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## **SHARED INTERNAL AUDIT SERVICES AND PROPOSED WAY FORWARD 2022/23**

**Report by Director Finance & Corporate Governance**  
**SCOTTISH BORDERS COUNCIL**

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**16 December 2021**

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### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to set out an evaluation associated with the provision of Internal Audit services and propose a way forward from 2022/23 onwards.**
- 1.2 Shared Internal Audit Services have been provided between Midlothian and Scottish Borders Councils since December 2017. Internal Audit assurance services are also provided by Midlothian Council's Internal Audit team to the Midlothian Integration Joint Board.
- 1.3 The operating environment has changed significantly since the inception of the shared Internal Audit services arrangement, in particular over the past 20 months, which provides the opportunity for both Councils to evaluate the arrangement.
- 1.4 The report provides details of the wider options of joint working that have been explored and the evaluation of the shared Internal Audit services arrangement. The report proposes a way forward for 2022/23 onwards to opt out of the Shared Internal Audit Services at the end of 2021/22 and therefore provide leadership capacity for the application of the revised Risk Management and Counter Fraud Policies and Strategies 2021-2024, subject to their approval by Council.

### **2 RECOMMENDATIONS**

- 2.1 I recommend that Scottish Borders Council:**
  - a) Note the wider options of joint working that have been explored since the 12 month pilot shared Internal Audit services arrangement and the evaluation associated with the provision of Internal Audit services; and**
  - b) Endorse the proposal to opt out of the Shared Internal Audit Services at the end of 2021/22 and give an appropriate period of notice to Midlothian Council, which will provide the leadership capacity for the application of the revised Risk Management and Counter Fraud Policies and Strategies 2021-2024, subject to their approval by Council.**

### 3 BACKGROUND

- 3.1 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.
- 3.2 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.
- 3.3 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".
- 3.4 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".
- 3.5 Scottish Borders Council at its meeting on 30 November 2017 agreed to a 12 month pilot arrangement over the sharing of a Chief Internal Auditor post between Midlothian and Scottish Borders Councils (the Chief Officer Audit & Risk). At the Scottish Borders Council meeting on 29 November 2018, full Council approved the proposal to continue with shared Internal Audit services between Midlothian and Scottish Borders Councils, including the opportunity for a wider exploration of joint working activities and benefits. The shared Internal Audit services arrangement has continued since then, recognising that either Council could still decide to opt out/revert back at any time subject to an appropriate period of notice.
- 3.6 The Internal Audit Strategy and Plan, most recently for 2021/22, set out the Internal Audit staff resources and activity to enable the Chief Internal Auditor, as the Council's Chief Audit Executive (CAE), to provide the statutory annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council. Internal Audit assurance services are also provided by the Council's Internal Audit team to Scottish Borders Pension Fund, and Integration Joint Board (IJB).

### 4 EVALUATION OF SHARED INTERNAL AUDIT SERVICES

- 4.1 The challenges and benefits that arose during the 12 month pilot arrangement over the sharing of a Chief Internal Auditor were included in the report 'Shared Internal Audit Services between Midlothian and Scottish Borders Councils', item 5 to Scottish Borders Council on 29 November 2018  
**Item No. 8 - Internal Audit Shared Services Pilot Outcomes and Proposed Way Forward.pdf (moderngov.co.uk)**
- 4.2 The operating environment has changed significantly since the inception of the shared Internal Audit services arrangement, in particular over the past 20 months, which provides the opportunity for both Councils to evaluate the arrangement.

