

Report To:	Audit and Standards Committee
Date:	19 November 2018
Report Title:	Internal Audit Key Performance Indicators (KPIs)
Report of:	David Heath, Head of Audit and Counter Fraud (HACF)
Ward(s) Affected:	All
Purpose of report:	To inform Councillors of the results of research into performance indicators for internal audit functions and include proposals for a revised set of indicators for the shared internal audit service for both councils
Officer recommendation(s):	<ol style="list-style-type: none"> 1) To note the results of the research and the proposals for change. 2) To approve the proposed set of performance indicators, noting that they include some of the previous set of indicators at LDC and selected items from the annual benchmarking exercise with other internal audit services at local authorities in East Sussex
Reasons for recommendations:	The remit of the Audit and Standards Committee includes a duty to review whether the Audit and Counter Fraud service is adequately resourced and is able to discharge its functions effectively
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1 Introduction

- 1.1 The Audit and Standards Committee have received Key Performance Indicators (KPIs) for Internal Audit since 2001. The previous revision to the KPIs was agreed by the Committee at its meeting in September 2013. Since then, the Committee has received forecast and actual results for the KPIs as part of the Annual Report on the Performance of Internal Audit.
- 1.2 The Internal Audit section at both Eastbourne and Lewes were members 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. The shared service continues to be a member of SAG. SAG used to conduct an annual benchmarking exercise to compare internal audit performance across a range of PIs and other measures, and the results were reported annually to this Committee. SAG no longer operates the benchmarking exercise.
- 1.3 The creation of the shared service for Audit and Counter Fraud in July 2017 necessitates changes in the way that performance data is presented to the

respective Committees charged with overseeing the work of Internal Audit at Eastbourne and Lewes. Specifically, Internal Audit at Eastbourne did not provide comparable performance data to the Audit and Governance Committee, and the proposed introduction of KPIs needs to acknowledge that situation. Also, the introduction of Civica Authority Financial Information System (CAFI) in Lewes has meant changes in ways that financial data is presented.

- 1.4 The HACF had previously advised the Committee that he would explore possible alternative KPIs that would adapt the range of performance data available.

2 Key performance indicators applied to internal audit services

- 2.1 HACF has examined the KPIs that are applied to internal audit services in other local authorities. This research has included a review of the KPIs that are recommended as best practice by professional accounting bodies such as CIPFA.
- 2.2 There are no formal requirements for the KPIs that are to be applied to internal audit but, as might be expected, there is a degree of uniformity in the KPIs 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 focus the following aspects of internal audit activities.

Input of resources

Costs

Productivity and process efficiency

- 2.3 HACF has looked to concentrate the range of performance information that is made available within this framework, and has focussed on those indicators for which performance and results are within the control of managers in the service. For example, previous KPIs included indicators seeking to measure the value of the service, compliance with standards and the degree of influence. HACF has chosen to use the results of the client questionnaires sent to senior officers and the Chair of the Audit and Standards Committee for data on these aspects.
- 2.4 The revised list of proposed KPIs is shown at Appendix A. The KPIs will cover the shared service in total, and there will not be separate results for staff working at Eastbourne and Lewes. Once agreed, the KPIs will form the basis of annual reporting on Internal Audit performance as was the case previously. The annual report will also cover the results obtained from client questionnaires.
- 2.5 The proposed KPIs cover both Internal Audit and Counter Fraud functions, but not to the same extent. HACF does not consider it appropriate to have activity or results targets for Counter Fraud because of the reactive nature of much of the work, and so the focus is on service resources and costs.
- 2.6 Once agreed, HACF will review the KPIs and the client questionnaires on a regular basis to ensure that they remain relevant and provide useful data for monitoring and governance purposes. Any future changes to the KPIs will be subject to consultation with the Committee.

3 Financial Appraisal

3.1 There are no financial implications arising from the recommendations in this report other than those already contained within existing budgets.

4 Legal Implications

4.1 There are no direct legal implications arising from this report.

5 Risk Management Implications

5.1 The recommendations contained in this report are not significant in terms of risk. However, if the Councils does not have an effective Internal Audit function that is properly resourced it will not be able to demonstrate that it can meet statutory requirements or that it has in place adequate means to safeguard Council assets and services.

6 Equality analysis

6.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

7 Background Papers

None

8 Appendices

8.1 Appendix A – Statement of proposed KPIs for the shared Internal Audit service.

8.2 Appendix B – Table of abbreviations

APPENDIX A

Statement of proposed KPIs for the shared Audit and Counter Fraud service.

Performance Indicator			
Internal Audit 1 Staffing FTE 2 Employee costs 3 Total costs 4 Total chargeable days 5 Cost per chargeable day			
Counter Fraud 6 Staffing FTE 7 Employee costs 8 Total costs 9 Total chargeable days 10 Cost per chargeable day			
Internal Audit 11 Number of core systems audits carried out in the year 12 Number of days spent on core audits 13 Number of days in the original annual audit plan 14 Number of days in the revised annual audit plan 15 % of revised annual audit plan carried out			

When the KPI results are reported there will normally be a standard form of presentation (as above) involving target and actual results for the current year, and estimated or target results for the year ahead.

APPENDIX B

Table of abbreviations

AGS – Annual Governance Statement
BDO – BDO, the Council’s external auditors. Formerly BDO Stoy Hayward
CAFI - Civica Authority Financial Information System
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DCLG – Department for Communities and Local Government
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
ESPB - East Sussex Prevent Board
GDPR - General Data Protection Regulation
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
HSO – Health and Safety Officer
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
KPI - Key Performance Indicator
LATC – Local Authority Trading Company
LDC – Lewes District Council
LLP – Limited Liability Partnership
NDR – Non Domestic Rates
NFI – National Fraud Initiative
PFSS - Property and Facilities Shared Service
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
QAIP – Quality Assurance and Improvement Programme