



# **Future provision of the Internal Audit Service**

Decision to be taken by: City Mayor  
Decision to be taken on: 22 July 2024  
Lead director: Amy Oliver

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## Useful information

- Ward(s) affected: None specific
- Report author: Colin Sharpe, Head of Finance
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### 1. Purpose of report

- 1.1 The purpose of this report is to seek the necessary formal approvals to enable the Council to join Veritau Public Sector Ltd which will provide the internal audit service, and to withdraw the formal delegation to the present provider Leicestershire County Council.

### 2. Summary

- 2.1 The Director of Finance has a statutory duty to ensure that an effective internal audit service is delivered to the Council.
- 2.2 In 2017, the City Council's Internal Audit function was formally delegated to Leicestershire County Council. The County Council's Head of Internal Audit and Assurance acts as the City's Head of Internal Audit and his team provides the City's internal audit function.
- 2.3 The Director of Finance concluded last year that in the interests of best meeting her statutory duty in the context of the very significant challenges facing the Council over the coming years, the future arrangements for the provision of internal audit services should be reviewed.
- 2.4 Following research and evaluation, Veritau has been selected to provide the internal audit service. This is a shared service group operated by local authorities in Yorkshire and North East England. The City Council would become a member of Veritau Public Sector Ltd and then contract with the company for the internal audit service.
- 2.5 Veritau is presently expected to become the City's internal auditor from 1 August 2024, although this remains dependent upon the date at which several key processes and agreements all reach fruition.

### 3. Recommendations

- 3.1 It is recommended that the Executive:
- a) Notes the intention of the Director of Finance to appoint Veritau Public Sector Ltd as the City's internal audit provider.
  - b) Approves the Council becoming a member of Veritau Public Sector Ltd (a private company limited by guarantee without share capital), subject to the

City Barrister and Head of Standards and the Director of Finance being content with the detailed terms and risk assessment.

- c) Approves the business case for Veritau Public Sector Ltd, supporting the Council's exercise of s95 of the Local Government Act 2003 (undertaking commercial activities).
- d) Approves the formal withdrawal of the delegation of the internal audit service to Leicestershire County Council, from 1 August 2024, or such later date as determined by the Director of Finance; and in a form approved by the City Barrister and Head of Standards.
- e) Approves the Council providing indemnities to North Yorkshire Council and City of York Council regarding Veritau Public Sector Ltd being a community admission body to the North Yorkshire Local Government Pension Fund, subject to the Director of Finance being content with the detailed terms.

#### **4. Background**

- 4.1 In 2017, the City Council's Internal Audit function was delegated to Leicestershire County Council. The County Council's Head of Internal Audit and Assurance became the City's Head of Internal Audit Service for governance purposes.
- 4.2 The City developed a new internal audit 'client role', undertaken by a Head of Finance, within the strategic direction set by the Director of Finance. Consideration and decisions with regards to the findings of the Internal Audit Service remained with the City Council.
- 4.3 The Director of Finance concluded last year that in the interests of best meeting her statutory duty in the context of the very significant challenges facing the Council over the coming years, the future arrangements for the provision of internal audit services should be reviewed.
- 4.4 Following research and evaluation, Veritau has been selected to provide the internal audit service. Veritau is a shared service group operated by unitary local authorities in Yorkshire and North East England. It provides audit and assurance services to over 600 public sector organisations in the region and beyond. Its aim is to provide highly regarded services which add value for clients and are competitive in price. It was formed in 2009, and over the years has expanded its membership and client base.
- 4.5 The required contractual notice to terminate the existing arrangement was served upon the County Council in December 2023, which has subsequently been extended by agreement. A formal Executive Decision to withdraw the delegation is, however, also required.
- 4.6 In May 2024, as the discussions with Veritau reached an advanced stage, the Council, Veritau Ltd, City of York Council and North Yorkshire Council signed a Heads of Terms and a Confidentiality Agreement. Whilst the Heads of Terms formally expresses the shared intentions and aspirations for the future service, there is no legally binding commitment.
- 4.7 The Governance and Audit Committee has received reports on the review.

