

Internal Audit

Annual Report 2015-16

Partnership Management Board

June 2016



Auditing for achievement

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## 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](mailto: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 2015/16

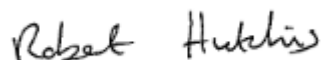
2015/16 was the 7<sup>th</sup> year for the Partnership. I am pleased to report that we have again made a small, but useful, operating surplus, and have been able to grow our client base by welcoming Torridge District Council to the Partnership (initially as a “non-voting” member).

Our report to the Partnership Committee in October set out some of the key financial achievement made in our first seven years; these include a day rate considerably below the national average (CIPFA 2014/15 average cost per audit day = £298; DAP was £259); delivery of year-on-year savings that now total 55% since 2009, with a further 10% saving planned for 2016/17 and recognising that, to date, the partners have saved **£2.33m** based on the former internal audit costs at each authority pre April 2009.

But it is clear that this is not a “race to the bottom”; we are expected to deliver a high quality service, meeting our client’s needs and expectations. We consider we have achieved this, with our customer feedback remaining excellent (an extract of the positive feedback we receive can be found on our website). We have continued to meet the requirements for our Customer Service Excellence accreditation as well as meeting required professional standards set out in the PSIAS.

2016/17 is the last year for the current partnership agreement; we are extremely pleased that all our partners have shown their desire to continue to work in partnership, a view that has been fully supported by the Partnership Committee. During 2016 we shall work with various colleagues in preparing a new partnership agreement that will take the partnership forward and build on the successes already achieved.

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  
June 2016

## Partnership Membership and Client Development

### **Torridge District Council**

Torridge have opted to join DAP for 2016/17 on a non-voting basis – with this being on a “trial basis” for the year, but with a view to longer term arrangements.

When DAP was extended (April 2014) our partnership agreement was modified so that it made it easier for other organisations to join (either as a voting or non-voting member). We welcome Torridge to the Partnership and trust that the association will be long and successful.

### **South Hams and West Devon Council**

We continue to provide audit management arrangements for both councils. The audit team make use of our MKi software, and we have supplemented the team with some of our auditors to provide additional capacity.

### **Police**

As previously reported Devon and Cornwall Police have developed a strategic alliance with Dorset and this has resulted in the internal audit function moving to the Dorset force. As a consequence our colleagues, SWAP, shall be leading on internal audit delivery, but we shall continue to support both forces in the delivery of the internal audit plan.

We have very much enjoyed working with the Police and have valued them as a partner of DAP.

### **Academy Schools**

In April the government announced that all schools would be required to convert to academy status by 2022. This requirement has now been somewhat reduced, but there is still an expectation that schools will continue to move to academy status. We market our services to schools that are looking to convert, and have been able to secure a reasonable percentage of work going forward.

We have recently secured work from the Genesis Academy Trust (based in the Sidmouth area) which will require termly visits to each of the 3 schools in the Academy from the autumn term.

## Contract reduction and diversification

### Budget position

The Partnership has consistently remained within budget and at the end of 2015/16 carried forward a reserve of £181k. The out-turn for 2015/16 shows that a small surplus was achieved (£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 year (this is in addition to the 55% 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.

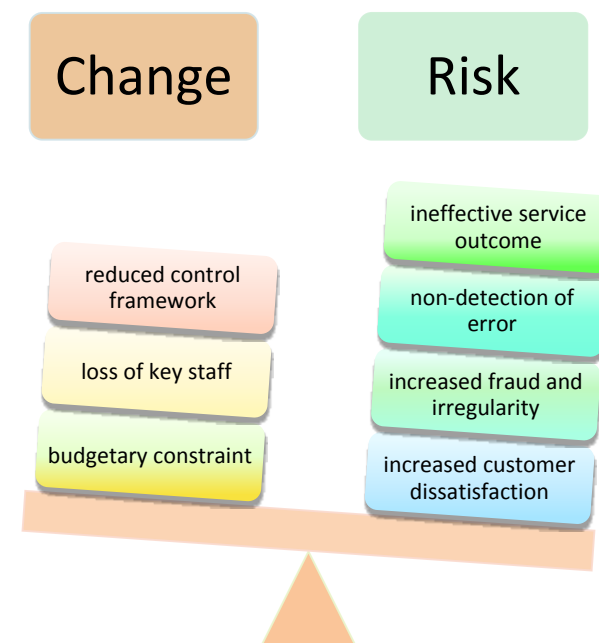
### Change in balance of work - diversification

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.

