

## Shared Internal Audit Services between Midlothian and Scottish Borders Councils

Report by: Dr Grace Vickers, Chief Executive

### 1 Purpose of Report

- 1.1 The purpose of this report is to gain approval to the proposal to continue with shared Internal Audit services between Midlothian and Scottish Borders Councils which will also create the opportunity for a wider exploration of joint working activities and benefits.

### 2 Background

- 2.1 Councils continue to face significant challenges as a result of constrained funding combined with demographic and other cost pressures associated with current and projected growth. In addition, managing the impact of a number of government policy and legislative changes places additional demands and reinforces the urgent need to change the way Councils operate.
- 2.2 This continues to present an ever growing need to respond in ways that provide the opportunity to 'future proof' services and to create resilience and sustainability within the context of reducing resources.
- 2.3 Under local authority Accounts (Scotland) Regulations 2014 7(1):  
*"A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing"*.
- 2.4 Furthermore, the PSIAS framework defines Internal Audit as follows:  
*"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"*.
- 2.5 Internal Audit consists of a relatively small team in both organisations which increases the inherent risk around the dependency and reliance on key individuals within the team.
- 2.6 Within this context Officers in Midlothian and Scottish Borders Councils identified that potential benefits could be realised by moving towards a joint working arrangement for the Internal Audit function across both Councils. Approval was given to the interim appointment of a shared Chief Internal Auditor post between Midlothian and Scottish Borders Councils with effect from 1 December 2017 for a period of 12 months. It was agreed that a report would be presented on progress and future options.

### 3 Pilot Outcomes

3.1 There were a number of challenges that arose during the shared Internal Audit services pilot, such as:

- reduced Chief Audit Executive capacity for each Council as a result of the shared Chief Internal Auditor post (0.5 FTE for each Council);
- impact of cultural differences between Councils;
- managing expectations from Senior Management and Audit Committees as a result of revisions to roles and responsibilities required to deliver the joint arrangement;
- dual reporting lines for the shared Chief Internal Auditor post across both Councils;
- reduced capacity of the shared Chief Internal Auditor post impacting team management and development;
- additional travel time and costs associated with the need to lead and manage over both Councils;
- additional time to complete organisation development and redesign of the structure to establish Principal Internal Auditor role in place of Senior Internal Auditor role in each organisation;
- differences in how each Internal Audit function delivers its services;
- the impact of the Midlothian Council roads management fraud investigation on resources capacity has reduced the time available to explore wider opportunities presented by the joint working arrangement. Only the Chief Auditor post was shared and Internal Audit teams continued to work on terms and conditions of their employing authorities and from their existing office locations.

3.2 In contrast there were benefits that arose during the shared Internal Audit services pilot, such as:

- Scottish Borders Council's Chief Officer Audit & Risk, in the Shared Chief Auditor role, provides strategic advisory services across both authorities, identifying and sharing intelligence and information on significant areas of risk (e.g. transformation), and supporting the various organisations' Boards / Audit Committees to fulfil their roles (e.g. self-evaluation of Midlothian Council's Audit Committee);
- the opportunity for personal development and learning of those individuals operating in the Principal Internal Auditor role in place of Senior Internal Auditor role in each Council to provide operational management of each local team and the necessary support to the Shared Chief Auditor;
- similarities in how each Internal Audit function delivers its services as the framework and legislation underpinning the Internal Audit function is the same, and there are common service standards through the Public Sector Internal Audit Standards (PSIAS);
- developing common policies and procedures (e.g. audit report styles and terminology, audit reports sign-off);
- sharing of best practice across both Councils (e.g. audit methodology, audit report templates, quality assurance);
- sharing of expertise and a greater pool of knowledge (e.g. use of data matching software);

- provision of an Interim Specialist Auditor from Scottish Borders Council to Midlothian Council, sharing expertise and knowledge to provide Internal Audit services for the Midlothian local authority and the Midlothian integration authority;
- the shared services arrangement was Midlothian Council's response to recommendations by its External Auditor, EY, in their annual report 2016/17. The recommendations noted the importance of Management considering the skills and capabilities required from the Internal Audit function to ensure that its position and standing within the organisation is such that it can provide robust independent challenge to Senior Management. The EY Annual Audit Report 2017/18 commented that the appointment of a shared Chief Internal Auditor between Midlothian Council and Scottish Borders Council enhances this ability.

