

By: Neeta Major – Interim Head of Internal Audit
To: Governance and Audit Committee – 25 September 2012
Subject: **INTERNAL AUDIT BENCH MARKING RESULTS**
Classification: Unrestricted

Summary: This report summarises the 2011/12 Internal Audit Benchmarking Results.

FOR DECISION

Introduction

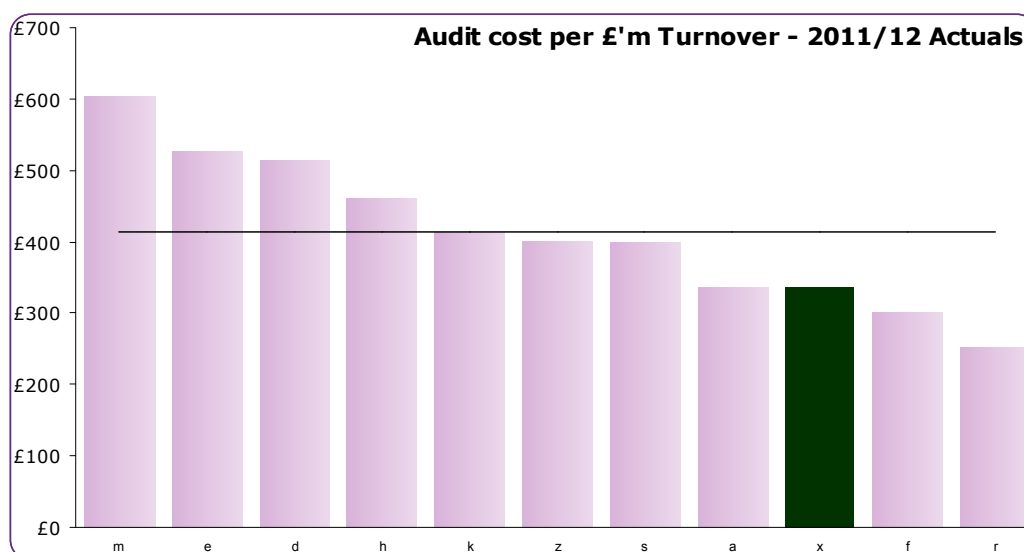
1. Internal Audit is a member of the CIPFA/IPF Audit Benchmarking Club. Through this club, information about Internal Audit's costs and productivity is compared against other county councils. We also compare our costs and productivity to the previous years to establish if we are improving and/or areas where we need to improve.
2. The number of county councils who participated in the 2011/2012 benchmarking exercise, including Kent, was 12 compared to 13 in the previous year and 21 that participated in 2009/10. Appendix A lists the county councils who participated. Many of the counties are significantly smaller than Kent County Council and the reduction in participants and the comparability of results is calling into question the usefulness of the survey as a measure of effectiveness going forward.
3. In addition it is apparent that some comparisons are distorted by the way in which authorities treat different costs e.g. for 2011/12 KCC has included significant costs in relation to the redundancy of staff following restructure whereas our closest comparator has excluded these costs.
4. To assist Members understand the context of the comparator group, Appendix A details the population and gross turnover of each of the comparator authorities to provide appropriate context for the review of the analysis within this report.
5. Table 1 below provides the main headlines from the benchmarking exercise

Table 1: Summary of 2011- 2012 position (*The figures in brackets shows data for 2010/11*).

	Kent	Average
Cost per £'m	322 (321)	409 (556)
Chargeable days per £'m	0.9 (1.0)	1.5 (1.8)
Cost per auditor (including on-costs and allocation of overheads) £'k	61 (53)	51 (51)
Chargeable days per auditor	172 (179)	172 (178)
Cost per day £	351 (318)	299 (282)

Comparative spend on audit

6. Kent County Council continues to spend well below average on its audit service per £m gross turnover than other county councils in the survey (shown in black shade). This is consistent with previous years' results and to a degree reflects that Kent's Internal Audit does not carry out school audits or compliance visits which is the norm in many other County areas. For 2012-13 with the inclusion of costs of four new staff to perform and support compliance visits in Internal Audit following the finance structure it is anticipated that this metric will become more in line with the average.

