

Internal Audit

Annual Report 2013-14

Partnership Committee

June 2014



Auditing for achievement

# Contents

---

REPORT OF THE HEAD OF AUDIT PARTNERSHIP	1
PARTNERSHIP MEMBERSHIP AND CLIENT DEVELOPMENT	2
CONTRACT REDUCTION AND DIVERSIFICATION	3
COLLABORATIVE PARTNER WORKING	4
CUSTOMER SERVICE EXCELLENCE	5
DAP DEVELOPMENT	6
STAFF AND PARTNER DEVELOPMENT	7
INTERNAL AUDIT PERFORMANCE	8
FUTURE	9
CONCLUSION	9
APPENDIX 1 - CUSTOMER SERVICE EXCELLENCE	10
APPENDIX 2 - CUSTOMER SERVICE - REFRESHED	11
APPENDIX 3 – LOCAL PERFORMANCE INDICATORS	12

<b>Devon Audit Partnership</b>	<b>Confidentiality and Disclosure Clause</b>
<p>The Devon Audit Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay and Devon councils. We aim to be recognised as a high quality internal audit service in the public sector. We work with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In carrying out our work we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards.</p> <p>The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at <a href="mailto:robert.hutchins@devonaudit.gov.uk">robert.hutchins@devonaudit.gov.uk</a>.</p>	<p>This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies.</p> <p>This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.</p>

## Report of the Head of Audit Partnership

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

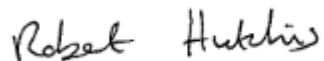
**Recommendation:** that the Committee notes the current status of the Partnership and current issues.

### Review of Devon Audit Partnership 2013/14

The Devon Audit Partnership has now been operational for 5 years; in this short time considerable service development and progress has been made. Overall the performance of the Partnership has been very good in respect of both the delivery of the Audit Plan and the feedback from customers. In achieving this performance the partnership has overcome a number of significant challenges, has continued to provide a highly valued service in a time of uncertainty, and has helped the partners effectively address the changes required in the public sector amid increasingly scarce resources.

The original Partnership Agreement ran for the period April 2009 until March 2014. As stated above the Partnership has worked well and papers supporting a possible extension to the arrangement were prepared for the Management Board and Partnership Committee. Both Board and Committee supported a three year extension and this proposal was taken back to each Partner Councils. During 2013/14 decisions were taken by each of the Partners to extend the agreement and a Deed of Variation has been prepared to enable this.

The success of the Partnership is down to the professionalism and hard work of the staff employed. They have all risen to the challenge of providing higher quality services at a time when finances available are very limited. My thanks go to all of the team at Devon Audit Partnership.



Robert Hutchins  
Head of Devon Audit Partnership  
May 2014

## Partnership Membership and Client Development

### Police Joined

The Police (Office of Police and Crime Commissioner and Police Constabulary) have joined as a partner of DAP with effect from April 2014. Working with the Police will help DAP further develop the skills of staff to provide an excellent service to all partners and clients. The value of gaining audit knowledge of how another large public sector body is dealing with challenges will be invaluable, and we will be able to share our ideas and solutions to problems across a wider client base.

### Fire Service

We continue to work with colleagues at Devon and Somerset Fire and Rescue Service. The Service has its own internal team who provide the bulk of internal audit input, but we supplement this team. During 2014 one of the team is expected to take maternity leave and DAP will provide backfill for this post.

### Torridge District Council

We continue to work with colleagues at Torridge District Council. As with the Fire Service above, Torridge has its own internal team who provide the bulk of internal audit input, but we supplement this team. During 2014 one of the team is expected to take extended leave and DAP will provide backfill for this post.

### Expansion into wider grant work

We continue to bid for First and Second Level Controller work on European funded projects. We have been successful in winning such work with the University of Plymouth and have now built up a team of “experts” in this field who provide a much valued service to our clients in this very technical area.