### 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 2016-17 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. We set out below some comments received from customers **since the turn of the year** who agreed that we have achieved this aim.

Risk Management, April 2016

“Thank you very much for another excellent report, especially given the tight timescale, much appreciated. Really useful to have your independent view.

ICT, March 2016

“ICT is grateful to DAP for the effort and attention in the matter of the recent audit... and welcomes the overall assurance finding.  
My thanks to the auditor for the additional information provided on this.

Council Tax, January 2016

“We see audit very much as a partner in trying to shape the service in times of shrinking resources in order to make sure we still maintain integrity and security”.

School Place Planning, January 2016

“It was helpful to have positive recognition for what we do well and the recommendations were constructive.  
  
The audit added value in that it provided us with an opportunity to step away from our work and reflect on what we do.

Payroll, March 2016

“The auditor was professional, courteous and respectful at all times and showed an excellent understanding of the business and was responsive where questions arose during the process”.

Tree Management, February 2016

“The audit was planned very carefully, and efficiently, and was very inclusive in involving all necessary participants from this Service.

The auditor was extremely efficient, and helpful, ..... had carried out relevant research before these meetings, and had an excellent understanding of the work done by this Service which helped her in identifying the key areas for improvement

The report was/is very comprehensive, clear, and of great practical value in terms of approving the tree service we provide.

The audit added value in that the whole experience was thought provoking, and the depth of understanding by the auditor of the work processes we use, and could use, was very impressive. We have already improved our use of IT to achieve efficiencies in time taken to deal with TPO applications, and are planning training sessions to assist planning officers in their tree related work

## 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 a number of partnerships 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. Our first update letter was issued in December and can be found on our website

<https://www.devonaudit.gov.uk/audit-together/>

## Staff and Partner Development

### Regional training for Audit Committees

We worked with SWAP, (South West Audit Partnership) to deliver training sessions in September for senior management and audit committee members. The events attracted 72 members representing 26 different public sector organisations and gave delegates the opportunity to mix, share experiences and to understand how similar organisations are addressing similar risks and challenges.

### 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.

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. Our September development day included:- Effective Communication of Key Messages; Analytical Review; Opportunities for Value Added and Sampling Techniques.

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 included:-

- IIA Annual conference • Fraud Awareness • Use of IDEA software

## Customer Service Excellence (CSE)

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

In April 2016, 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.

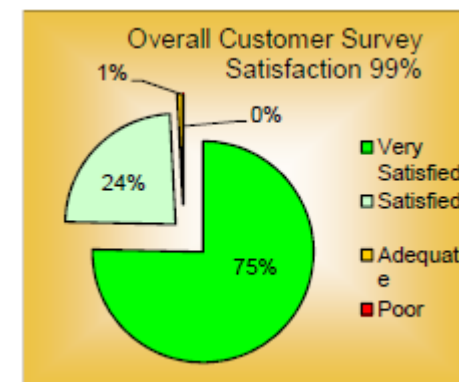
During the period we issued client survey forms with our final reports. The results of the surveys returned remain very good and very positive. The overall result is very pleasing, with near 99% being "satisfied" or better across our services, see appendix 1. It is very pleasing to report that our clients continue to rate the overall usefulness of the audit and the helpfulness of our auditors highly.

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.

We seek feedback from customers from all sectors that we work in, but receive a good rate of return from schools, be these grant maintained or academy. An extract from some of the feedback received since Christmas is shown below :-

- The whole process was a positive experience for all staff concerned
- Due to staffing changes our original audit date was changed to accommodate which was gratefully appreciated. There was excellent communication from the auditor throughout the audit, she was very approachable and friendly. The school benefitted from the process.
- The auditor was extremely helpful and supportive and provides an effective critical friend role.
- The auditor was very helpful and personable. The process was easily followed and understood.
- The auditors were professional and helpful throughout the process.
- Very happy. With regards to planning there was flexibility in the scope to support areas the Leadership raised queries about. Audit delivery took the form of a supportive and collaborative in approach. It was particularly helpful getting regular constructive and supportive feedback through out the audit. All of the audit staff were fantastic and very supportive.
- The auditor was a pleasure to have on site and very accommodating to the school needs and timings. It is always good to have fresh eyes look at what you do to ensure still on the right lines and not missed any new procedures.

