

Internal Audit

Annual Report 2014-15

Partnership Committee

June 2015



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	ERROR! BOOKMARK NOT DEFINED.
APPENDIX 3 – LOCAL PERFORMANCE INDICATORS	11

Devon Audit Partnership

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.

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 robert.hutchins@devonaudit.gov.uk.

Confidentiality and Disclosure Clause

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.

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.

Report of the Head of Audit Partnership

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

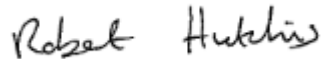
Recommendation: that the Committee notes the current status of the Partnership and current issues.

Review of Devon Audit Partnership 2014/15

As we start our 7th year we can look back with a lot of pride at the achievements that have been made; the Partnership continues to provide a valued and trusted service for our Partners; we have met considerable financial targets and have expanded our client base by offering quality services at a competitive price.

Overall our performance remains 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 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 2015

Partnership Membership and Client Development

South Hams and West Devon Council

Following changes at the councils we were successful in bidding for the provision of an audit management service. We shall work with the current in-house team to develop their skills and manage the delivery of the agreed audit plans. We shall be employing our audit management system (MKi) to ensure the effectiveness and efficiency can be maximised.

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 we supplied one of our auditors to provide backfill for maternity leave; the arrangement worked very well as we were able to assist the Fire Service team in completing their audit plan and the DAP employee gaining valuable experience of another organisation.

Torrige District Council

We continue to work with colleagues at Torrige District Council. During 2014 staffing restructures took place and as a result of this the delivery of the internal audit function was allocated to DAP. This arrangement continues into 2015/16, and we continue to work with colleagues at Torrige to ensure that they receive a valued and effective audit service.

Academy Schools

The change of status of schools to Academies slowed during 2014/15, although a steady number are still converting; the pace of conversion may change now that a new government has been formed. We have successfully won an amount of the internal audit work for these schools as they change. Competition is strong, particularly from the external accountants who are able to combine internal and external audit work. We are currently working with the Roman Catholic Diocese for the provision of internal audit services to their newly formed academy chain of 35 schools and are hopeful that this arrangement will continue.

Mid Devon District Council

We worked with the in-house audit team and supported them in delivering a specific piece of work on culture and ethics. Although the in-house team had the skills and expertise to deliver this work, it was felt beneficial to have a “independent” view of the culture at the organisation. We understand that the work was well received and will look to provide further support as opportunities arise.

Contract reduction and diversification

Budget position

The Partnership has consistently remained within budget and at the end of 2014/15 carried forward a reserve of £175k. The out-turn for 2014/15 shows that a small surplus was achieved (£2.5k). This has been achieved through careful monitoring of the budget and careful use of fixed term and 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.

Our current three year business plan (summer of 2013) reflects the need to deliver future annual cost savings of 10% this and next year (this is in addition to the 45% costs savings since the partnership was founded in 2009/10); 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

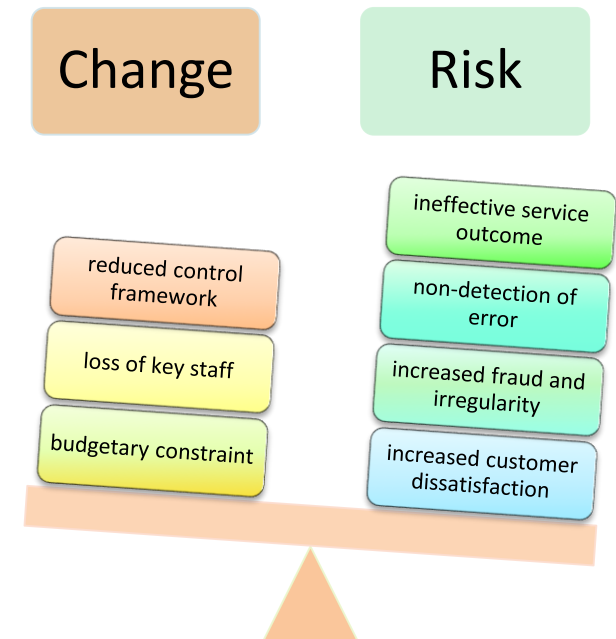
Our challenge is to ensure that, as far as is practicable, the reduction in work for partner members is offset with the expansion of other work; for example, increase in academy school contracts and extension of work with the emergency services, HE sector and district councils.