### Academy Schools

The change of status of schools to Academies has slowed although a steady number are still converting. We have successfully won an amount of the internal audit work for these schools as they change; more so in the Torbay area than Devon or Plymouth. Competition is strong, particularly from the external accountants who are able to combine internal and external audit work. Income was higher than anticipated in 2013-14 reflecting the growth in clients. A significant proportion of this was from one academy trust of five schools where we were able to provide a notable amount of work. This was set to increase in the coming twelve months however as of the time of writing this report the trust has announced it is to fold and we may lose the majority of this work though we remain hopeful to retain some of it. We are currently in negotiation with the Roman Catholic Diocese for the provision of internal audit services to their newly formed academy chain of 35 schools. Should this prove successful it will provide a significant boost to this income stream for us and more than counter the loss of the schools from the maintained schools budget where the Academy Trust extends beyond the boundary of Devon. We plan a more focused drive to win a higher proportion of this work over the next 12 months. We are

## Contract reduction and diversification

### Budget position

The Partnership has consistently remained within budget and at the end of 2013/14 carried forward a reserve of £173k. The out-turn for 2013/14 shows that a small surplus was achieved (£958). This has been achieved through careful monitoring of the budget and careful use of contract staff to deliver the changing work pattern of our clients. Our day rate remains below the national average, as identified from benchmarking with other local authorities via the CIPFA benchmark club.

A revised business plan was produced in the summer of 2013 and this shows that we aim to deliver future annual cost savings of 10% per annum over the next three years; the Partner authorities recognise that this will result in revised coverage in the audit plan and, possibly, reduced assurance.

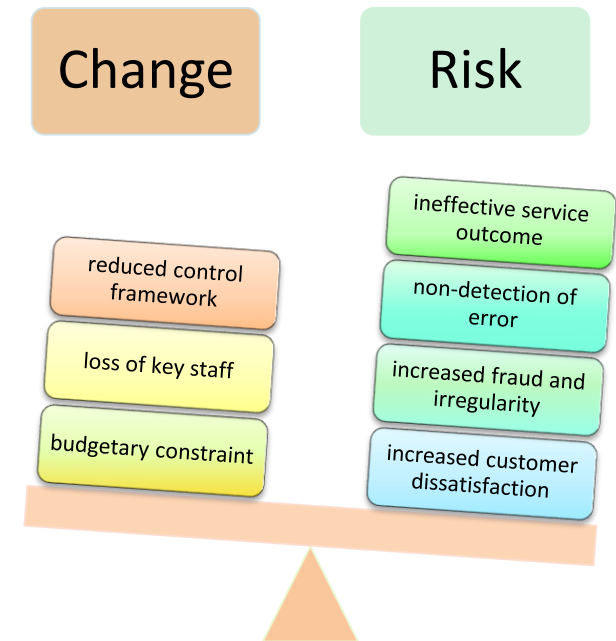
### Change in balance of work - diversification

Our challenge is to ensure that, as far as is practicable, the reduction in work for partner members is offset with the expansion of other work; for example, increase in academy school contracts and extension of work with the emergency services, HE sector and Districts.

### Service impact and risk

The reduction in core work to the Partner Members is having an effect on the assurance we can offer. The “seesaw” graphic of change v risk was included as part of our annual plans for 2014-15 with each of the Authorities where it is recognised times are changing; the expectation of the public for services provided by the public sector has never been greater; yet the money that is available for these services needs to be reduced. All public sector organisations are looking at how services can be transformed; what worked in the last decade may not meet new challenges. The use of, and dependency on, IT for service delivery will only increase further; this brings rewards but also carries its own risk.

The level of audit input required for irregularity investigations has increased proportionally this year which may be as a consequence of reduction in the Authority’s management structure due to National budgetary constraint. This is not to say that fraud has increased, rather to say that management’s ability to deal with it may have reduced and therefore there has been a greater expectation and demand on support from internal audit. The overall audit assurance will have to be considered in light of this position. We have been able to meet the requests for support on these investigations. However, considering this in the light of future reductions will require some review of delivery. We will implement a different management process for such work in the coming twelve months.



