



PART A:	MATTERS DEALT WITH UNDER DELEGATED POWERS
REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	9 DECEMBER 2010
REPORT OF THE:	CORPORATE DIRECTOR (s151) PAUL CRESSWELL
TITLE OF REPORT:	INTERNAL AUDIT
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 This report sets out a proposal for the future provision of Internal Audit at Ryedale District Council and to secure committee agreement to the principle of merger of the North Yorkshire Audit Partnership (NYAP) with Veritau Limited effective at the end of the present partnership agreement on 31 March 2012. Veritau is a company wholly owned by North Yorkshire County Council and the City of York Council for the provision of internal audit and fraud services.

2.0 RECOMMENDATION

- 2.1 It is recommended 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.

3.0 REASON FOR RECOMMENDATION

- 3.1 This report updates members on officer discussions on the provision of internal audit services to the current NYAP partner Councils. This matter has already been discussed at the Partnership Management Board. Final decision on future service delivery will be a decision of Full Council.

4.0 SIGNIFICANT RISKS

- 4.1 There are no risks in considering this recommendation. Full risk assessment will form part of any business case to proceed.

REPORT

5.0 BACKGROUND AND INTRODUCTION

- 5.1 All Councils are required to have internal audit (IA); the method of service provision is for the individual council to determine. Ryedale were in the vanguard of councils providing IA through collaborative means. The North Yorkshire Audit Partnership was created in 1999 using existing provisions of the Local Government Act 1972.
- 5.2 Initially this was for the three councils: Ryedale, Scarborough and Selby. More recently it expanded and now also incorporates Hambleton and Richmondshire Councils.
- 5.3 The current Partnership agreement runs to the 31 March 2012. The Partnership operates as a semi-autonomous trading concern managed by the Partnership Management Board which has representation from all the Partner Councils.
- 5.4 The partnership has delivered significant savings to all partner authorities over the years, together with providing a more comprehensive, resilient and expert service than could be achieved by each Authority on their own. It is not considered that further significant efficiencies are possible with the service in its present form, with over 90% of costs being staff related.
- 5.5 RDC currently pays £62,275 for its internal audit service, this presently represents 265 audit days. Regular benchmarking has identified this charge is below that which would be achieved if the service were outsourced to the private sector. The Chief Finance Officer has responsibility for the proper administration of the financial affairs of the Council and a duty to ensure that there is an adequate system of internal control. It is the Chief Finance Officer who determines the level of audit provision for the Council.
- 5.6 North Yorkshire County Council and City of York Council currently procure their internal audit service from Veritau. Veritau is a company wholly owned by the two Councils. It operators autonomously, however the Board representation is from the two councils. It employs staff directly, procuring support services from the two Councils. Veritau staff were, in the main, transferred from the two Authorities under TUPE. Veritau has admitted body status to the North Yorkshire pension scheme. It has 38 employees (plus a further 4 trainees who are seconded from the two Authorities) and operates across the whole County. The company also provides internal audit services under contract to a number of other public sector bodies.

6.0 POLICY CONTEXT

- 6.1 Merger with Veritau would represent a policy change and would be a decision for Full Council at the appropriate time. The matter would be considered by the Policy and Resources Committee prior to Council.

7.0 CONSULTATION

- 7.1 Consultation has been undertaken with the relevant client and management staff in all the partner councils to NYAP. Their views support the merger of NYAP into Veritau and all would be protected under TUPE regulations.
- 7.2 All the staff of the Partnership (and Veritau) have been involved in discussions and are working jointly on the business case to create the expanded Veritau.

8.0 REPORT DETAILS

- 8.1 Whilst the provision of Internal Audit through the partnership route has delivered savings to the Council, the current economic environment and spending review predictions dictate that all areas of spend need to be scrutinised to identify potential efficiencies. The scope within the existing partnership for further savings is limited, with 90% of spend being staff related costs.
- 8.2 The current five Authority partnership agreement ends in 2012 and in accordance with that agreement a review of potential service delivery options is underway at officer level, with the approval of the Partnership Board.
- 8.3 There are potential for economies of scale in the delivery of internal audit, however Craven District Council and Harrogate Borough Council have both indicated that they do not want to join a partnership at this time. Officers have therefore engaged with Veritau to identify whether the district councils could join the company and deliver cashable efficiency savings.
- 8.4 A merger would allow the benefits of a larger team. Authorities would have access to staff with wider experience and who have professional and sector specific training. For the staff of NYAP transferring to Veritau this represents an opportunity to develop their skills in a team that has sufficient work volumes and career development chances for all. Remaining in NYAP will limit those opportunities and, as the Partnership has already experienced, results in staff retention issues.
- 8.5 Access to audit management software which is currently used by Veritau will improve the efficiency of audit reporting, especially the follow up aspects which are becoming increasingly important. Veritau, being larger, is better placed to absorb the potential changes in the demand for internal audit work that may ensue as a result of spending cuts.
- 8.6 The quality and innovation of Veritau has been recognised in their success in winning the Cliff Nicholson award, the national award for Internal Audit excellence and innovation. Furthermore they are currently pursuing IIP accreditation to further reinforce their current robust internal management and customer care procedures.
- 8.7 This option also retains for Ryedale (and the other Partner Councils to NYAP) control and influence over the company and the services it provides to its owners. Any surpluses that are generated will be owned by the company for the benefit of its shareholders, the Councils. In a contracting environment any private sector firm seeking to provide IA services will have the requirement to make profits which would not benefit Ryedale.
- 8.8 Work is ongoing with Veritau to produce a detailed business case and proposals for the Authorities as part of a potential merger. A further report for decision would be brought before members at the appropriate time.

9.0 IMPLICATIONS

- 9.1 The following implications have been identified:
- a) Financial
There are no significant financial issues in considering this report.
 - b) Legal

There are no significant legal issues in considering this report. The Council solicitor is included in the team considering the form and substance of the proposed agreement for the NYAP to merge with Veritau.

c) Other

There are no significant other issues in considering this report.

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Background Papers:

None.