## **5. Proposed arrangement with Veritau Public Sector Ltd**

- 5.1 The Council would become a member of Veritau Public Sector Ltd, which is a private company limited by guarantee without share capital. Payment of a one-off membership fee of £20,000 will be required.
- 5.2 The Council would then contract with the company for internal audit services. A Veritau senior manager would be nominated as the Council's Head of Internal Audit Service. The Council could purchase other assurance services as and when required.
- 5.3 Veritau Public Sector Ltd is newly registered, following a significant review and updating of the Veritau company structure and operating arrangements. Its founding members are three unitary councils – Redcar and Cleveland, City of York and North Yorkshire. These councils, or in the case of North Yorkshire the pre-unitary district councils, have been the core of the Veritau shared service. Middlesbrough Council (also a unitary) has also been part of the shared service for some time and is expected to become a member of the company soon, along with Cherwell District Council which together with Leicester is a new client.
- 5.4 The company is structured to be 'Teckal' compliant, meaning that its public sector members can in turn contract for services without the need for a formal competitive procurement procedure. The company expects to remain compliant when the Procurement Act 2023 comes into effect later in the year, replacing the European Union 'Teckal' regime.
- 5.5 The Council will play a part in the governance of the company, for example, the appointment of a director to the Board and/or the appointment of a representative to the Members' Committee. These appointments would be confirmed by the Chief Operating Officer.
- 5.6 To take up membership of the company, the member councils will rely on their general trading powers as set out in s95 of the Local Government Act 2003 and s4 of the Localism Act 2011. The s95 power allows the Council to undertake any commercial activities which it would otherwise be authorised to undertake for the purpose of performing its ordinary functions. The Council is required to formally approve a business case supporting the exercise of this power, which is attached at Appendix 1.
- 5.7 Work for the many smaller clients of Veritau who are not members of the company will continue to be conducted through a separate company, Veritau Ltd. This is a private company limited by shares, owned by the City of York and North Yorkshire councils, which will become the 'trading arm' of the shared service brand. Veritau Public Sector Ltd will supply chargeable staff and other resources to Veritau Ltd, within the permitted threshold for the 'Teckal' status to be maintained (generally not beyond 20% of total revenues).
- 5.8 Internal Audit staff are expected to transfer from Leicestershire County Council to Veritau Public Sector Ltd, under the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations. They will maintain their Local Government Pension Scheme membership and rights. The City Council will need to ensure

pension protection to allow continued access to the LGPS for any original transferring employees who previously transferred from the City Council to the County Council.

- 5.9 The City Council will be required to provide indemnities to North Yorkshire Council and City of York Council regarding Veritau Public Sector Ltd being a community admission body in the North Yorkshire Local Government Pension Fund.

#### Starting the new internal audit service

- 5.10 Veritau Public Sector Ltd is presently expected to become the City's internal auditor from 1 August 2024, although this continues to be dependent upon the date at which several key processes and agreements all reach fruition.
- 5.11 Officers have supplied Veritau senior officers with a range of information and links to documents to enable them to develop the internal audit plan for the remainder of 2024/25 following the transfer and the medium to longer term plan. This will include audits to start immediately following the transfer.
- 5.12 Arrangements are being made to drive a renewed focus on internal audit within the Council to drive maximum value from the new partnership with Veritau. This will include establishing a strong working relationship between Veritau, the Governance and Audit Committee and the Corporate Management Team.

## **6. Financial, legal and other implications**

### 6.1 Financial implications

- 6.1.1 The ongoing payment to Veritau Public Sector Ltd for core internal audit services is expected to be within the current annual budget of £280,000, notwithstanding future inflationary effects. Payment of a one-off membership fee of £20,000 will also be required.
- 6.1.2 The planned change of provider is, however, not primarily driven by a desire for cost savings, although opportunities to achieve savings and/or minimise cost increases will of course be seriously considered. For example, in the longer term, there could be opportunities to review the number of audit days and the provider's audit methods, considering the Council's activities and wider governance arrangements.
- 6.1.3 Before entering into the Members' Agreement to become a member of Veritau Public Sector Ltd, any significant financial risks will be identified and evaluated. The key risks are expected to be the company incurring an operating loss or being the subject of an uninsured claim. The Services Agreements (for the provision of services such as internal audit) will limit the potential size of any such claims from members as clients. Members' liability in the unlikely event of the company ceasing to trade due to insolvency will be limited to no more than £10. Any significant risks that may arise from the pension indemnity will also be considered.