## Collaborative Partner Working

- **External Partners**
- We are working closely with other audit partnerships in the region (for example SWAP, Southern Internal Audit Partnership, West of England Chief Internal Auditors group to consider how we can share learning and approaches, staffing developments and to develop automated systems to enhance effectiveness (e.g. our use of Mki (our audit management system)) .
  - o **South West Audit Partnership (SWAP)**
    - **MKI** performance management reports
    - **Business Development**
    - **Collaborative working** – Dean Academy
  - o **Southern Internal Audit Partnership (SIAP)**
    - **MKI** – development of audit management approaches
  - o **West of England Chief Internal Auditors group**
    - **Sharing of work programmes** – as new work areas present themselves we share approached with colleagues to ensure that internal Audit can respond promptly and effectively and provide the assurance required by management
    - **Minimum Audit Level?** – we are working to develop a way to identify what the a minimum audit level could be for an organisation. The early stages of a model have been developed , and it is hoped that CIPFA may assist in taking the model further.
  - o **Regional training for Audit Committees planned for Autumn 2014-15**
    - We wish to develop an informative training session and network event for audit committee members using the combined resources of DAP, SWAP and SIAP.
- **External Audit**
  - The change from Audit Commission to Grant Thornton as External Auditor across the South West took effect last year. We have worked with Grant Thornton colleagues to ensure that Partners received effective working arrangements and that the changeover did not affect internal audit work.
  - We work with Grant Thornton to ensure that we complement their needs and requirements and, where appropriate, that they can place reliance on our work.
  - We have also worked with Grant Thornton in providing training and guidance to members.

## Customer Service Excellence

DAP was successful in re-accreditation of the CSE standard during the year.

During the period we issued client survey forms with our final reports. The results of the surveys returned are, although low in number, very good and again are very positive. The overall result is very pleasing, with near 98% being "satisfied" or better across our services, see appendix 5. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

In comparison to previous years the overall result is a further improvement.

We made developments in the customer satisfaction questionnaires during the year and piloted a new survey form to accompany all audits during March 2014. The purpose was to achieve an improvement to customer focus concentrating more on the:

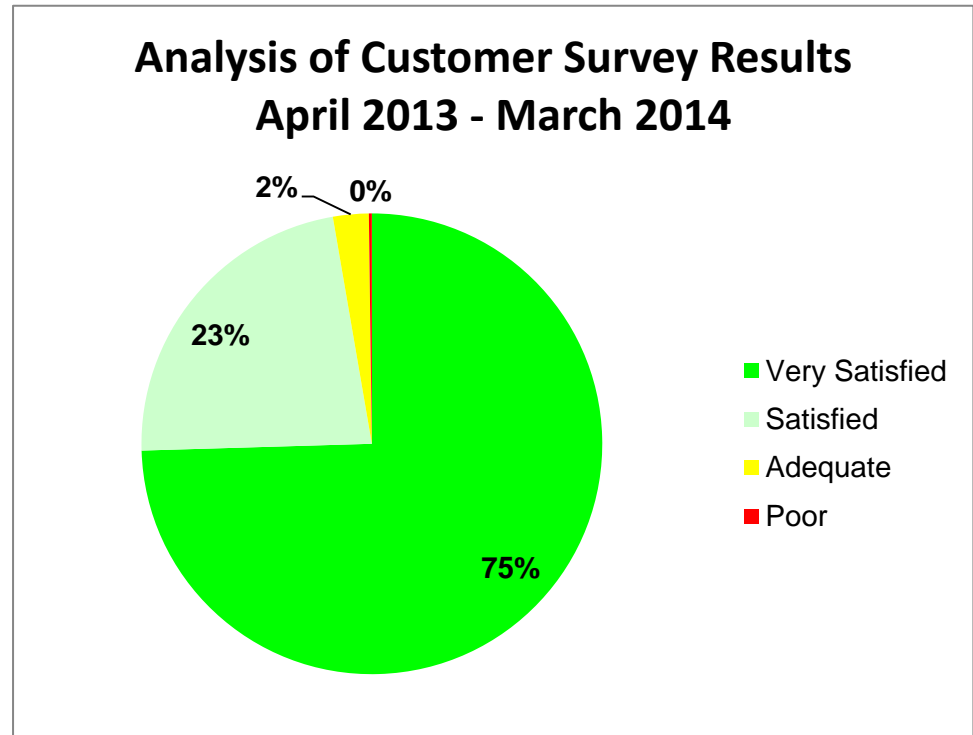
- appropriateness of audit to the customers needs;
- delivery against their business risks and
- relevance to customer need.

Results from the new customer survey form can be seen at appendix 2. From this, albeit with a small sample to date, shows an improvement in overall satisfaction showing that we are asking more relevant questions and whilst maintain an audit delivery that the customer requires.