3.3 In conclusion, the benefits have outweighed the challenges and there are further opportunities set out below for further consideration.

#### **4 Further opportunities**

4.1 There will be the opportunity to actively explore future options for wider joint working activities and benefits in both the short and longer term across the Councils including:

- joint training (e.g. Fraud Awareness delivered by Fraud Officers);
- cover provided across specialist areas (e.g. IT Audits / Service development initiatives); and
- opportunities for staff to work on joint projects / audits.

#### **5 Proposal on the Way Forward**

5.1 This report highlights the challenges experienced and benefits achieved during the 12-month pilot, plus the further opportunities offered by a joint working arrangement and a reshaped Internal Audit service to enable support challenge and scrutiny and the drive for improvement across Councils.

5.2 The proposal is to continue the Shared Internal Audit Services as a permanent arrangement to provide greater certainty and allow for longer term planning of work and teams, recognising that either Council could still decide to opt out/revert back at any time subject to an appropriate period of notice.

#### **6 Report Implications**

##### **6.1 Resource**

The financial implications associated with this report are capable of being met from within existing budgets. The proposal to continue the shared Internal Audit services arrangement is expected to continue to have a positive impact on the resourcing of both Councils, assisting to align demand for resource and supply of resource more closely within both organisations thereby improving both capacity building and sustainability.

## 6.2 Risk

Internal Audit consists of a relatively small team in both organisations which increases the inherent risk around the dependency and reliance on key individuals within the team. In line with PSIAS, Internal Audit should have appropriate standing within the organisation to allow them to provide robust, independent scrutiny and challenge of Management. This report aims to further reduce the risk to each organisation through an effective joint working arrangement, providing management and delivery of Internal Audit services.

## 6.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

## 6.4 Key Priorities within the Single Midlothian Plan

This report does not relate directly to the key priorities within the Single Midlothian Plan.

## 6.5 Impact on Performance and Outcomes

The impact of available resource will be reflected in Internal Audit plans.

## 6.6 Adopting a Preventative Approach

This report addresses the Council's policy to have a robust internal control environment, management of risk and effective governance.

## 6.7 Involving Communities and Other Stakeholders

Scottish Borders Council's Corporate Management Team has been consulted to agree to the continuing arrangement prior to presenting to full Council on 29 November 2018 for approval.

## 6.8 Ensuring Equalities

The proposal does not have any equalities implications.

## 6.9 Supporting Sustainable Development

The proposal has the potential to create a more robust and sustainable Internal Audit service in each Council.

## 6.10 IT Implications

IT implications are in place to facilitate joint working.

## 6.11 Consultation

Midlothian Council's Corporate Management Team has been consulted on the proposals to agree to the continuing arrangement.

Consultation will take place with HR, Finance and Legal Services and with staff and Unions, as appropriate, during the exploration of future options for wider joint working activities and benefits.

## 7 Recommendations

The Audit Committee is asked to:

- i) endorse the continuation of the Shared Internal Audit Services as a permanent arrangement to provide greater certainty and allow for longer term planning of work and teams, recognising that either Council could still decide to opt out/revert back at any time subject to an appropriate period of notice; and
- ii) note that there will be a wider exploration of joint working associated with the above in both the short and longer term across the Councils.

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**Report Authors:** Jill Stacey, Shared Chief Internal Auditor

**E-Mail:** [Jill.Stacey@midlothian.gov.uk](mailto:Jill.Stacey@midlothian.gov.uk) or [jstacey@scotborders.gov.uk](mailto:jstacey@scotborders.gov.uk)