

By: Neeta Major – Head of Internal Audit

To: Governance and Audit Committee – 24 September 2013

Subject: **INTERNAL AUDIT BENCH MARKING RESULTS**

Classification: Unrestricted

Summary: This report summarises the 2012/13 Internal Audit Benchmarking Results.

FOR DECISION

Introduction

1. Internal Audit is a member of the CIPFA 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 2012/2013 benchmarking exercise has continued to significantly decline. Including Kent, there were 8 participating counties compared to 12 in the previous year and 21 that participated in 2009/10. In particular two of the larger usual comparator authorities Surrey and Hertfordshire have not participated this year. Appendix A lists the county councils who participated.
3. 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.
4. In addition it is apparent that some comparisons are distorted by the way in which authorities treat different costs, their differing risk profiles and the approach adopted to fraud, IT and compliance. To assist Members understand the context of the comparator group, Appendix A details the population and gross turnover of each of the comparator authorities.
5. Following comments received at the September 2012's meeting, there have been discussions at the County Council Area Network - a forum of Heads of Audit from all Counties to discuss the problems around being able to benchmark effectively going forward. There is a will to create a

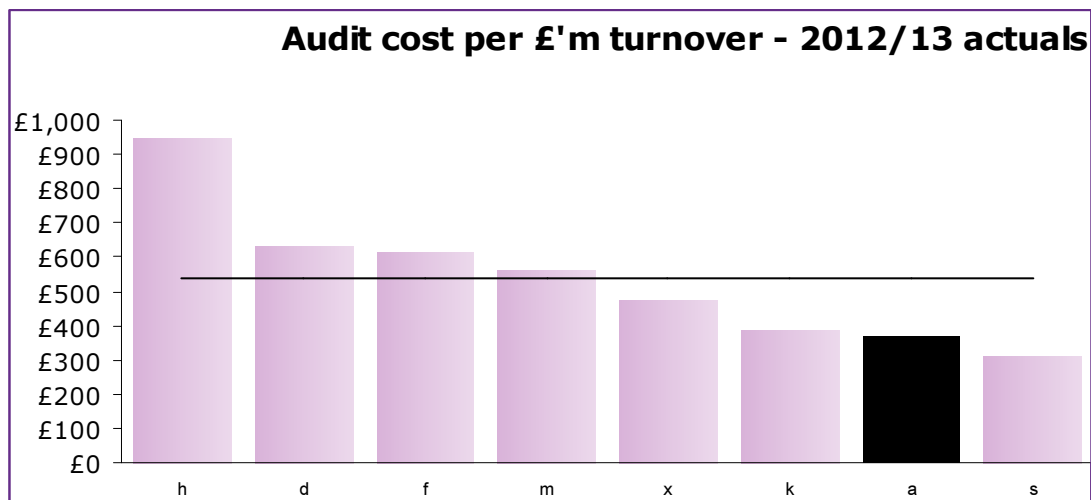
benchmarking group using this forum, but this has not been established as yet.

- Table 1 below provides the main headlines from the benchmarking exercise.

Table 1: Summary of 2012 - 2013 position (The figures in brackets shows data for 2011/12).

