

**Agenda Item No:** 9 **Report No:** 129/14  
**Report Title:** Internal Audit Benchmarking 2013/14  
**Report To:** Audit and Standards Committee **Date:** 22 September 2014  
**Ward(s) Affected:** All  
**Report By:** Head of Audit and Performance  
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### **Purpose of Report:**

To inform Councillors of the comparative performance of internal audit departments in local authorities in Sussex for 2013/14.

### **Officers Recommendation(s):**

- 1 To note the benchmarking results from the participating authorities in Sussex, and the conclusion that the internal audit function at LDC is adequately resourced and is achieving satisfactory standards of output and efficiency (see Section 3).
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### **Reasons for Recommendations**

- 1 The remit of the Audit Committee includes a duty to review whether the internal audit function is adequately resourced and is able to discharge its function effectively.

### **Information**

#### **2 Background**

- 2.1 The Audit and Standards Committee agreed revised Performance Indicators (PIs) for Internal Audit at its meeting on September 2013, and the continuation of two separate performance reports being presented to the Committee. The second of these reports is the annual benchmarking exercise with other internal audit departments in Sussex.
- 2.2 The Internal Audit Section at Lewes is a member of the Sussex Audit Group (SAG), which was established to enable internal audit functions within public bodies in East and West Sussex to share best practice. SAG has conducted a benchmarking exercise to compare internal audit performance across a range

of PIs and other measures. The latest available information is for the financial year 2012/14.

### **3 SAG Benchmarking Study 2013/14**

**3.1** SAG comprises 15 internal audit functions from local authorities and a local university. Not all the members take part in the benchmarking studies, and the results from the following seven members were included in the exercise for 2013/14.

Lewes DC  
Arun DC  
Chichester DC  
Eastbourne BC  
Horsham DC  
Rother DC  
West Sussex CC

**3.2** With seven authorities providing a response there is sufficient information for comparative purposes. Member authorities provide the information on the understanding that the results for specific authorities will not be separately identified.

**3.3** As agreed by the Audit and Standards Committee in September 2013, the performance measures for LDC Internal Audit now comprise 17 PIs. The results from the SAG benchmarking exercise include 13 PIs that are directly comparable with the LDC results. The remainder of the benchmarking exercise covers issues such as the staffing and organisation of internal audit that are not covered by the LDC PIs.

**3.4** The LDC PIs and the SAG benchmarking results for 2013/14 are given in the table at Appendix A, together with the Lewes results for 2012/13.

**3.5** The key results from the benchmarking study are:

- The Internal Audit staff at LDC are among the most experienced, which is reflected in the second highest employee costs.
- The cost per chargeable day (£270.13) at LDC was the fourth lowest and below the average for the group as a whole because the LDC Internal Audit Section generates the second highest number of productive days (741).
- LDC Internal Audit Section has the lowest number of days (225) and the lowest proportion (23%) of time for non audit activities.
- The cost of providing the audit service at LDC is £200,167 an increase of £7,298 (3.7%) from the 2012/13 exercise.
- LDC has the second lowest fees for external audit, reflecting the strong internal control environment and the work done by Internal Audit at LDC to support BDO.

**3.6** The conclusion that can be drawn from the benchmarking study is that the Internal Audit function at LDC is adequately resourced and is achieving satisfactory standards of output and efficiency. This conclusion is supported by comments in recent BDO Management Letters and the results of other assessments. For example, the BDO Annual Governance Report for 2012/13

includes the comment that BDO are able to place reliance on the work of Internal Audit.

**3.7** The staffing for LDC at 3.8 FTE, and 741 chargeable days, shows little effect of the February 2014 departure of a member of Internal Audit team under the Council's Voluntary Severance Scheme. For 2014/15, staffing is set at 3.2 FTE and forecast chargeable days of 653, as set out in the Strategic Audit Plan 2014/15 that was presented to the March 2014 meeting of the Committee.

**3.8** For 2103/14, it is evident that different accounting practices were applied by the separate authorities in assessing the overhead recharges (for IT, accommodation, etc) that are appropriate to internal audit. The recharges range from -£33,700 (Authority F) to £49,900 (Authority B). LDC recharges were £32,600. These practices are distorting the results of the benchmarking study, and will be the subject of discussions within SAG. The recharge costs for all authorities in the study, together with the direct staff cost per chargeable day excluding recharges and other costs, are given in the memorandum entries at Appendix A.

## **4 Financial Appraisal**

**4.1** There are no additional financial implications arising from this report.

## **5 Risk Management Implications**

**5.1** I have completed the Risk Management questionnaire and this report does not require a full risk assessment because the issues covered by the recommendations are not significant in terms of risk.

