

REPORT TO: Audit and Governance Committee

MEETING DATE: 29 November 2022

BY: Service Manager – Internal Audit

SUBJECT: Internal Audit Joint Working with Midlothian Council

1 PURPOSE

- 1.1 To provide information to the Audit and Governance Committee concerning the approved trial of a joint working arrangement with Midlothian Council for Internal Audit services.

2 RECOMMENDATION

- 2.1 That the Audit and Governance Committee note the trial of joint working arrangements with Midlothian Council.

3 BACKGROUND

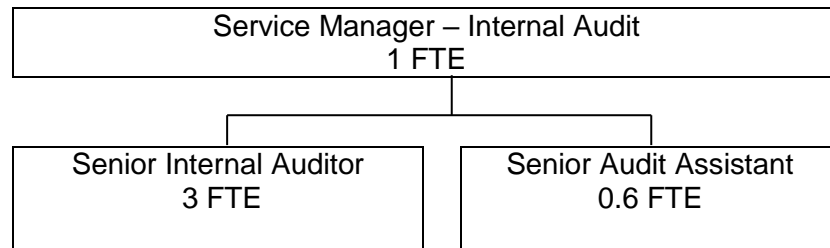
- 3.1 In order to increase resilience, improve ability to benchmark controls across authorities, and increase the efficiency of Internal Audit, the East Lothian Council Internal Audit team has been considering partnership with another local authority.
- 3.2 Midlothian Council have recently (June 2022) ended a relationship with Scottish Borders Council involving shared management of the two Internal Audit teams through a single Chief Internal Auditor. A subsequent initial recruitment process by Midlothian Council for the post of Internal Audit Manager did not establish any suitable candidates for this position.
- 3.3 The Chief Executives of East Lothian and Midlothian Councils considered that a joint working approach should be explored and the risks and benefits considered. This report provides the results of the consideration given and the subsequent process taken.

Key Points

- 3.4 The proposal is that for a trial period covering one full Internal Audit cycle, being initial planning meetings through to plan completion, East Lothian and Midlothian Councils share a Chief Internal Auditor with the Service Manager – Internal Audit of East Lothian Council acting in that capacity. Costs of this post will then be shared equally between East Lothian and Midlothian Councils.

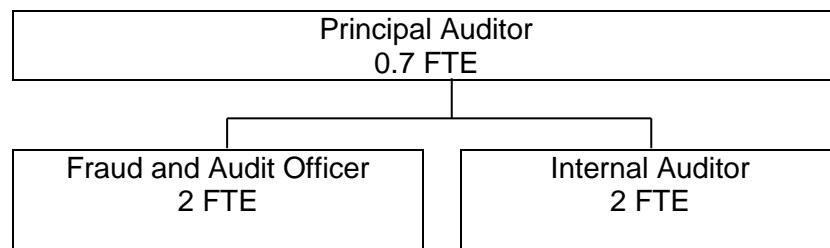
- 3.5 The trial period will run from 1 January 2023 to 30 June 2024, with regular review points scheduled throughout this period. Reviews would include the Chief Executives of both Councils, the Service Manager – Internal Audit, the Executive Director for Council Resources for East Lothian Council and the Executive Director for Place for Midlothian Council, with feedback from the Chairs of the Audit Committees.
- 3.6 The Internal Audit teams are structured as shown in the following diagrams:

East Lothian Council



East Lothian Council’s Internal Audit Unit provides services for both the Council and the East Lothian Integration Joint Board and reports administratively to the Executive Director for Council Resources, functionally to the Audit and Governance Committee and has direct access to the Chief Executive, the Section 95 Officer and the Monitoring Officer. Counter Fraud functions are undertaken as part of Internal Audit’s overall responsibilities.

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.