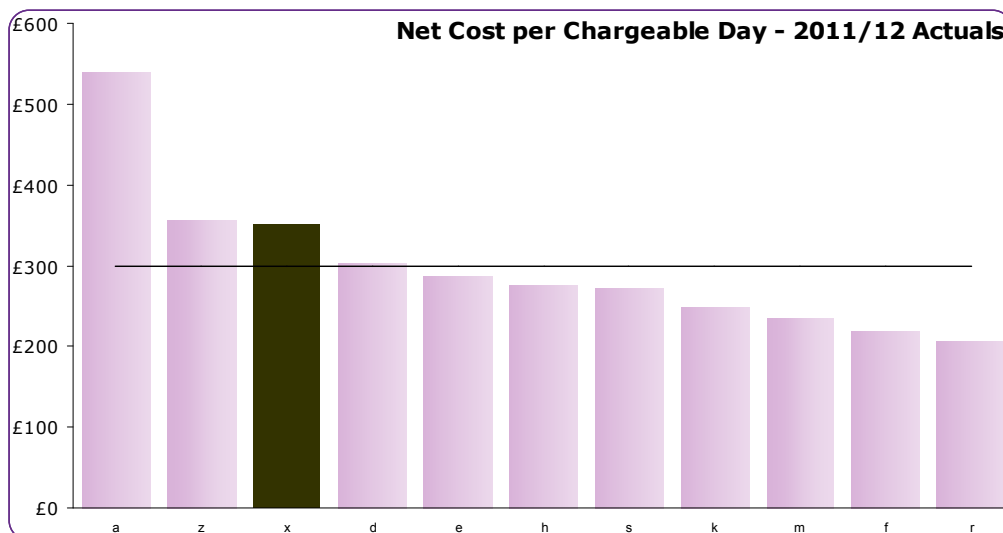


Source : CIPFA

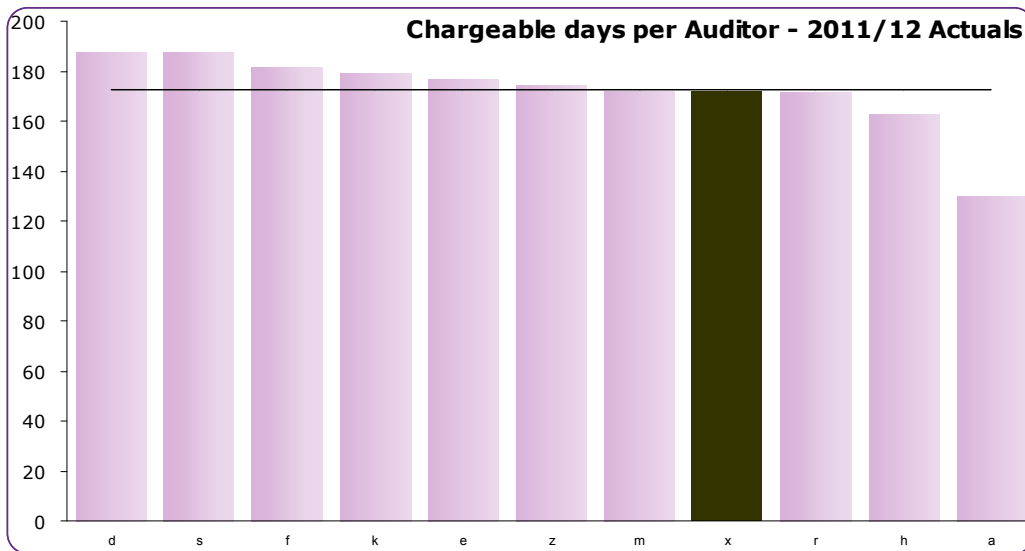
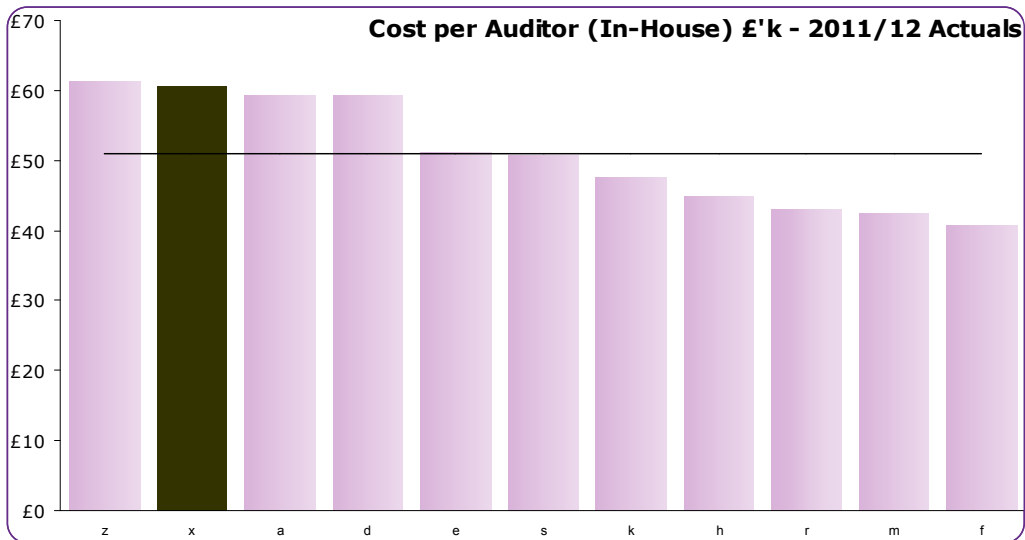
Productivity

7. Our cost per chargeable day has risen this year to £351 (from £318) largely due to the inclusion within 2011-12 of significant costs associated with redundancy and also due to the appointment of a counter fraud manager, two audit managers and the transfer of a contract compliance manager to the team during 2011-12. The inclusion of a fraud and contract compliance manager is not the norm at other authorities though it is increasingly becoming recognised as essential at a time when fraud is on the increase and delivery through contracts is such a significant part of a County's expenditure. The aim of both of these senior posts is to prevent loss through fraud or poor contract management practices.

8. As in previous years costs per chargeable day remains higher than average but despite the increase from last year due to redundancy expenses etc it is still lower than the next two biggest Councils within the comparator group.



9. The cost per chargeable day is affected by two variables – the **costs per auditor** (including pay, on costs and overheads) and the **chargeable days per auditor** shown in the next two graphs:

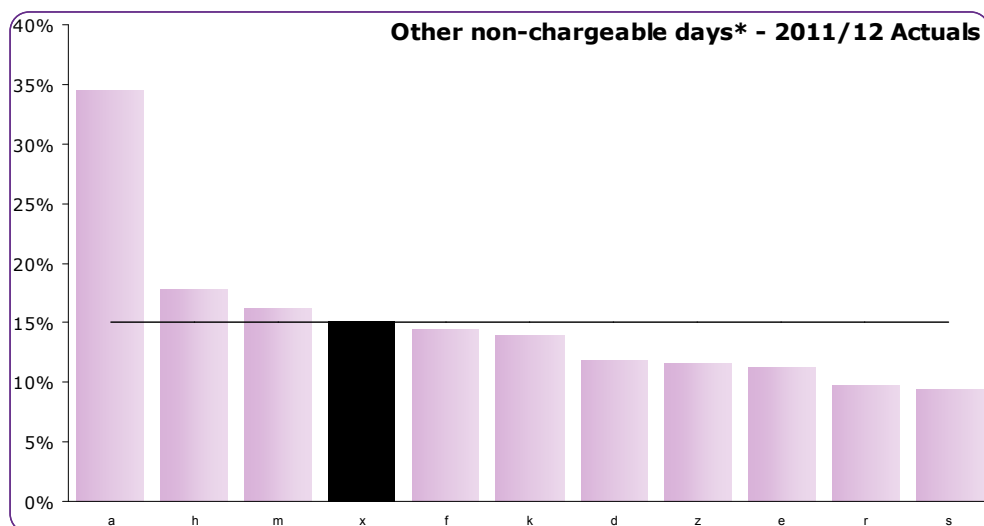


10. This analysis confirms that the cause of the higher than average net cost per chargeable day is the cost per auditor rather than the chargeable days per auditor, the reasons for which have been explained in paragraph 7.

11 The chargeable days per auditor remains in line with the average comparator group though this has reduced from the previous year (179 to 172). This reduction is due to the number of new appointments made in 11/12 with associated induction requirements and the training time required to service four internal audit trainees appointed as part of the previous Head of Internal Audit's restructuring of the section. Carrying this level of trainee resource will continue to be a pressure on chargeable days available until these trainees qualify.

12. It is useful to note in the graph below that the number of days "lost" to non audit and assurance work still remains in line with average. Non chargeable time relates to bank holidays, leave, training, sickness, administration, team meetings and other tasks not directly related to specific

audit work. This time is closely monitored on a weekly basis by Internal Audit management to ensure that all team members maximise time spent on actual audit and assurance related work.



Way forward

13. During 2011-2012, the Internal Audit section was restructured by the previous Head of Internal Audit. In addition as a result of the Finance restructure a number of financial compliance posts have been repositioned within Internal Audit. By 1 April 2012, the following key changes had been made:

- Increase in full time equivalents (by 1 April 2012 there were 20 F.T.E's – including two vacancies)
- Appointment of a counter fraud manager and senior investigations officer to deliver a corporate programme of fraud work including proactive and reactive fraud investigation
- Transfer of a contract compliance manager to deliver a series of reviews over significant Council let contracts including achievement of value for money
- The introduction of a new programme of compliance visits including childrens' centres, establishments, pupil referral units, limited companies (in process of being introduced) and budget manager reviews

14. 2012-2013 will be the first year where it will be possible to analyse the impact and effectiveness of these changes. The CiPFA benchmarking exercise and the reducing number of comparator Counties may not be the best method of assessing the effectiveness of these changes particularly as the current comparison does not take into account the degree of assurance required by different authorities and the split of

costs between advisory, audit, fraud, contract compliance and compliance visits. Such analysis would help differentiate between Councils where other work (e.g. compliance) is undertaken elsewhere or not at all. Further analysis is available from the benchmarking tool but at present this is largely based on time spent on specific types of audits which of course will vary dependent on the types of risks each individual Council is exposed to.

15. Despite these concerns, the exercise is a useful way to formally consider these metrics and to investigate questions that may arise. Currently there is no other mechanism by which these metrics in relation to internal audit in other authorities are collated.

Recommendations

16. Members are asked to:
 - note the content of this report in relation to 2011-12.
 - approve the participation in the benchmarking club for 2012-13, the results of which to be presented in September 2013
 - review ongoing participation in the benchmarking club in September 2013.

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September 2012

	Gross Turnover (£m) ¹	Population '000 ²
Cambridgeshire	915.7	621
Cumbria	856.2	499
East Sussex	916.6	527
Hertfordshire	1,865.6	1,116
Kent	2,596.9	1,463
Norfolk	1,586.1	862
Northamptonshire	1,110.1	692
Nottinghamshire	1,252.4	785
Suffolk	1,209.0	728
Surrey	1,778.3	1127
Warwickshire	880.3	544

¹ Per CIPFA statistics

² Per census/Wikipedia/website