



London Borough of Hammersmith & Fulham

CABINET

3 FEBRUARY 2014

EXTENSION OF CONTRACT FOR INTERNAL AUDIT SERVICES

Report of the Leader – Councillor Nicholas Botterill

Open Report

Classification: For Decision

Key Decision: Yes

Wards Affected: All

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1. EXECUTIVE SUMMARY

- 1.1. The Council's Internal Audit Service has a contract with the London Borough of Croydon, through their Audit Service Framework contract, for the provision of an Internal audit service. The Framework utilises the services of Deloitte; runs to 2018 and is currently used by 14 other London Boroughs, including the Council's Bi-Borough Internal Audit service partner, Kensington and Chelsea.
- 1.2. The Council's contract with Croydon commenced on 1 April 2011 for a period of 3 years with an option for further extensions to the contract for up to 2 years. The budget for this provision is £291,000 for the 2013/14 year. The budget is currently expected to remain of that magnitude for 2014/15, uprated each year in line with inflation.
- 1.3. The Royal Borough of Kensington and Chelsea (RBKC) has a similar contract through the Framework Agreement with LB Croydon. The two Audit Services are now a Bi-Borough service with the same Deloitte team covering both Councils, providing a good level of continuity and consistency of service.
- 1.4. Under the Croydon Framework neither LBHF nor RBKC is contracted to procure any specific level of resources. This level of flexibility will allow the Councils to keep under review their joint working and resourcing options for internal audit services going forward.

2. RECOMMENDATIONS

- 2.1. That approval be given for a contract extension for the period from 1 April 2014 to 30 June 2015 at an expected cost of £364,000 to make this contract co-terminus with the RBKC contract.
- 2.2. That approval is given to delegate responsibility for any further extension on this contract to the Leader as cabinet member for finance up to the maximum contract limit of 31 March 2016.

3. REASONS FOR DECISION

- 3.1 The initial 3 year period for the Internal Audit contract expires on 31 March 2014. Deloitte have continued to provide an excellent level of performance through the Croydon Framework, which has proven to be to a high standard and well regarded by operational managers across the Council.
- 3.2 The proposed contract extension will ensure continuity and consistency in a period of significant change for Internal Audit, it will also enable the expiry of the LBHF contract for Internal Audit services to be aligned to be co-terminus with the RBKC contract which will support joint future procurement. The absence of any contractual minimum purchase provides complete procurement flexibility for the remainder of the contract. The option to extend further to 31 March 2016 allows for the potential to extend the alignment of contracts to include WCC.

4. INTRODUCTION AND BACKGROUND

- 4.1. The Internal Audit Service is responsible for carrying out the Council's statutory internal audit functions. The objective of internal audit is to provide assurance on the proper administration of the Council's financial affairs under Section 151 of the 1972 Local Government Act. The Accounts and Audit Regulations 2011 specifically require that a "relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."
- 4.2 The Council's Internal Audit Service undertakes a range of audit reviews that examine and report on the adequacy and effectiveness of processes and controls. The service also provides advice and guidance in relation to governance, risk management and internal control. The LBHF Service has been provided through contracts with Deloitte since October 2004 with an intelligent client function provided in-house that includes the Head of Internal Audit role; the current contract with Croydon provides the services of Deloitte through their framework agreement. The Cabinet approved that contract re-tender in their meeting on 16 December 2010.
- 4.3 The Audit Service has been liaising with its Tri-Borough partner audit services since 2012/13 to ensure that audit resources are maximised by avoiding duplication and where appropriate undertaking single audits to cover all Tri or Bi- Borough services; there is now a bi-borough audit service between LBHF and RBKC, both of whom have similar contracts with LB Croydon to use the services of Deloitte to provide audit services. Therefore

maintaining a similar contract for both councils that utilises the same Deloitte team offers additional benefits, making this contract co-terminus with RBKC helps forward planning for future contract re-tendering.

5. PROPOSAL AND ISSUES

- 5.1. The proposed contract extension would make the LBHF and RBKC contracts for audit services co-terminus. At that point it will be possible for the bi-borough audit service to tender a single contract for internal audit services. At this time the Croydon Framework remains the preferred option for London Boroughs outsourcing all or part of their audit services. 15 Councils currently use the Framework with others joining as their current arrangements expire.
- 5.2. There remains the potential for a combined audit services procurement that includes WCC. For this reason it would be advantageous to retain flexibility to extend the current contract as far as 31 March 2015.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. To agree to the award of the contract extension

An appropriate high level of service will be maintained during a period of transition with consistency and continuity of service a priority. Client managers will experience a seamless transition to Bi or potentially Tri-Borough based audit services. Given the flexibility of the Croydon Framework contract alternative options can be monitored by audit management and should the opportunity arise to take advantage of better value offered elsewhere this can acted upon without penalty.

6.2. To request alternative options or a new procurement process.

A new contract would require a minimum 3 months lead time to set up. The procurement process would take up significant valuable management resources that would be better utilised focusing on the development of a highly professional Bi-Borough Audit service. It is considered unlikely a single Council procurement would attract better rates and quality levels than those currently offered by the Croydon Framework contract. This would also likely perpetuate the current arrangement of separate audit services contracts for each Council.

7. CONSULTATION

- 7.1. Discussions on procurement options have and will be continue to be had with key stakeholders such as other Audit services and the relevant s151 officers. This is a sovereign council procurement decision for Hammersmith & Fulham, it is however important that dialogue continues with these parties going forward to ensure all three audit services move forward with the same aims and goal to provide an exemplary service.

8. EQUALITY IMPLICATIONS

- 8.1. It is understood that the decision to issue the contract extension will not have an adverse impact on equalities.

9. LEGAL IMPLICATIONS

- 9.1. The current contract with LB Croydon for the provision of audit services includes an option to extend on an annual basis for a maximum of two years following the expiry of the initial term. The recommended extension is in accordance with the terms of the contract and would be the first of two permitted extensions.
- 9.2 Implications verified/completed by: Cath Irvine, Senior Solicitor (Contracts) ext 2774

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1. The annual contract value for the services procured is £291,000 and will be contained within the current budget provision.
- 10.2. Implications completed by Andrew lord, Head of Strategic Planning and Monitoring (Ext 2531).

11. RISK MANAGEMENT

- 11.1. The Bi-borough Internal Audit service provides independent and objective assurance to the Council, its Members, Hammersmith & Fulham Business Board and in particular to the Chief Financial Officer in support of discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 11.2 It is the Council's intention to continue to provide a best practice, cost efficient internal audit service. The proposal to extend the current contract meets this requirement. The contract extension provides management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. The provision of a Bi-borough Internal Audit service contributes positively to the Corporate Governance of the Council, facilitating the production of the Annual Governance Statement and is an independent assurance provider on all Bi-borough Enterprise Wide Risk Register entries.
- 11.2 Implications verified by: Michael Sloniowski, Bi-borough Risk Manager and 020 8753 2587.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 12.1. It makes economic sense to extend this contract by one further year to make it co-terminus with the contract held by RBKC. In the first quarter a procurement exercise will begin to invite the market to bid for a either a Bi or Tri-borough service.
- 12.2 Mark Cottis, e-Procurement Consultant 020 8753 2757
- 12.3 There are no implications for the ICT Strategy. At an operational level, having a single internal audit across bi- or tri-borough councils results in greater efficiency in undertaking ICT audits, due to the increasingly integrated ICT service.
- 12.4 Howell Huws, Head of Business Technology 02087535025

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Previous reports to Cabinet to approve the original contract	Geoff Drake x2529	FCS