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 2015-16 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 continues to increase proportionally; discussions with other internal audit teams across the south west (and beyond) suggests that this pressure 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.



Adding Value

We know that “doing an audit” is not enough for our customers these days; we know that senior management and those charged with governance very much value our independent assurance, & welcome our identification of untreated risk or control weaknesses, but they also want an audit service that “adds value”.

Added value will mean different things to different people at different times; it is not about a “buy one get one free” approach, but it is about using our professionalism and ability to apply a unique and independent approach to help organisations and managers provide their services in the best possible fashion. We employ staff who can make a difference and encourage them to “add value” at every step in the audit process. Sometimes it may be that the client has not seen any added value, but we set out below some comments from customers who felt that we had achieved this aim.

- The audit drew attention to Value Adding Activities beyond the aspects of the... system audit which will assist the service in making improvements.
- Just wanted to thank you for the report and the considerable amount of information provided. It was pivotal for the case and enabled me, as the investigating officer to present a very broad view of the allegations.
- The main area of added value is the resource saving made by the audit ‘pulling together’ all the areas of improvement needed in one document, and providing a useful template for our response and action plan. This has enabled us to be much more efficient in our forward planning.
- From my perspective, the benefits of using the audit service is that it provides objective and balanced feedback from auditors who know their subject area. It provides assurance that the service is effective as well as offering recommendations for improvement (which is sometimes difficult to see when you are working with it day to day).

Collaborative Partner Working

Partnership Collaboration – we recognise that a number of internal audit partnerships have been developed across the country and that there are opportunities for these partnerships to work together to further improve efficiencies and effectiveness. We are working with South West Audit Partnership (SWAP), Shared Internal Audit Services (SIAS) (Hertfordshire), Veritau (Yorkshire) and Southern Internal Audit Partnership (SIAP) (Hampshire) to develop links and effectiveness. One of the objectives is to consider how national internal audit studies could be conducted, with lessons shared across all partners. We shall continue to develop this relationship, and consider how partnerships from other sectors (e.g. Health) could contribute to matters.

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
- **Discussion around a Minimum Audit Level** – the group have worked on ways to identify what the a minimum audit level could be for an organisation. The early stages of a model have been developed, but this needs to refined.

External Audit

- We have developed good working relationships with colleagues at Grant Thornton who are the main External Auditor across the South West. 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.

Customer Service Excellence (CSE)

DAP was successful in re-accreditation of the CSE standard during the year. In March June Shurmer, our assessor, visited the team and evaluated our customer services against a rolling programme. The CSE standard expects and requires “continuous improvement” and it was pleasing to note that June recognised our continued development, but was also to provide very useful guidance as to where further improvement can be made.

