

<b>This report is public</b>	
<b>Internal Audit and Counter Fraud Provision</b>	
<b>Committee</b>	Executive
<b>Date of Committee</b>	8 July 2024
<b>Portfolio Holder presenting the report</b>	Portfolio Holder for Finance and Resources, Cllr Lesley McLean
<b>Date Portfolio Holder agreed report</b>	14 June 2024
<b>Report of</b>	Assistant Director of Finance & Section 151 Officer, Michael Furness

## Purpose of report

The council's Service Level Agreement with Oxfordshire County Council to provide internal audit and counter fraud Services came to an end on 30 April 2024. The council has entered into a temporary contract with Veritau Limited from 1 May 2024 to provide internal audit and counter fraud services for a period of 6 months. This report proposes an approach for the long-term provision of internal audit and counter fraud services by entering into a teckal company arrangement with Veritau Public Sector Limited.

## 1. Recommendations

The Executive resolves:

- 1.1 To agree for the council to pay a £20k fee to join Veritau Public Sector Limited and become a member in the company and delegate authority to the Assistant Director of Finance (S151 Officer) to sign the members' agreement and service contract with Veritau Public Sector Limited and any subsequent paperwork required to become a member.
- 1.2 To appoint the Assistant Director of Finance (S151 Officer) to the board of Veritau Public Sector Limited as a director of the company.

## 2. Executive Summary

- 2.1 The council has a legal duty to have an internal audit function and it is best practice to have a counter fraud function in place to be able to identify and investigate potential frauds as well as act as a deterrent for fraud. The council's previous internal audit and counter fraud provider, Oxfordshire County Council, ended its arrangement to provide the functions from 30 April 2024. An interim arrangement has been put in place with Veritau Limited via a 6 month contract. This report looks to receive the authorisation for the council to put in place permanent and sustainable arrangements for the provision of internal audit and counter fraud by becoming a member of Veritau Public Sector Limited.

## Implications & Impact Assessments

Implications	Commentary			
<b>Finance</b>	<p>The current costs of the contract in place with Veritau Limited offer the best Value For Money arrangements to the council in the short term. Based on intelligence gathered, the lower costs available to the council from becoming a member of Veritau Public Sector Limited, but providing the same levels of service, offer the opportunity for a more enhanced level of VFM. The costs that are expected to be charged for the number of audits and counter fraud work required are within budget.</p> <p>The one off cost of £20k to join the Teckal company can be funded through policy contingency or reserves and should pay for itself within 12 months.</p> <p>Rachel Ainsworth, Finance Business Partner, 6 June 2024</p>			
<b>Legal</b>	<p>The resilience and control as a member of the company make this an attractive arrangement for the Council.</p> <p>Shahin Ismail, Interim Head of Legal Services, 12 June 2024</p>			
<b>Risk Management</b>	<p>In order for the council to reduce risk levels it is important to operate an effective internal audit and counter fraud service. Adopting this approach will ensure the council achieves this level of risk mitigation and control.</p> <p>Celia Prado-Teeling, Performance Team Leader, 05 June 2024</p>			
Impact Assessments	Positive	Neutral	Negative	Commentary
<b>Equality Impact</b>		X		N/A
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
<b>Climate &amp; Environmental Impact</b>		X		

<b>ICT &amp; Digital Impact</b>		X		
<b>Data Impact</b>		X		
<b>Procurement &amp; subsidy</b>	X			By joining a Teckal Company the council will not have to seek tenders for services from the company in the future.
<b>Council Priorities</b>	N/A			
<b>Human Resources</b>	N/A			
<b>Property</b>	N/A			
<b>Consultation &amp; Engagement</b>	Leaders and Deputies of Political Groups have been made aware of this proposal. No other consultation required.			

## Supporting Information

### 3. Background

3.1 Oxfordshire County Council (OCC) submitted its 6-month notice period to end the SLA for providing Internal Audit (IA) and Counter Fraud (CF) services from 30 April 2024. CDC is required to ensure there is an IA and CF function. The council has entered into a short term contract with Veritau Limited from 1 May 2024 to provide IA and CF services. This report sets out the options that have been considered for a long-term solution and recommends the council make a £20k contribution to permanently join Veritau Public Sector Limited.

### 4. Details

4.1 There is limited capacity in the market of local government IA and CF provision (as reflected by OCC's withdrawal). There are very few local government related offers that would be able to set up in time for CDC and provide the level of resilience required to provide assurance that CDC would not find itself in a similar situation to its current circumstances. The private sector may be able to step in but would likely cost significantly more.