**DAP – Customer Survey Results 2015/16**





## Internal Audit Performance

Our provisional outturn analysis of performance for the year ended 31<sup>st</sup> March 2015 indicates that overall performance was good and generally exceeded our targets. 94% of the respective audit plans were delivered (against a target of 90%) and customer satisfaction levels of 99% 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 2016) Inc Schools

Local Performance Indicator (LPI)	Full year Target	Full year Performance	Quarter 3 2015/16	Outturn 2014/15	Direction of Travel (where applicable)
Percentage of Audit Plan Started	100%	100%	80.47%	98%	→
Percentage of Audit plan Completed	90%	94%	56.60%	92%	→
Percentage of chargeable time	65%	68%	68.60%	68%	→
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	90%	99%	99.00%	98%	→
Draft Reports produced within target number of days (currently 15 days)	90%	84%	76.13%	87%	↑
Final reports produced within target number of days (currently 10 days)	90%	96%	93.53%	97%	↑
Average level of sickness absence	2%	5.9%	4.94%	6%	↓
Percentage of staff turnover	5%	4% (2 People)	4% (2 People)	3%	→
Out-turn within budget	Yes	Yes	Yes	Yes	→

However sickness in 2015/16 was considerably higher than projected. Days lost to sickness in **2015/16 totalled 349**.

Our sickness rates have been affected by long term sickness for a number of employees; 5 employees had periods of sickness of 20 days or more, two of which related to operations. All periods of sickness are dealt with using the Devon CC guidance. We seek input and advice from Wellbeing @ Work and HR colleagues, making “reasonable adjustments” as far as we practically can to ensure a safe and speedy return.

It should be noted that, outside of “long term” sickness for five employees, days lost to sickness for the rest of team was 63 days.

## Looking to the Future

2016/17 sees the final year of the current partnership agreement, and requires a further 10% in savings to be delivered. We have made some small changes in staffing which will enable the Partnership to operate for 2016/17 within the financial envelope available.

The previous Partnership Committee discussed the future of the partnership post 2017. The Management Board and Partnership Committee have fully agreed that the Partnership has delivered its aims and objectives, and that partnership working should continue.

We now need to work with colleagues (e.g. legal) in preparing a new Partnership Agreement. Previous experience has found that a three year contract only really allowed for 18 months of “business as usual”, and that tender opportunities often request details of the partnership arrangements, which can give rise to complications if the contract extends beyond our Partnership Agreement. For this reason it is proposed that the new agreement be for a longer period

### Funding levels

One of the key elements in the agreement will be funding levels. However, it is important that internal audit remains “relevant” – the need to make financial savings in previous years is recognised and has been achieved; careful consideration will be required when setting future funding levels to ensure that the service is properly financed to continue to provide professional, effective, pro-active and value added services.

It is acknowledged that there will be pressure to reduce plan days, however this must be considered against sound risk management processes and the need to have effective and adequate independent assurance to meet Senior Management, s151 Officer and Audit Committee requirements.

### Changing our plans – being pro-active and re-active

The constant change environment that public sector organisations operate in is recognised and with this comes the realisation that, in the future, the level of audit input for each Partner may need to be reassessed. We expect that services will transfer out of local authorities, with the responsibility for control (and internal audit) resting with the new service provider. We aim to work with new providers to deliver an internal audit service (we strongly encourage terms of agreement in arms length organisations to include the requirement for internal audit).

