



Cabinet

16 DECEMBER 2010

LEADER

Councillor Stephen Greenhalgh

INTERNAL AUDIT CONTRACT RE-TENDER

**Wards:
All**

This report recommends that the Council enters into a contract with LB Croydon for the delivery of Internal Audit services through their framework contract delivered by Deloitte for a period of 3 years, starting 1 April 2011 with options to extend for up to 2 further years. This would deliver a cash saving of at least £66,000 (equating to 20%) in the first year with an expectation to match this and possibly increase it for the remaining years of the contract.

A separate report on the exempt part of the Cabinet agenda provides exempt information on the legal issues regarding joining the Framework Agreement.

CONTRIBUTORS

DFCS
ADLDS
Chief Internal Auditor

**HAS A EIA BEEN COMPLETED?
YES**

**HAS THE REPORT CONTENT BEEN RISK ASSESSED?
YES**

Recommendation:

That approval be given to join and call off under the Internal Audit services Framework Agreement operated by the London Borough of Croydon, at a total projected 3 year cost of £792,000 as set out in paragraphs 4.1 to 4.3 of the report.

1. BACKGROUND

- 1.1 There is a legal requirement for the Council to maintain an Internal Audit service Authority 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. These state 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.”

“The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a Statement on Internal Control, prepared in accordance with proper practices with (a) any statement of accounts it is obliged to publish in accordance with regulation 11, or (b) any income and expenditure account, statement of balances or record of receipts and payments it is obliged to publish in accordance with regulation 12.”

- 1.2 The current service is wholly outsourced to Deloitte & Touche Public Sector Internal Audit LLP under a contract that is due to expire on 31 March 2011 with no legal option available to extend. It is therefore necessary to re-tender the contract during the current year.

2. CURRENT POSITION

- 2.1 As stated above, Internal Audit is a fully outsourced service that has been delivered by Deloitte since October 2004, as they were successful in the previous re-tender in 2007. The contract covers the audit services for the Council plus for H&F Homes. The tendering of the current contract resulted in no increased costs compared to the previous contract, and reduced the audit days by approximately 190 equating to a saving of 15.27% when taking into account price inflation; plus further annual savings of 2% were obtained totalling approximately 20% savings by the last year of the contract. The current contract costs are £330,000 per annum.
- 2.2 As part of the re-tender process, and in recognition of the existing financial reality for the public service, the minimum audit service requirement has been reviewed with our current service provider and an audit need has been agreed which would reduce the number of audit days further. This has been used as a basis for this tender process.

3. RE-TENDER OPTIONS

- 3.1 Three options were considered, although the full re-tender using OJEU was almost 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 better results than the other approaches. This left two options, Buying Solutions or joining the LB Croydon framework contract with Deloitte.

Buying Solutions

- 3.2 This is a framework agreement established by central government (OGC Buying Solutions) for the provision of internal audit services. The contractors listed in the framework have been the subject of an open and competitive tender process carried out by OGC and are eligible to provide the services to contracting authorities. The contractors include all the key players in local Government Internal Audit including Deloitte, PWC, and Tenon PLC. In order to call off under the framework agreement it would be necessary to conduct a mini-competition process involving issuing an invitation to tender to all the listed contractors with a service specification setting out the Council's requirements. The selection of a preferred bidder under the mini-competition may take up to approximately 2 months. This would demonstrate that the market had been fully tested and the best rates achieved, although it would still be a relatively expensive and time consuming approach with no evidence that it would achieve best price; in fact, the standard rates quoted by the contractors within the agreement are significantly higher than we pay currently and would require an increase in the contract costs going forward despite the reduced number of days to be delivered.