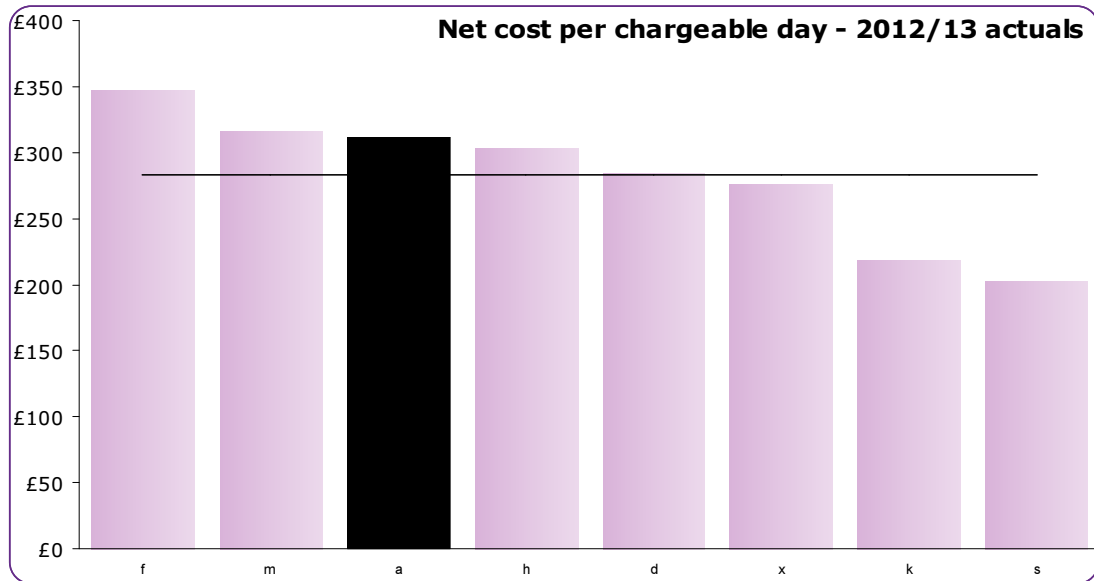
	Kent	Average
Cost per £'m	371 (322)	537 (409)
Cost per auditor (including on-costs and allocation of overheads) £'k	51 (61)	49 (51)
Chargeable days per auditor	164 (172)	169 (172)
Cost per chargeable day £	312 (351)	283 (299)

