

Shared Chief Auditor Post between Midlothian and Scottish Borders Councils

Report by: Kenneth Lawrie, Chief Executive

1 Purpose of Report

- 1.1 The purpose of this report is to advise the Audit Committee of a 12 month pilot arrangement over the sharing of a Chief Auditor/Audit Manager Post 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 The Accounts Commission's overview report on Local Government in Scotland: Performance and Challenges 2017 sets out the increasingly demanding environment facing local authorities. In particular an overall reduction of 9.2% in Scottish Government total revenue funding since 2010/11, demographic changes in particular in respect of aging populations plus a broad range of legislative and policy changes including, for example, integration of health and social care, community empowerment provision and education reform.
- 2.2 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.
- 2.3 Whilst many councils have already taken a strategic approach in developing strategies and carrying out fundamental reviews of service delivery models to drive savings, the challenge remains. 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.
- 2.4 It is within this context that this report has been produced as officers in both Midlothian and Scottish Borders Council have identified that potential benefits could be realised by moving towards a joint working arrangement for the Internal Audit function across both Councils.
- 2.5 Whilst there will be differences in how each Internal Audit function currently delivers its services, there will also be a number of similarities as the framework and legislation underpinning the Internal Audit function is the same. 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".

2.6 Furthermore, development of potential joint working must be designed within the context of the PSIAS framework which defines Internal Audit as follow.

“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”.

Source: PSIAS standard 1010

2.7 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.

2.8 The delivery of each Council’s transformation programme brings a period of significant change as they work to deliver and enhance services for users, while responding to changing demographics and ongoing budgetary and funding constraints. At such times, it is important that Internal Audit has the resilience, capacity and skills to respond to changing demands and provides scrutiny and challenge to management, not only in respect of the day to day control environment, but also to support the delivery of the transformation programme.

2.9 A recent review of Midlothian Council’s Internal Audit Service has resulted in a vacancy at the manager level and it is this that has presented officers with the opportunity to consider a wider partnership working arrangement to fill the role, initially on an interim basis, which could offer the potential to deliver the following benefits across both Councils:

- continuity of service delivery;
- long term / future service resilience;
- service efficiencies; and
- improved service flexibility and quality through sharing specialist expertise.

There are also a number of potential challenges of sharing the Chief Auditor/Audit Manager post across both Councils such as:

- reduced capacity for each Council as a result of the shared 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 post across both Councils;

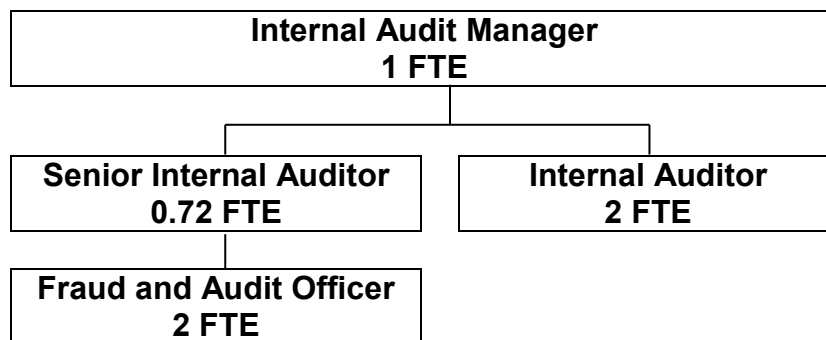
- reduced capacity of the shared post impacting team management and development; and
- additional travel time and costs associated with the need to manage over both Councils.

In addition to Midlothian’s recent review of the service, a move towards a shared arrangement would also respond to recommendations by Midlothian’s External Auditor in their annual report. The recommendations noted that in filling the vacant manager position, Management considers the skills and capabilities required from the function to ensure that its position and standing within the organisation is such that it can provide robust independent challenge to senior management.

2.10 This report highlights the opportunities offered by a shared management post initially but which could offer longer term benefits of the combined skills and capabilities offered by a joint working arrangement and a reshaped Internal Audit service to further support challenge and scrutiny and the drive for improvement across Councils.

3 Current Arrangements – Midlothian Council

3.1 Midlothian Council’s Internal Audit function currently provides Internal Audit and Corporate Fraud services and is structured as follows:

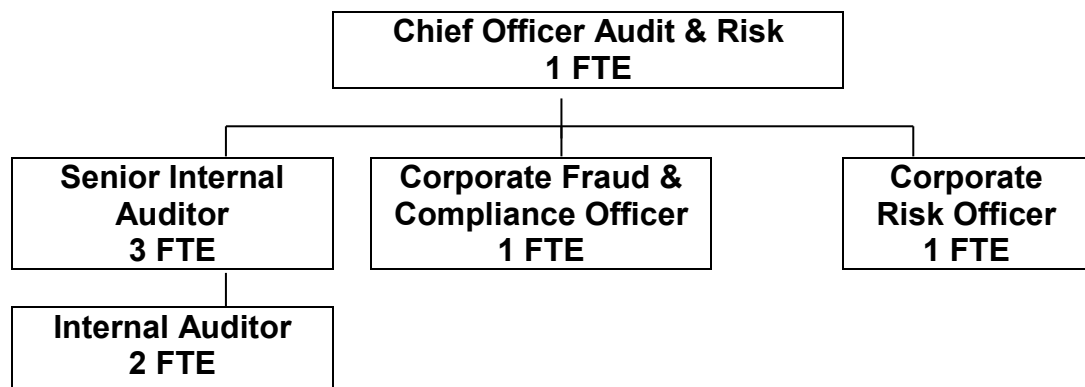


3.2 The staffing costs for Internal Audit within Midlothian are £262,500.

3.3 The Internal Audit function in Midlothian provides Internal Audit and Corporate Fraud services for both the Council and the Health and Social Care Integration Joint Board.

