

By: Robert Patterson – Head of Internal Audit
To: Governance and Audit Committee – 3 October 2014
Subject: **INTERNAL AUDIT BENCH MARKING RESULTS**
Classification: Unrestricted

Summary: This report summarises the 2013/14 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 a direction of travel and improvement or if there are potential areas where we need to improve.
2. As a reminder, benchmarking is the start of an analytical process, not an end.
3. The number of county councils who participated in the 2013/2014 benchmarking exercise was nine including Kent. This is still a significant decline compared to 2009/10 when 21 county councils participated. Surrey, one of the larger comparator authorities has not participated again this year.
4. Many of the counties are significantly smaller than Kent County Council and the reduction in participants and the comparability of results of this survey as a measure of effectiveness going forward makes it less useful than in the past. However, at the September 2013 Audit Committee it was agreed that Internal Audit should continue to participate whilst continuing to engage in discussions at the County Council Area Network (CCAN) to see if there would be an opportunity to set up an alternative benchmarking club.
5. The former Head of Internal Audit has engaged in these discussions over the previous year. Indeed over the course of the year CIPFA and CCAN were in discussions to reduce the subscription rate if a large proportion of CCAN members (19) joined. Unfortunately there was insufficient appetite across member authorities despite the current financial climate and therefore this offer was rejected.

6. The view of several Counties is that the cost/resource of collecting the data outweighs the benefit. Also there is a view shared by several authorities that meaningful comparison is becoming increasingly difficult in Internal Audit due to different priorities and approaches.
7. 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. Kent's Internal Audit data is fully automated and therefore we do not find participation in the annual exercise as onerous as other authorities. Also in 2013-14 the top level analysis has been useful when reviewing the value for money of our service in comparison to private sector providers.
8. The view of the majority of Counties is unfortunate and whilst we continued to contribute to the debate, in the interim we will continue to engage in discussions with CIPFA on making the results more meaningful.
9. To assist Members understand the context of the comparator group, Appendix A details the population and gross turnover of each of the comparator authorities.

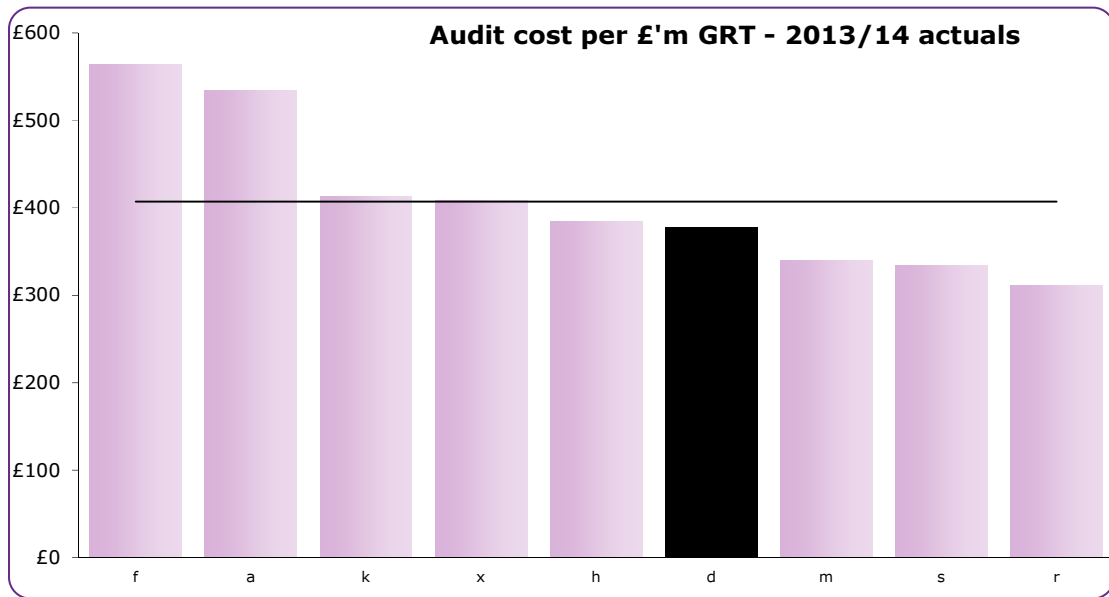
Headlines

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

Table 1: Summary of 2013 - 2014 position
(The figures in brackets shows data for 2012/13).

