

	London Borough of Hammersmith & Fulham CABINET 27 APRIL 2015
INTERNAL AUDIT CONTRACT RE-TENDER	
Report of the Leader: Councillor Stephen Cowan	
Open report A separate report on the exempt part of the Cabinet agenda provides exempt information on legal, financial and other aspects of the procurement.	
Classification: For Decision Key Decision: Yes	
Wards Affected: All	
Accountable Director: Hitesh Jolapara, Director of Finance	
Report Author: Geoffrey Drake, Senior Audit Manager	Contact Details: Tel: 0208 753 2529 E-mail: Geoff.drake@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. There is a legal requirement for the Council to maintain an Internal Audit. The Internal Audit service for Hammersmith and Fulham is a largely outsourced service that has been delivered since 2011 through a contract with the London Borough of Croydon (LBC), who in turn sub-contract the services to Mazars via the Framework Agreement LBC set up in 2007. While the annual cost of the contract can vary year on year, for the 2014/15 year the cost will be £290,000.
- 1.2. Three procurement options were considered. A full re-tender using OJEU was discounted due to the cost of the process and length of time to complete compared to the other alternatives with little expectation of it providing equal or better results than the other approaches. This left two options: 1) contracting with the LBC to deliver the services via Mazars under its framework agreement; or 2) join or contract with the recently established 6 borough consortium to access the 'Audit Assurance and Advisory Framework' contract with PWC to establish a call-off arrangement. The option to contract with the LBC provides the best day rates, as well as continuing with an established quality service with a strong record on delivery that is well regarded by service managers.

2. RECOMMENDATION

- 2.1. That approval be given to let a three year contract with the London Borough of Croydon for Audit services, as required, to commence from 15 June 2015. The cost may vary each year dependent on need but limited by budget constraints, as a guide the cost for the existing contract for the 2014/15 year is £290,000.

3. REASONS FOR DECISION

- 3.1. There is a legal requirement for the Council to maintain an Internal Audit service. This service is currently largely outsourced and therefore a contract to continue the delivery of the service is required.

4. INTRODUCTION AND BACKGROUND

- 4.1. There is a legal requirement for the Council to maintain an Internal Audit service to meet the requirements of Section 151 of the Local Government Act 1972, plus Regulation 4 of the Accounts and Audit Regulations 2003 and amending regulations. The latter states that:
 - “The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk.”
- 4.2. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council’s governance, risk management and internal control systems.
- 4.3. The Internal Audit delivery model agreed by Hammersmith and Fulham (H&F), Westminster City Council (WCC) and Royal Borough of Kensington and Chelsea (RBKC) in May 2014 established that for H&F the service model would involve sharing the Director of Audit role, maintaining an H&F Senior Audit Manager post, and principally using a call-off contract to deliver audit work with some use of RBKC audit staff. The report includes the use of an Internal Audit service call-off contract to supplement and support the delivery of the overall service within existing budgets by accessing the LB Croydon Framework Agreement. It was agreed that a separate, sovereign call-of contract for Internal Audit services is to be let by each Council to allow maximum flexibility in delivering audit services and support ease of cost allocation of audit services to each Council.
- 4.4. The current contract for the delivery of Internal Audit services at Hammersmith and Fulham (H&F) commenced on 1 April 2011 and is due to expire on 15 June 2015. While the annual cost of the contract can vary year on year, for the 2014/15 year the cost will be £290,000.

5. PROPOSAL AND ISSUES

- 5.1. The intention is to again use the existing framework agreement that the London Borough of Croydon has established for the delivery of these services. The services on offer in this framework agreement and the rates it offers have already been tested in the market.
- 5.2. The contract is to be used selectively to support the effective delivery of the audit service within existing budgets.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Three options were considered. The full re-tender under procurement legislation was immediately discounted due to the cost of the process and length of time to complete compared to the other alternatives with little expectation of it providing equal or better results than the other approaches. This view is supported by the testing of the market demonstrated at Appendix 1 of the exempt report, in particular the framework agreement rates taken from the Government Procurement website. This left two options, contracting with LB Croydon through a call-off contract to access their framework contract with Mazars which is the current contract, or to join or contract with the recently established 6 borough consortium to access their 'Audit Assurance and Advisory Framework' contract with PwC to establish a call-off arrangement.

