

Internal Audit Shared Service Arrangement Continuation

Report by Chief Executive

Report for Decision

1 Recommendations

The Audit Committee is invited to:

- a) Note the agreement of Midlothian Council Executive team and East Lothian Council Executive team have agreed following the, 18 month initial period, to the continuation of the Chief Internal Auditor shared service on an ongoing basis.
- b) Approve the Continuation of the Chief Internal Auditor Shared Service between Midlothian and East Lothian Council on an ongoing basis.
- c) Note that flexibility will be considered as part of the ongoing annual planning process for Internal Audit to widen the agreement to the potential sharing of Internal Audit and Counter Fraud resource staffing when the potential allows.

2 Purpose of Report/Executive Summary

This report provides the Audit Committee with the appraisal of the first 18 months of the shared service arrangement for the Chief Internal Auditor between Midlothian and East Lothian Council. The significant budget savings that have been delivered within the Internal Audit and Counter Fraud team over the 18month period whilst continuing to deliver a service that meets the requirements of the Public Sector Internal Audit Standards (PSIAS).

An updated SLA has been drafted to cover an ongoing shared service for Chief Internal Auditor services from 1 July 2024. The SLA provides for a continuation of the current Chief Internal Auditor services on ongoing basis with a five-year review date for the SLA. Provision has also been made for the potential to widen the sharing of services to the completion of audit or counter fraud work when approved by the Midlothian Audit Committee and the East Lothian Audit & Governance Committee.

The Audit Committee is being asked to approve the continuation of the Chief Internal Auditor shared service arrangements and therefore the signing of the SLA with East Lothian Council

Date 18 April 2024

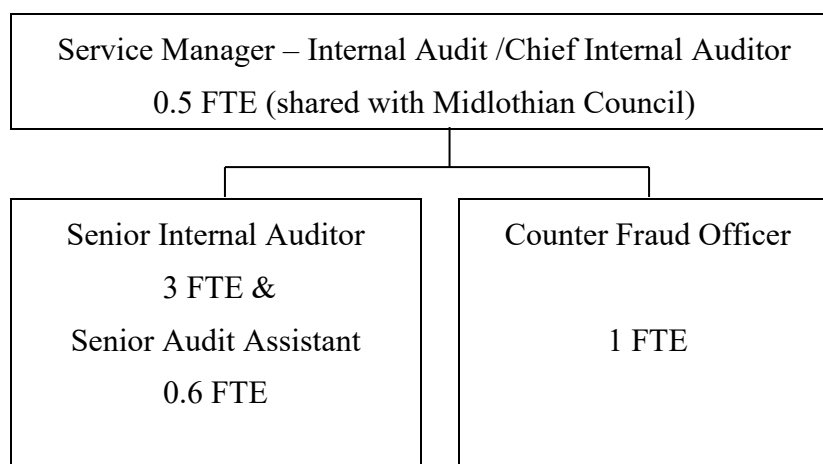
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3 Background

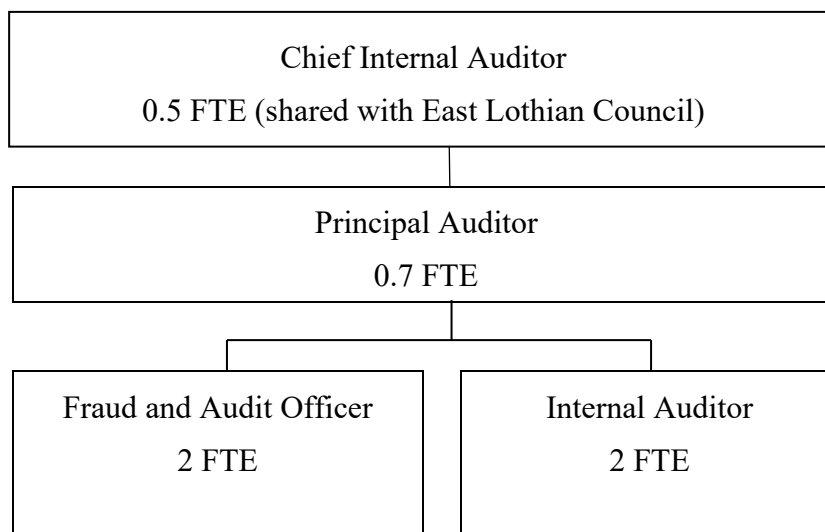
- 3.1 For the 5 years to the 30 June 2022 Midlothian Council had a shared service arrangement for Chief Internal Auditor Services with Scottish Borders Council. Following this arrangement ending on the 30 June 2022, and an unsuccessful recruitment process for an Internal Audit Manager, East Lothian Council were approached to consider a shared service. During 2022 a shared service was approved between East Lothian and Midlothian Council and the service commenced on the 1st January 2023.
- 3.2 The Midlothian Council approved budget for Internal audit was reduced by £55K per annum with the deletion of posts from the establishment as part of the 2023/24 approved Council budget. Services have been maintained to meet Public Sector Internal Audit Standards with this reduced budget and staffing and will continue to do so moving forward.
- 3.3 Both Midlothian and East Lothian Council continue to have Internal Audit Plans approved by the Audit Committee and the Audit & Governance Committee respectively on a risk basis, including length of time since last assurance review of an area. Whilst some risks are shared between the Council's some are specific to each council, however, that allows for efficiencies in sharing audit programmes and methodologies, with the potential for further savings if staffing is shared.
- 3.4 The Internal Audit teams are structured as shown in the following diagrams:

East Lothian Council



The Service Manager Service Manager – Internal Audit, East Lothian's Internal Audit Unit provides Internal Audit & Counter Fraud services for both the Council and the East Lothian Integration Joint Board and reports administratively to the Executive Director for Resources, functionally to the Audit and Governance Committee and has direct access to the Chief Executive, the Section 95 Officer and the Monitoring Officer.

Midlothian Council



The Internal Audit function in Midlothian reports to the Chief Executive and provides Internal Audit and Corporate Fraud services for both the Council and the Midlothian Integration Joint Board.

- 3.5** Resources are anticipated to remain as they are currently available with the expectation of creating some cross working opportunities for staff when approved by Audit Committee. Cross working in certain audit areas will be more efficient and create greater resilience across these small teams. Any cross working will be approved prior to implementation and be dependent on appropriately available staffing for both Council's.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

This paper proposes no changes to the current resourcing of the Internal Audit and Counter Fraud teams.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The continuation of the shared service arrangement for Chief Internal Auditor services creates a key person dependency risk across both Council's. However creating a greater pool of staff with some knowledge of both Councils being developed provides a mitigation to that risk.

5.4 Ensuring Equalities

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS. This is of particular importance and relevance for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives.

Recommendations made by Internal Audit underpin the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties. Providing a pathway to greater resilience in the Internal Audit and Counter Fraud service will assist in delivering best value.

A.5 Involving Communities and Other Stakeholders

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

A.6 Impact on Performance and Outcomes

Applying the framework of the PSIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

A.7 Adopting a Preventative Approach

The PSIAS are applicable from 1 April 2013 (amended 2017) which means the Internal Audit Service has taken steps to be fully compliant.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives including sustainable outcomes.