

Report of the Chief Executive

Internal Audit

Purpose of Report

1. This report seeks the Committee's views on the draft Executive report attached at annex one regarding the new internal audit services contract for the period 2020-30.

Recommendation

2. Audit and Governance Committee is asked to
 - provide any further views to feed into the Executive

Reason for recommendation:

To seek the views of Audit & Governance Committee on the proposal to provide a value for money internal audit and counter fraud function to the Council.

Background

3. Members of this Committee are aware that the Councils internal audit and counter fraud function is provided by Veritau, a company jointly owned with North Yorkshire County Council.
4. The main services provided by Veritau are internal audit and counter fraud. The original contract was for 10 years (with options to extend by a further five years) and was due to end on 31 March 2019. In March 2018 the Chief Executive made an officer decision to extend the contract by 1 year to take the Council through to 31 March 2020.
5. Veritau was formed for the primary purpose of delivering and enhancing assurance services provided to the shareholding councils. To fulfil this aim the council relies upon the Teckal exemption which enables us to procure these services directly from Veritau without tendering. This also enables control over the delivery of services. The new arrangement would continue to comply with Teckal arrangements as set out in the Public Contracts Regulations 2015.

Analysis

6. The draft Executive report is attached as an annex and sets out the rationale for the original creation of the shared service, along with information on costs, benchmarking and alternative options.
7. As Members of this Committee are aware, Veritau have recently had an external assessment. The outcome of this assessment is reported elsewhere on this agenda.

Further analysis in addition to previous report

8. At the December meeting Members of the Committee requested some further analysis to be undertaken in the following areas;
 - Costs and implications of alternative options
 - Results of external assessment of internal audit
 - Management arrangements at other councils
 - Further consideration of proposed contract length
9. More work has been done to estimate the potential costs of the alternative options and the draft Executive report now includes a table of the options with the costs, advantages and disadvantages listed more clearly (paragraph 33).
10. The results from the external assessment are included in a report elsewhere on this agenda and are summarised in the draft Executive report (paragraph 26).
11. Information on management arrangements at other councils has been shared with committee members and a summary is shown in the table below.

Yorkshire & Humber	Number of councils
Shared service	9
Internal	11
Reporting to:	
S151	20

English Unitaries	
Shared service	17
Internal	30
External provider	3
Reporting to:	
S151	43
Chief Exec	4
Not known	3

12. Members are reminded that the council's section 151 officer is responsible, under the Local Government Act 1972, for ensuring that there are arrangements in place for the proper administration of the council's financial affairs. The work of internal audit is therefore an important source of information for the Director in discharging their statutory duties. Professional guidance issued by CIPFA requires the provision of an effective internal audit function to fulfil the responsibilities under section 151 of the Local Government Act 1972.
13. Since the last report, the Chief Executive has progressed with a restructure of the Customer and Corporate Services directorate and has received initial approval from Staffing Matters & Urgency Committee to implement a revised corporate services management structure. The proposals will ensure that the Corporate and Customer Services of the Council are effective and resilient to support frontline services and are responsive to addressing future financial, governance and customer challenges to ensure we continue to deliver improved outcomes for residents and communities.
14. The restructure will strengthen governance arrangements and include a separation of functions between the statutory roles in the Council. A separate report will be brought to Audit & Governance Committee on the controls and assurances that will be in place within any new structure.
15. In relation to the proposed contract length of 10 + 5, benchmarking with other shared services has identified that there is no particular standard or usual contract length. Of the 12 shared service models examined, 9 either had no

time limit or were on a rolling agreement and the remaining 3 had agreements for either 3, 5 or 6 years all with options to extend.

16. The 10 + 5 agreement is proposed both to be consistent with the other councils within the current shared service and to give Veritau, as a small local supplier, some certainty and to allow the company to plan business activity over a longer period. It is worth noting that the council can withdraw from the service at any time by giving 12 months notice.

Implications

Financial Implications

17. The annual budget for internal audit and fraud services is £566k. The service specification outlined in annex 1 can be delivered within this approved budget.

Human Resources (HR)

18. There are no HR implications.

Legal

19. The Council can make a direct award to Veritau Ltd without undergoing a procurement process while it remains a Teckal compliant company. This requires the Council to exercise similar control over the company as it does over its own departments, that at least 80% of the activities of the company are those entrusted to it by the shareholding Councils and that there is no direct capital participation from the private sector in Veritau.

Other

20. There are no other One Planet Council, equalities, crime and disorder, information technology, property or other implications.

Risk Management

21. An assessment of risks has been completed and there are no significant risks to highlight.

Contact Details

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	report:		
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	Report Approved	✓	Date 28 Jan 2019
Wards Affected: <i>All</i>			
<i>For further information please contact the author of the report</i>			

Annex 1 – Draft Executive Report and service specification