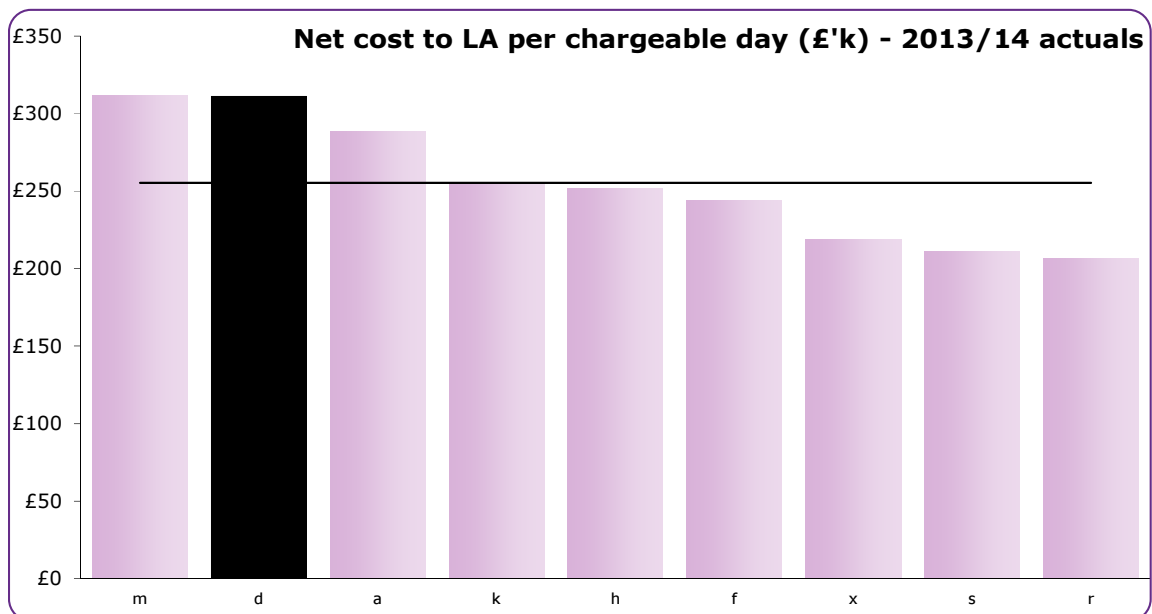
	Kent	Average
Cost per £'m	378 (371)	407 (537)
Cost per auditor (including on-costs and allocation of overheads) £'k	51 (51)	49 (46)
Chargeable days per auditor	163 (164)	173 (169)
Cost per chargeable day £	311 (312)	283 (278)