Comparative spend on audit

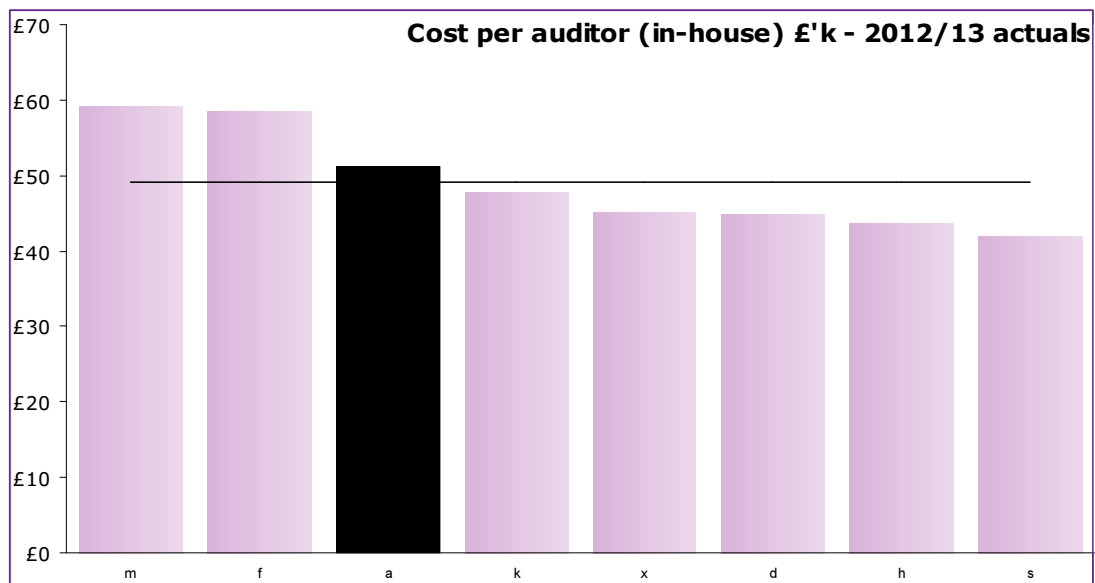


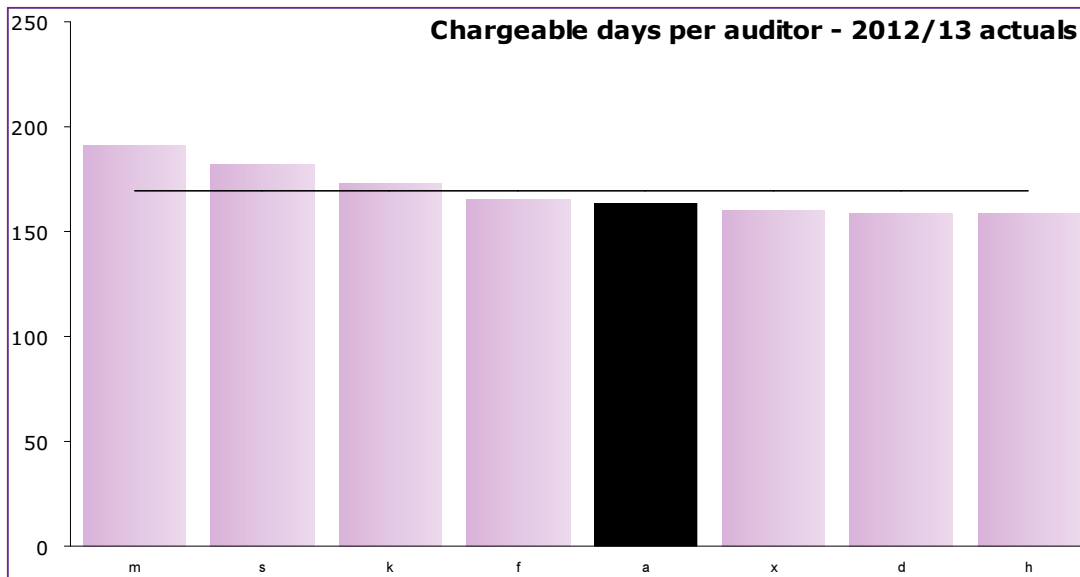
- Kent County Council continues to spend well below average on its audit service per £m gross turnover than other county councils in the survey (shown in black shade). This is consistent with previous years' results and to a degree reflects that Kent's Internal Audit does not carry out school audits which is the norm in many other County areas. (In Kent, the Schools Compliance team within Finance undertake these). It also reflects the number of vacancies that were carried within the section during 2012/13.