LB Croydon contract with Deloitte

- 3.3 This option involves the Council joining the framework contract led by LB Croydon and delivered by a single supplier, Deloitte, for the delivery of Internal Audit services. This is a day rates contract from which we can construct costs for the delivery of a full audit service. The rates vary depending on the volume of days being called off, with the standard audit day rate for the 2010/11 year standing at £300 per day. Clarification discussions with Deloitte have established that we would be charged this rate for service management days, reducing the price even further. The process for letting such a contract is the shortest and cheapest approach. The existing day rates are significantly lower than those quoted in the Buying Solutions framework contract and have already attracted 11 other Councils to join, which are:

Barking & Dagenham	Bexley
Bromley	Hounslow
Ealing	Kingston
Redbridge	Richmond

Further Councils are planning to join from April 2011.

4. PROPOSAL

- 4.1 It is recommended that the Council contract with LB Croydon for 3 years, with options to extend for up to 2 years, to receive Internal Audit services through their Framework Agreement with Deloitte. Based on the current year day rates as shown at Appendix 2 (in the exempt part of the report) and the re-assessed audit service required going forward, then the annual contract price should be no more than £264,000 with annual increases in line with RPI. This would provide a real cash saving of £66,000 per annum, equating to a 20% saving in cash term on the existing contract without taking into account normal price inflation. If the volume of business increases under this contract next year as expected, then there may be a further £5 a day saving increasing the price reduction per annum to £70,000 or 21.25%. The total price of the 3 year contract based on current year rates would be £792,000. This would mean that between the last re-tender and this proposal the Audit service savings would equate to 41%.
- 4.2 There are opportunities to achieve further savings on the audit days required during the life of the contract. As shared services with other Councils get established it should be possible to develop shared assurances from audits, plus there may be new ways of developing assurances such as self assessments and 'continuous auditing'. These opportunities will be kept under review throughout the life of this contract.
- 4.3 The risks with this contract apart from a legal challenge are that the day rates can go up as well as down depending on the volume of audit days being called off each year. Also, this is not a fixed price contract to deliver an audit service; costs can go up or down each year, depending on the audit needs of the Council. For example, in a significantly changing environment such as we appear to be going into there may be increased service need.

5. RISK MANAGEMENT

- 5.1 This is in the separate report on the exempt part of the Cabinet agenda.

6. EQUALITY IMPLICATIONS

- 6.1 This contract is already outsourced and is already delivered by Deloitte; therefore there would be no change in circumstances and as such no equality implications.

7. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

- 7.1 The latest MTFs model has identified £60k procurement savings as part of the Council's transformation agenda within FCS on the Internal Audit re-tender. The recommendations in this report will ensure that savings are achieved.

8. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

- 8.1 These are in the separate report on the exempt part of the Cabinet agenda.

9. COMMENTS OF THE ASSISTANT DIRECTOR PROCUREMENT

- 9.1 The report identifies 3 procurement options and these are:
- carry out a procurement exercise from scratch – placing a Contract Notice to obtain expressions of interest, evaluating responses and tender and then awarding the contract; or
 - carry out a mini-competition based on a pre-existing framework agreement managed through the Government's Buying Solutions office; or
 - obtain audit services through the LB Croydon who have awarded a framework arrangement to Deloitte.
- 9.2 It is possibly too late now to consider the first option. Due to legislative requirements and the Council's internal procedures it is unlikely to complete the process by 1 April 2011 when the new contract has to be in place. Initial market soundings indicate that the likely rates will be significantly higher than the third option.
- 9.3 Consideration has been given to the second option, but even on existing published rates it is unlikely that any savings would be achieved through a mini-competition with organisations who are party to the framework agreement.
- 9.4 That leaves the third option, which commercially is very attractive and one where significant savings will be achieved.

- 9.5 External legal advice sought confirms that there is a growing tendency within the UK for challenges to be made in connection with contract award decisions that are perceived to be unlawful. In this situation it is a matter of balancing and understanding the risks involved.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Existing contract for Internal Audit services	Geoff Drake ext 2529	FCS, Hammersmith Town Hall
2.	Legal advice on current re-tender	Geoff Drake ext 2529	FCS, Hammersmith Town Hall
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