

Internal Audit

Progress Report – April 2015
to October 2015

Partnership Committee

November 2015



Auditing for achievement

Contents

REPORT OF THE HEAD OF AUDIT PARTNERSHIP _____	1
PARTNERSHIP MEMBERSHIP AND CLIENT DEVELOPMENT _____	2
CONTRACT REDUCTION AND DIVERSIFICATION _____	3
ADDING VALUE _____	5
CUSTOMER SERVICE EXCELLENCE (CSE) _____	6
DAP DEVELOPMENT _____	7
PARTNER DEVELOPMENT _____	7
INTERNAL AUDIT PERFORMANCE _____	9
LOOKING TO THE FUTURE _____	10
APPENDIX 1 - CUSTOMER SERVICE EXCELLENCE _____	11
APPENDIX 2 – LOCAL PERFORMANCE INDICATORS TO BE COMPLETED. _____	12

Devon Audit Partnership	Confidentiality and Disclosure Clause
<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 robert.hutchins@devonaudit.gov.uk .</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.

Devon Audit Partnership Progress made since April 2015

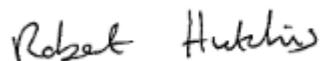
The Partnership continues to work with a wide range of partners across the public sector; we have recently been asked to undertake the ICT audit for STRATA, a shared service IT solution for Exeter, East Devon and Teignbridge councils.

The public sector continues to deal effectively with significant financial reductions; one example of this is in the Police sector where colleagues are working on a strategic alliance between Devon & Cornwall and Dorset (both force and police commissioner role) and we aim to support and provide independent challenge and assurance as this alliance progresses.

We are looking to work with other large audit partnerships with a view to feeding into a national picture of assurance. An umbrella organisation “Audit Partnerships” has been founded by DAP, with the other partners being the Hertfordshire Shared Internal Audit Service, the Southern Internal Audit Partnership, the South West Audit Partnership and Veritau (Yorkshire). The group represents over 30 councils across England including county, unitary and district councils, and a wide range of other public sector services such as Police, fire, further and higher education and national parks. The new group will share best practice and collaborate on other initiatives for the benefit of members and other public sector clients.

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
Oct 2015

Partnership Membership and Client Development

South Hams and West Devon Council

We have now been working with South Hams and West Devon for a year. There have been considerable changes in both officers and members, but we have worked hard to build ongoing relationships and we consider that the arrangement is working well. The audit team at South Hams / West Devon have been asked to pick up EU grant claim work; to backfill for this work DAP has been asked to provide a further 35 days of audit support during 2015/16.

Torrige District Council

We continue to work with colleagues at Torrige District Council. The 2014/15 financial closedown process identified some problems and concerns. DAP were requested to undertake an investigation into the issues and to make recommendations in relation to the final accounts for 2014/15 and going forward. We consider we have completed this work in an effective manner and have enabled management and members to move on from a potentially damaging incident.

STRATA

STRATA is a shared ICT service between Exeter, East Devon and Teignbridge councils and commenced in April 2015. We were asked to submit a proposal for the delivery of an internal audit service over the ICT arrangements operating at STRATA, giving re-assurance to the aforementioned partners, and also to provide assurance over the governance arrangements introduced by STRATA in its fledgling year. We are pleased to say that our proposal was accepted and we look forward to working with STRAT in the future.

Devon and Cornwall Housing Association. (DCH)

We closely monitor both local and national portals alerting us of potential delivery opportunities. We identified that DCH were seeking an supplier of internal audit and promptly submitted a bid. We were very conscious that we have no current clients in the housing association arena, and unfortunately our expression of interest was rejected by DCH at an early stage.

However, the process is always a useful learning curve, and, hopefully, will assist us when preparing future bids to other organisations.

