

Audit Committee

30 September 2015



Internal Audit Service Benchmarking Analysis 2015

Report of Chief Internal Auditor and Corporate Fraud Manager

Purpose of the Report

1. To provide members with a summary of findings from the Chartered Institute of Public Finance and Accountancy (CIPFA) 2015 benchmarking group exercise for the Internal Audit Service.

Background

2. Against a backdrop of continuing austerity measures, budget reductions, and the associated downsizing and restructures to deliver Medium Term Financial Plan (MTFP) savings, the Internal Audit Service will strive continually to deliver an effective and efficient service both its internal and external customers.
3. In the absence of a comprehensive national performance management framework for local government support functions, the 2015 CIPFA benchmarking exercise provides a tool to establish and understand Internal Audits relative position compared to its peers and to note any changes since CIPFA 2013 benchmarking exercise.
4. Whilst the benchmarking exercise is very much input and process focused, e.g. compares costs, chargeable days and areas of coverage, it does not provide any indicators of the quality or added value provided through internal audit services, it does provide some useful comparators as an indication of the our current performance compared with others.
5. Durham County Council's Internal Audit Service also provides Internal Audit Services to a number of external clients through service level agreements (SLAs) e.g. Police, Fire, Joint Committees. Some of the data produced gives us an indicator of how competitive our charges are compared to other local authority providers.

Cost Comparators

6. The following table identifies key cost comparators, based on 2014/15 actuals:

Cost measure	Durham	CIPFA All Club - Average	Comparator Group* - Average	Comments
Cost per Auditor	£42,513	£54,795	£54,491	This has reduced from £46,269 (8.1%) for Durham in 2013 and is reflective of the continuing reduction of staffing as a result of MTFP savings. The benchmark average has also reduced from 2013 but by 4.5%
Cost per £'m Turnover	£583	£819	£680	A further reduction of 13.7% from the 2013 benchmarking exercise (£676). The benchmark average has increased by 9%
Cost per Chargeable Day	£226	£324	£322	A further reduction of 14.4% from the 2013 benchmarking exercise (£264). The benchmark average has increased by 2.2%

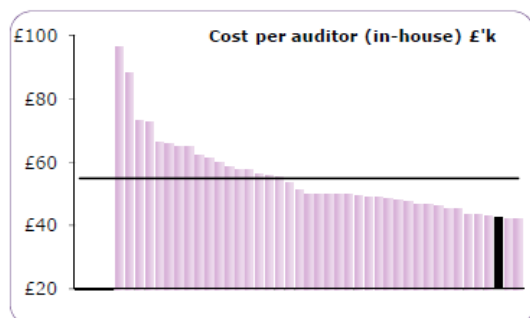
*Comparator Group included: Cardiff, Croydon, Darlington, Dudley, Ealing, Enfield, Fife, Gateshead, Haringey, Kent, Lambeth, Newcastle, Newham, Nottingham City, Sunderland, Tower Hamlets and Wigan Councils.

7. The comparator group used in this report was derived from those authorities of a similar size, delivering similar services and those from the local area that were part of the club and this consists of 18 authorities (including Durham).

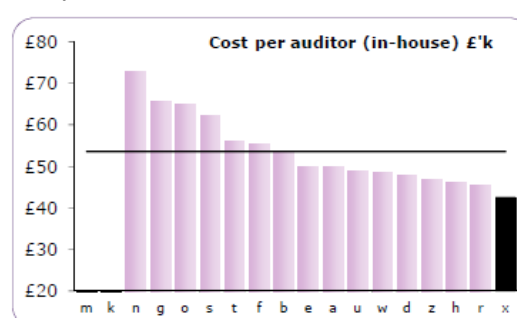
8. The graphs show where Durham was placed for each of the three indicators:

Cost per Auditor

Whole Club

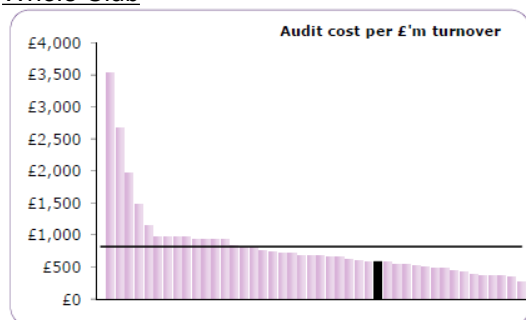


Comparators

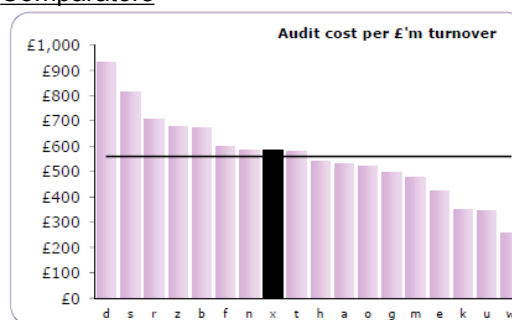


Cost per £'m Turnover

Whole Club

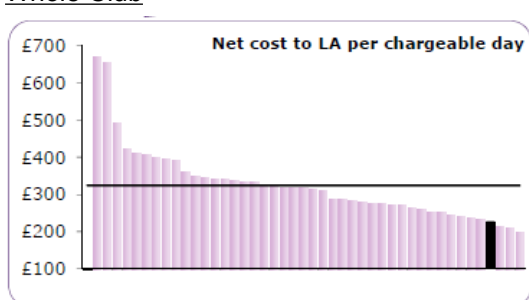


Comparators

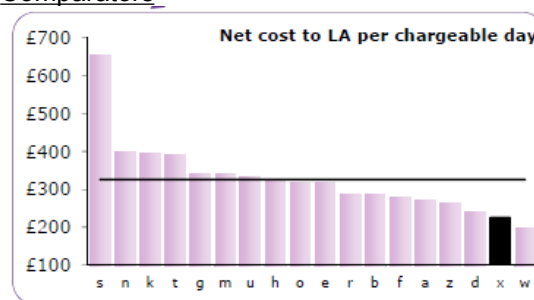


Cost per Chargeable Day

Whole Club



Comparators



Analysis and Conclusion of Cost Comparators

9. The trend across both the benchmarking club (all participants) and the Durham comparators' group has been for standstill position in terms of cost per auditor in 2013 compared to 2015, however, Durham's cost per auditor has reduced since the last exercise. The past two years have seen restructures within the team to remove some Senior Auditor positions in Durham, thus bringing down the average cost but not the level of FTE delivering the service so this result is to be expected.
10. This position is then reflected across the cost per £'m turnover, with Durham still consistently under the all benchmarking club average and that of its comparator authorities.
11. The cost per chargeable day is a culmination of two factors, one is the reduction in cost but secondly, is the result of an improvement in the number of chargeable days delivered, despite the higher than average levels of sickness absence across the 2014/15 year compared to 2012/13. Following positive moves to address and manage sickness this figure can be expected to be reduced further still further in the future.
12. Whilst the Council continues to maintain a low cost base and high productivity compared to others that participated in the benchmarking club for internal audit, with further savings on the horizon across both Internal Audit and the Council more generally, the balance of risk versus assurance must continually be assessed. In order for the Chief Internal Auditor and Corporate Fraud Manager to provide their statutory opinion on the Internal Control environment the service and the organisation must keep on track with developing its Assurance Mapping approach in order to demonstrate and utilise other providers of assurance.

Employee Related Comparators

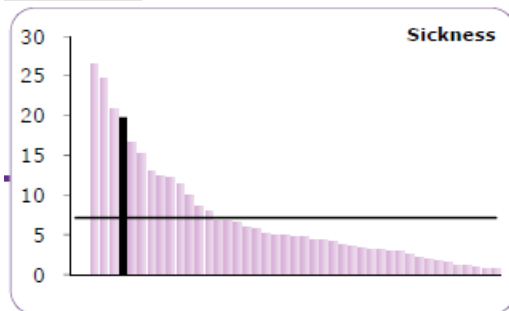
Sickness Absence

13. Reducing the incidence and improving the management of sickness absence is a priority across the council. Sickness absence is high on the agendas of all service management teams and individual managers. Managing sickness is included in quarterly performance clinics, Attendance Management Group, and monthly 121 discussions.
14. Quarterly internal corporate absence reporting allows us to understand sickness levels within the council and participation in the CIPFA benchmarking exercises has provided us with external comparators and useful broader context information.