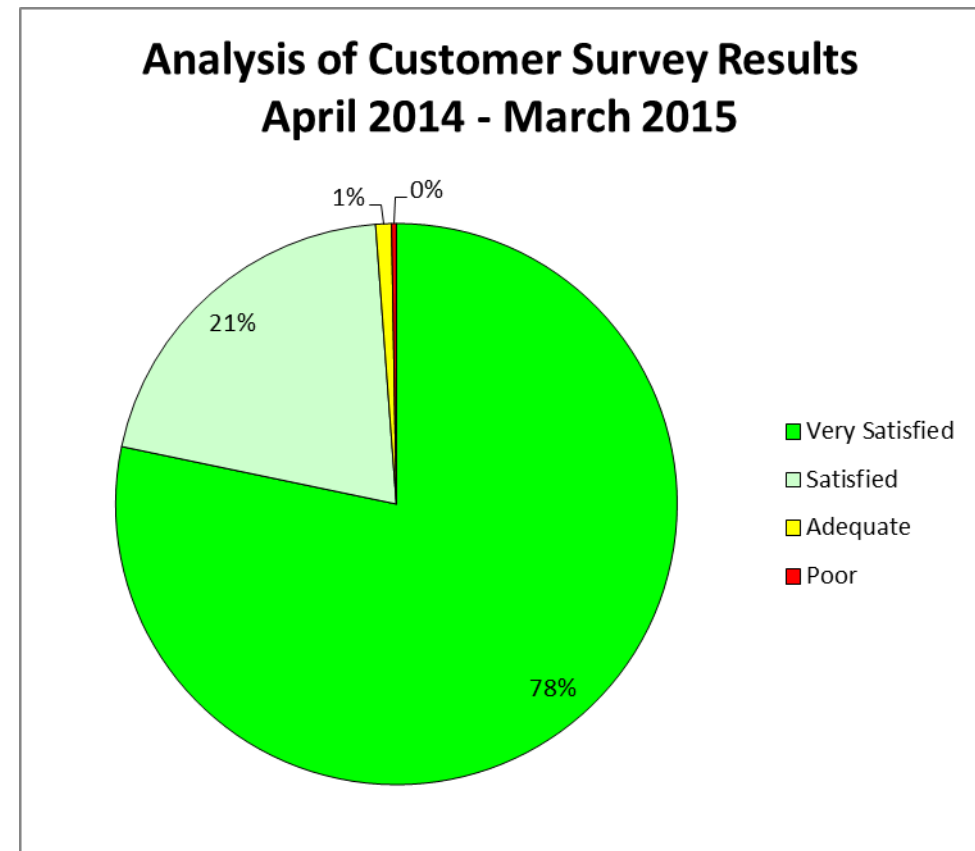
During the period we issued client survey forms with our final reports. The results of the surveys returned remain very good and very positive. The overall result is very pleasing, with near 99% being “satisfied” or better across our services, see appendix 1. It is very pleasing to report that our clients 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 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:-

- The auditors were professional, courteous and respectful at all times. They showed an excellent understanding our current position.
- The recommendations provided are achievable and will enhance the service. The auditor was thorough, very approachable and fair and took time to find out information.
- Just read through your report. As usual it is not only very well written, but is also clear, constructive with logical conclusions.
- I cannot praise the auditor’s professionalism highly enough. This is the second time I have been involved in an audit he has conducted and on both occasions, he has represented the audit team in a highly effective manner. His interactions with the Team before, during and after the audit are excellent. His knowledge ...of the ... Service and accompanying legislation, but also of the organisational parameters (including system issues) ensure that his reports and recommendations provide realistic and much valued feedback.
- The report was fair and balanced and as highlighted above was appropriately set in context.
- Customer experience has been very positive. The auditor is a great representative for the team, and his friendly approach removes any apprehension about being subject to audit.



DAP Development

Peninsula Assurance - Can the Devon Audit Partnership model be developed further?

The Devon Audit Partnership (DAP) has brought a number of advantages to each of its partners, and, at times when resources are becoming increasingly scarce, alternative ways of working that can provide cost savings are being considered by many organisations. DAP management consider that the Partnership model has some considerable advantages and consider that the model could be used in a wider context.

Most organisations have a number of functions (e.g. risk management, information governance etc.) that, although provided in-house, have an important independent role to play, advising management on “best practice” or where arrangements are insufficient / unreliable. There is the potential for bringing other “assurance” functions together in a way similar to the audit partnership.

There is potential to develop a wider partnership model, along the lines of the Devon Audit Partnership, to encompass various functions and we have been working with partners to see if there is any interest in this concept.

When the Audit Partnership was created each organisation had different reasons for joining (wish to attract qualified staff, need to reduce costs, wish to purchase a management system but could not afford to do so alone etc.) and we appreciate that each organisation will see different benefits and have different reasons for looking at a “Peninsula Assurance” model. It is possible that once various departments have been established then the possibility of “selling” services or extending the partnership arrangement to different organisations (local authorities, public sector organisations etc. will take place.