Comparative spend on audit

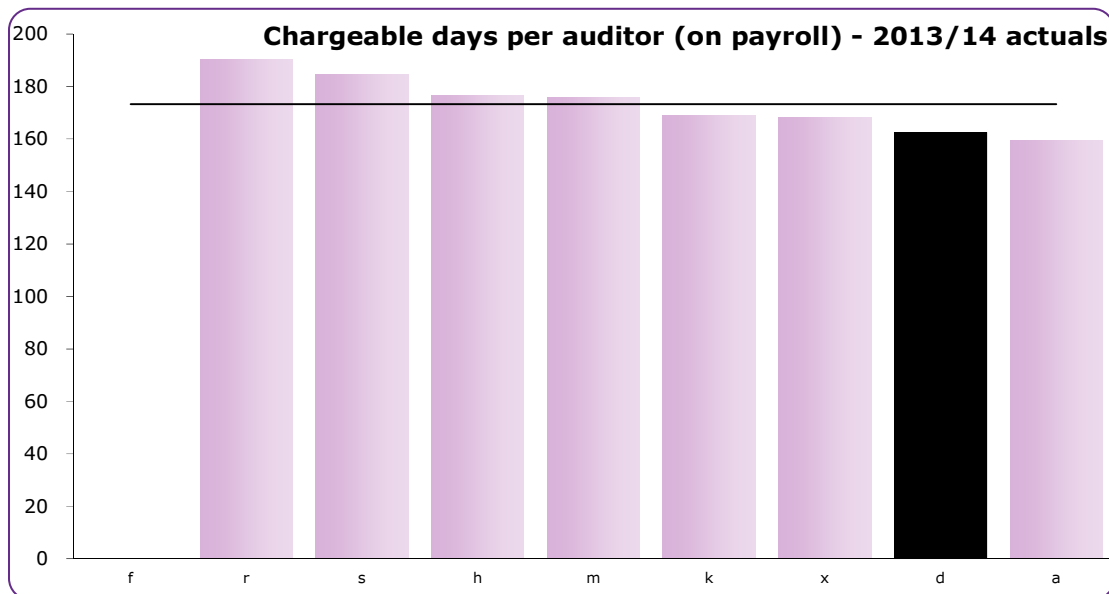
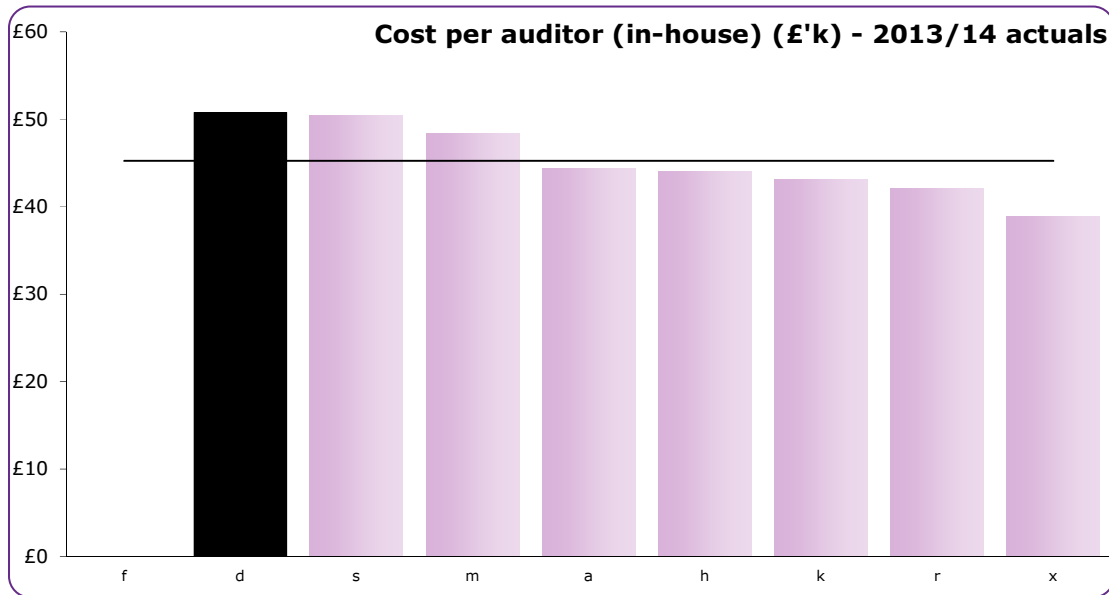


11. Kent County Council continues to spend well below average on its audit service per £m gross turnover, (shown in black shade) although it has increased slightly since 2012/13. This is consistent with previous years' results and to a degree may reflect that Kent's Internal Audit does not carry out school audits (that is undertaken by Internal Audit in some other County areas). In Kent, the Schools Compliance team within Finance undertake these.