Contract reduction and diversification

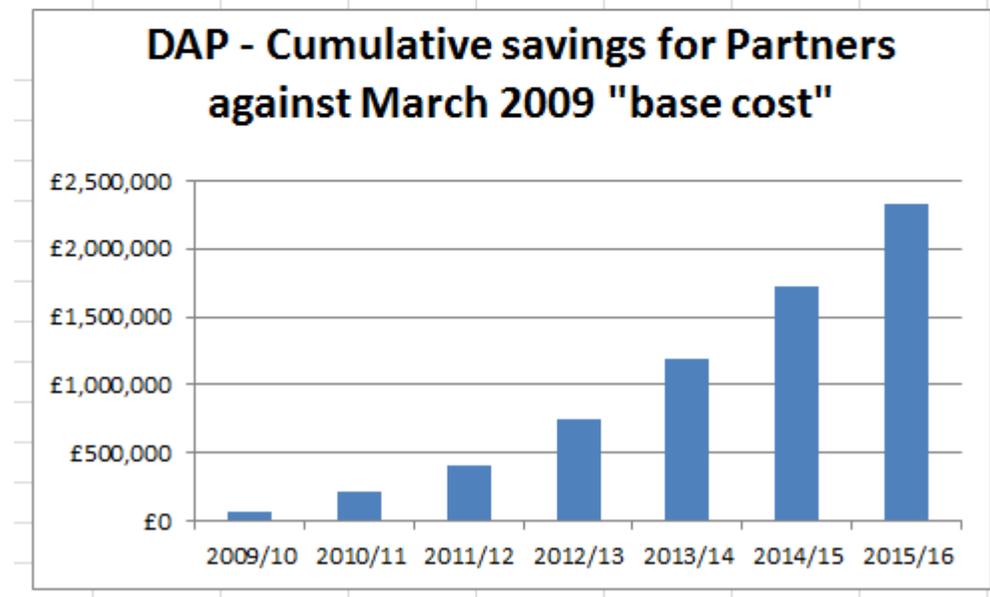
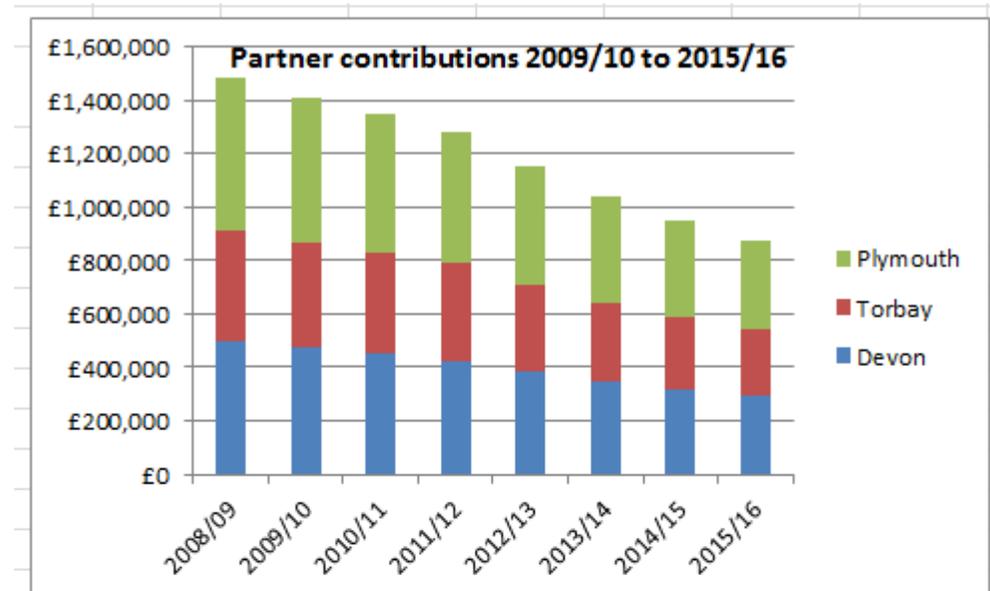
The Partnership has consistently remained within budget and at the end of 2014/15 carried forward a reserve of £175k. The out-turn for 2014/15 showed that small annual surplus of £2.5k. Both the reserve and previous year annual surplus have been achieved through careful monitoring of the budget and planned use of fixed term and contract staff to deliver the changing work pattern of our clients.

Our day rate remains below the national average; the CIPFA 2014/15 benchmark club results for unitary authorities shows that the average cost per audit day is £298; the cost of DAP was £259 per day (this actual cost is slightly higher than planned and was affected by higher than expected levels of absence). To put this in context, if Plymouth was to employ contractors at the average daily rate then the internal audit function would cost £59,000 more than the DAP contribution (1515 days @ £39 per day)

Our current business plan 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. This means that each partner has benefited from the effective and efficient working of DAP and have been able to make considerable savings on the cost of internal audit.