## **6 Legal Implications**

**6.1** There are no legal implications arising from this report.

## **7 Sustainability Implications**

**7.1** I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

## **8 Equality Screening**

**8.1** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

## **9 Background Papers**

**9.1** Annual Report on Internal Audit Performance and Effectiveness 2013/14. This can be found at:

<http://cmis.lewes.gov.uk/CmisWebPublic/Binary.ashx?Document=7011>

**9.2** Strategic Audit Plan 2014/15. This can be found at:

<http://cmis.lewes.gov.uk/CmisWebPublic/Binary.ashx?Document=6868>

## **10 Appendices**

**A** Sussex Audit Group (SAG) Benchmarking Results 2013/14.

## Appendix A

### Sussex Audit Group (SAG) Benchmarking Results 2013/14

| Authority/Indicator                                      | A        | B        | C        | D        | E        | F        | LDC      | LDC<br>2012/13 |
|--|----------|----------|----------|----------|----------|----------|----------|----------------|
| <b>Input of resources</b>                                |          |          |          |          |          |          |          |                |
| 1. Staffing FTE  | 2.9      | 3.5      | 3.6      | 3.6      | 2.8      | 9        | 3.8      | 3.8            |
| 2. Employee costs  | £116,423 | £121,372 | £125,473 | £163,920 | £113,986 | £456,100 | 167,539  | £160,954       |
| 3. Total costs   | £123,541 | £171,286 | £166,515 | £165,876 | £150,472 | £422,400 | £200,167 | £192,869       |
| 4. Cost per chargeable day                               | £233.98  | £360.83  | £292.03  | £250.95  | £346.71  | £215.51  | £270.13  | £264.57        |
| <b>Productivity and Efficiency</b>                       |          |          |          |          |          |          |          |                |
| 5. Number of core systems audits carried out in the year | 7        | 4        | 12       | 10       | 10       | 11       | 14       | 12             |
| 6. Number of days spent on core systems audits           | 146      | 99       | 147      | 198      | 179      | 153      | 260      | 289            |
| 7. Number of audits/reviews in original plan             | 50       | 18       | 35       | 33       | 24       | 85       | 48       | 52             |
| 8. % of original plan carried out                        | 64%      | 50%      | 83%      | 79%      | 75%      | -        | 79%      | 81%            |
| 9. Number of audits/reviews in revised plan              | 50       | 15       | 30       | 33       | 24       | 85       | 59       | 53             |
| 10. % of revised plan carried out (*)                    | 58%      | 80%      | 100%     | 85%      | 75%      | 88%      | 83%      | 92%            |
| 11. Number of chargeable days                            | 528      | 475      | 570      | 661      | 434      | 1960     | 741      | 729            |
| 12. Number of non chargeable days                        | 235      | 320      | 362      | 267      | 284      | 842      | 225      | 246            |

| <b>Authority/Indicator</b>  | <b>A</b> | <b>B</b> | <b>C</b> | <b>D</b> | <b>E</b> | <b>F</b> | <b>LDC</b>       | <b>LDC<br/>2012/13</b> |
|---|----------|----------|----------|----------|----------|----------|------------------|------------------------|
| 13. % of draft reports issued within 15 days of the end of the audit.   | N/A      | N/A      | N/A      | N/A      | N/A      | N/A      | 100%             | 94%                    |
| <b>Compliance with professional standards</b>   |          |          |          |          |          |          |                  |                        |
| 14. Positive opinion from BDO review of Internal Audit as per the Management Letter                                 | N/A      | N/A      | N/A      | N/A      | N/A      | N/A      | Positive opinion | Positive opinion       |
| 15. Total external audit fees   | £91,153  | £71,914  | £114,615 | £84,892  | £98,120  | £181,316 | £72,872          | £131,358               |
| <b>Outcomes and degree of influence of the service</b>  |          |          |          |          |          |          |                  |                        |
| 16. % of recommendations implemented (*)  | N/A      | N/A      | N/A      | N/A      | N/A      | N/A      | 61%              | 76%                    |
| 17. All comments from client satisfaction questionnaires in Categories 1 (Very Good), 2 (Good) or 3 (Satisfactory). | N/A      | N/A      | N/A      | N/A      | N/A      | N/A      | 100%             | 100%                   |

## **Memorandum**

|  |         |         |         |         |         |          |         |         |
|--|---------|---------|---------|---------|---------|----------|---------|---------|
| Costs of recharges (rounded)   | £7,100  | £49,900 | £41,100 | £2,000  | £36,400 | -£33,700 | £32,600 | £31,900 |
| Cost per chargeable day (direct staff costs - excluding recharges and other costs) | £220.50 | £255.68 | £220.05 | £247.99 | £262.64 | £232.70  | £226.10 | £220.73 |