Productivity



12. Our cost per chargeable day has fallen slightly this year to £311 (from £312 in 2012/13) and a decrease from £351 in 2011/12 which included significant costs associated with redundancy.
13. As in previous years costs per chargeable day remain higher than average. This can be explained by further analysing this metric.
14. 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:



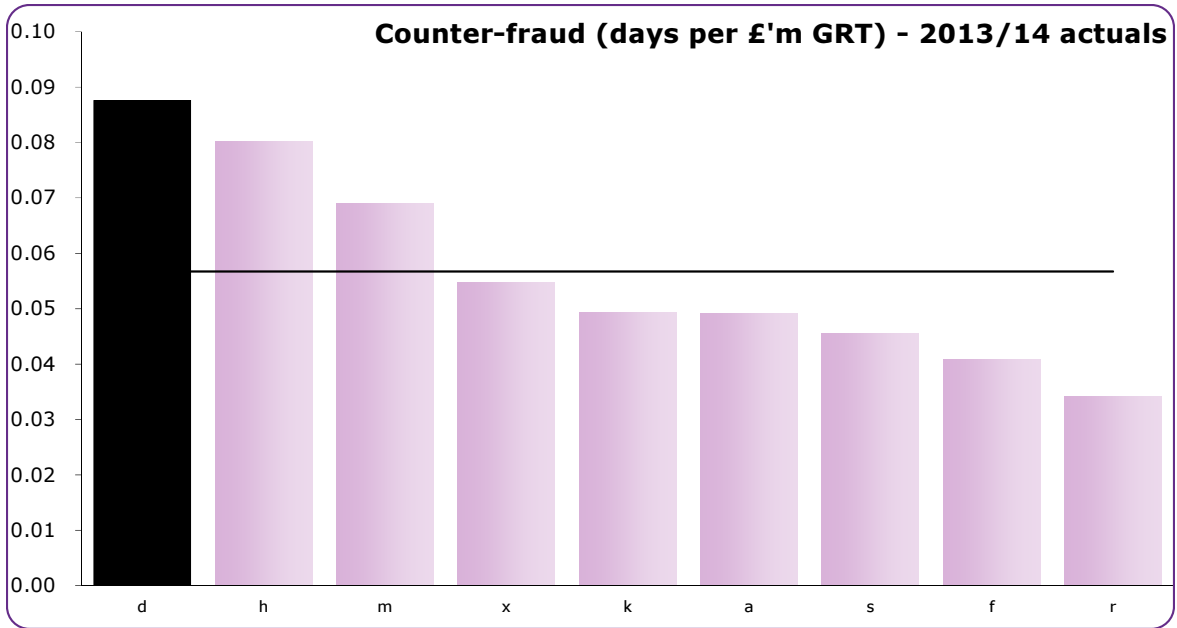
15. This analysis confirms that the cause of the higher than average net cost per chargeable day is the result of both of these metrics i.e. a

slightly higher than average cost per auditor and a slightly lower than average number of chargeable days per auditor.

