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## **SHARED CHIEF AUDITOR POST BETWEEN MIDLOTHIAN COUNCIL AND SCOTTISH BORDERS COUNCIL**

**Report by Service Director Regulatory Services**

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### **SCOTTISH BORDERS COUNCIL**

**30 NOVEMBER 2017**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to enable Council to consider the benefits and potential challenges of sharing a Chief Auditor/Audit Manager Post between Midlothian and Scottish Borders Councils and to consider progressing with a pilot arrangement which will also create the opportunity for a wider exploration of joint working activities and benefits.**
- 1.2 The opportunity has arisen to develop joint working to sustain and deliver Internal Audit and Corporate Fraud Services between Midlothian Council and Scottish Borders Council.
- 1.3 Initially this would involve Scottish Borders Council's Chief Officer Audit & Risk leading 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. It is proposed that this arrangement is piloted over a 12 month period, with a 6 month review of the arrangement.
- 1.4 The shared post will provide a platform for continuous improvement, leadership and direction to both teams. The proposed 12 month pilot will allow information to be gathered to support the analysis of the potential benefits and challenges of further partnership working in these areas.

#### **2 RECOMMENDATIONS**

- 2.1 I recommend that Council:**
  - (a) Approves proceeding with an interim appointment of a shared Chief Internal Auditor post between Midlothian and Scottish Borders Council with effect from 1 December 2017.**
  - (b) Agrees to progress with a pilot arrangement to share management resource for a period of 12 months, commencing on 1 December 2017.**
  - (c) Agrees to the development of a wider exploration of joint working activities and benefits on the proposals set out in this report following the appointment of a shared post.**
  - (d) Instructs the Service Director Regulatory Services to develop a detailed programme for developing and implementing the joint arrangements set out in this report including wider staff**

- and trade union consultation, and**
- (e) Agrees to receive a further report from the Service Director Regulatory Services after an initial 6 month period.**

### 3 BACKGROUND

- 3.1 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.
- 3.2 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.
- 3.3 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.
- 3.4 It is within this context that this report has been produced as officers in both Midlothian Council 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.
- 3.5 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 the 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".
- 3.6 Furthermore, development of potential joint working must be designed within the context of the Public Sector Internal Audit Standards (PSIAS) framework which 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".  
Source: PSIAS standard 1010
- 3.7 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.

- 3.8 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.
- 3.9 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
  - Improved service flexibility and quality through sharing specialist expertise

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

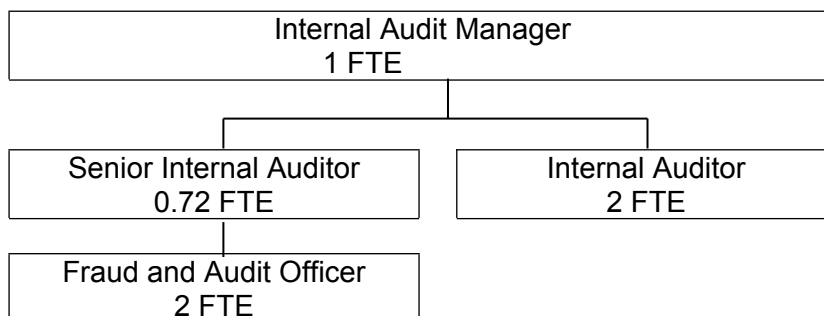
- Reduced capacity for each Council as a result of the shared post (0.5 FTE for each Council)
- Impact of cultural differences between Councils
- Managing expectations from senior management and audit committees as a result of revisions to roles and responsibilities required to deliver the joint arrangement
- Dual reporting lines for the shared post across both Councils
- Reduced capacity of the shared post impacting team management and development
- 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.

- 3.10 This report asks Members to consider 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.