- 4.3 To assist with the evaluation of the shared Internal Audit services arrangement, the wider joint working activities that have been explored and the associated outcomes are as follows:
- The principles for development of proposals to expand the current Shared Internal Audit (and Counter Fraud) Services between Midlothian and Scottish Borders Councils to include East Lothian Council were considered in November 2019 by the Corporate Management Teams in each Council. The proposals were not supported by Midlothian Council CMT mainly due to the exacerbation of the challenges of sharing a Chief Internal Auditor from two to three Councils and IJBs, and the impact this might have on the quality of the current shared service provision;
  - The option of shared Risk Management services between Midlothian and Scottish Borders Councils did not progress beyond initial consideration in early 2020 in light of the different approaches within Midlothian and Scottish Borders Councils for the provision of corporate support to Services in the management of risks;
  - The option to deploy Internal Audit team members to work on similar planned audits across the two Councils and IJBs was considered. Due to practical constraints (requirement for IT hardware and access to each organisation's systems and documents), only the Chief Internal Auditor and Interim Specialist Auditor were shared. In addition, the synergies were less than expected due to differences between Councils in their organisation structures and strategies for service delivery, policy framework, and ICT systems. Internal Audit team members continued to work on terms and conditions of their employing authorities.
  - The option was considered for Midlothian Council (MLC) to share Corporate Fraud Officers with Scottish Borders Council (SBC) in light of the vacant Corporate Fraud & Compliance Officer post in SBC since December 2020 due to the retirement of the post holder. In light of current workload for the MLC Corporate Fraud Officers, including ongoing fraud investigations, participation in the National Fraud Initiative 2020/2021, and the refocus with the revised MLC Counter Fraud Policy and Strategy 2020 on fraud prevention and detection, it was deemed there was insufficient staff resource capacity in the short term. This might be re-considered in future.
- 4.4 Additional challenges, such as:
- impact of differences between Councils in the provision of specialist compliance and assurance support services of Internal Audit, Corporate Fraud and Risk Management;
  - the impact of differences between Councils in their governance and management arrangements, which includes the leadership, culture, organisation structures and strategies for service delivery, policy framework, risk appetite, ICT systems, etc.;
  - reduced capacity of the shared Chief Internal Auditor post (Chief Officer Audit & Risk) impacting team management and development, in particular at times when the respective Principal Internal Auditors had unplanned periods of prolonged absence from work. Furthermore, there has been a change in the counter fraud and risk management support staff at Scottish Borders Council, from experienced and empowered post holders to a vacant post and new appointment respectively; and

- the impact in Midlothian Council of ongoing fraud investigations on capacity to implement new approaches such as those set out in the revised Counter Fraud Policy and Strategy.

#### 4.5 In conclusion:

- the benefits were primarily realised in the first 12 months and have been maintained, though further benefits from joint working options have not been realised in the medium term; and
- some of the challenges experienced in the short term will continue in the medium term due to differences between Councils in their governance and management arrangements, which includes the leadership, culture, organisation structures and strategies for service delivery, policy framework, risk appetite, ICT systems.

## 5 PROPOSAL ON THE WAY FORWARD

- 5.1 The proposal is for Scottish Borders Council to opt out of the Shared Internal Audit Services arrangement between Midlothian and Scottish Borders Councils at the end of 2021/22 and give an appropriate period of notice to Midlothian Council. Furthermore, the Risk Management Policy and Strategy and Counter Fraud Policy and Strategy of Scottish Borders Council are being refreshed for 2021-2024, and are submitted for approval by full Council. The Risk Management and Counter Fraud frameworks are led by the Chief Officer Audit & Risk (the shared Chief Internal Auditor) and are designed to add value and improve the organisation's operations. The proposal to opt out of the Shared Internal Audit Services arrangement will provide leadership capacity to ensure the application of the respective policy, strategies, plans and practices within the Council's Services. This is to continue to refine the approaches to managing risks and tackling fraud across the Council in an ever-changing environment.
- 5.2 The CMT within Midlothian Council is supportive of the evaluation conclusions and to the mutual opt-out of the Shared Internal Audit Services arrangement between Midlothian and Scottish Borders Councils. This is of particular note due to the challenge of reduced capacity of the shared Chief Internal Auditor post impacting team management and development, in particular due to the change in the counter fraud and risk management support staff at Scottish Borders Council, from experienced and empowered post holders to a vacant post and new appointment.
- 5.3 The Corporate Management Team and the Audit and Scrutiny Committee of Scottish Borders Council play an important role in ensuring that the Internal Audit function has sufficient staff resources with the appropriate skills and capabilities to ensure that its position and standing within the organisation is such that it can provide robust independent challenge to Senior Management and fulfil its statutory audit opinion requirement. The Risk Management and Counter Fraud frameworks that are applied across the Council's Services to add value and improve the organisation's operations are led by the Chief Officer Audit & Risk.
- 5.4 The Internal Audit Strategy and Plans for 2022/23 that are in the initial stages of development will reflect the staff resources proposed in this report (subject to its approval) i.e. no change to 50% Chief Officer Audit & Risk assigned to Internal Audit activity, and 50% to provide leadership capacity for the Risk Management and Counter Fraud frameworks in place of 50% recharged to Midlothian Council for the shared services provision.