We have produced two further survey forms which we plan to use in semi structured meetings with client senior management and the executive. This will extend feedback across the whole organisation.

### Customer Testimony. Some examples of customer testimony are shown below:-

- Good quality of discussion in planning the audit. Helpful engagement with staff during the process. Report was accurate and clear regarding recommendations for improvement.
- The attitude & approachable manner of the auditor. Very rigorous & thorough but fair and informative for us to improve systems in future;
- The attitude, advice and assistance of the auditor and auditor manager were particularly helpful and positive throughout the audit
- Content of the final report was concise and reflected the auditor opinion that systems were robust, It was pleasing and helpful that there were no padding out with excessive detail or superfluous recommendations.



## DAP Development

Our marketing strategy and rebranding of the partnership with a new logo and identity have been widely accepted and recognised. We have been able to extend our client base through this strategy and are currently making further bids which will take us into Cornwall for Intereg grant work and potentially more regionally for academy schools where we have delivered audit services in the Forrest of Dean and Bexhill in East Sussex. We hope for further extension of this in the coming 12 months where we are just entering negotiations with the Catholic Diocese for audit services across the South West for their multi academy trust.

This academy work has enabled us to establish, albeit at a low level at this stage, some collaborative work delivery with South West Audit Partnership (SWAP) who delivered the Forest of Dean work with us and interest from other audit services like Southern Internal Audit Partnership. We worked with our host (DCC) to develop accommodation at Larkbeare, which is now our HQ; the accommodation is working out well and has helped to cement our independent identity.

### **Audit reporting formats**

We have introduced a much revised and graphical audit plan report for each Partner for 2014-15. This has been well received and in particular the “thematic approach” to the presentation of the plan across the authority services has significantly helped understanding and should make for a more cohesive audit delivery linking core assurance work with service delivery. Our annual reports will follow the flow of this report style.

### **Public Sector Internal Audit Standards (PSIAS)**

We have formerly been quality assessed against the Institute of Internal Audit Standards and regarded as a credible audit service.

During the year CIPFA issued a Local Government Application Note. The application note provides a self assessment checklist to help audit teams measure how well they conform. The checklist is comprehensive (it runs to 22 pages) and provides a useful guide. However the checklist has been prepared mainly for traditional in-house teams, and not all of the standards are fully workable in a Partnership framework.

We have completed the self-assessment checklist and have identified that there are no omissions in our practices. We have identified some areas where we could further strengthen our approaches, and these will be added to our development plan.



## Staff and Partner Development

### Member Training

Changes in Audit Committee members offered the opportunity to provide training to committee members. We presented a joint training workshop with Grant Thornton to members of Devon County Council, covering the role of the audit committee through the audit year to enable greater understanding and constructive challenge by members. This was gratefully received by audit committee members.

This has stimulate interest with our collaborative partners and we plan to deliver some regionally advertised training in the Autumn of 2014.

### Staff Training Programme

We continue to invest a percentage of our budget in the development of staff; we have recognised that, whilst the overall audit budget continues to reduce, the need for high quality assurance services does not. Indeed, with the increasing challenges and complexity facing local government and other public sector services, the need for well trained, motivated and versatile audit staff has never been higher.

In terms of professional training, we have 4 staff who are currently studying for the Institute of Internal Auditors (IIA) qualification; 2 staff are in the final stages and 2 are embarking on their studies just starting

Staff training needs are identified from staff appraisals and regular 1 to 1 sessions with managers. We are fortunate to be able to access training from our host (Devon CC) for a number of training needs (e.g. use of Microsoft products, diversity awareness, customer care, interview skills etc.). We also have staff who are currently undertaking Institute of Leadership and Management level 7 (ILM7).

Staff are encouraged to attend courses and seminars that develop their audit skills, develop skills for the partnership and also further develop network opportunities. Events attended over the year include

- IIA Annual conference
- Fraud Awareness events
- Hosting of a CIPFA run event on contracting arrangements
- Use of IDEA software

## Internal Audit Performance

Our provisional outturn analysis of performance for the year ended 31<sup>st</sup> March 2014 indicates that overall performance was good and generally exceeded our targets. 92% of the respective audit plans were delivered (against a target of 90%) and customer satisfaction levels of 98% across the partnership are noteworthy. A breakdown of performance across all partners is shown in Appendix 3.