The reduction in budget has not resulted in a parallel reduction in audit input. We have reviewed our cost structure and have paid particular attention to the cost per audit day to each partner and client. The average daily rate per audit day when the partnership was founded was £265 but now stands at £255 – even after taking into account 8 years of inflationary pressures (ICT costs, travel etc.) and pay increases (increments, pay awards, pension contributions etc.) we are still showing a daily rate less than it was in 2009.

Each Partner has benefitted considerably in terms of reduced costs of their internal audit service and all this savings add up. To date, the partners have saved **£2.33m** based on the former internal audit costs at each authority pre April 2009.



The Partner authorities recognise that this cost reduction can have an impact on audit coverage and the risk that this brings to the level of assurance we can provide. However, DAP has worked to minimise the impact of this reduced coverage by employing greater use of automated techniques (continuous auditing, data analytics etc.), upskilling staff to enable higher risk areas to be covered, maximising the benefit of our audit management system, maximising auditor efficiency by using teams across functional areas. Additionally we always aim to ensure our auditors and our audit work “adds value” to members and senior management.

Service impact and risk

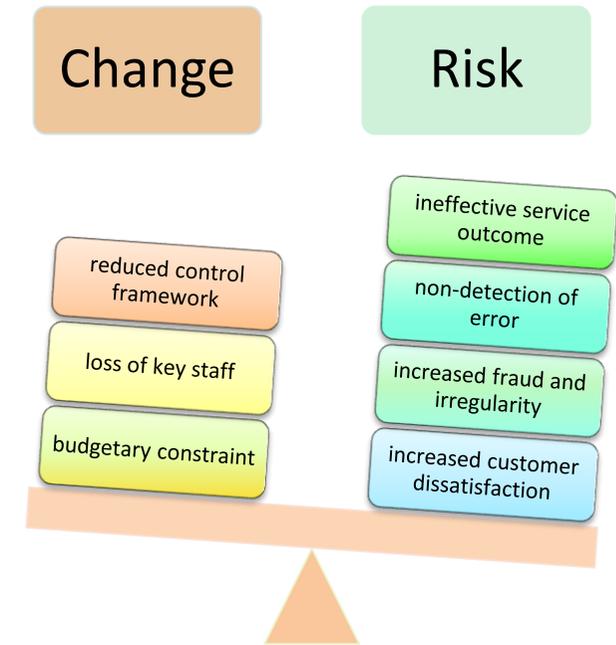
The reduction in core work to the Partner Members is having an effect on the assurance we can offer. The “seesaw” graphic of change v risk was included as part of our annual plans for 2015-16 with each of the Authorities where it is recognised times are changing; the expectation of the public for services 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.

What Every Director Should Know

Or “How to get the most from your internal audit”. In April 2015 the Chartered Institute of Internal Auditors issued the above document. We have been bringing this document to the attention of the audit committees we support. The document can be found here <https://www.iaa.org.uk/policy/publications/what-every-director-should-know-2015/>

In the foreword to the document Dr Ian Peters (Chief Executive of the IIA) states to “Internal audit is the eyes and ears of the board and its committees, above all its audit committee. Working independently of management, internal audit provides objective assurance to directors that, in the pursuit of the company’s objectives, risks are being managed effectively, financial and other controls are in place, and the organisation is being properly governed”

We fully support the challenges in the document and will ensure that we can provide the support required by the audit committee in its very important role.



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. We set out below some comments from customers who agreed that we have achieved this aim.

Refuse collection – Sept 2015 - This work is being made use of now that the long overdue service review of middle office functions is underway in Street Services, led by CST programme colleagues.

Property Disposals – Sept 2015 - The audit was helpful in summarising existing processes and challenging if still relevant and/or efficient. It is always good to have an objective assessment of a process with a reasoned measure of effectiveness and pertinent suggestions for improvement.

Payroll – August 2015 - we found the auditors visit helpful and constructive, enabling us to continue to refine and improve the service we provide. In addition, it is really helpful to be able to ask for his opinion on how best to deal with various issues. We look upon his visits as a positive opportunity to take advantage of his expertise. We were keen to discuss a particular problem being experienced. As a result, we feel supported and that our concerns are being addressed.