Option 1: Appoint the LB Croydon to deliver the services who in turn sub-contract the services to Mazars under its Framework Agreement for Audit Services

- 6.2. This option involves the Council letting a contract with LB Croydon, who in turn sub-contract the services to Mazars under their framework agreement for the delivery of Internal Audit services. This is a day rates contract from which H&F can construct costs for the delivery of a full audit service. The rates vary depending on the volume of days being called off, the current rates are provided at Appendix 1 of the exempt report for information. These rates would include service management days helping to keep the costs low. The process for letting such a contract is the shortest and cheapest approach, the existing day rates are significantly lower than those quoted by the consortium using PwC and have already attracted 30 Councils to join, these are listed at Appendix 2 of the exempt report for information.
- 6.3. Mazars have provided a quality service with a strong record on delivery, they are also well regarded by service managers. The contract with LB Croydon provides some additional benefits such as regular user group meetings to discuss topical issues and receive technical updates. Mazars also provide newsletters outlining new and current activity for local

government and for health and have developed specific products through the contract user group.

Option 2: Join the consortium contract to access their framework contract with PwC

- 6.4. This option involves the Council either joining the consortium or letting a call-off contract with LB Islington to access the consortium's call-off contract with a single supplier, PwC, for the delivery of Internal Audit services. This is also a day rates contract from which H&F would construct costs for the delivery of a full audit service. The rates vary depending on the volume of days being called off, the current rates are provided at Appendix 1 of the exempt report for information. H&F would need to negotiate rates that would include service management days, which may increase the use of higher day rates and therefore total cost.
- 6.5. The process for letting such a contract is the same as for option 1, however the existing day rates are significantly higher than those quoted by LBC. This is a relatively new option established around October 2014 that is still being developed by the consortium. H&F would want to keep this under review and may want to let a call off contract at a later date once the full service and added benefits have been developed.

7. CONSULTATION

- 7.1. No consultation was appropriate or this report.

8. EQUALITY IMPLICATIONS

- 8.1. There are no direct equalities impacts resulting from this proposal
- 8.2. Implications verified by: David Bennett, Acting Head of Change Delivery x 1628.

9. LEGAL IMPLICATIONS

- 9.1. These are in the exempt report.

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1. The use of the Internal Audit services call off contract will be encompassed within existing budgets and should not incur additional costs beyond these. This contract is expected to replicate the existing call-off contract used by H&F which is managed within existing budgets, and where the use of the contract is only based on need and value to the delivery of the service.

10.2. Implications verified by: Maria Campagna, Head of Financial Controls, Payments and Systems (Acting), 020 8753 6014.

11. IMPLICATIONS FOR BUSINESS

11.1 There is no impact on businesses in the borough.

12. RISK MANAGEMENT

12.1. The provision of an Internal Audit Service is required by law and contributes significantly to the corporate governance and internal control of the Council. The Risk Manager agrees that best value to the Council and taxpayer is achieved in selection of Option 1, this also provides continuity of service through a well-established contract. The recommendation contributes positively to the management of corporate risks number 1 - managing budgets, 4 – market testing, 6 – business continuity and 8 - managing statutory duty.

12.2. Implications completed by: Michael Sloniowski, Tri-borough Risk Manager Telephone :020 8753 2587.

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 13.1. The report identifies 3 procurement options and these are:
- Carry out a new procurement exercise – placing a Contract Notice to obtain expressions of interest, evaluating responses and tender and then awarding the contract;
 - or Call off an existing framework agreement managed through London Borough of Islington;
 - or Obtain audit services through the LB Croydon who have awarded a framework arrangement to Mazars.

Subject to any legal views, the recommendation to obtain audit services through the LB Croydon who have awarded a framework arrangement to Mazars is considered to offer the best value for money and is deliverable within the current timeframe. The other options are commercially less attractive.

It is also worth recognising there is an intention to maximise internal audit resources provided by RBKC wherever possible to support best value.

The Director of Procurement and IT Strategy supports the recommendations.

13.2. Implications verified/completed by: Mark Cottis, e-Procurement Consultant, 020 87563 2757

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.	Tri-Borough Audit, Fraud, Risk and Insurance: Options Appraisal - May 2014	Geoffrey Drake x2529	Internal Audit