

	<p style="text-align: center;">Executive 15th January 2007</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
For Action	Wards Affected: ALL
Joint Procurement of Internal Audit Services	

Forward Plan Ref: F&CR-06/07-26

Not for publication

Appendix 1 of this Report is not for publication as it contains the following categories of exempt information as specified in the Local Government Act 1972, namely:

Information relating to the financial or business affairs of any particular person (including the authority holding the information).

1 Summary

- 1.1 This report requests authority to award contracts as required by Contract Standing Order No 89. This report summarises the process undertaken in the collaborative procurement of framework agreements for core internal audit services and additional internal audit services and, following the completion of the evaluation of the tenders, recommends which tenderers should be appointed to the framework agreements and to whom the contract for internal audit core services should be awarded.

2 Recommendations

- 2.1 The Executive to give approval to the award of the Core Internal Audit Services Framework to Deloitte and Touche Public Sector Internal Audit Ltd; PriceWaterhouseCoopers LLP; and Bentley Jennison LTD.
- 2.2 The Executive to give approval to the award of the Additional Internal Audit Services Framework to Deloitte and Touche Public Sector Internal Audit Ltd; PriceWaterhouseCoopers LLP; Bentley Jennison LTD; and Haines Watts

- 2.3 The Executive to give approval to “call off” the contract for the provision of Core Internal Audit Services under the Core Internal Audit Services Framework to Deloitte and Touche Public Sector Internal Audit Ltd.

3 Detail

Background

- 3.1 The procurement of internal audit services has been the subject of two previous reports to the Executive dated 10th April 2006¹ and 17th July 2006². At its meeting of the 10th April 2006 the Executive gave approval for officers to invite expressions of interest for the provision of part of the Council’s internal audit function in a joint procurement exercise with the London Boroughs of Ealing, Hammersmith and Fulham and Hounslow (although Hounslow subsequently indicated it was not in a position to proceed with the collaborative procurement and withdrew). At its meeting of 17th July 2006 the Executive approved the criteria for the evaluation of tenders and agreed that as Ealing were leading the collaborative procurement, there were good operational reasons for Brent’s Standing Orders and Financial Regulations not to apply to the procurement and that instead Ealing’s Standing Orders and Financial Regulations would apply.
- 3.2 The reasons for joint procurement were set out in the previous reports to the Executive. In summary, there are some economies of scale benefits in procuring once on behalf of three boroughs; there are benefits in a single contractor providing services to three boroughs from the perspective of sharing best practice and a common approach and; a larger contract may attract a cheaper price.
- 3.3 During discussions between the Heads of Audit from the relevant Councils, it was considered that the most effective manner of tendering for internal audit services was to ask providers to tender separately for core internal audit services and for additional internal audit services and establish two separate frameworks to which a number of providers would be appointed and from which services could be purchased or “called off”.
- 3.4 The Core Internal Audit Services Framework is for the provision of some or all (in Hammersmith and Fulham’s case) of the internal audit service for the three Councils taking part in the collaborative procurement. The Additional Internal Audit Services Framework is for the provision of ad hoc pieces of audit work. Unlike the Core Internal Audit Services Framework, the Additional Internal Audit Services Framework is for the use not only of Brent, Ealing and Hammersmith and Fulham Councils but will also be available to other London Boroughs through the London Contract and Supplies Group (“LCSG”), who will be able to call off this Framework should they so wish.
- 3.5 Once the two Frameworks have been established, it is considered that the ideal scenario for the subsequent award of a contract from the Core Internal Audit Services Framework is to select one provider for all three Councils to achieve the advantages detailed in paragraph 3.2. However, if this does not prove feasible, each Council could select a different provider from the Framework. It should also be noted that the duration of the Frameworks is for a four year period from 1 April 2007.. It is intended that Brent and Ealing call off contracts under the Core Internal Audit Services Framework from 1 April 2007, with Hammersmith and Fulham purchasing services under the Framework from 1 April 2008.