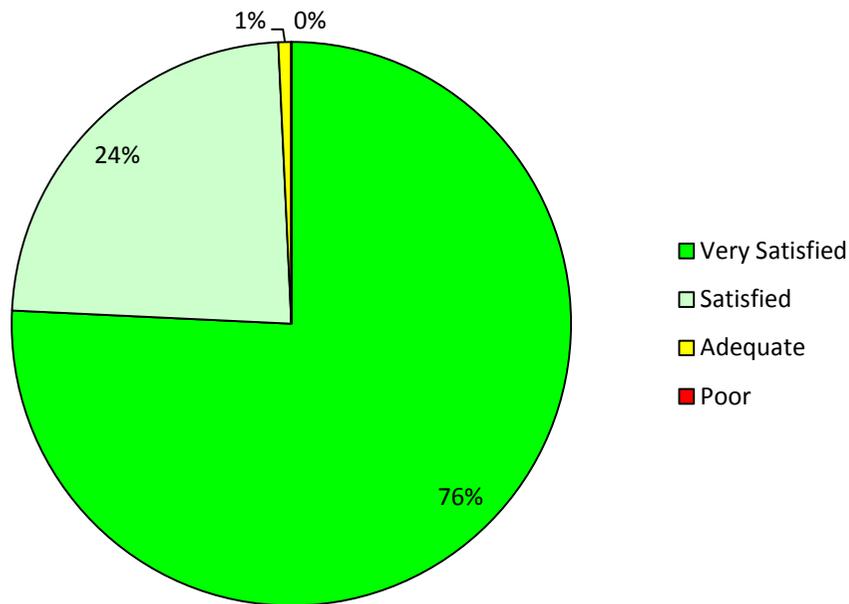
Payroll – August 2015 - we found the auditors visit helpful and constructive, enabling the Pay & Conditions team to continue to refine and improve the service we provide. In addition, it is really helpful to be able to ask for his opinion on how best to deal with various issues. We look upon his visits as a positive opportunity to take advantage of his expertise. We were keen to discuss with the auditor a particular problem being experienced with the new sickness reporting portal, and he was able to include findings on this in his report. This has led to an internal review of the system being planned. As a result, we feel supported and that our concerns are being addressed.

School – June 2015 - The report has helped us to strengthen and consolidate our financial procedures. The auditor was helpful in keeping us updated with any new procedures. The audit added value in that we improved our treatment of VAT.

Early years – May 2015 - It was particularly helpful that the audit included a review of the providers. This supported the service to understand how embedded the practice is.

Customer Service Excellence (CSE)

Analysis of Customer Survey Results April 2015 - September 2015



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.

Customer Testimony.

Some examples of customer testimony are shown below:-

HR Investigation - April 2015 - 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.

Early Years - May 2015 - 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.

Payroll – May 2015 - The auditors were professional, courteous and respectful at all times. They showed an excellent understanding our current position.

Interreg – July 2015 - I wanted to thank you personally for your work on the three projects. For all of the support you have offered during the FLC process of course, but also during the second level control.

Property Disposal – Aug 2015 - The auditor was very approachable and helpful throughout the process. I was kept informed and updated regularly and the auditor was always prepared to make himself available to help the process and keep things moving along.

DAP Development

As a valued advisor our partners and clients expect DAP to be at the forefront of change and to adapt and be pro-active in identifying new opportunities and new ways of working that will benefit partners, customers and the Partnership.

We encourage staff to seek out such opportunities and these are then considered and evaluated by the management team. A good number of ideas and suggested ways of working are taken on board, and these are captured in our Development Plan.

The Development Plan (also referred to as a Quality Improvement Action Plan) is reviewed on a regular (quarterly) basis to ensure that planned actions are being addresses; on an annual basis an extract of this plan is presented to the Management Board and then Partnership Committee for information, consideration and for adjustment / addition as may be required

The Development Plan includes our assessment of actions required in order to fully meet the Public Sector Internal Audit Standards ((PSIAS) & Local Government Application Note (LGAN). We have previously 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.

Partner Development

Regional training for Audit Committees

Following on from our successful joint training with our colleagues at the South West Audit Partnership (SWAP) last year, we have provided two training sessions for senior management and audit committee members. The events took place at Buckfast Abbey and Sparkford, near Yeovil.

