
Report To:	Inverclyde Council	Date:	7 December 2023
Report By:	Chief Executive	Report No:	LS/162/23
Contact Officer:	Iain Strachan	Contact No:	01475 712710
Subject:	Future Delivery of Internal Audit Shared Services		

1.0 PURPOSE AND SUMMARY

- 1.1 For Decision For Information/Noting
- 1.2 The purpose of this report is to seek a decision from Inverclyde Council in respect of the future delivery of Internal Audit within the Council.
- 1.3 Whilst there are a variety of potential options for the future delivery of Internal Audit within Inverclyde, it is the recommendation of officers that, at least for the time being, the Council and West Dunbartonshire Council continue with the current Shared Service Manager post for Internal Audit Services, being the Council's Chief Internal Auditor. However, medium-term sustainability of the sharing arrangement with West Dunbartonshire also needs to be considered and as such it is recommended that a wider sharing arrangement, to create a larger, more resilient Internal Audit function across the "Clyde Councils" area, should be investigated further.
- 1.4 Irrespective of the recommended option there is a need to consider the future of the Shared Services Joint Committee given that Internal Audit is the only remaining shared arrangement with West Dunbartonshire Council. Given this, it is recommended that the Council agree to the winding up of the Shared Services Joint Committee.
- 1.5 The recommendations in this report have already been considered and agreed to in principle by the Shared Services Joint Committee on 23 November 2023. A report in similar terms to this report is going to the meeting of West Dunbartonshire Council on 20 December 2023.

2.0 RECOMMENDATIONS

- 2.1 It is recommended that the Council agree to the continued sharing of Internal Audit services with West Dunbartonshire Council in the short term to medium term, subject to a service level agreement being put in place between the two authorities to regularise this arrangement.
- 2.2 It is recommended that the Council agree to the winding up of the Shared Services Joint Committee, the associated Minute of Agreement and the cancellation of the Inverclyde Council Elected Member appointments to the same, all with immediate effect.

- 2.3 It is recommended that the Council delegate authority to the Head of Legal, Democratic, Digital & Customer Services to take all actions necessary to (i) finalise the terms of the service level agreement referred to above, and enter into the same on behalf of the Council and (ii) update the Council's governance documents, including the Standing Orders and Scheme of Administration, to give effect to the winding up of the Shared Services Joint Committee
- 2.4 It is recommended that the Council note that wider discussions will continue with other local authorities on possible options for a more sustainable delivery model for Internal Audit/Fraud shared services over the longer-term.

Louise Long
Chief Executive

3.0 BACKGROUND AND CONTEXT

- 3.1 A shared service model was developed between the Council, West Dunbartonshire Council and East Dunbartonshire Council in 2017, to share Roads and Transportation services. Over time, the remit was expanded to include Waste, Fleet, Grounds and Internal Audit. Further to this arrangement, the Council and West Dunbartonshire entered into a shared service agreement for the delivery of Internal Audit Services (including Corporate Fraud). The Shared Service officially started in April 2020 via the sharing of the Chief Internal Auditor (CIA) post, saving £40,000/ year. A second phase involving Fraud services was not progressed and the previously approved £20,000 saving was reversed in April 2021.
- 3.2 The Council's then Inverclyde CIA took on the shared post and transferred to West Dunbartonshire Council and the two authorities agreed a cost sharing formula made up of a fixed element and a management element based on the number of employees at that time. The outcome of this is that any shared costs (effectively the CIA salary) are shared 41.6% Inverclyde/58.4% West Dunbartonshire.
- 3.3 East Dunbartonshire Council did not pursue participation in the shared service arrangements and formally withdrew from the Shared Services Committee in January 2022.
- 3.4 An independent evaluation of Shared Services was jointly commissioned in October 2022 by the Council and West Dunbartonshire Council, to consider the future of the shared service model. The review undertaken by MVA Economics in early 2023 highlighted a number of positives, as well as a number of negatives, however concluded that the current model was unsustainable.
- 3.5 In relation to the delivery of Internal Audit services specifically, the evaluation highlighted that there are a number of different considerations and there are examples in other Scottish local authorities where a shared service arrangement is understood to work well. The evaluation did, however, note underlying weaknesses in the current arrangements especially in terms of staff capacity. The report also recommended that consideration be given to moving to a Lead Authority Model.
- 3.6 At its meeting on 18 April 2023, the Shared Services Joint Committee agreed to discontinue the joint approach in the Roads, Waste, Fleet and Grounds areas of operation, whilst seeking a further report in respect of the Internal Audit service. On 4 May 2023 Inverclyde Council confirmed its agreement to this approach, West Dunbartonshire Council doing likewise. A link to that report is included here:-
<https://www.inverclyde.gov.uk/meetings/meeting/2555>

4.0 PROPOSALS

- 4.1 There are a variety of potential options for the future delivery of Internal Audit within the Council. As previously reported to the Council in May 2023, officers have considered potential options for future delivery of Internal Audit services, this work having been included within the Policy & Resources Delivering Differently Programme. This work has concluded, and the Corporate Management Team has assessed an options appraisal in respect of them. Having done so, it is clear that unless the Council is able to move to a model that provides greater staff capacity and resilience, then any option taken will, at best, only be suitable for the short to medium-term. In particular, whilst a Lead Authority model does offer potential benefits, it is considered that without greater scale, i.e. beyond Inverclyde and West Dunbartonshire Councils, it would likely still not be in the Council's best interests to move to that.

