



CORPORATE GOVERNANCE COMMITTEE
17 FEBRUARY 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**DISCHARGING THE CITY COUNCIL'S INTERNAL AUDIT
FUNCTION**

Purpose of Report

1. The purpose of this report is to: -
 - a. Inform the Committee that Leicester City Council (the City Council) has decided to: -
 - i. delegate its internal audit function to Leicestershire County Council (the County Council), and,
 - ii. transfer its general internal audit staff to the County Council, resulting in the County Council delivering an internal audit service to both Councils
 - b. Seek the approval of the Committee to recommend to meetings of the Cabinet and full County Council in March, that the delegation and transfer should be accepted.

Background

2. Section 151 of the Local Government Act 1972, states that every local authority should '*make arrangements for the proper administration of their financial affairs, and shall secure that one of their officers (often referred to as the s151 Officer) has responsibility for the administration of those affairs*'. CIPFA defines that '*proper administration*' should include '*compliance with the statutory requirements for accounting and internal audit*'.
3. The Accounts and Audit Regulations 2015 (the Regulations), require that '*A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*'.
4. In the light of reducing budgets for the Internal Audit team at the City Council and the inability to recruit to currently vacant positions, the City Council's Director of Finance is getting close to being unable to deliver an effective internal audit function through its internal team.

5. The two councils' Directors of Finance (s151 Officers) have been exploring the potential for combining their two internal audit functions into a single team employed and managed by one council, which would then deliver the service to both councils in a more sustainable, efficient and effective manner.

Constitutional and statutory requirements

6. The City Council's Constitution Article 12.04 'Delegation to and from other local authorities' allows at part b. *'The City Mayor may delegate executive functions to another local authority or the Executive of another local authority where the law permits'*.
7. On 12 January 2017, the City Mayor decided that with effect from 1 April 2017, or such other subsequent date as is agreed between the City Council and the County Council, to: -
 - a. Delegate the City Council's internal audit function to the County Council in accordance with the provisions of Section 9EA of the Local Government Act 1972, the Local Authorities (Arrangement for the Discharge of Functions) (England) Regulations 2012 and all other enabling powers. This would be for an initial period of three years;
 - b. Approve the City Council entering into an Administrative Collaboration Agreement (the Agreement) with the County Council under S9EA of the Local Government Act 1972;
 - c. Approve the transfer of City general internal audit staff to the County Council on the terms set out in the Agreement from the Commencement Date, and in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE); and
 - d. Note that the two councils' s151 Officers (or their representatives) will oversee the implementation and ongoing monitoring of the Agreement.
8. The County Council's Constitution Article 11.04 'Delegation to and from other local authorities' requires at part c) *'The decision whether or not to accept such a delegation from another local authority shall be reserved to the full County Council'*.
9. A report will be taken to Cabinet on 10th March 2017 and full County Council on 22nd March 2017, recommending that the delegation is accepted, and that from 1 April 2017, the County Council will discharge the City Council's internal audit function.

Future working arrangements

10. As reported at 7(d) above, the Director of Corporate Resources (through the Director of Finance) will oversee the implementation and ongoing monitoring of the arrangements from the County Council's perspective. The details of the delegation, including responsibilities, liabilities, roles and expectations will be secured through the Agreement which will record that the City Council retains all pre-existing pension and other employment liabilities up to the date of the transfer of staff.

11. The County Council's Head of Assurance Services will act in the capacity of Head of Internal Audit Service (HoIAS) for both councils.
12. Each council will retain its own internal audit charter, annual plan and annual report including the HoIAS opinion on the organisation's control environment. Oversight of the internal audit function will not change with the HoIAS reporting initially to the respective Directors of Finance (liaising with the Head of Finance for the City Council), and the respective 'audit' committees, Corporate Governance Committee for the County Council, and the Audit and Risk Committee for the City Council.
13. Whilst there will need to be a period of stabilisation at the start of the arrangement, the intention is to quickly build an integrated audit team where staff would be directed to undertake audits at both councils and other clients that the County Council team currently provides an internal audit service for.

Risks and Benefits

14. There are a number of examples of delegated internal audit functions between local authorities and so it has been possible to plan taking into account of others' experiences. Nevertheless, there are risks applicable to any change project, and this is in effect a merger of two functions which has its own risks.
15. Some examples of risks to the success of the project are: -
 - a. Head of Internal Audit Service capacity is over-stretched;
 - b. Staff resistance to change;
 - c. The change could (if managed badly) result in a fall in morale and the loss of staff and/or increased turnover;
 - d. Lead-in time adapting to different systems and working practices; or
 - e. Either party chooses to terminate the delegation
16. Predicted benefits include: -
 - a. Economies of scale from the employment of a single Head of Internal Audit Service across the two councils;
 - b. Optimising use of resources through a modern collaborative approach;
 - c. Efficient and effective use of audit managers and specialist auditors
 - d. Provision of a critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;
 - e. Opportunities for staff to experience different audits and workplaces;
 - f. Synergy – auditing the same risks with the same auditor and capacity to share best practice across both councils. For example research and development work is undertaken once only and as a result can be done in more depth. Audit programmes and other audit resources will also only be developed once;
 - g. Benefits of adopting common day to day audit reporting and procedural approaches driven by a single Audit Management System;
 - h. Capacity to increase trading; and
 - i. Enabling succession planning, career opportunities and development for staff.

17. The risks and benefits will be actively managed by the Head of Assurance Services.

Resource Implications

18. As well as a £10,000 one off contribution to start-up costs, for an agreed level of service, the City Council has agreed to pay the County Council £280,000 for each of the initial three years of the Agreement. This would release savings to the City Council.
19. The County Council Internal Audit Service is required to make savings in its 2017-18 budget, and so the City Council's payment would contribute to the costs of the Head of Internal Audit Service, which is currently fully met by the County Council.
20. A detailed schedule on financial arrangements will support the Agreement.

Equality and Human Rights Implications

21. In line with its policies, the City Council's Head of Finance is organising the relevant consultations with City Council staff that will be subject to TUPE (Transfer of Undertakings (Protection of Employment) regulations).
22. There are no discernible equality and human rights implications for current County Council staff.

Recommendation

23. That the Committee: -
- a. Notes the approach by the City Council to delegate its internal audit function and TUPE its general internal audit staff to the County Council.
 - b. Recommends that Cabinet and full County Council accept the delegation and staff transfer subject to the Director of Corporate Resources being given delegated authority to address any concerns raised by the Corporate Governance Committee.

Background Papers

The Constitution of Leicestershire County Council

Circulation under the Local Issues Alert Procedure

None.

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