The focus of the event was on the Future of Audit Assurance and was delivered by speakers from DAP, SWAP, Grant Thornton and the S151 officer of Weymouth and Portland BC.

The events attracted **72** members representing **26** 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 shall seek feedback from delegates at the event, but initial, verbal, feedback has been most positive with members commenting that the event was :

“a rewarding training session”, “Interesting and informative”, “Excellent”, “the S151 officer was excellent”, “Good to network with Members from other authorities”

Staffing Update

Staff Training Programme

We continue to invest an appropriate percentage of our budget in the development of staff (and in line with the CIPFA benchmark average); 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.

Two of audit team recently completed their professional training and have successfully passed required exams; the two officers need now to complete a log of experience prior to becoming members of the Institute of Internal Auditors. We currently have 2 staff studying for the IIA qualification and have made a good start to their training. We have a waiting list of staff wishing to take further professional training and we shall be looking to support them (resources permitting) in the coming years.

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 took place during the summer.

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.). Some senior staff have also recently qualified in 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. In September we met at Cullompton Hayridge with the main topics of the day covering commissioning and procurement; performance management and how this can advise an audit; adding value; and writing effective executive summaries.

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
- Marketing the Internal Audit function
- Use of IDEA software

Internal Audit Performance

Our analysis of performance for the first six months of 2015/16 indicates that overall performance is in line with expectations. Overall, 64% of planned audit assignments have been commenced (against a target of 50%) with 39.2% of the planned audit work being completed (against a target of 45%). Customer feedback satisfaction levels remain very high at 99% across the partnership. A breakdown of performance across all partners is shown in Appendix A.

Devon Audit Partnership - Performance monitoring 2015/16 - Six month performance (end of Sept 2015) Inc. Schools					
Local Performance Indicator (LPI)	Full year Target	6 mth Target	Quarter 2 2015/16	Quarter 2 2014/15	Direction of Travel (where applicable)
Percentage of Audit plan Completed	90%	45%	39.2%	46.20%	↔
Percentage of chargeable time	65%	65%	67.3%	66.63%	↑
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	90%	99%	99.00%	↔
Draft Reports produced within target number of days (currently 15 days)	90%	90%	70%	79.70%	↔
Final reports produced within target number of days (currently 10 days)	90%	90%	94%	89.53%	↔
Average level of sickness absence	2%	2%	2.12%	2.50%	↓
Percentage of staff turnover	5%	5%	6% (two people currently on secondments to other roles)	2% (1 new person)	↑
Out-turn within budget	Yes	Yes	Projecting small overspend (£7k)	Yes	↓

Sickness in the first part of 2015/16 has been at a manageable level (84 days or 2.12% of available time; equates to around 2.5 days per FTE).

However we are aware that one employee has recently undertaken a hip replacement operation and will be off for some time; another employee continues to struggle with pain management issues and has been signed off work by her doctor until at least Christmas 2015, and a third employee has been given short notice for an operation on her knee (tomorrow) and will be off for between two and six weeks.

As always, we are work with staff to ensure that attendance at work is maximised; the assistance of HR support organisations such as Wellbeing @ work also assist us. For information the CIPFA benchmark for days lost through sickness in Internal Audit sections for 2014/15 stands at 7 days per fte per year.

Looking to the Future

We continue to recognise the challenge of providing valued, independent assurance via an annual assurance in a climate of reduced financial resources. All our clients need to reduce costs and this includes internal audit costs.

We continue to develop new ways of providing this assurance with less obvious resources; we are keen to provide “wider” themes that look across organisation rather than just within an organisation. Our work with other large internal audit partnership will assist us in achieving this aim.