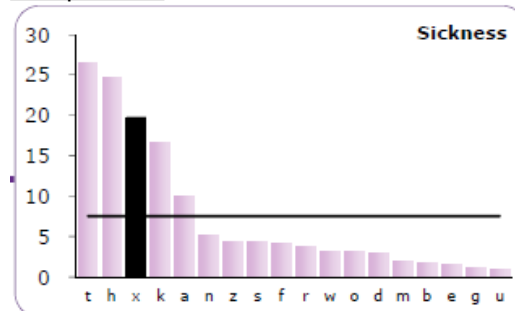
2013 (Sickness Absence per FTE)			2015 (Sickness Absence per FTE)			Comments
Durham	CIPFA average	Comp. Group average	Durham	CIPFA average	Comp. Group average	
20.22	6.6	n/a	19.8	7.1	7.5	As mentioned in paragraph 11 sickness absence has been a consistent problem in Internal Audit at Durham. This has been the result of a number of long term absences within the service which because of the size of the team, this has a dramatic impact when calculating per FTE. However during 2014/15 this has been addressed and managed with a positive outlook for 2015/16 and beyond.

15. The graphs show where Durham was placed for the indicator:

Whole Club



Comparators

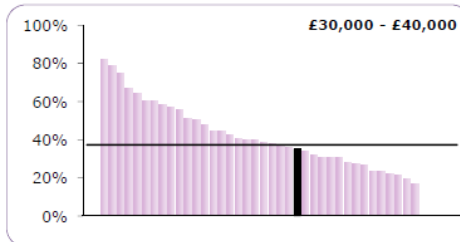
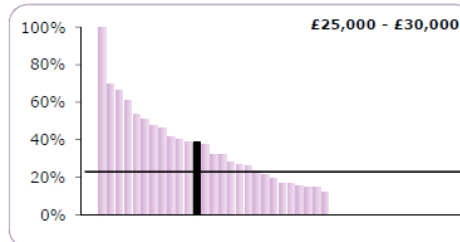
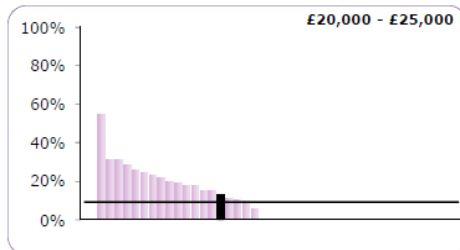
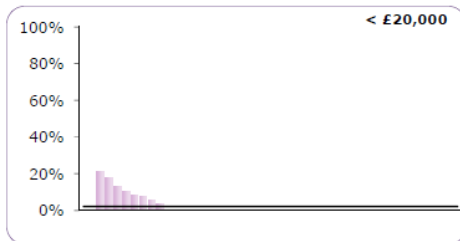


Pay Bands / Qualifications

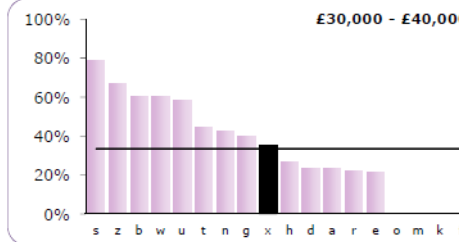
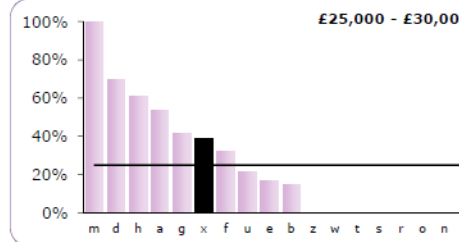
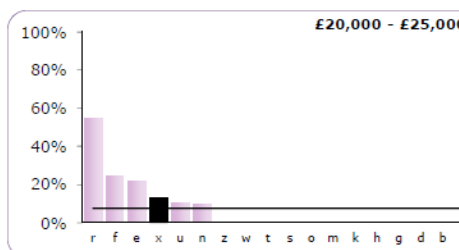
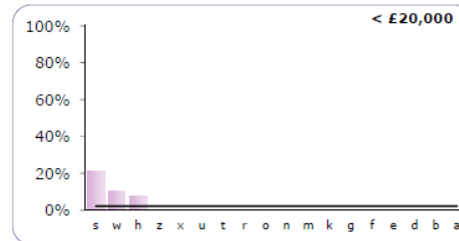
16. The lower and higher end of the salary bandings are under-represented in Durham, however the over £50k salaries will be skewed by geographical location and the under £20k is explained by the recent trend of continuing cost reductions, which has reduced the opportunity to bring in younger more inexperienced employees on trainee auditor / accountancy roles. The over represented bands between £20k and £30k also supports this conclusion.