- 4.2 Recognising the more immediate staff capacity challenges within the Council’s Internal Audit/Corporate Fraud team, responsibility for operational and strategic risk management advice has already been removed from the CIA. As reported to the Audit Committee on 24 October, a new Corporate Risk Adviser post has been created and is currently being recruited to, to provide the operational advice and support that is required to further embed risk management across the Council/IHSCP. The updated Risk Management Strategy was also approved by the Policy & Resources Committee on 21 November 2023. Links to both of those reports are included here:-
<https://www.inverclyde.gov.uk/meetings/meeting/2594>
<https://www.inverclyde.gov.uk/meetings/meeting/2608>
- 4.3 With this action having been taken, and having considered the possible alternative options, the Corporate Management Team consider that the current shared internal audit arrangements with West Dunbartonshire Council should continue, i.e. the shared CIA post. However, the medium-term sustainability of this arrangement remains, at best, uncertain. Given this, and recognising the need to identify a model which has the resilience and officer capacity that the Council requires, it is recommended that a wider sharing arrangement to create a larger, more resilient Internal Audit function across the “Clyde Councils” area should be investigated.
- 4.4 Irrespective of the service delivery model adopted moving forward there is a need to consider the future of the Shared Services Joint Committee given that Internal Audit is the only remaining shared arrangement with West Dunbartonshire Council (and in practical terms is only overseeing the sharing of the above-mentioned shared post). Given this, it is recommended that the Council agree to the winding up of the Shared Services Joint Committee, the associated Minute of Agreement and the cancellation of the Inverclyde Council Elected Member appointments to the same, all with immediate effect.
- 4.5 If the proposals in this report are approved, then officers will take forward discussions with other local authorities around the creation of a wider shared internal audit arrangement. The outcome of those discussions will be reported to a future meeting of the Council.
- 4.6 The recommendations in this report have already been considered and agreed to in principle by the Shared Services Joint Committee on 23 November 2023. A report in similar terms to this report is going to the meeting of West Dunbartonshire Council on 20 December 2023. A link to the Shared Services Joint Committee report is included here:-
<https://wdccmis.west-dunbarton.gov.uk/cm5/Meetings/tabid/73/ctl/ViewMeetingPublic/mid/410/Meeting/9276/Committee/570/SelectedTab/Documents/Default.aspx>

5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO
Financial	x	
Legal/Risk	x	
Human Resources	x	
Strategic (Partnership Plan/Council Plan)	x	
Equalities, Fairer Scotland Duty & Children/Young People’s Rights & Wellbeing	x	
Environmental & Sustainability		x
Data Protection		x

5.2 Finance

The financial implications will vary depending on the option progressed. Based on the recommendations in this report the financial implications are as follows:

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
-		-	-		-

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
Internal Audit	Employee costs	2023/24	£60k (tbc)		Cost of Grade 9 RM post
			£(30k)		50% contribution from the HSCP
Legal Services	Recharge	2023/24	£(30k)		Recharge to the Insurance Fund

5.3 Legal/Risk

There are a number of legal and risk implications from this report, including from a contractual, employee and operational perspective. The discussions that have been undertaken to date with West Dunbartonshire Council, and through the Shared Services Joint Committee, will enable both authorities to withdraw from and adapt the remaining shared services arrangements in a manner that still enables both to meet their regulatory obligations and duties as employers, and do so in an open and transparent manner. Moving forward, it is considered that the proposals will provide continuity of service delivery, and address some of the current issues around resilience and workforce capacity. The current Minute of Agreement that regulates the shared services arrangements provides for at least an 18 month notice period should one party wish to withdraw, with that party also being responsible for the costs associated with such withdrawal, including severance costs. Despite this, through the above-mentioned discussions, this notice period will not be required, and each authority will also each meet their own costs. As noted elsewhere, if the recommendations in this report are approved the existing governance arrangements will be dissolved and replaced with a new Service Level Agreement in respect of the shared CIA post.

Separately, action is already being taken to enhance the risk management activity across the Council/IHSCP as referred to in this report. The proposals outlined in this report will also support the continued delivery of Internal Audit/Corporate Fraud services, whilst an alternative model for the longer-term delivery of these services is explored.

5.4 Human Resources

There are a number of HR implications arising out of this report, but the directly affected Council staff, the trades union and the CIA have been spoken to and consulted as part of this assessment and the preparation of this report.

5.5 Strategic

The Shared Service arrangement with West Dunbartonshire was a significant strategic decision, but has been effectively unwound already, and Internal Audit remains the only aspect still operating. The proposals in this report will help support the delivery of Council's strategic objectives in the Council Plan (2023-28), in particular Theme 3 – Performance, and ensuring the Council provides high quality and innovative services, giving value for money, and that the Council's employees are supported and developed.

6.0 CONSULTATION

6.1 West Dunbartonshire Council are understood to be in agreement with the proposed approach, as are the Council staff who are affected most directly by this. The Council Trades Union representatives are also supportive.

7.0 BACKGROUND PAPERS

7.1 None