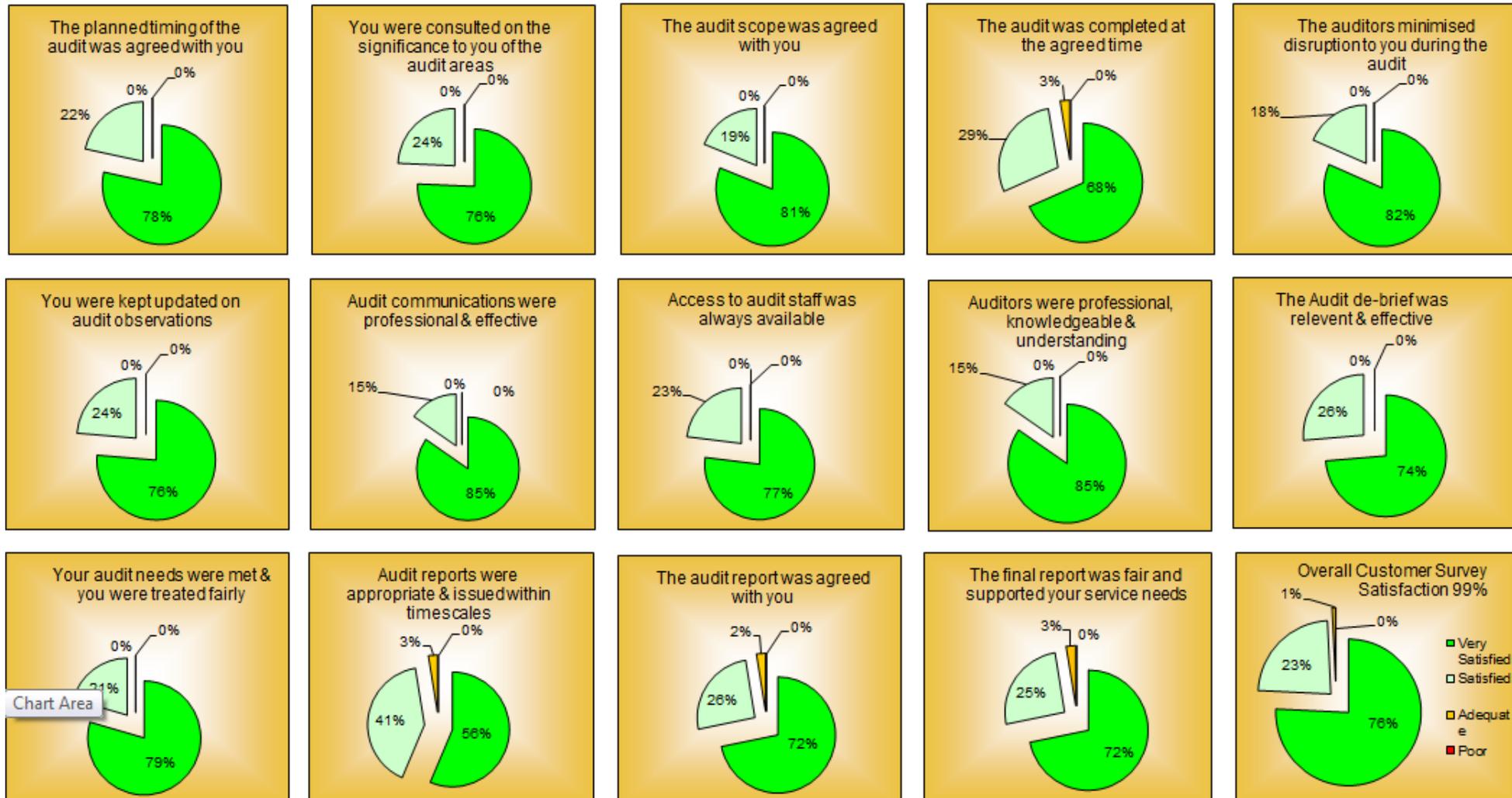
We continue to work on developing “assurance mapping” aiding organisations in knowing where their assurance comes from and, more importantly, the gaps in their assurance that they need to be aware of.

The partners continue to support the partnership and aid in its development and growth; the partnership is recognised for its success 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.

Appendix 1 - Customer Service Excellence

Customer Survey Results April 2015 - Sept 2015

The charts below show a summary of 39 responses received.



Appendix 2 – Local Performance Indicators to be completed.

Breakdown of Performance by Client

<i>Local Performance Indicator (LPI)</i>			
	Plymouth	Torbay	Devon
Percentage of Audit plan Completed	42	38.6	37.1
Percentage of Audit Days delivered	41	47.2	49.9
Percentage of chargeable time	67.8	65.1	66.8
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	99	99	99
Draft Reports produced within target number of days (currently 15 days)	87	54	70.4
Final reports produced within target number of days (currently 10 days)	96	94.3	92.1