Devon Audit Partnership	Year end performance (end of March 2014) Inc Schools				
Local Performance Indicator (LPI)	Full year Target	Full year Performance	Quarter 3 2013/14	Outturn 2012/13	Direction of Travel (where applicable)
Percentage of Audit plan Completed	90%	92%	91.77%	93.80%	→
Percentage of chargeable time	65%	70%	66.63%	66.10%	↑
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	98.00%	95.70%	→
Draft Reports produced within target number of days (currently 15 days)	90%	76%	76.47%	84.30%	↓
Final reports produced within target number of days (currently 10 days)	90%	90%	89.67%	89.50%	↑
Average level of sickness absence	2%	3%	2.50%	2.90%	→
Percentage of staff turnover	5%	3%	2% (1 person)	8.5% (3 people)	→
Out-turn within budget	Yes	Yes	Yes	Yes	→

Although overall, performance against the indicators was very good we are aware that some of our draft audit reports were not issued to the customer within the agreed timeframes (15 working days for draft report). We have identified areas where performance has been poor, and are continuing to work with our staff to ensure improvement is achieved.

Sickness in 2013/14 was slightly higher than projected. Our 2% “allowance” equates to 5 days per fte employee; the outrun of 3% represents 7.8 days. The figure has been affected by a number of employees (3) needing to undergo operations and the resulting convalescence time. We work with staff to ensure that attendance at work is maximised; the assistance of HR support organisations such as Wellbeing @ work also assist us. The CIPFA benchmark for Internal Audit sections currently stands at 6.8 days.

## Future

Our challenge will be to continue to provide our annual assurance opinion in a climate where our clients want, and needs, to reduce costs and this includes internal audit costs.

We need to look at how we can deliver with less obvious resources; we need to look at how we use data, rather than people, to deliver our audits; we need to look at sharing ideas / solutions etc. with other partners and work collaboratively to develop solutions and share development costs

We are working with colleagues across the south west to produce an internal audit planning framework that will assist in assessing the level of internal input for an organisation; this will help organisations in assessing the risk of audit plans.

The way that some services provided by DAP are delivered will need to be considered; for example our fraud investigation work could be recharged to clients as and when the need arises, rather than planning for an annual allocation.

Our plans and audit approach will require more flexibility; we will need to work even more closely with senior management to ensure our resources are employed to the greatest advantage.

The partners have indicated their desire to continue with the partnership; it has been successful and we consider that it will continue to be so. The partners have set challenging financial targets, and these will have a considerable impact on the audit resources that will be available. We will continue to grow our business from non-partners to enable the specialist skills built up to be retained, and to provide the flexibility to react, and be pro-active, to changing needs.