6.1.4 The company will not have any liability for the affairs of Veritau Ltd (the 'trading arm') which is separately owned, other than in connection with the supply of chargeable staff and other resources.

Kirsty Cowell, Head of Finance, ext. 37 2377

## 6.2 Legal implications

6.2.1 The Director of Finance as the City Council's finance officer under s151 of the Local Government Act 1972 has a statutory duty to ensure that an effective internal audit service is delivered to the Council. This is presently achieved through a delegated function model with Leicestershire County Council.

6.2.2 The report sets out how the Director of Finance is progressing the engagement of a new provider of the internal audit service, namely Veritau Public Sector Ltd.

6.2.3 The Executive is asked to take a formal decision to end the present delegation at the appropriate time (unless the County Council takes such a decision earlier, in which case the delegation would end, rendering unnecessary a City Council decision).

6.2.4 It is recommended that the legal structure adopted follows the *Teckal (or vertical)* exemption allowing for a direct award without need for a formal procurement. Further legal advice will be obtained on the terms of the proposed agreement.

6.2.5 The Council will become a member of Veritau Public Sector Ltd, a company limited by guarantee. To establish the new company structure, the member councils would rely on their general trading powers as set out in Section 95 of the Local Government Act 2003 and Section 4 of the Localism Act 2011.

6.2.6 Section 95 of the Local Government Act 2003 allows the Council to undertake commercial activities which it would otherwise be authorised to undertake for the purpose of performing its ordinary functions. Section 4 of the Localism Act 2011 confers a general power on local authorities to undertake any commercial activities which they would be authorised to do in the exercise of their general power of competence. Where a local authority relies on these general trading powers then they must do so through a company. These powers also prescribe which company structures may be used, which include companies limited by shares and by guarantee.

6.2.7 The Council must approve a business case supporting the exercise of the Section 95 power, under the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009. The business case attached to this report is deemed to satisfy this requirement.

6.2.8 Further detailed advice is available to the client department upon request.

### 6.2.9 Employment Law implications

The transfer of the City Internal Audit Service to a new provider is expected to be a relevant transfer for the purposes of the TUPE Regulations.

Those staff employed by the County Council immediately before the transfer to carry out the work on the City Council's behalf would transfer under TUPE arrangements to the new provider. The employees' terms and conditions at the point of transfer would be protected and their continuity of service preserved in accordance with the requirements of TUPE. The County Council as the present employer and the new provider will be responsible for ensuring compliance with the Regulations.

If any of those employees have previously transferred from the City Council, then the City Council will need to ensure second-generation pension protection provided for those previously transferred employees only.

It is noted that the views of the County Council as the current provider as to the scope and applicability of the TUPE Regulations have been received and provided to the potential new provider.

Kamal Adatia, City Barrister & Head of Standards, ext. 37 1401  
Julia Slipper, Principal Lawyer (Employment & Education), ext. 37 6855

### 6.3 Climate Change and Carbon Reduction implications

There are no significant climate emergency implications directly associated with this report.

Aidan Davis, Sustainability Officer, ext. 37 2284

### 6.4 Equalities Implications

The primary role of the Internal Audit Service is to objectively examine, evaluate and report on the adequacy of the Council's internal control environment as a contribution to the proper, economic, efficient and effective use of resources and the management of risk. Having a good internal audit service is essential to ensure all Council services are properly controlled and corporate objectives met. There are no issues in relation to these arising directly from this report.

Equalities Officer, Surinder Singh, ext. 37 4148

### 6.5 Other Implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

None

## 7. **Background information and other papers:**

Delegation of the City Council's Internal Audit Function and Provision to Leicestershire County Council – City Mayor individual decision, 12 January 2017.

Future provision of the Internal Audit Service – Governance and Audit Committee, 22 November 2023.

Future provision of the Internal Audit Service – Governance and Audit Committee, 18 April 2024.

Future provision of the Internal Audit Service – Governance and Audit Committee, 10 July 2024

## **8. Summary of appendices:**

**Appendix 1** - Business Case for the Council taking up membership of Veritau Public Sector Ltd. **Not for Publication.**

## **9. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?**

The general covering report is not confidential, but the specific financial details in Appendix 1 are considered to be exempt from publication. This is exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. Appendix 1 is therefore marked “Not for Publication”.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the Authority holding that information).

## **10. Is this a “key decision”?**

No.

## **11. If a key decision please explain reason**