Tender Process

- 3.6 Advertisements were placed in the Official Journal of the European Community (OJEU) on 20th June 2006 to seek initial expressions of interest. This advert elicited five initial enquires. Prequalification questionnaires were sent out and five contractors returned the questionnaires.
- 3.7 Shortlisting was carried out on the basis of the contractors' financial viability and technical ability and on 16th August 2006, five contractors were invited to tender.
- 3.8 The tendering instructions stated that the selection for appointment to the two Frameworks and award of any contracts called off under the framework would be on the basis of the most economically advantageous offer to the Council and that in evaluating tenders, the Council would have regard to the following:

For the Core Internal Audit Services

Criteria	Description
Quality	<ul style="list-style-type: none">• Quality of the audit plan and outputs• Systems and working methods• Indicative resources, staff mix and management• Track record in the UK public sector• Innovative solutions• Benchmarking• Collaborative approach
Cost	<ul style="list-style-type: none">• Annual contract sum for core services• Delivery of cashable financial savings• Cost of additional services• Administration

For the Additional Internal Audit Services

Criteria	Description
Quality	<ul style="list-style-type: none">• Quality of the outputs• Systems and working methods• Indicative resource, skills/experience• Collaborative approach
Cost	<ul style="list-style-type: none">• Cost of additional services• Cost of secondment

- 3.9 Tenderers were required to submit additional information providing details of their proposed arrangements for performing the services including (but not limited to) the following:
- Driving organisational change to improve processes and service performance;
 - Ensuring continuous improvement in terms of quality and efficiency;
 - Assisting Audit Committees or their equivalent to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;

- Working with Corporate Anti-Fraud and Risk Management teams to ensure a proactive approach to corporate governance issues;
- Improving Intranet and Internet information resources to e-enable internal audit services;
- Improving the reliance placed on internal audit work through the continuous revision and enhancement of joint-working protocols;
- Improving Comprehensive Performance Assessment ratings especially in relation to the Use of Resources; and
- Working in conjunction with other internal departments to review and recommend enhancements to corporate governance arrangements in line with regulatory and statutory requirements.

Evaluation process

- 3.10 The tender evaluation was carried out by a panel consisting of the Directors of Finance and Heads of Audit from Brent, Ealing and Hammersmith and Fulham. Also in attendance to advise the evaluation panel were procurement staff from Ealing Council.
- 3.11 All tenders had to be submitted no later than 25th September 2006. Tenders were opened by Ealing Council in accordance with their own Contract Procedures. Four valid tenders were received. Of the tenders received, three tenders were for the supply of core internal audit services and for additional audit services, with one further tender being received for the supply of additional internal audit services only. These were photocopied and given to each member of the evaluation panel.
- 3.12 The evaluation panel met on 9th November and 11th December 2006. On 11th December it was agreed that all providers who had submitted a tender should be admitted to the Core Internal Audit Services Framework and the Additional Internal Audit Services Framework
- 3.13 In addition to the selection of preferred providers for the Core Internal Audit Services Framework and the Additional Internal Audit Services Framework at the evaluation panel meetings, each member of the panel read the tenders and an evaluation sheet was produced for each Council with a view to selecting a provider to be appointed from the Core Internal Audit Services Framework. This was done by applying the criteria approved by the Executive and set out in paragraph 3.8 in order to select the most economically advantageous tender from the point of view of the selecting Borough. The evaluation also took into account whether or not there was a conflict of interest given that it is not possible for a provider to provide both external and internal audit services to a council as well as the capacity of the provider to deliver a service at the time required. The scores received by each provider from the Brent evaluation are included in Appendix 2. Deloitte and Touche Public Sector Internal Audit Ltd represented the most economically advantageous provider for all three boroughs.
- 3.14 The Framework Agreements and the Core Internal Audit Services contract will commence on 1st April 2007.

4 Financial Implications

- 4.1 The Council's Contract Standing Orders state that contracts for supplies and services exceeding £500k or works contracts exceeding £1million shall be referred to the Executive for approval to invite tenders in accordance with Standing Order 88.