## Conclusion

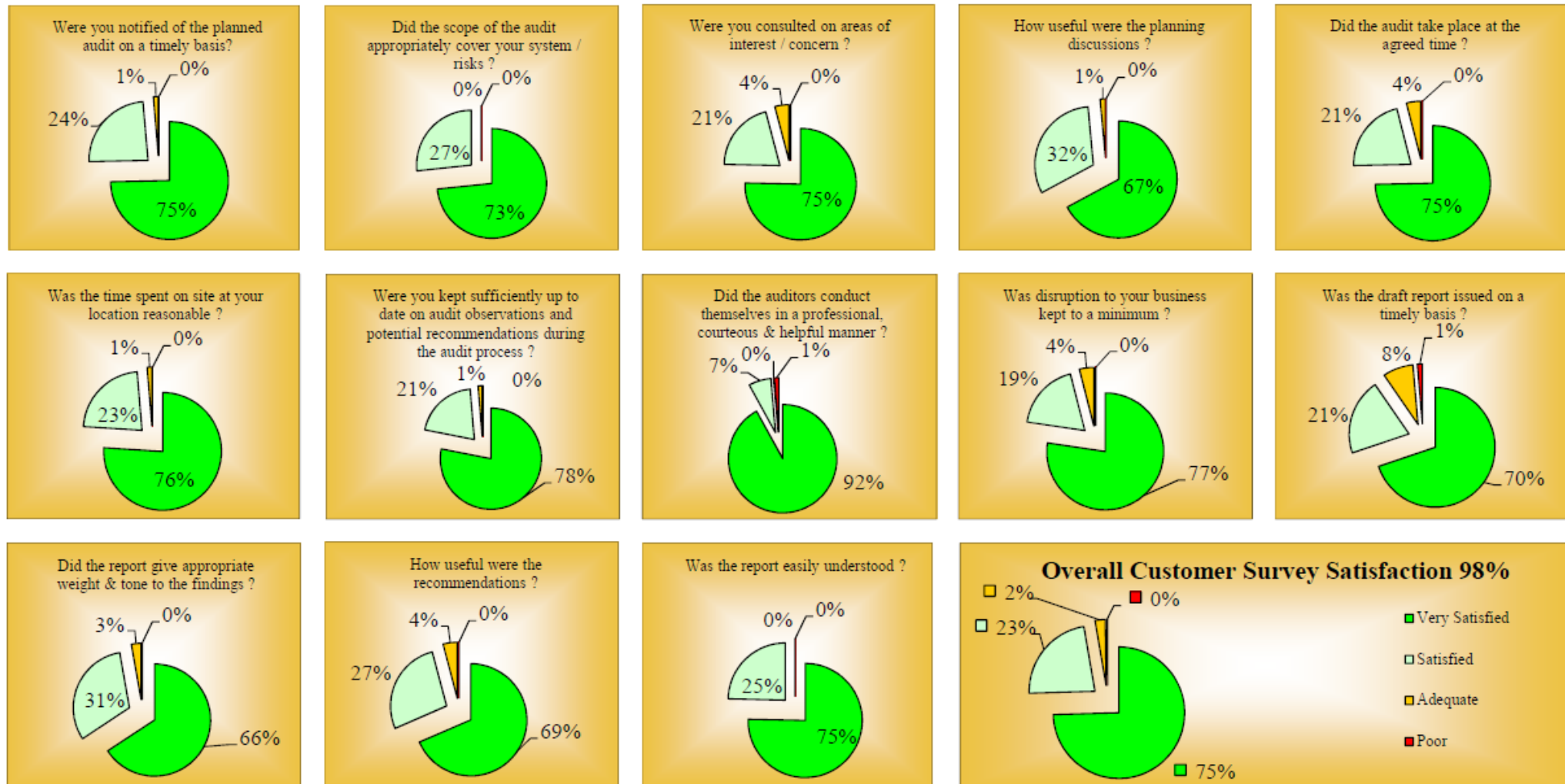
The public sector faces a considerable period of change. DAP has developed well in the previous four years to meet the changes to date. We have ensured that we meet professional standards (PSIAS), developed our approach to meeting customer needs that meets Customer Service Excellence; we are reviewing how we manage our most critical resource (staff) in line with Investors In Public (IIP) best practice.

The next 3 years will be at least as challenging and probably more so. We will continue to develop our practices to deliver an excellent service whilst addressing the need to do more with less.