Public Sector Internal Audit Standards (PSIAS) & Local Government Application Note (LGAN)

We have previously reported that we meet the PSIAS. In April 2014 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Local Government Application Note. We have completed the self-assessment checklist provided with the note and have identified that there are no omissions in our practices. We consider that we fully meet over 92% of the elements, partially meet 5.5% and are not required to or do not meet 2% (seven) of the elements. We have identified some areas where we could further strengthen our approaches, and these have been added to our development plan.

Staff and Partner Development

Regional training for Audit Committees

We worked with SWAP, (South West Audit Partnership) to deliver a training session for senior management and audit committee members. The events took place in Sparkford, near Yeovil, and the other at Buckfast Abbey.

The events attracted 74 members representing 21 different public sector organisations. The event gave delegates the opportunity to mix, share experiences and to understand how similar organisations are addressing similar risks and challenges. We sought feedback from the event which, overall, appears to have been very well received. Comments made included:

“Rewarding Training Session”, “Interesting and informative”, “Excellent”, “Better than I expected”, “Good to network with Members from other authorities” “We wouldn’t hesitate to recommend this to our Audit Committee as a useful training mechanism in the future”.

We will look to provide further training events along this line in the coming year.

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 of their training and have just one exam to pass; the other 2 have made a good start to their training.

We use the Encase forensic investigation tool kit to examine computers and other electronic devices (the system makes a “forensic” copy of the item to standards expected by the Police). Use of the system requires training and refresher courses and such refresher training will take place in 2015.

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).

Every nine months or so we have staff development day; this is an opportunity for all DAP staff to come together and learn of issues and challenges that will affect the team and the clients we serve in the coming twelve months. Our December development day included an update on enhanced fraud reporting requirements; audit of culture and ethics; our role as a trusted advisor; what our clients need; how we add value in all we do.

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
- Contract awareness (provided by Torbay council staff)
- Use of IDEA software

Internal Audit Performance

Our provisional outturn analysis of performance for the year ended 31st March 2015 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 2.

Devon Audit Partnership Year end performance (end of March 2015) Inc Schools

Local Performance Indicator (LPI)	Full year Target	Full year Performance	Quarter 3 2014/15	Outturn 2013/14	Direction of Travel (where applicable)
Percentage of Audit plan Completed	90%	92%	63.00%	92%	→
Percentage of chargeable time	65%	68%	66.60%	70%	↑
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	98%	99.00%	98%	↓
Draft Reports produced within target number of days (currently 15 days)	90%	86%	80.00%	78%	↑
Final reports produced within target number of days (currently 10 days)	90%	99%	90.00%	89%	↑
Average level of sickness absence	2%	5.5%	5.20%	3%	↓
Percentage of staff turnover	5%	16.6% (6 people)	4% (2 People)	8.5% (3 people)	↓
Out-turn within budget	Yes	Yes	Yes	Yes	→

Although overall, performance against the indicators was good, however sickness in 2014/15 was considerably higher than projected. Our 2% “allowance” equates to 5 days per fte employee; the outturn of 5.5% represents 9.4 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