4 Current Arrangements – Scottish Borders Council

4.1 Scottish Borders Council’s Audit and Risk Service currently provides Internal Audit, Risk Management and Corporate Fraud services and is structured as follows:



4.2 The staffing costs for Audit and Risk within Scottish Borders are £353,000. The risk element of the Chief Officer Audit & Risk post will not be shared and therefore the shared element will be 50% of the total after deduction of the employee costs associated with risk.

4.3 The Audit and Risk Service in Scottish Borders provides Internal Audit, Risk Management and Corporate Fraud services for the Council, the Health and Social Care Integration Joint Board, Scottish Borders Care (ALEO for Adult Care Services) and the Pension Fund.

5 Pilot Arrangement

5.1 The sharing of the Chief Auditor/Audit Manager Post between Midlothian and Scottish Borders Councils will be undertaken initially on a 12 month pilot basis with an interim review after 6 months. The basis for the partnership will be:

- Scottish Borders Chief Officer Audit & Risk to provide strategic management across both authorities and explore wider opportunities presented by a joint working arrangement;
- Senior Internal Auditors will provide support to the Chief Officer and operational management of the local team; and
- Audit teams will continue to work on the terms and conditions of their employing authorities and from their existing office locations.

5.2 There are a number of areas to consider for developing through joint working in both the short and longer term across the Councils including:

- developing common policies and procedures;
- 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);
- joint training (e.g. Fraud Awareness delivered by Fraud Officers);
- identifying and sharing intelligence and information on significant potential concerns and risks (e.g. Business Transformation);
- cover provided across specialist areas (e.g. IT Audits / Service development initiatives);
- common service standards; and

- opportunities for staff to work on joint projects / audits.

It is anticipated that in addition to the management arrangements, the pilot will provide the opportunity to actively explore future options for joint working.

6 Funding Proposals

- 6.1 The time and cost of the shared post will be split 50/50 which, after the removal of the cost of the existing risk role undertaken by the Chief Officer Audit & Risk in Scottish Borders Council, will result in a cost to Midlothian of circa £34,425 – £36,450.
- 6.2 Further consideration is required to identify the impact in terms of resource for both Internal Audit functions as a result of the Chief Officer Audit & Risk operating across both Councils on a 50/50 basis. This reduction in capacity of the current full time role in Scottish Borders and expected full time appointment to the current vacancy in Midlothian will impact on both the capacity and responsibilities of the Senior Internal Auditors in order to accommodate the joint arrangements. The review of capacity and responsibilities will also call for an interim review of the current Senior Auditor job description which may result in an interim increase in responsibilities and therefore a requirement to evaluate the role with potential cost implications in addition to those noted for the shared post.

7 Timescales

- 7.1 Commencement of partnering arrangements is 1 December 2017.
- 7.2 Following the initial 6 month exploratory period, a report will be presented to the Audit Committee on progress and future options.

8 Report Implications

8.1 Resource

The financial implications associated with this report are capable of being met from within existing budgets. This intervention is expected 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.

8.2 Risk

This report aims to further reduce the risk to each organisation through an effective joint working arrangement, providing management and delivery of Internal Audit and Corporate Fraud.

8.3 **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

8.4 **Key Priorities within the Single Midlothian Plan**

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

8.5 **Impact on Performance and Outcomes**

There will be an impact on the internal audit plans as there will be a reduced resource of 0.5 FTE at the Internal Audit Manager level.

8.6 **Adopting a Preventative Approach**

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

8.7 **Involving Communities and Other Stakeholders**

Scottish Borders Council have agreed to the pilot arrangement.

8.8 **Ensuring Equalities**

The proposal does not have any equalities implications.

8.9 **Supporting Sustainable Development**

The proposal has the potential to create a more robust and sustainable audit service.

8.10 **IT Implications**

IT implications require to be explored further to facilitate joint working and to identify potential for improvement and efficiencies.

8.11 **Consultation**

Early stage consultation has taken place with HR, Finance and Legal services and further work is required around some of these aspects. Formal consultation with staff and Unions will take place, with continuing consultation as the partnership proposals develop.

9 Summary

This report is to advise the Audit Committee of a 12 month pilot arrangement over the sharing of a Chief Auditor/Audit Manager post between Midlothian and Scottish Borders Councils which will also create the opportunity for a wider exploration of joint working activities and benefits.

The shared post will lead both the Midlothian and Scottish Borders Internal Audit teams on a strategic level supported operationally and on a day to day basis by Senior Auditors in each council. The Midlothian and Scottish Borders Council Senior Auditors will operationally manage their respective teams.

The shared post will provide a platform for continuous improvement, leadership and direction to both teams. An initial 12 month period, including a 6 month review, will allow information to be gathered to support the analysis of the potential benefits of partnership in these areas.

10 Recommendations

The Audit Committee is asked to note:

- i) the interim appointment of a shared Chief Internal Auditor post between Midlothian and Scottish Borders Council with effect from 1 December 2017 for a period of 12 months;
- ii) that there will be a wider exploration of joint working activities and benefits on the proposals set out in this report;
- iii) that a detailed programme for implementing the shared post arrangements set out in this report including wider staff and trade union consultation will be developed; and
- iv) that a further report will be presented to the Committee after an initial 6 month period.

Date: 16 November 2017

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