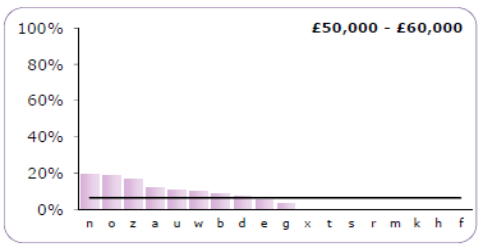
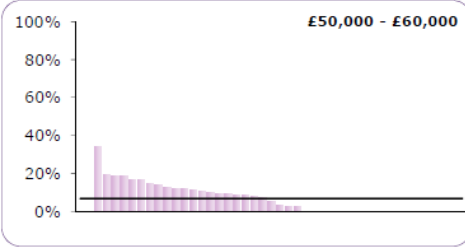
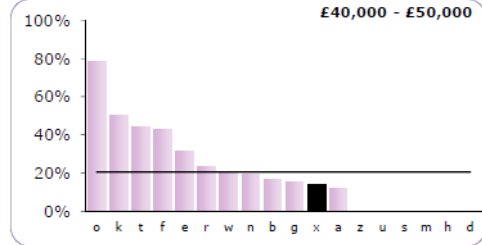
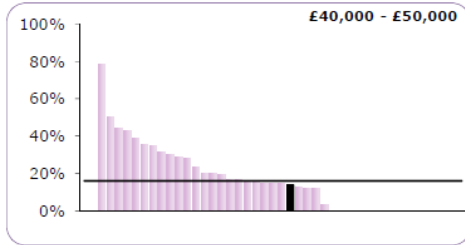
Salary bands under-represented in Durham	Salary bands over-represented in Durham	Qualifications Durham compared to others
Under £20k & Over £50k	£20k - £25k & £25k - £30k	90% of employees in Durham are either part of fully qualified compared to others which range from between 75% and 80%

Whole Club



Comparators

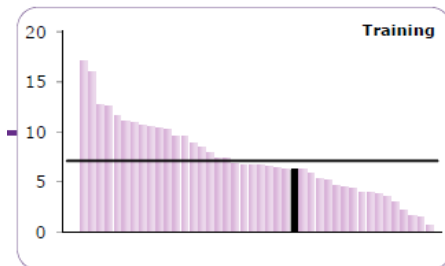




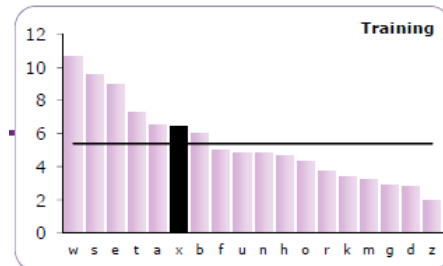
Training and Qualifications

17. The service continues to invest in its employees, over the past 12 months two employees are studying towards their Institute of Internal Auditor (IIA) qualification and the IT Trainee Auditor has been studying towards Certified Information Systems Auditor (CISA) qualification. It is pleasing to report to Committee that the IT Trainee Auditor has passed his final exams and will take post of Principal IT Auditor from 1 October and that one of the employees that has been studying the IIA exams has also qualified in the summer.
18. The service also attends relevant conferences and seminars where it enhances the knowledge of the section and contributes to employees Continuous Professional Development. To further enhance this, the Chief Internal Auditor and Corporate Fraud Manager also holds quarterly CPD half days where topics of interest are delivered in-house.
19. The number of days delivered for training in the club are illustrated in the graphs below:

Whole Club

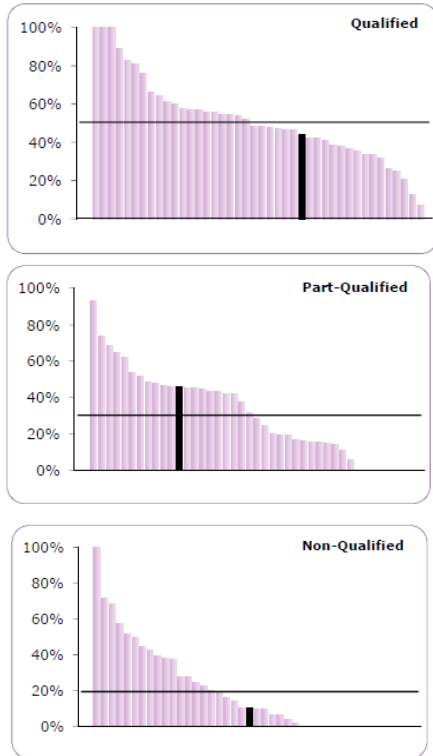


Comparators

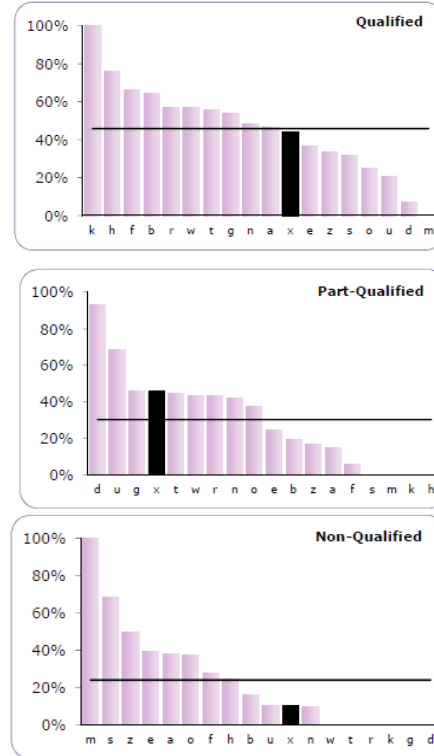


20. The graphs below show the numbers of qualified, part-qualified and non-qualified employees in the service. However with the successful employees mentioned in para 17 the level of qualified employees will be above average. Also the non-qualified employee has also agreed to commence training in September and is studying towards the Association of Accounting Technician Qualification.

Whole Club



Comparators



Analysis and Conclusions of Employee Related Comparisons

21. This picture remains consistent with the last benchmarking exercise in 2013, however, the sickness absence position is one that needs to be monitored closely. With significant focus being placed on sickness absence management and a more proactive approach to this area improvement is expected in this area across 2015/16 it is anticipated that performance over the next 12 months and beyond will be significantly better.
22. Plans are in place to improve the level of qualified employees within the section and it is hoped at some point that an apprentice can be brought into the service in order to also gain training and expertise. Current employees will continue to receive Continuous Professional Development Training to complement their formal qualifications.

Audit Coverage

23. The various graphs illustrating the differing level of audit coverage are shown in Appendix 2. It should be noted that these categorisation are open to different interpretation by different authorities. CIPFA have helpfully given guidelines however these are not always consistently applied across the benchmarking club. Some of the conclusions that can be drawn from analysing these results are:
 - On average Durham is delivering a good number of audit days in comparison to its turnover. Against its comparators it is delivering above average.

- Whilst on the face of the report Durham appears to be spending more time on fundamental financial systems this is somewhat skewed by the fact some members of the club have included some of their work on within the strategic/operational risk category rather than categorising as fundamental financial systems. It is difficult to gauge therefore whether too much time is being spent in this area. However due to the risks it is thought the current level of coverage is adequate and hopefully as systems become more embedded this can be reduced.
- Investigation work appears below average however the Internal Audit Service is complemented by the Corporate Fraud Team whose time is not illustrated as part of this benchmarking exercise.
- Advice and Consultancy work is above average, this is encouraging as this shows the Council's Service Groupings value the work of the service and are engaging in projects and improvements where the service can add value to the Council and get things right first time. The Service advises on controls and procedures that should be put into place or remain in place as the Council goes through this period of change.
- The category of 'other is also higher than average however this again seems to be categorised differently across the benchmarking club. Audits where no individual service grouping can be identified are included in this category where other authorities have classed this as Corporate Support. Some further analysis is to be carried out to determine the variances between members of the club.

