibility of using internships and/or undergraduate work placements with a suitable higher education partner.	The Chief Auditor is looking at the practicalities of employing apprentices and/or trainees, however it is also recognised that this does involve a lot of investment in time and resource, especially for a small team. Also given the nature of the work and the focus of the service, it is sometimes difficult to find low level audit work for inexperienced staff. Consideration will also be given to exploring the feasibility of using internships and/or undergraduate work placements with a suitable higher education partner.
Action Responsibility	Chief Auditor
Deadline	31 March 2023

7. Consider recording research undertaken for audits on the Auditor's training and development records (Advisory)	
Rationale	Agreed Action
To enable Auditors to demonstrate that they have undertaken sufficient and relevant learning and development during the year. In the current climate of economic pressure on local authorities it can be difficult for staff to fulfil this requirement. An area of learning and development that is often overlooked by staff and not recorded on their development logs is the research that they have undertaken prior to carrying out an audit or to provide advice to a client. Whilst we acknowledge that time spent on these activities is, quite rightly, allocated to the individual audits, it is also good practice to record the activities on the respective auditors learning and development logs.	Agreed, this is a good observation and something which will be implemented immediately. Training resources (finance) are finite with budgets allocated to directorates for dissemination to individual teams following an assessment of priority. Funding for training has always been available if it is deemed important for the role.
Action Responsibility	All staff
Deadline	Immediate

8. Consider cross referencing the audit plan to the Council's priorities (Advisory)	
Rationale	Agreed Action
The published audit plan is not cross-referenced to the relevant Council priorities that each of the individual audits relate to. Cross-referencing the audit plan would enable the reader to see how the work of Internal Audit fits in with the Council priorities.	Agreed, we will revisit this for next year's audit plan. Audit reports are also being revised and we will look to link each audit review to Council priorities.
Action Responsibility	Chief Auditor
Deadline	1 April 2023

9. Consider adopting a more insightful and proactive approach to service delivery (Advisory)	
Rationale	Agreed Action
<p>Whilst Internal Audit are becoming more insightful and proactive and have started to be involved in some of the major change projects at the Council, such as the replacement financial system, senior managers have indicated that there may be other opportunities where Internal Audit's knowledge and expertise would assist them to identify the potential risks and control issues as change or development projects unfold, rather than identifying them at the post implementation stage when they are usually more difficult and expensive to rectify. This would require Internal Audit to be involved in these projects from an early stage, as they have been with the replacement financial systems project.</p>	<p>Whilst I completely agree with the concept and agree that internal input should always be involved in the design stage of new projects, this is something we always try to do as a matter of course. For example, we attend the Finance Transformation Board and the Finance Systems Board. Internal audit were also represented at all the design meetings for the new financial system. In addition, we attend the Information Governance Board, SharePoint, Office 365 and BFFC Schools Effectiveness meetings. As well as this, we've been reviewing and commenting on MOSAIC payment processes.</p> <p>I have to find the balance between this proactive work and the more traditional assurance work.</p> <p>I will proactively highlight audit's involvement at these boards and forum in the quarterly reports and look to get project initiation documents amended, to require audit's views before it goes ahead.</p>
Action Responsibility	Chief Auditor
Deadline	Immediate

10. Add a disclaimer and limitations statement to the audit reports (Advisory)	
Rationale	Agreed Action
<p>Include a disclaimer and limitations of use statement in each audit report. An example of such a statement would be:-</p> <p><i>"This report is confidential and has been prepared solely for use by officers named on the distribution list and, if requested, the Council's External Auditor and its Audit and Governance Committee to meet legal and professional obligations. It would therefore not be appropriate for this report or extracts from it to be made available to third parties and it must not be used in response to FOI or data protection enquiries without the written consent of the Head of Internal Audit. We accept no responsibility to any third party who may receive this report, in whole or in part, for any reliance that they may place on it".</i></p> <p>Whilst this will not prevent the problem, it will act as a deterrent and a warning to people not to share the reports or their contents before they enter the public domain through the official channels.</p>	<p>Agreed, the audit report format is being reviewed in its entirety and we will look to add a statement to the draft report.</p>
Action Responsibility	Principal Auditor
Deadline	30 September 2022