Productivity

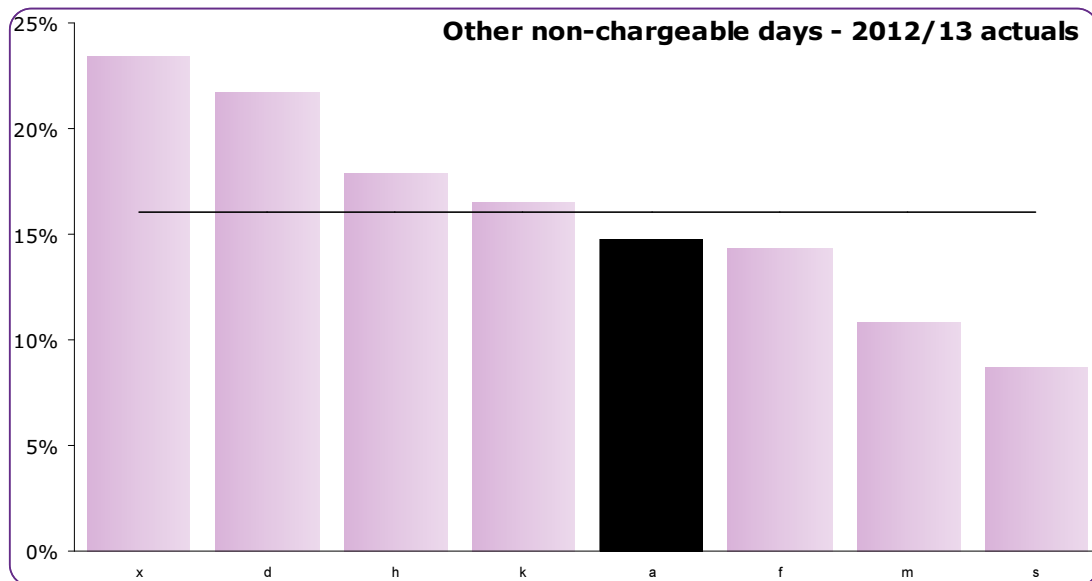


8. Our cost per chargeable day has fallen this year to £312 (from £351 in 2011-12) largely due to the inclusion within 2011-12 of significant costs associated with redundancy.
9. As in previous years costs per chargeable day remain higher than average. This can be explained by further analysing this metric.
10. 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:





11. This analysis confirms that the cause of the higher than average net cost per chargeable day is the result of both of these metrics i.e. a slightly higher than average cost per auditor and a slightly lower than average number of chargeable days per auditor.
12. The cost per auditor is slightly higher than average (£51k vs average £49k). This reflects the market in Kent due to its proximity to London and our continued emphasis on maintaining a mix of qualified accountants and/or Members of the Chartered Institute of Internal Auditors. Of the three Southern counties, Kent has the lowest average cost per auditor. It should be noted that in the last three months, there have been several internal and external adverts offering jobs at considerably higher salaries to Kent for a lower level of competence and qualification. Hence it is unlikely that this metric will improve and we will need to review the number and mix of staff further within our existing budget.
13. The chargeable days per auditor remains slightly lower than average (164 days compared to an average of 169) due to the number of internal audit trainees studying towards a professional qualification as well as one secondment and one team member who was critically ill. Carrying this level of trainee resource will continue to be a pressure on chargeable days available until these trainees qualify.
14. It is useful to note in the graph below the number of days “lost” to non audit and assurance work still remains close to average (15% compared to an average of 16%). 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.



Cost of participating

15. The cost of participating in the CIPFA benchmarking exercise has risen to £600 for 2012-13 together with the costs of collation, submission and review. However there are no further costs of collection of data as Internal Audit routinely captures all the necessary data as part of its own performance management.

Way forward

16. During 2012-2013 we have already appointed a Senior Counter Fraud officer and Auditor (fraud) to support the Counter Fraud Manager deliver the range of proactive and reactive fraud work planned. However on the audit and assurance side, there have been a number of pressures due to the secondment of the Contract Compliance Manager to the Enterprise and Environment Directorate, the transfer/secondment of three staff to higher grade positions within the authority, and the improved job market for skilled internal auditors. For this reason we will be further reviewing the Internal Audit structure. Any change in structure will need to ensure that we can retain key members of staff who progress through their professional and on the job training but have no career structure that encourages them to use these more advanced skills to the benefit of the Council
17. The CIPFA benchmarking club and the reducing number of comparator Counties may not be the best method of assessing the effectiveness of Internal Audit going forward 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.

18. For this reason the Head of Internal Audit will further contribute to the discussions within CCAN regarding the opportunity to create a benchmarking club through this forum to address the declining number of participants in the CIPFA exercise.
19. Despite these concerns, the Committee may wish for Internal Audit to continue to participate in the exercise for the time being until there is another mechanism to replace it. It could still be regarded as a useful way to formally consider these metrics and to investigate questions that may arise.

Recommendations

16. Members are asked to:
 - note the content of this report in relation to 2012-13.
 - consider whether they wish Internal Audit to continue participating in the CIPFA benchmarking club given the dramatic reduction in comparators

Neeta Major
Head of Internal Audit
Ext: 4664
September 2013

	Gross Turnover (£m) ¹	Population '000 ²
Cumbria	778	494
East Sussex	907	516
Gloucestershire	740	597
Kent	2,300	1,427
Norfolk	1,343	862
Nottinghamshire	1,093	780
Suffolk	1,077	720
Warwickshire	762	536

¹ Per CIPFA benchmarking statistics

² Per CIPFA website