#### 4 CURRENT ARRANGEMENTS – MIDLOTHIAN COUNCIL

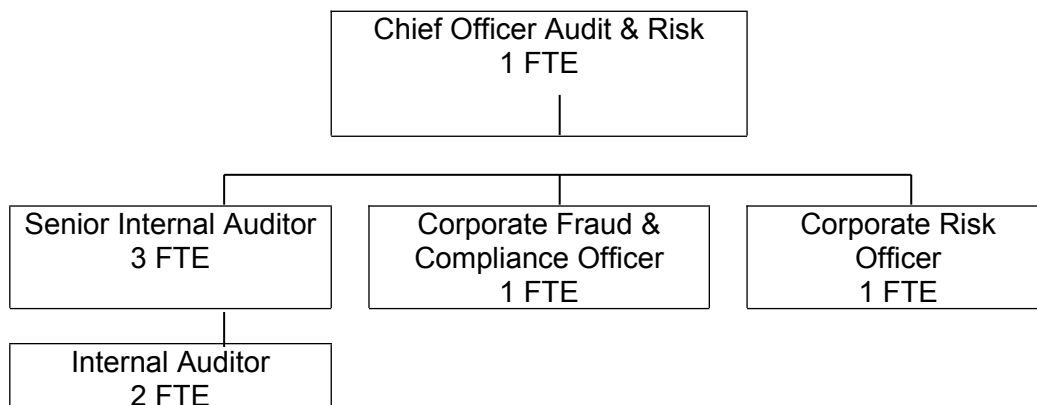
- 4.1 Midlothian Council's Internal Audit function currently provides Audit and Corporate Fraud services and is structured as follows:



- 4.2 The staffing costs for Internal Audit within Midlothian Council are £262,500.
- 4.3 The Internal Audit function in Midlothian provides audit services for both the Council and the Health and Social Care Integration Joint Board.

#### 5 CURRENT ARRANGEMENTS – SCOTTISH BORDERS COUNCIL

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



- 5.2 The staffing costs for Audit and Risk within Scottish Borders Council are £353,000. Members are asked to note that 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.
- 5.3 The Audit and Risk Service in Scottish Borders Council provides Internal Audit, Risk Management and Corporate Fraud services for the Council, the Health and Social Care Integration Joint Board, SB Cares (ALEO for Adult Care Services), and the Pension Fund.

## 6 PROPOSAL

- 6.1 It is proposed that a joint working approach is taken forward initially on a 12 month pilot basis with an interim review after 6 months. The basis for the partnership would be:
- Scottish Borders Council's Chief Officer Audit & Risk to provide strategic management across both authorities and explore wider opportunities presented by a joint working arrangement.
  - Senior Internal Auditors to provide support to the Chief Officer and operational management of the local team.
  - Staff teams will continue to work on the terms and conditions of their employing authorities and from their existing office locations.

- 6.2 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 (CAATs)
  - 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 across specialist areas e.g.
    - IT Audits/Service development initiatives
  - Common service standards
  - 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.

- 6.3 It is proposed that the time and cost of the shared post should 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, would result in a cost to Midlothian Council of circa £34,425 – £36,450.
- 6.4 Further consideration is required to identify the impact in terms of resource for both Internal Audit functions as a result of the Chief Auditor operating across both Councils on a 50/50 basis. This reduction in capacity of the current full time role in Scottish Borders Council and expected full time appointment to the current vacancy in Midlothian Council 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 descriptions in each Council 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.
- 6.5 It is proposed to commence partnering arrangements on 1 December 2017 to enable audit planning for 2018/19 to commence timeously.

- 6.6 Following the initial six month exploratory period, a report will be presented to the Council on progress and future options.

## **7 IMPLICATIONS**

### **7.1 Financial**

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.

### **7.2 Risk and Mitigations**

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

### **7.3 Equalities**

The proposals do not have any equalities implications.

### **7.4 Acting Sustainably**

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

### **7.5 Carbon Management**

The proposals do not have any carbon management implications.

### **7.6 Rural Proofing**

The proposals do not have any rural proofing implications.

### **7.7 Changes to Scheme of Administration or Scheme of Delegation**

No changes to either the Scheme of Administration or the Scheme of Delegation are required as a result of the recommendations in this report.

## **8 CONSULTATION**

- 8.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted and comments incorporated into this report.
- 8.2 Further consultation is required including with staff and Unions, with continuing consultation as the partnership proposals develop.

### **Approved by**

**Brian Frater**

**Service Director Regulatory Services**

**Signature .....**

### **Author(s)**

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|--------------|---|
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**Background Papers: None**

**Previous Minute Reference: None**

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