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<b>PART B:</b>	<b>RECOMMENDATIONS TO COUNCIL</b>
<b>REPORT TO:</b>	<b>POLICY AND RESOURCES COMMITTEE</b>
<b>DATE:</b>	<b>29 SEPTEMBER 2011</b>
<b>REPORT OF THE:</b>	<b>CORPORATE DIRECTOR (s151) PAUL CRESSWELL</b>
<b>TITLE OF REPORT:</b>	<b>PROVISION OF INTERNAL AUDIT SERVICES</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 The purpose of this report is to inform Members of developments regarding the future provision of the Internal Audit service and to seek approval to the business case proposing a merger of the NYAP with Veritau (a company set up by North Yorkshire County Council and the City of York to provide their Internal Audit service), through the establishment of a new company.

### **2.0 RECOMMENDATIONS**

- 2.1 That Council is recommended to approve:
- (i) the Business Case for the provision of an Internal Audit Service from the 1 April 2012;
  - (ii) Delegate authority to the Council Solicitor to conclude the legal contract for the Council to be stakeholders in Veritau (North Yorkshire) Ltd a subsidiary of Veritau Ltd. The subsidiary company will be a regulated company under the terms of the Local Authorities (Companies) Order 1995;
  - (iii) Note that the Corporate Director (s151) will agree a service level agreement with Veritau (North Yorkshire) Ltd for the provision of Internal Audit Services for the financial year commencing April 2012; and
  - (iv) Appoint the Council's Corporate Director (s151) as the Council's Director to the Board of Veritau (North Yorkshire) Ltd.

### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 To ensure that the Council continues to receive a comprehensive and effective Internal Audit Service.

## **4.0 SIGNIFICANT RISKS**

- 4.1 The key risk relates to whether all current partner Councils of NYAP (5 Councils) agree to the proposed merge. Should one or more Councils elect not to support the merger, then it puts the business case and the proposal at risk. Progressing without the full support of all Councils will lead to significant complications, in particular TUPE transfers and future staff provision to operate the service. In mitigation of this risk, the proposed merger has the support of all the Council's Chief Financial Officers and the backing of the NYAP Board (subject to the approval of the business case)

## **REPORT**

### **5.0 BACKGROUND AND INTRODUCTION**

- 5.1 The Accounts and Audit Regulations require all Councils to provide an adequate and effective Internal Audit function. The current North Yorkshire Audit Partnership agreement ends on the 31 March 2012. The business Case attached at Annex A outlines the background to the formation of the North Yorkshire Audit Partnership.
- 5.2 Each of the Partner Councils to NYAP (Scarborough, Ryedale, Selby, Hambleton and Richmondshire) will be considering the future of their internal audit service with the requirement to establish new procedures to be in place by April 2012. It is important for the benefit of an efficient and effective Audit Services that the Council Partners respond collectively.
- 5.3 The 'in principle' decision to merge with Veritau has been endorsed by both the NYAP Board, which has two Members of this Council on the Board (The Chairman of Policy and Resources Committee and the Chairman of the Overview and Scrutiny Committee), the Councils Chief Financial Officers as well as this Committee at its meeting on the 9 December 2010 where it was resolved that:  
'members note the progress and support in principle the merger of NYAP with Veritau effective from the 1 April 2012 subject to a satisfactory business case.'

### **6.0 POLICY CONTEXT**

- 6.1 The proposed merger is a change in Council Policy for the mechanism of delivery of Internal Audit.

### **7.0 CONSULTATION**

- 7.1 The proposed merger has been subject to consultations with the NYAP Board, The Councils, the Chief Financial Officers and staff.
- 7.2 Extensive discussion and consultation has taken place with the staff of NYAP over the last 12 months; joint 'away days' with Veritau staff have taken place, and continue to be scheduled. The general consensus is that the proposed course of action does provide optimum opportunity and security of employment for NYAP staff given all the pertaining circumstances that face Local Government at the present time.
- 7.3 Initial discussion and consultation has taken place with staff union representation, and their initial view is aligned with that of the staff. TUPE transfer issues have been considered and discussed with the staff.

## **8.0 REPORT DETAILS**

- 8.1 The present Partnership Agreement runs to 31 March 2012. The Council must determine its future method of providing an Internal Audit function as required under the 1972 Local Government Act, and the Accounts & Audit Regulations.
- 8.2 The attached Business Case provides an assessment of the main alternatives for the Council. These are: -
- NYAP to continue to the end of the current Partnership Agreement (31/3/2012) and thereafter each Partner Council procures their own Internal Audit service.
  - Outsource completely as a group of 5 Councils to the private sector
  - Continue with NYAP; all 5 partners; and new agreement from 1/4/2012
  - NYAP merge with Veritau
- 8.3 The Business Case has been considered, in principle, by the Partnership Board, and discussed in detail by the s151 officers of the Partner Councils.
- 8.4 Entering into a company arrangement will create a larger entity, which is beneficial not just to the Council, but importantly, to the staff too. The larger body will be better placed to develop and hone specialist audit techniques which will be required for future internal audit work. The larger entity will also give staff the opportunity to develop their skills, and acquire qualifications that will give them greater chance of promotion within a larger group.
- 8.5 It also, significantly, addresses the key issues facing NYAP; the potential loss of key staff; the Head of the Partnership being now eligible to retire, and with neither Audit Manager professionally (CCAB) qualified restricting their ability to step up into that role, and an ageing profile of staff, resulting in stultification of the workforce.
- 8.6 It also provides greater resilience to absorb the anticipated reductions in demand and budget for Internal Audit services over the forthcoming years. In a small team this would be more difficult to achieve without compulsory redundancies and associated costs for the Councils.
- 8.7 The merger delivers cost savings as set out in the Business Case, and whilst these are not significant, they contribute to the overall need to find savings for the Budget in 2012/13. All other options for Internal Audit provision would almost certainly cost more for Ryedale.

## **9.0 IMPLICATIONS**

- 9.1 The following implications have been identified:
- a) Financial  
Ryedale District Council is presently host to the North Yorkshire Audit Partnership and therefore the financial position is different to other authorities in that current support service charges to the Partnership will be lost as income to the council, currently £xxx p.a. This charge relates primarily to Financial Services and a service review of this service will seek to mitigate this loss of income.
- b) Legal  
The legal form, setting up a company is lawful within Local Government legislation, and meets all EU procurement requirements.  
The subsidiary company will be a regulated company under the terms of the Local Authorities (Companies) Order 1995. Regulated companies are those

classed as either being 'controlled' or 'public sector influenced' by a local authority. The subsidiary company falls within the definition of a 'public sector influenced' company and must therefore comply with a number of specific governance and accountability rules, including;

- identifying the relevant local authorities on business documents;
- limiting Directors' remuneration;
- removing Directors who are disqualified as councillors;
- prohibiting party political publicity; and
- requiring the provision of certain information to the local authority's Members, officers and auditors.

The Districts have equal representation on the proposed subsidiary company.

c) Other

The significant other issues relate to staffing matters which have been detailed within the business case and have been subject to consultation.

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**Background Papers:**

None.