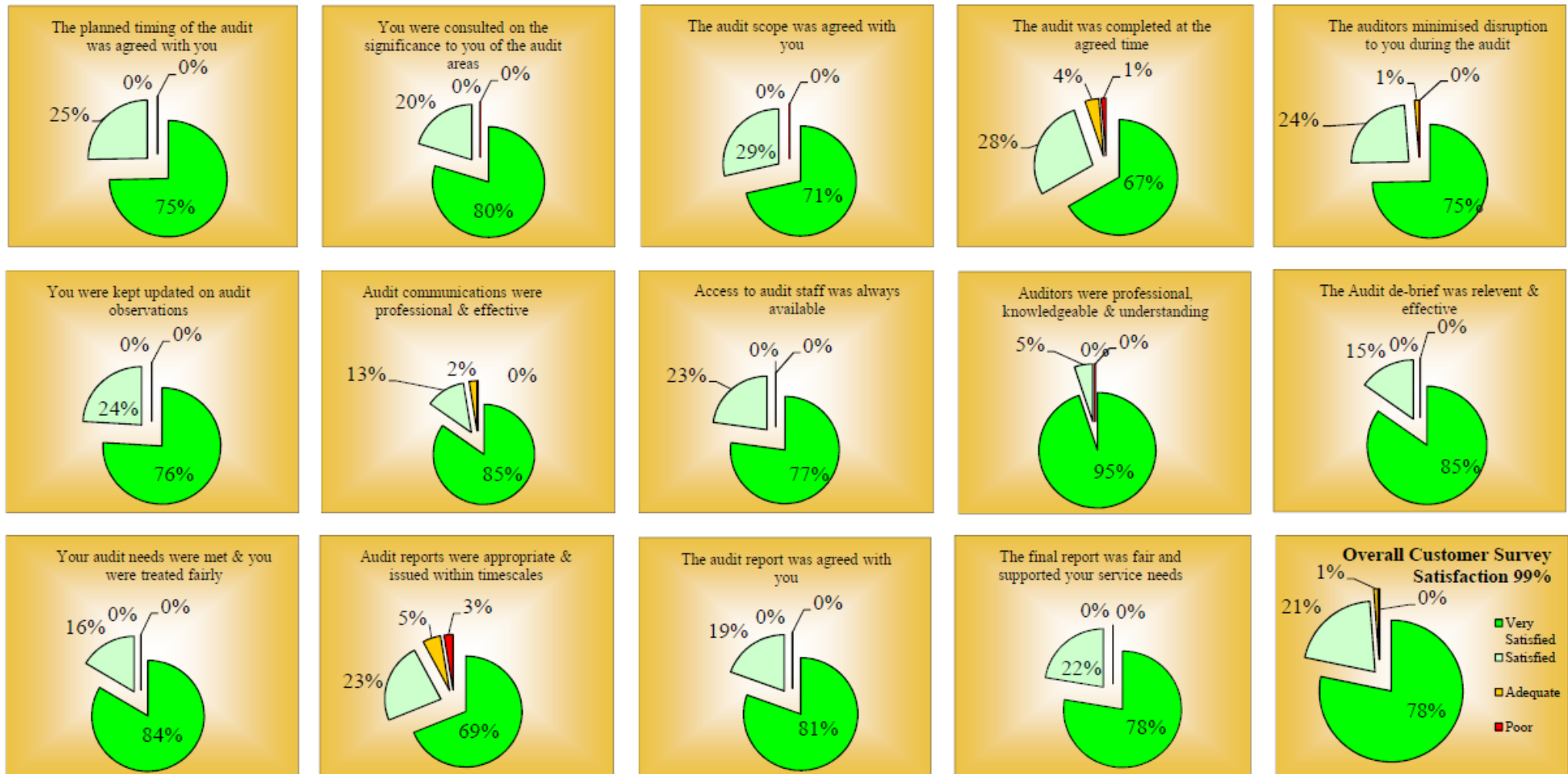
The public sector faces a considerable period of change. DAP has developed well in the previous four years to meet the changes to date. We have ensured that we meet professional standards (PSIAS), developed our approach to meeting customer needs that meets Customer Service Excellence; we are reviewing 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 2014 - March 2015

The charts below show a summary of 78 responses received.



Appendix 2 – Local Performance Indicators

Breakdown of Performance by Client

<i>Local Performance Indicator (LPI)</i>			
	Plymouth	Torbay	Devon
Percentage of Audit plan Completed	94%	89.1%	93.9%
Percentage of Audit Days delivered	96%	90%	101.2%
Percentage of chargeable time	69%	64%	70.4%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	98%	99%	97%
Draft Reports produced within target number of days (currently 15 days)	92%	78%	89%
Final reports produced within target number of days (currently 10 days)	99%	98%	98.5.%