# Appendix 1 - Customer Service Excellence

## Customer Survey Results April 2013 - March 2014

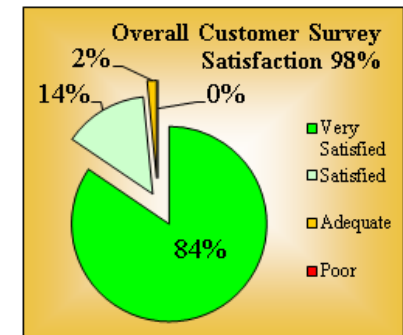
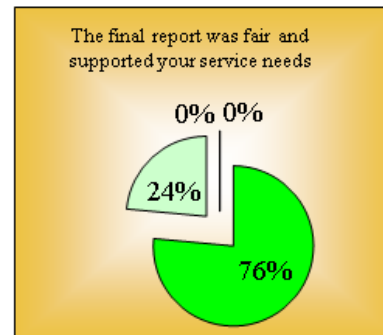
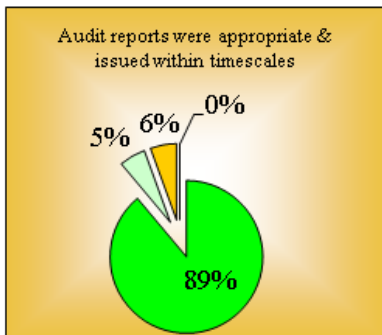
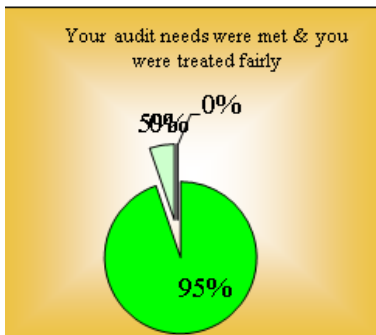
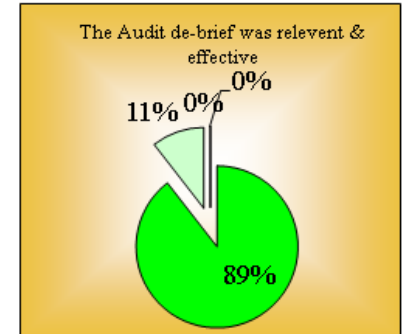
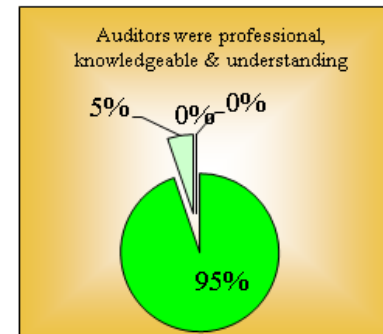
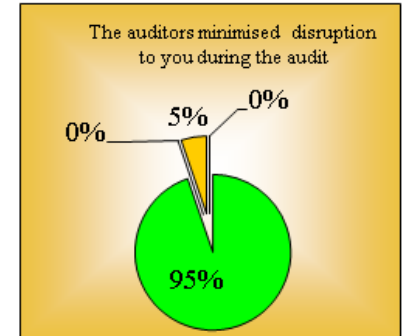
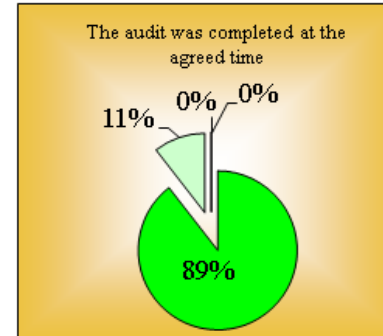
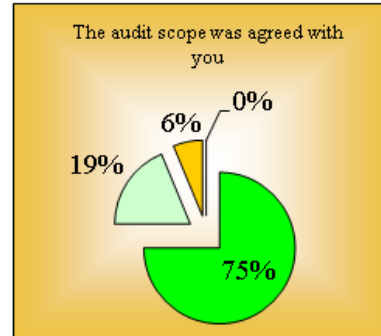
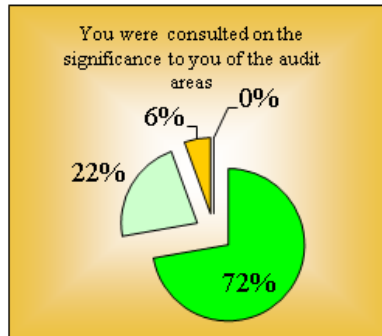
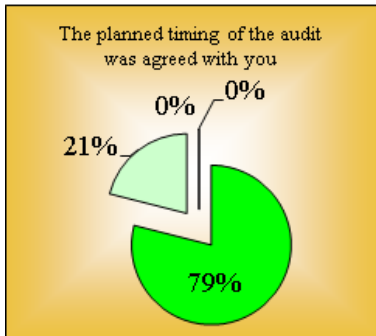
The charts below show a summary of 75 responses received.



## Appendix 2 - Customer Service - Refreshed

### Customer Survey Results March 2014

The charts below show a summary of 19 responses received.



## Appendix 3 – Local Performance Indicators

### Breakdown of Performance by Client

<i>Local Performance Indicator (LPI)</i>			
	<b>Plymouth</b>	<b>Torbay</b>	<b>Devon</b>
Percentage of Audit plan Completed	90.8%	87.7%	94.5%
Percentage of Audit Days delivered	91.2%	98%	97.5%
Percentage of chargeable time	70.1%	69.3%	70%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	98%	96%	99%
Draft Reports produced within target number of days (currently 15 days)	73.6%	83.3%	80.1
Final reports produced within target number of days (currently 10 days)	88.1%	89.8%	89.1.%