Recommendations

24. It is recommended that members :

- Note and comment on the results of the 2015 benchmarking exercise for Internal Audit.

Appendix 1: Implications

Finance

No direct implications as a result of this report.

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None.

Human rights

None

Consultation

Consultation held with Resources Management Team and Corporate Director Resources.

Procurement

None

Disability Issues

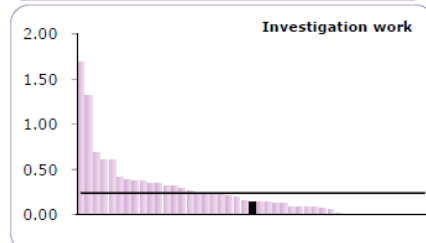
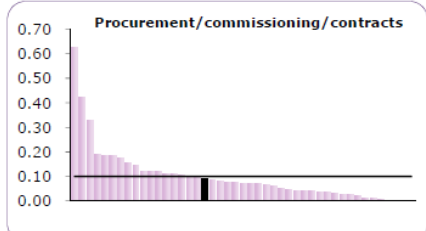
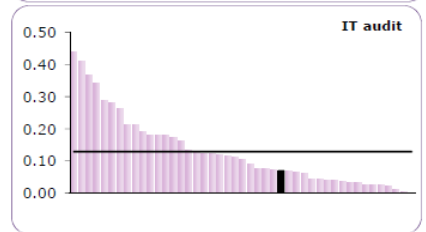
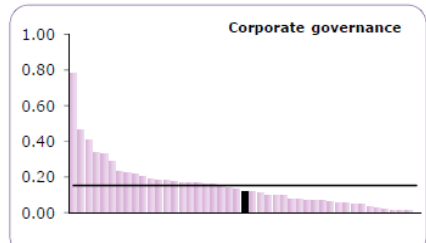
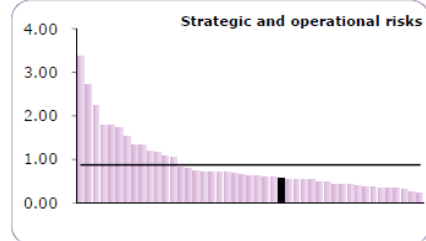
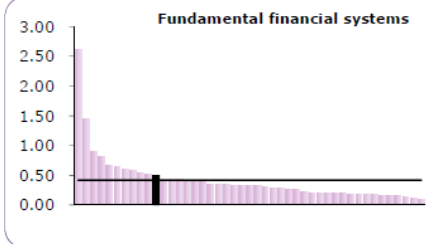
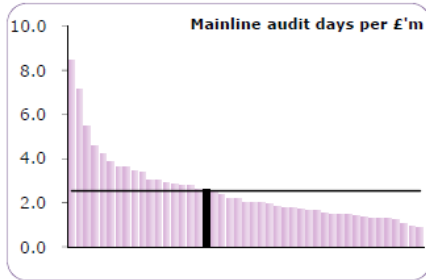
None