4.2 An alternative approach is to join a partnership of local authorities to have a shared IA and CF service which is large enough to have capacity to cope when staff members leave.

4.3 There are a number of options that have been considered in how the councils IA/CF functions could be provided in the future:

- In house
- Other Local Authority (LA) provider via S113 agreement
- Tender – via framework or open tender
- Local Government wholly owned company consortium

- Via tender
- Through purchase of shares or joining as a member

4.4 The preferred option is to join a Local Government wholly owned company consortium (LGWOC) as a member council. This will ensure value for money, a high standard of service and significant levels of resilience compared to other options.

4.5 A LGWOC has the benefit of understanding local government as it has been formed by internal audit services within local government but then expanded to develop resilience. The council looked to get in touch with LGWOCs to see what could be offered. Of three contacted, one did not respond, the second did not have capacity to take the council on and the third, Veritau Limited, was very keen to enter into a partnership with the council.

4.6 The benefits of Veritau originally being created are set out below and are entirely applicable in relation to the council becoming a member of this group.

- greater resilience and capacity. The combined team would be better placed to manage resource pressures, including staff vacancies and/or unexpected service demands than a small in house team
- greater flexibility to respond to changing priorities, initiatives and/or new working methods
- the delivery of increased efficiencies through sharing best practice, integrating processes and reducing duplication of effort
- the ability to demonstrate a positive response to the government's efficiency and service transformation agenda
- the achievement of economies of scale by sharing overheads and reducing unproductive time whilst maintaining or improving current levels of performance
- an enhanced focus on service delivery and quality through the development of a dedicated professional services function
- greater staff satisfaction and retention as a result of enhanced career opportunities and the ability of staff to specialise and/or gain broader experience
- greater opportunity to develop audit specialisms and reduce the reliance on bought-in services
- the provision of a robust shared service model which offers greater opportunity for future collaboration with other Councils
- improved succession planning arrangements and a reduced reliance on key members of staff for service continuity
- the ability to adopt common approaches to new and developing initiatives

4.6 Veritau Limited is wholly owned by North Yorkshire Council and City of York Council. As well as providing services to its member councils, Veritau Limited also provide IA and CF services for a number of districts, London Boroughs and Counties. Veritau Limited is very resilient and have c90 staff across IA, CF and Information Governance (IG). North Yorkshire Council, City of York Council and Redcar & Cleveland Borough Council have recently set up Veritau Public Sector Limited (VPS) as a 'Teckal' company.. VPS is a company limited by guarantee and other councils will be able to join it as members. A Teckal Company is one which effectively operates as an inhouse service with more than 80% of its work going to

the public authority members of the company. This arrangement takes it out of the public procurement regime. There are currently 6 directors on Veritau Limited's Board, and it is proposed that the s151 officer is appointed to the board of Veritau Public Sector Limited when the council joins as a member. The board would exercise strategic leadership of the company in accordance with the requirements of the members. There will also be a member committee to oversee the company and to provide an additional level of control. Arrangements would be established for appointing board members to represent the interests of all VPS members and ensure an appropriate mix of skills and knowledge on the board. Directors appointed by each member council would not receive any remuneration. The company is not-for-profit. Any surplus will therefore be reinvested in the business or be returned to the member councils in the form of a rebate. The council therefore does not anticipate receiving any dividend payments from this arrangement.

- 4.7 Veritau operate at competitive rates for contracted services, but a member rate attracts a further reduction in costs making the price more attractive. The member rate applies to authorities that join Veritau Public Sector Limited, a Teckal company. There is a one-off cost to this of £20k. This represents a subscription to the company and is intended to cover set-up costs and provide a contingency. The cost of the £20k contribution would be offset in less than 12 months based on the anticipated reduction in fees and offers the lowest cost option to the council. This would then put in place a long-term stable arrangement for the provision of IA and CF services (and access to IG if required).
- 4.8 Veritau has recently had an external assessment of its internal audit functions and received an overall rating of "**generally conforms**". The full assessment can be seen at Appendix 2.

## 5. Alternative Options and Reasons for Rejection

- 5.1 The following alternative options have been identified and rejected for the reasons as set out below.

