

**Briefing Note – 26 September 2019
Corporate Affairs & Audit Committee
Provision of the Internal Audit Service**

Background

1. Since April 2010, the Internal Audit function of the Council has been provided by Tees Valley Audit and Assurance Services (TVAAS), which is a shared Service with Redcar and Cleveland Council, with Redcar and Cleveland Council being the employing authority.
2. Redcar and Cleveland is no longer able to provide this function owing to operational challenges such as the ability to recruit experienced auditors and has been in discussion with officers of Middlesbrough Council as to how an alternative service model could be provided for both Councils going forward.
3. The current Joint Audit & Assurance team, is comprised of 7 FTE's delivering circa. 1,560 internal audit days' worth of input across both Councils, with Middlesbrough Council receiving approximately 850 of those days. Middlesbrough Council contributes approximately £180,000 per annum towards the provision of this service.

Alternative Proposals

4. Discussions with other Councils in the Tees Valley indicated that there is no appetite for any new joint arrangements.
5. Bringing the service back in-house would not be feasible as the current problems relating to the scale of the service and the recruitment issues would only be magnified.
6. Outsourcing to a large audit firm would be feasible but prohibitively expensive within existing resources. That was demonstrated through some soft market testing two years ago and the market has not changed substantially since then.
7. The proposal is therefore to join the internal audit arrangements created by North Yorkshire County and York City Councils in 2009. A company named Veritau was set up by them to provide a shared internal audit service and now employs approximately 60 staff who provide internal audit and assurance services across the two original councils and now many of the other district councils within North Yorkshire. Its scale means it is able to successfully recruit and retain high quality auditors and at a cost affordable to local authorities.
8. The hourly rate will be slightly higher than that of TVAAS and as such the annual audit hours will reduce. However this will not have a significant impact on the service provision as the effectiveness is expected to improve and the rolling programme of

non-key audits can be extended to accommodate within the current budget of £180,000.

9. The proposal is to TUPE transfer the Internal Audit team to a new company, as part of the Veritau group. The company will be owned 25% by Middlesbrough Council, 25% by Redcar and Cleveland Council and 50% jointly by North Yorkshire and York City Council's.
10. It is expected that the arrangement will run for around 10 years but it will be possible for parties to withdraw before that giving suitable notice.

Next Steps

11. It is the responsibility of the S151 officer to “ensure compliance with the statutory requirements for accounting and internal audit”.
12. However given the new structure proposed, this is a decision for Executive who will be asked to agree to the new arrangements and to forming the new company as the delivery vehicle. This will require a shareholding investment of £25,000.
13. The Committee is a key stakeholder and that is the reason for this briefing; we invite any views or questions the Committee may have.
14. It is anticipated that the new service will be operational from 1 January 2020.

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