

Agenda Item No: 8 **Report No:** 127/115

Report Title: Internal Audit Benchmarking 2014/15

Report To: Audit and Standards Committee **Date:** 28 September 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

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Purpose of Report:

To inform Councillors of the comparative performance of internal audit departments in local authorities in Sussex for 2014/15.

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 2014/15.

3 SAG Benchmarking Study 2014/15

3.1 SAG comprises 14 internal audit functions from local authorities. Not all the members take part in the benchmarking studies, and the results from the following seven members were included in the exercise for 2014/15.

Lewes DC
Arun DC
Eastbourne BC
Hastings 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 2014/15 are given in the table at Appendix A, together with the Lewes results for 2013/14.

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 third highest employee costs.
- The cost per chargeable day (£280.75) at LDC was the second 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 (683).
- LDC Internal Audit Section has the second lowest number of days (178) and the second lowest proportion (21%) of time for non audit activities.
- The cost of providing the audit service at LDC is £191,750, a reduction of £8,417 (4.2%) from the 2013/14 exercise.
- LDC has the 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 2014/15 includes the comment that BDO are able to place reliance on the work of Internal Audit.

- 3.7** Approved staffing for LDC Internal Audit is 3.2 FTE. The Staffing FTE results for 2014/15 (3.38 FTE) reflect the additional time spent on internal audit activity by the Head of Audit, Fraud and Procurement (HAFP) in the year. The unplanned work by HAFP on the investigation of the relationship between the Council and Seaford and District Constitutional Club has added to the effective staffing of Internal Audit, increased the number of chargeable days, and increased staffing costs.
- 3.8** For 2014/15, it is evident that different accounting practices were applied by the separate authorities in assessing the overhead recharges (for IT, accommodation, and other costs) that are appropriate to internal audit. The recharges range from – nil (Authority F) to £72,600 (Authority A). LDC recharges were £27,200. 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 2014/15.](#)
- 9.2** [Strategic Audit Plan 2014/17.](#)

10 Appendices

- A** Sussex Audit Group (SAG) Benchmarking Results 2014/15.

Appendix A

Sussex Audit Group (SAG) Benchmarking Results 2014/15

Authority/Indicator	A	B	C	D	E	F	LDC	LDC 2013/14
Input of resources								
1. Staffing FTE	2.85	3.60	2.70	3.60	2.80	9.00	3.38	3.80
2. Employee costs	£118,368	£127,115	£132,152	£178,410	£109,295	£625,000	£164,592	167,539
3. Total costs	£191,011	£162,447	£169,391	£181,431	£139,654	£625,000	£191,750	£200,167
4. Cost per chargeable day	£390.62	£309.72	£293.06	£274.90	£323.50	£411.45	£280.75	£270.13
Productivity and Efficiency								
5. Number of core systems audits carried out in the year	9	12	3	9	10	10	14	14
6. Number of days spent on core systems audits	60	129	100	168	185	95	336	260
7. Number of audits/reviews in original plan	30	38	10	38	27	61	33	48
8. % of original plan carried out	77%	74%	100%	97%	100%	102%	88%	79%
9. Number of audits/reviews in revised plan	25	28	10	37	27	N/A	39	59
10. % of revised plan carried out (*)	64%	100%	100%	97%	100%	N/A	90%	83%
11. Number of chargeable days	489	525	578	660	432	1519	683	741
12. Number of non chargeable days	250	379	127	259	300	1038	178	225

Authority/Indicator	A	B	C	D	E	F	LDC	LDC 2013/14
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	90%	100%
Compliance with professional standards								
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	TBC	Positive opinion
15. Total external audit fees	£88,123	£101,436	£73,682	£83,304	£91,440	£156,816	£71,420	£72,872
Outcomes and degree of influence of the service								
16. % of recommendations implemented (*)	N/A	N/A	N/A	N/A	N/A	N/A	67%	61%
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)	£72,600	£35,300	£37,200	£3,000	£30,400	Nil	£27,200	£32,600
Cost per chargeable day (direct staff costs - excluding recharges and other costs)	£242.06	£242.35	£228.64	£270.32	£253.00	£411.45	£240.98	£226.10