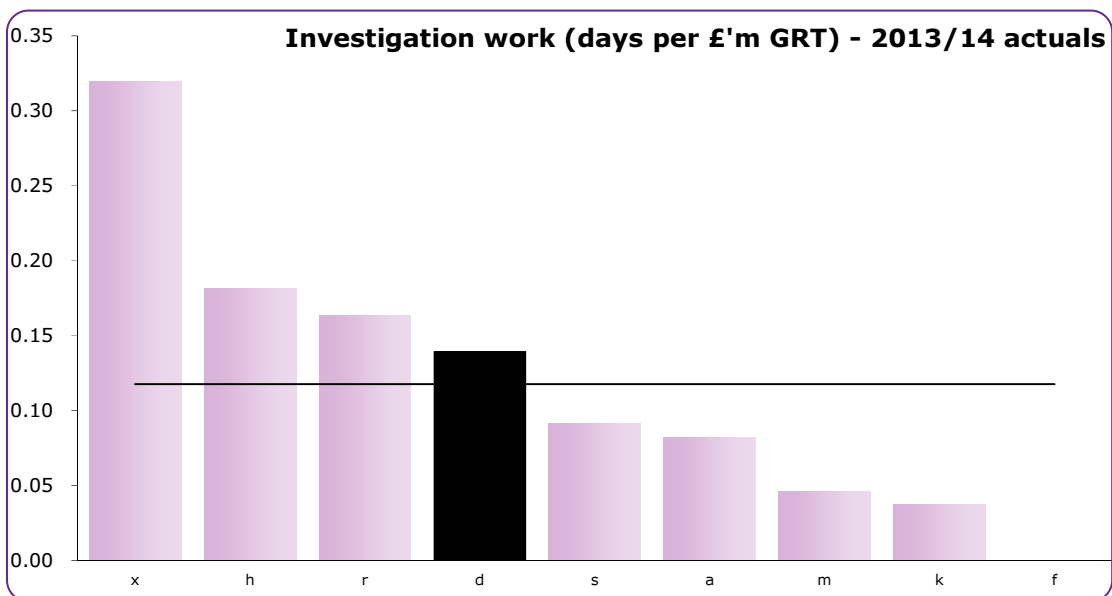
16. The cost per auditor is slightly higher than average (£51k - which is the same as the previous year vs average £45k – which is slightly less than the previous year). This reflects the buoyant audit market in Kent due to its proximity to London and our continued emphasis on maintaining a mix of qualified accountants and/or members of the Chartered Institute of Internal Auditors.
17. The chargeable days per auditor remains lower than average (163 days compared to an average of 173) due to the number of new recruits to the section who required induction, in house training, as well as internal audit trainees studying towards a professional qualification. There were also two secondments during 2013/14 as well as one member of staff who was terminally ill.
18. It is useful to note that the number of days “lost” to non audit and assurance work is 15% which conforms to sector averages. 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.

Counter fraud work and investigations

19. Time spent on counter fraud work per gross turnover is higher than any of the other comparator authorities, (0.09 days vs the average of 0.06 (see the graph below)). This reflects a deliberate strategy to prevent and detect fraud and error and to thoroughly investigate allegations of fraud and corruption.
20. The appointment of a Senior Counter Fraud Officer and Auditor (fraud) to support the Counter Fraud Manager has enabled the section to provide advice and information for specific processes that are at risk of fraud and/or error for example direct payments. General advice and information as well as fraud awareness training has been provided to a number of KCC staff including schools.
21. During the latter part of 2013/14 the Counter Fraud team has also worked in collaboration with Kent’s district councils in developing a Memorandum of Understanding to enhance the districts’ work in tackling fraud and error in the council tax system. The ultimate aim is to reduce fraud and error and also to increase the council tax yield for KCC.



22. The days spent on investigations is slightly higher than average 0.14 per gross turnover vs 0.12 (although one of the comparator authorities did not provide this data) and is higher than the days spent on counter fraud work. This is expected as fraud investigations can be resource intensive. As well as the actual investigation, time is taken to liaise with the police (where relevant), to present the results of investigations to disciplinary hearings, and to write reports with recommendations to help prevent a similar fraud and/or error.



Cost of participating

23. The cost of participating in the CIPFA benchmarking exercise has risen to £660 for 2013-14 (£600 - 2012-2013) 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.

Recommendations

16. Members are asked to note the content of this report in relation to 2013-14.

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3 October 2014

	Gross Turnover (£m) ¹	Population '000 ²
Essex	1,870	1,413
Leicestershire	743	648
Lincolnshire	1,096	703
Kent	2,352	1,428
Norfolk	1,399	862
Nottinghamshire	1,097	780
Somerset	719	525
Suffolk	1,049	720
Hertfordshire	1,637	1,108

¹ Per CIPFA benchmarking statistics

² Per Office National Statistics