

To: Finance Resources and Customer Services Policy Board

On: 13 June 2024

Report by: Director of Finance & Resources

Heading: Internal Audit

1. Summary

1.1 Internal audit teams across many councils carry resilience risks owing to their small size, composition and difficulty recruiting experienced staff. This report outlines a proposal to develop options in conjunction with neighbouring councils to address these shared resilience issues.

2. Recommendations

2.1 Members are asked to:

- (a) Note the informal discussions between Chief Finance Officers of Renfrewshire Council, Inverclyde Council and West Dunbartonshire Council with regards improving resilience within internal audit and counter fraud services;
 - (b) Agree that further development work on potential options be progressed with a further report to a future Board meeting.
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3. Background

3.1 Councils in Scotland have an obligation under the Local Authority Accounts (Scotland) Regulations 2014 to "...operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing."

- 3.2 The role of the Chief Auditor within Renfrewshire includes responsibility for internal audit and assurance, fraud prevention and investigation, risk management and insurance. To fulfil these responsibilities the Chief Auditor is supported by a relatively small team of professionals who specialise in the areas above. Total headcount in the team is 11, of which 8 support internal audit and counter fraud activity.
- 3.3 Given both the size of the team and the composition, there is some risk that – given generally accepted difficulties with the recruitment of professional audit and fraud prevention staff within local government – the resilience of the team may be an issue should the situation arise where even one or two staff leave the team. It is likely there would be an immediate impact on the service’s ability to deliver the internal audit plan as agreed by the Audit, Risk and Scrutiny Board. While this position has been acknowledged for some time, the imminent retirement of the Council’s Chief Auditor has again brought this risk into focus.
- 3.4 Renfrewshire is not alone in facing this situation, with other councils also either struggling to fill vacant posts or are carrying considerable risk due to a lack of resilience in their internal audit service.
- 3.5 Informal discussions have recently been held with the Chief Financial Officers (Section 95 Officers) of Inverclyde Council and West Dunbartonshire Council to consider these risks and to begin to explore possible options which would address the resilience issues all three councils are facing. Tentative investigation has also been undertaken to review a range of existing service configurations across the other Scottish local authorities. While many Councils continue to operate their own internal audit service, there are examples of shared services between councils. For example, West Dunbartonshire and Inverclyde councils already have an agreement in place whereby the Chief Auditor role is a shared post covering both councils, with each council retaining local teams to undertake audit and fraud activity. Aberdeen City and Aberdeenshire Councils share a single internal audit service. East and Midlothian Councils share a Chief Auditor post.
- 3.6 Specifically in relation to their internal audit service, all three councils (Renfrewshire, West Dunbartonshire and Inverclyde) have concerns regarding recruiting and retaining staff and ensuring sufficient resilience over service delivery. This has been evidenced recently by a period of absence for the West Dunbartonshire Council/Inverclyde Council Shared Service Manager for Audit & Fraud and as mentioned above, the imminent departure of our Chief Auditor.

3.7 It should be noted that no decisions with regards progressing any option have been made, with preliminary discussions focused on considering options with the opportunity to provide:

- Improved resilience
- Better career progression and staff development
- Increased satisfaction and retention of key skills
- Knowledge sharing to provide better audit and fraud outcomes for the three Councils.

It should be noted that the delivery of financial savings is not an objective of this exercise, and each Chief Financial Officer is committed to maintaining the current level of resource. It should be further noted that risk management and insurance arrangements are not being considered for including with any potential shared service.

3.8 Before any options could be more formally considered, the following issues would require to be explored:

- Responsibilities, liabilities and costs and potential benefits
- Governance and information sharing protocols
- Ensuring sufficient capacity to delivery internal audit across multiple Councils including associated bodies such as IJBs, Valuation Joint Boards and other small bodies
- Consideration of potential alignment of roles, salaries, grades and role descriptions
- Any TUPE implications (if applicable).

3.9 In order to develop any options beyond preliminary discussions there is a need to engage with the existing Internal Audit teams and other stakeholders including trade union colleagues, and also to secure professional advice in relation to legal, HR and information governance issues. The options which could be explored may include a single shared service, with a nominated lead council employing all staff in a single location; a single shared service with teams based locally in each council area; shared senior posts with local teams continuing to be employed by their respective council with no cross-council working or other options as may be appropriate.

3.10 As outlined above there are existing models of shared internal audit services in Scotland which will be examined as part of this work; and in addition, there is an existing shared service model across the three councils along with East Renfrewshire Council which delivers a civil contingencies service which may provide a model which could be considered.

- 3.11 Approval is sought to work with the teams in each of the three authorities to explore the issues outlined above, with the aim of developing a list of potential models – highlighting the associated issues, risks and benefits – for consideration at a future Policy Board.

Implications of the Report

1. **Financial:** The proposal to explore options for the development of a shared service has no immediate financial implications. The generation of savings is not an objective of this review.
2. **HR & Organisational Development:** The report recommendation in themselves have no HR implications, however should an option for any form of shared service be progressed then there may be staff implications. The development of shared services is highlighted by the Accounts Commission as a potential route for workforce innovation and will be the subject of review over the course of the upcoming Best Value audit.
3. **Community/Council Planning:** none
4. **Legal:** any consideration of a shared service would require to be underpinned by appropriate legal agreements between the three councils.
5. **Property/Assets:** *none*
6. **Information Technology:**
7. **Equality & Human Rights :** the recommendations in the report have no equalities impact, however should an option for any form of shared service be progressed, an equalities impact assessment would require to be undertaken.
8. **Health & Safety:** *none*
9. **Procurement:** *none*
10. **Risk:** the service is carrying a degree of risk currently in terms of service resilience which the development of options for improving resilience aims to address.
11. **Privacy Impact:** none
12. **Cosla Policy Position:** none arising directly from this report.
13. **Climate Risk:** none

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