- 3.7 Operational oversight of the Principal Auditor within Midlothian Council would be completed by the Service Manager – Internal Audit. Formal Line management would remain within the Midlothian Council structure and staff would continue to report through their current line management structure during the trial. The Service Manager – Internal Audit will finalise all final Internal Audit reporting and planning processes across both Councils.
- 3.8 Employees would all remain under their current employment contracts with their respective Councils. There is no proposed change in the staffing structure of either Internal Audit team as part of this proposal.
- 3.9 Each Council’s Internal Audit team has a fully committed schedule of Internal Audit assignments for the 2022/23 Internal Audit year. There is no intention that where audit assignments are scheduled and capacity is available to complete, that these assignments will not be fulfilled by the staff allocated. However where

possible, consideration will be given to completing the same audit exercise across both Councils in order to improve the efficiency of the Internal Audit process.

- 3.10 A Joint Council planning approach would take place for the Internal Audit plans for 2023/24 with the intention of ensuring that where possible, joint audit assignments could be completed when the risk requirements of the Councils interact to require assurance in the same areas. Greater use of shared audit resource at planning and reporting stages of Internal Audits could then be implemented to further achieve efficiencies in the Internal Audit process.
- 3.11 Midlothian Council within the wider Internal Audit team have a specific Counter Fraud team, who as part of their function complete investigations into the matches provided through the National Fraud Initiative (NFI). The majority of the 2022/23 NFI matches will be received in January 2023, and there is scope to involve the experience of the dedicated Counter Fraud team from Midlothian Council in enhancing the efficiency of identifying the appropriate matches to investigate and complete effective investigation processes.

Benefits and Risks

- 3.12 The proposed structure and integration of the Internal Audit teams will assist in delivering the following key benefits:
- A more resilient Internal Audit team;
 - Greater capability to provide insight from across similar organisations by sharing best practice improvements across two local authorities;
 - Shared best practice planning, procedures and audit approaches across the two teams;
 - The potential for a clearer career path for team members in the future;
 - Potential for clearer specialisations amongst Internal Audit staff in the future; and
 - More efficient Internal Audit work completion.
- 3.13 CIPFA recently published “Internal Audit: Untapped Potential” based on a survey of Internal Audit staff and stakeholders across the UK public sector and supports the need to develop the benefits above. The report states that “In addition to greater integration of analytics, survey respondents identified the following approaches as being of benefit to their Internal Audit function:
- Real-time assurance
 - Sharing insight on good practice or comparisons with other organisations
 - Assurance or advice on major change
 - Identifying opportunities or efficiencies as well as control weaknesses or risks
 - Sharing information on emerging risks and issues that could impact the organisation.”

- 3.14 Sharing of resource across both Councils will enable insights and advice on good practice, major change, opportunities for efficiencies and identification of emerging risks and issues. This will provide an improved Internal Audit service across both Councils in meeting the needs of all stakeholders.
- 3.15 One of the key risks of this approach is that 50% of the time of the Service Manager – Internal Audit will be lost to East Lothian Council. However, over time as planning, reporting and management processes are synchronised between the two teams efficiencies will arise, both at Service Manager and other levels within the audit teams. The Senior Internal Auditors within East Lothian Council have previously taken on enhanced responsibilities and have the capability to complete Internal Audit assignments independently and support each other, allowing the Service Manager – Internal Audit to focus on key roles which can then be completed more efficiently across the two Councils.
- 3.16 Maintaining current budget levels will allow for temporary additional resources and training to be utilised when necessary, whilst efficiencies are realised in the short term, to ensure continued delivery of all Internal Audit services. In addition increasing the pool of Senior Audit team members, below Service Manager level, to four staff provides a greater potential for developing good practice, training and maintaining succession planning.

Finance

- 3.17 It is proposed that the costs of the Service Manager – Internal Audit will be split evenly between East Lothian and Midlothian Councils. Whilst no immediate reduction in Internal Audit budget will be recognised by East Lothian Council there is the expectation that a budget saving will be realised assuming the integration of service is finalised at the end of the trial period. Interim savings will be utilised to provide targeted support and training to ensure continuity of service.

4 POLICY IMPLICATIONS

- 4.1 None

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – As described in the paper under section 3.17
- 6.2 Personnel – Differences in use of resources as discussed throughout section 3.
- 6.3 Other – None

7 BACKGROUND PAPERS

- 7.1 None

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