

**Agenda Item No:** 9 **Report No:** 145/13

**Report Title:** Internal Audit Performance Indicators (PIs)

**Report To:** Audit and Standards Committee **Date:** 23 September 2013

**Ward(s) Affected:** All

**Report By:** Head of Audit and Performance

**Contact Officer**

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### **Purpose of Report:**

**To inform Councillors of the results of research into performance indicators for internal audit departments, and include proposals for a revised set of indicators for Internal Audit at LDC.**

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

- 1 To note the results from the research into performance indicators currently applied to public and private sector organisations (see Section 2).
  - 2 To approve the proposed set of performance indicators for Internal Audit at LDC, noting that the proposed indicators combine some of the previous set of indicators at LDC and selected items from the annual benchmarking exercise with other internal audit departments at local authorities in Sussex (see Section 3 and Appendix A).
  - 3 To approve the continuation of two separate performance reports being presented to the Audit and Standards Committee (see Section 4).
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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 Committee agreed Performance Indicators (PIs) for Internal Audit in September 2001, and the Committee receives annual feedback on the PIs at its June meeting each year.

**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 conducts an annual benchmarking exercise to compare internal audit performance across a range of PIs and other measures. The Committee received the comparative information for the financial year 2011/12 at its January 2013 meeting.

**2.3** The Head of Audit and Performance had previously advised the Audit and Standards Committee that he would explore possible alternative/additional PIs that would extend the range of performance data available to the Committee.

### **3 Performance indicators applied to internal audit departments in public and private sector organisations**

**3.1** The Head of Audit and Performance has examined the PIs that are applied to internal audit departments in a range of private sector organisations, government departments and other local authorities. This research has included a review of the PIs that are recommended as best practice by professional accounting bodies such as CIPFA and the Chartered Institute of Internal Auditors (CIIA).

**3.2** There are no formal requirements for the PIs that are to be applied to internal audit but, as might be expected, there is a degree of uniformity in the PIs that are recommended for the function. The detail of the individual indicators may vary slightly across organisations in the different sectors, but there tends to be a concentration on the following aspects of internal audit activities.

Input of resources

Productivity and process efficiency

Compliance with professional standards

Outcomes

Degree of influence of the service

**3.3** These are the areas that provide the framework for the existing PIs at LDC and SAG, and there appear no strong grounds to amend this structure. The Head of Audit and Performance has looked to extend the range of performance information that can be made available within this framework, and has examined the indicators that form part of the annual SAG benchmarking exercise.

### **4 Proposed performance indicators for Internal Audit at LDC**

**4.1** The major part of the SAG benchmarking exercise has previously covered issues such as the staffing and organisation of internal audit, and the PIs were not the same as those agreed by the Audit and Standards Committee for internal LDC use. There have been some changes in the SAG exercise for 2012/13, and the Head of Audit and Performance is proposing a closer

correlation between the LDC and SAG indicators so that there will a wider range of directly comparable data in future.

- 4.2 At present, LDC Internal Audit reports on eight PIs and the full SAG benchmarking exercise collects more than 100 lines of performance data from each of the contributing authorities. The Head of Audit and Performance is proposing a middle way that will enable the Audit and Standards Committee to review 17 PIs, and see directly comparable results for each PI from the other SAG authorities that contribute to the benchmarking.
- 4.3 The proposed list of 17 PIs is given at Appendix A. The table includes re-worked actual results for 2012/13 and targets for 2013/14.

## **5 Reporting of performance and benchmarking data to the Audit and Standards Committee**

- 5.1 The Audit and Standards Committee receives the PIs for Internal Audit as part of the annual performance report each June. The annual SAG benchmarking results are reported to the Audit and Standards Committee as soon as possible after they are received from SAG – often in December or January each year. Thus two sets of performance data are reported to the Committee, up to seven months apart.
- 5.2 The Head of Audit and Performance has examined a proposal to prepare one performance report that incorporates the extended list of LDC PIs and the comparative data from SAG authorities. This proposal is not feasible because the timing of the combined report will depend on when other SAG authorities submit their performance data. If SAG results are not submitted until January, this will mean that performance data for the preceding financial year will not be available to the Audit and Standards Committee until ten months after the year ends. This would not be in accordance with best professional practice.
- 5.3 Therefore, the Head of Audit and Performance is recommending that the Audit and Standards Committee continues to receive a performance report in June each year, and this report will contain an enhanced list of 17 PIs for Internal Audit. At a later time in the year, depending on the completion of the SAG benchmarking exercise, the Audit and Standards Committee will receive a report that shows comparative data for the list of 17 PIs.
- 5.4 To enable the June report to the Audit and Standards Committee to include the full list of PIs it may be necessary to include estimated outturn results for some items, for example those PIs dealing with cost data. The actual outturn results will be included in the benchmarking report that will be presented later in the year.

## **6 Financial Appraisal**

- 6.1 There are no additional financial 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 Equalities Impact Assessment**

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

## **9 Risk Management**

- 9.1** 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.

## **10 Background Papers**

- 10.1** Annual Report on Internal Audit Performance and Effectiveness 2012/13. This can be found at:  
<http://cmis.lewes.gov.uk/CmisWebPublic/Binary.ashx?Document=6336>

## **11 Appendices**

- A** Proposed Performance Indicators (PIs) for Internal Audit at LDC for 2013/14.

**Appendix A: Proposed Performance Indicators (PIs) for Internal Audit for 2013/14.**

Proposed PIs	Actual 2012/13	Target (where appropriate) 2013/14
<b>Input of resources</b>		
1. Staffing FTE	3.8	3.8
2. Employee costs	£160,954	£167,630
3. Total costs	£192,869	£203,936
4. Cost per chargeable day	£264.57	£263.48
<b>Productivity and Efficiency</b>		
5. Number of core systems audits carried out in the year	12	12
6. Number of days spent on core systems audits	289	250
7. Number of audits/reviews in original plan	52	48
8. % of original plan carried out	81%	90%
9. Number of audits/reviews in revised plan	53	-
10. % of revised plan carried out (*)	92%	90%
11. Number of chargeable days (*)	729	774
12. Number of non chargeable days	246	221
13. % of draft reports issued within 15 days of the end of the audit. (*)	94%	95%
<b>Compliance with professional standards</b>		
14. Positive opinion from BDO review of Internal Audit as per the Management Letter (*)	Positive opinion	Positive opinion
15. Total external audit fees	£131,358	£87,570
<b>Outcomes and degree of influence of the service</b>		
16. % of recommendations implemented (*)	76%	90%
17. All comments from client satisfaction questionnaires in Categories 1 (Very Good), 2 (Good) or 3 (Satisfactory). (*)	100%	100%

## Notes

Items marked (\*) are those currently included in PIs for LDC Internal Audit.

Item 9 reflects the position by the end of the year, with audits having been added to/taken from the plan. No target or forecast is appropriate.

Item 17 will include results from questionnaires sent to audit clients, members of the Corporate Management Team and, in a new development, members of the Audit and Standards Committee.