### Option 1: In house

- 5.2 Following discussions with the current Chief Internal Auditor (CIA) from Oxfordshire County Council the minimum staffing requirement for an internal team would be:

Post	£K
Chief Internal Auditor	70
Head of Counter Fraud	55
Senior Auditor (*2)	80
<b>Total Salaries</b>	<b>205</b>
Oncosts at 30%	62
<b>Gross Staffing Total</b>	<b>267</b>
IT Specialist Audits (2 annually)	33
Overheads (assumed at 8%)	24
<b>Total</b>	<b>324</b>
Budget	130
<b>Net Pressure/(Saving)</b>	<b>194</b>

NB salaries based on average levels of regional benchmarking

- 5.3 The costs of this approach are significantly more than the current arrangement. This is primarily due to CDC requiring 200 internal audit days and a similar amount of counter fraud time, along with attendance at committees and report writing etc. An internal function is assumed to require 2 staff for internal audit and 2 for counter fraud to ensure there is some resilience in the team. This option includes significant risk around recruitment and retention.
- 5.4 The in house option is not recommended for the following reasons:
- Significant additional cost compared to budget
  - Significant difficulties in recruiting and retaining staff
  - Overall lack of resilience in the service

### **Option 2: Other Local Authority Provider**

- 5.5 The current arrangement with OCC is via an SLA and this could be replicated with another local authority via a section 113 arrangement. This would avoid the need for going through a lengthy procurement process, but would require finding a Local Authority (LA) that the council was confident would provide a good level of service, but also have the capacity to provide the service to the council for the duration of the agreement.
- 5.6 A number of LAs were approached and the majority indicated they would not be able to provide a service to the council. Two were prepared to have initial conversations to explore the possibility of providing a service.

### **Authority A**

- 5.7 Following an initial meeting with Authority A it is clear that they provide IA services (not CF) for another district council and 2 police authorities. Therefore, whilst Authority A could provide a counter fraud service, they would need to develop a function tailored to a district council as they do not have experience of the revenues and benefits aspects and interactions with the National Fraud Initiative/Department for Work and Pensions.
- 5.8 Authority A would need to recruit to have capacity to support the council. This may mean that a number of audits may not take place in the early part of the year whilst the team is expanding (and Authority A would likely have similar recruitment issues that OCC has meaning it would be very uncertain when a full IA and CF service could be up and running).
- 5.9 Authority A had an external assessment in April 2023 and received an overall rating of “**generally conforms**” and generally conformed with each section assessed.

### **Authority B**

- 5.10 Following a meeting with Authority B they currently provide the IA function to themselves and a range of other district councils. Authority B is expecting to part company with a district council they currently support in the near future and so would have capacity to provide internal audit immediately.
- 5.11 However, Authority B is in the process of improving its counter fraud service and would not be willing to offer this service currently. Therefore, if CDC chose this route then it would need to identify a separate Counter Fraud offer initially.
- 5.12 Authority B operate on 3-yearly SLAs and, for the first year at least, include a break clause after 1 year to ensure that all parties are happy with the arrangement.

- 5.13 Authority B had an external assessment in May 2022 and received an overall rating of “**fully conforms**”. Authority B also fully conformed with each section assessed.
- 5.14 Neither Authority A or Authority B would be able to provide a full IA/CF service to the council immediately. Additionally, Authority B indicated that the charge for the service would be approximately double that of the current budget.
- 5.15 On this basis this option is not recommended.

#### **Open Market Procurement**

- 5.15 An approach could be made to the open market. Indications from OCC are that audits they commission from the private sector, when they require additional capacity, cost twice as much as the charge that is made from OCC to the council. So going to the open market is likely to cost significantly more than the current budget with no corresponding increase in service levels so is not anticipated to provide value for money and is also likely to cost significantly more than the proposed option.

## **6 Conclusion and Reasons for Recommendations**

- 6.1 In conclusion there are very limited options available to a district council to provide a low-cost internal audit and counter fraud function. The option to join a LGWOC in the form of Veritau Public Sector Limited appears to be both the most cost effective, value for money approach whilst also providing significant levels of stability through having a significant level of skills and capacity across its workforce.

### **Decision Information**

<b>Key Decision</b>	Yes
<b>Subject to Call in</b>	Yes
<b>If not, why not subject to call in</b>	N/A
<b>Ward(s) Affected</b>	All

### **Document Information**

<b>Appendices</b>	
<b>Appendix 1</b>	“Pros and Cons” Summary
<b>Appendix 2</b>	Veritau External Assessment
<b>Background Papers</b>	None
<b>Reference Papers</b>	None

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