## **6 IMPLICATIONS**

### **6.1 Financial**

The Income received from Midlothian Council associated with the 50% recharge of the Chief Officer Audit & Risk post (£40,280 in Internal Audit base budget 2021/22) will have to be considered, prioritised against other factors and addressed as part of the financial planning process 2022/23.

### **6.2 Risk and Mitigations**

Roles and responsibilities associated with Internal Audit, Risk Management and Counter Fraud are set out in the respective policies and strategies. The Risk Management Policy and Strategy reflect the Council's integrated approach to the management of risks and the independent assurance on its efficacy provided by Internal Audit. Management have the primary responsibility to manage risks and tackle fraud. Monitoring of the application of the Risk Management and Counter Fraud frameworks across the Council is carried out by the Corporate Management Team. This is facilitated by the Corporate Risk Officer, within the Audit & Risk service, and the Integrity Group respectively. Elected Member oversight is provided by the Audit and Scrutiny Committee.

Internal Audit provides assurance to the Corporate Management Team and the Audit and Scrutiny Committee on the adequacy and effectiveness of internal controls, governance and risk management within the Council, highlights good practice and recommends improvements.

### **6.3 Integrated Impact Assessment**

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report, based on the completion of the Integrated Impact Assessment (IIA); a full IIA is not required. However, the application of practices associated with the provision of Internal Audit, Risk Management and Counter Fraud assurance and compliance services will be carried out in accordance with the appropriate legislation. The approved Internal Audit Strategy 2021/22 sets out how the Internal Audit function will achieve its objectives to deliver high quality internal audit services to the Scottish Borders Council, Pension Fund and IJB. The revised Risk Management Policy statement and 3-year Risk Management Strategy 2021-2024 will enable the Council to continue to refine its approach to managing risks. The revised Counter Fraud Policy statement and 3-year Counter Fraud Strategy 2021-2024 will enable the Council to continue to refine its approach to tackling fraud.

### **6.4 Sustainable Development Goals**

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist. However, the application of practices associated with the provision of Internal Audit, Risk Management and Counter Fraud assurance and compliance services in accordance with relevant policies and strategies is fundamental to the achievement of the Council's objectives, including its sustainable development goals. This will indirectly make a difference to the UN Sustainable Development Goal 16 "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

### **6.5 Climate Change**

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

## 6.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

## 6.7 Data Protection Impact Statement

There are no personal data implications arising from the content of this report.

## 6.8 Changes to Scheme of Administration or Scheme of Delegation

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

# 7 CONSULTATION

7.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

7.2 The Chief Legal Officer (and Monitoring Officer), Director - People Performance and Change, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been taken into account.

## Approved by

**David Robertson,**  
**Director Finance & Corporate Governance**

**Signature.....**

## Author(s)

Name	Designation and Contact Number
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**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Scottish Borders Council 30 November 2017 and 29 November 2018

**Note –** You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)