Legal Implications

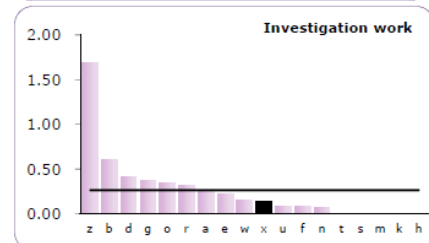
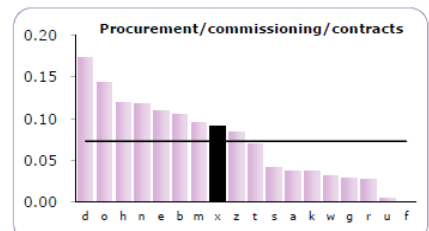
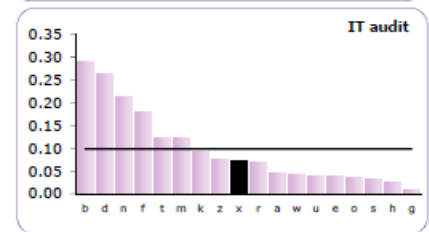
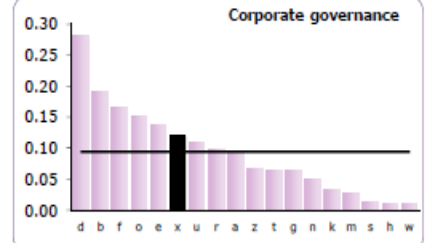
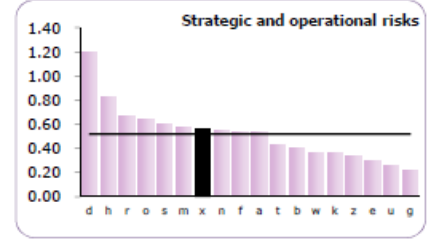
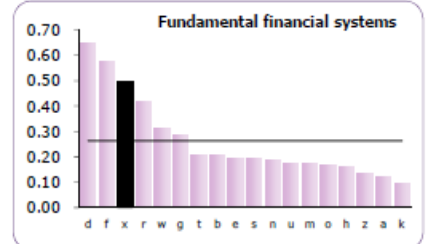
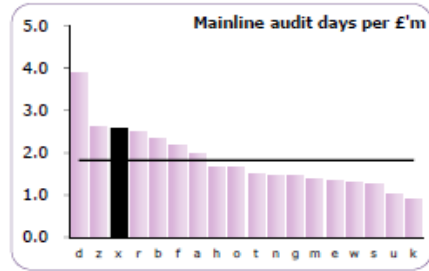
No legal implications as a result of this report.

Appendix 2: Audit Coverage Comparisons

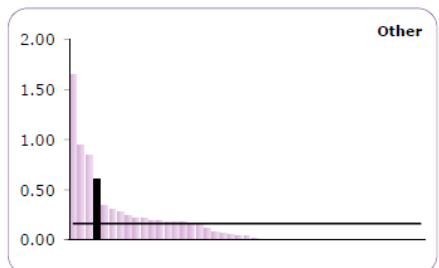
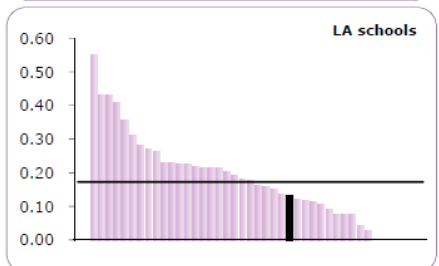
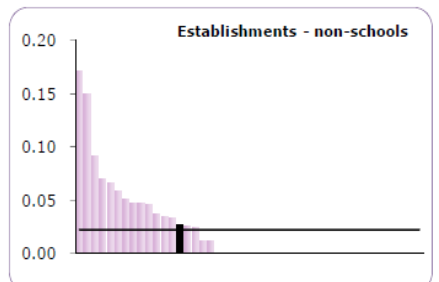
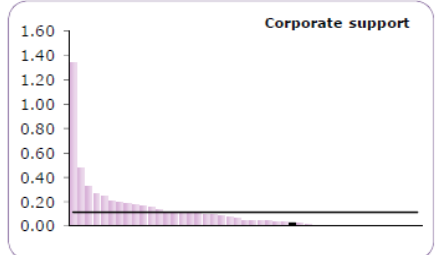
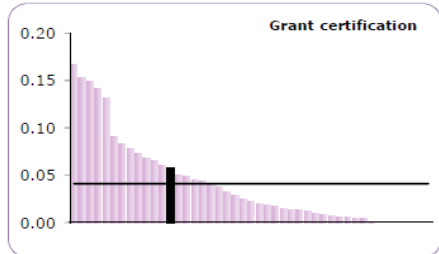
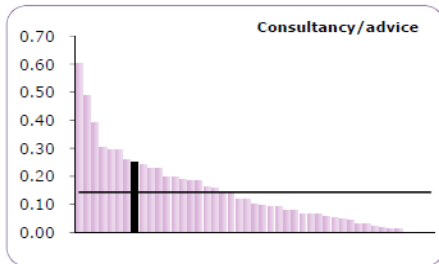
Whole Club



Comparators



Whole Club



Comparators

