CABINET - 10 MARCH 2017

DISCHARGING LEICESTER CITY COUNCIL'S INTERNAL AUDIT FUNCTION

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. The purpose of this report is to inform the Cabinet that following discussion between Leicester City Council (the City Council) and the County Council, it is proposed that the City Council's internal audit function will be delegated to the County Council and its general internal audit staff will transfer to the County Council.

2. The City Council has now confirmed the delegation and the Cabinet is asked to recommend that the County Council, at its meeting on 22 March, accepts the delegation. The County Council will then be responsible for delivering an internal audit service to both Authorities.

3. It is proposed that the details of the delegation, including responsibilities, liabilities, roles and expectations will be secured through an Administrative Collaboration Agreement.

Recommendations

4. It is recommended that the County Council:

   (a) Accepts the delegation of Leicester City Council's internal audit function 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;

   (b) Agrees to enter into an Administrative Collaboration Agreement (the Agreement) with Leicester City Council under S9EA of the Local Government Act 1972, such Agreement to be reviewed and renewed as and when necessary for the duration of the delegation in (a) above;

   (c) Authorises the Director of Corporate Resources to:

(i) agree the detailed terms of the Agreement at (b) above for an initial period of three years and to thereafter negotiate and agree the terms of future Administrative Collaboration Agreements as are necessary for the duration of the delegation;

(ii) agree the detailed arrangements for the transfer of the City Council's internal audit staff to the County Council in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).

Reasons for Recommendation

5. The combining of the two internal audit functions into a single team employed and managed by one council, will enable the service to be delivered to both authorities in a more sustainable, efficient and effective manner.

Timetable for Decisions (including Scrutiny)

6. The City Mayor's Executive Decision to approve the delegation and transfer arrangements was made on 12 January 2017.

7. The County Council's Corporate Governance Committee considered the proposed delegation and transfer at its meeting on 17 February 2017 and supported the proposals.

8. If approved by the Cabinet, the County Council will consider the proposed arrangements at its meeting on 22 March 2017.

Policy Framework and Previous Decisions

9. The County Council's Internal Audit Service is required to make savings in its 2017-18 budget as part of the Medium Term Financial Strategy 2017/18-2020/21 (MTFS).

10. In September 2010, the Cabinet approved the establishment of a shared internal audit service between Leicestershire County Council and Leicester City Council and the appointment of a joint Head of Internal Audit. However, for a variety of reasons this was not pursued further at that time.

11. Discharging internal audit functions through alternative delivery models is widely practised across local authorities.

Resource Implications

12. In conjunction with their counterparts at the City Council, officers from the County Council's legal, financial, HR (Human Resources) and ICT (Information and Communications Technology) services are involved in ensuring the County Council's position is protected and the arrangements are fully and properly determined. The costs of the work on the delegation and the Agreement are being met from existing department budgets.

13. As well as a £10,000 one off contribution to start-up costs, the City Council has agreed to pay the County Council £280,000 for each of the initial three years of the Agreement for an agreed level of service. The City Council's payment includes a contribution to the costs of the Head of Internal Audit Service, which is currently fully met by the County Council. Sharing the costs of the Head of Service will contribute to the County Council's budget savings requirement.

14. The Director of Corporate Resources and the Director of Law and Governance have been consulted on the content of this report.

Circulation under the Local Issues Alert Procedure

15. None

Officer(s) to Contact

Brian Roberts, Director of Corporate Resources
Tel: 0116 305 7830
E-mail: brian.roberts@leics.gov.uk

Chris Tambini, Director of Finance, Corporate Resources Department
Tel: 0116 305 6199
E-mail: chris.tambini@leics.gov.uk

Neil Jones, Head of Assurance Services, Corporate Resources Department
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

PART B

Background

16. 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*'.

17. 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*'.

18. In the light of the need to find savings and having experienced some difficulty in recruiting, the City Council has been looking to make alternative arrangements for its internal audit function. The County Council is also facing financial challenges and combining its internal audit function with the City Council, including sharing of the Head of Internal Audit Service role, will help contribute to its savings targets.

Proposal

19. The two Authorities have been exploring the potential for combining their internal audit functions into a single team employed and managed by one council, which would then deliver the service to both in a more sustainable, efficient and effective manner.

20. On 12 January 2017, the City Mayor decided that with effect from 1 April 2017, or such other subsequent date as is agreed, 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 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);

    c. Approve the City Council entering into an Administrative Collaboration Agreement (the Agreement) with the County Council under S9EA of the Local Government Act 1972; and

    d. Note that the two councils' s151 Officers (or their representatives) will oversee the implementation and ongoing monitoring of the Agreement.

21. 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.

22. The County Council's Head of Assurance Services will act in the capacity of Head of Internal Audit Service (HoIAS) for both councils.

23. Each council will retain its own internal audit charter, annual plan and annual report including the HoIAS opinion on each organisation's control environment. Oversight of the internal audit function will not change with the HoIAS reporting initially to the Director of Finance (liaising with the Head of Finance for the City Council), and the respective audit committees; this being for the County Council, the Corporate Governance Committee.

24. The City Council is organising the relevant consultations with its staff that will be subject to TUPE (Transfer of Undertakings (Protection of Employment) regulations).

25. 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 for whom the County Council provides an internal audit service.

Conclusion

26. Whilst there are risks applicable to a change project comprising a merger of two functions, there are substantial benefits to be gained such as savings, efficiencies, optimisation of resources, resilience, synergies, capacity to increase trading and opportunities for staff development.

Background Papers

Report to Corporate Governance Committee 17 February 2017 – Discharging the City Council's Internal Audit Function
http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=4822&Ver=4

Report to Leicester City Council's Audit and Risk Committee 8 February 2017 – Delegation of the City council's Internal Audit Function and Provision to the Leicestershire County Council
http://www.cabinet.leicester.gov.uk:8071/ieListDocuments.aspx?CId=417&MId=7558&Ver=4

Equality and Human Rights Implications

27. There are no discernible equality and human rights implications arising from the recommendations in this report.

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