### Strategic Alliance

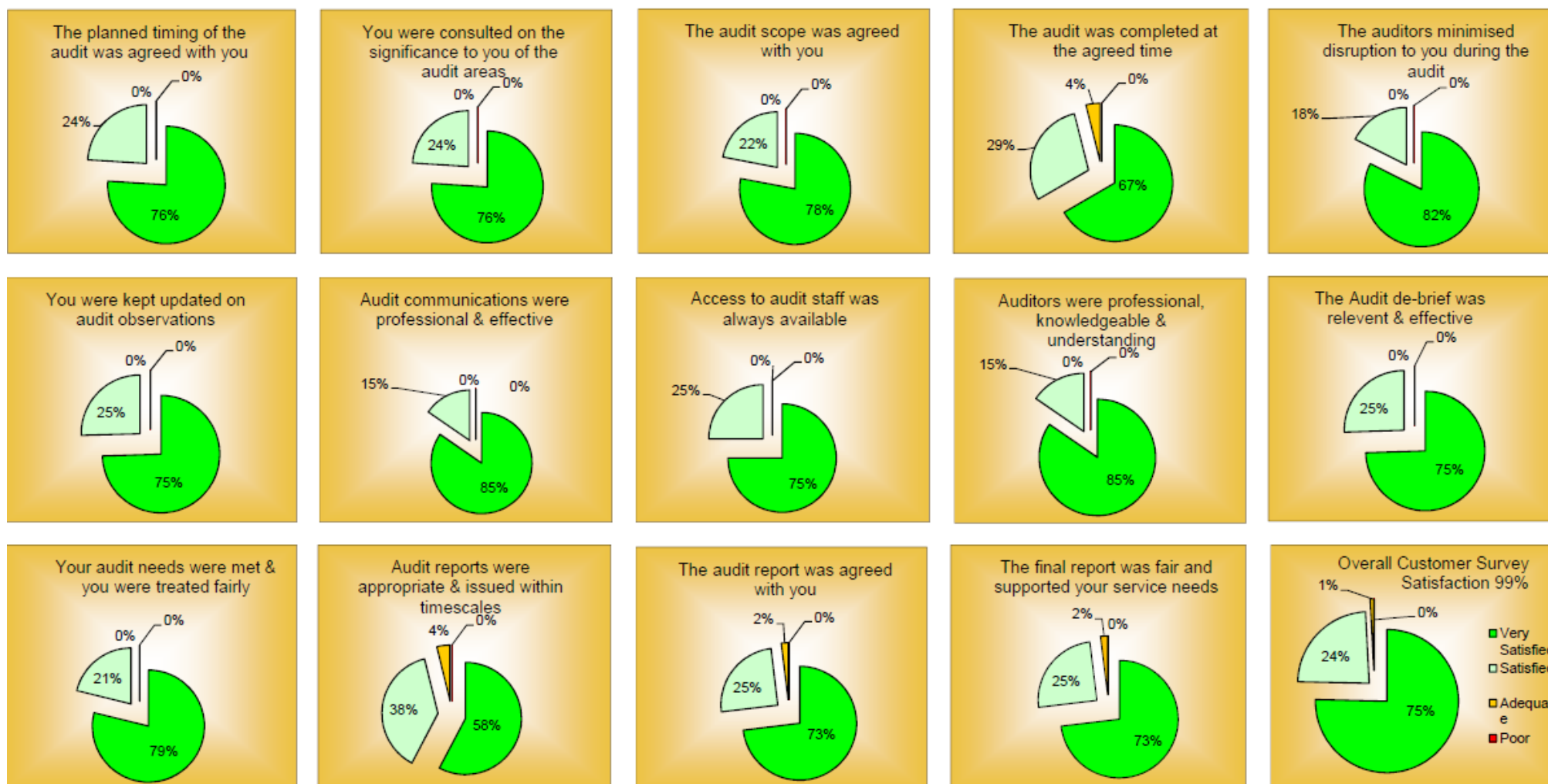
We are constantly considering what could be done differently to further improve outputs and outcomes. The Partnership has worked well, the benefits of partnership working are clear and we are keen to add to our partner base. However, our location, in the Devon area does bring with it challenges to further expansion. Since the February meeting DAP have met with representatives from Audit West (AW), an audit and assurance partnership between North Somerset and Bath & North East Somerset (BANES) and hosted by BANES, and we consider that there is benefit from working with AW in the form of a “strategic alliance”.

The purpose of the Strategic Alliance will be to aid in the development of both partnerships and to provide value added services to the wide range of clients that they both serve. It is anticipated that the Strategic Alliance will further the sharing of best practice, expert knowledge and expertise, enabling each partnership to develop and deliver audit and assurance services that may not have been possible without the Alliance.

# Appendix 1 - Customer Service Excellence Results – 2015/16

## Customer Survey Results April 2015 - Mar 2016

The charts below show a summary of 52 responses received.



## Appendix 2 – Local Performance Indicators 2015/16

### 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	99%	85.9%	96%
Percentage of Audit Days delivered	89%	95.4%	99.1%
Percentage of chargeable time	69.8%	64.3%	68.9%
Customer Satisfaction - % satisfied or very satisfied as per feedback forms	98%	100%	100%
Draft Reports produced within target number of days (currently 15 days)	95%	72.8%	84.6%
Final reports produced within target number of days (currently 10 days)	98%	96.9%	93.7.%