- 4.2 The estimated value of the Core Internal Audit Services contract is set out in Appendix 1.
- 4.3 Continuing provision of the Internal Audit Service using existing methods is not viable for three reasons:
- The inability to recruit suitably qualified and experienced permanent staff
 - The spiraling costs of using agency staff
 - The need to formalise existing arrangements for the provision of computer audit work
- 4.4 Predicting the cost of this existing method of provision over the next four years is difficult due to the unknown future costs of agency staff and computer audit work. An estimate of these costs is shown in Appendix 1 to provide members with an indication of the financial benefit of moving to the proposed jointly procured Contract for Core Internal Audit Services.
- 4.5 The new contractual arrangements bring a level of certainty over spend and audit coverage. Using Agency staff over the last few years has caused both budget pressure and / or reduced audit coverage. The cost of this contract can be funded from existing resources.
- 4.6 The rates tendered for the Additional Internal Audit Services Framework per day for 2007/08 ranged from £275 for a part qualified auditor to £1,300 for a partner/director

5 Staffing Implications

- 5.1 This service is currently provided by a combination of an external supplier, agency staff and staff employed by the Council. The Council staff in post are to be retained and will continue to undertake internal audit work and contract management functions. There are no TUPE implications.

6 Legal Implications

- 6.1 The estimated value of the Core Internal Audit Services Framework and the Additional Internal Audit Services Framework over their lifetimes is in excess of £144,371 and therefore their procurement and award is subject to the Public Contracts Regulations 2006 (“the EU Regulations”). The provision of internal audit services falls within Part A Services under the EU Regulations and the Frameworks are therefore subject to the full application of the EU Regulations.
- 6.2 The estimated value of the Core Internal Audit Services Framework and the Additional Internal Audit Services Framework over their lifetimes is in excess of £500,000. On 17 July 2006 the Executive approved the procurement of the Frameworks in accordance with Ealing’s Standing Orders and Financial Regulations but the award of the Frameworks is subject to the Council’s Contract Standing Orders in respect of High Value contracts and Financial Regulations and therefore requires Executive approval.
- 6.3 As advised in the Executive Report requesting authority to tender this contract dated 10 April 2006, the Council must observe the EU Regulations relating to the observation of a mandatory minimum 10 calendar day standstill period **before** the Frameworks can be awarded.

- 6.4 Therefore once the Executive has determined which tenderers should be appointed to the frameworks, all tenderers will be issued with written notification of the award decision. A minimum 10 calendar day standstill period will then be observed before the Frameworks are concluded – this period will begin the day after all Tenderers are sent notification of the award decision.
- 6.5 As soon as possible after the standstill period ends, the successful tenderers will be issued with a letter of acceptance.
- 6.6 The Framework Agreements are agreements with providers which set out the terms and conditions under which specific purchasers (“call offs”) can be made through the term of the agreement. Given that the Core Internal Audit Services Framework and the Additional Internal Audit Services Framework have been procured in accordance with the EU Regulations and relevant Standing Orders and Financial Regulations, no formal tendering procedures apply when contracts are called off under the Frameworks and it is also not necessary to go through the full procedural steps in the EU Regulations when calling off a contract.
- 6.7 Where the terms laid down in the framework agreement are sufficiently precise to cover a particular call off, it is possible to award the call off without reopening competition. The call off should be awarded to the provider who is considered to provide the most economically advantageous offer based on the award criteria used when the framework was established.

7 6.8 Pursuant to Part 4 of the Council’s constitution, Chief Officers only have delegated authority to award services contracts up to the value of £500,000. As the call-off under the Core Internal Services Framework technically amounts to an award of contract and the value of the call off is in excess of £500,000, Executive approval is required for the “call-off” and award of the provision of the Core Internal Audit Services to Deloitte and Touche Public Sector Internal Audit Ltd.

7 Diversity Implications

- 7.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications.

8 Background Information

1. Report to the Executive from the Director of Finance and Corporate Resources: Joint Procurement of Internal Audit Services, 10th April 2006
2. Report to the Executive from the Director of Finance and Corporate Resources: Joint Procurement of Internal Audit Services, 17th July 2006

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APPENDIX 2

Summary of evaluation scores

Deloitte and Touche

Section	Total Weighted Score	Maximum Score	Percentage Value for Section	Percentage Mark Awarded
QUALITY:				
Quality of the audit plan and outputs	21	42	15.00%	7.5%
Systems and working methods	64	102	5.00%	3.1%
Indicative resources, staff mix and management	37	71	10.00%	5.2%
Track record	24	39	5.00%	3.1%
Innovative solutions	13	30	2.50%	1.1%
Benchmarking	18	28	2.50%	1.6%
Collaborative approach	38	75	10.00%	5.1%
COST:				
Annual contract sum for core services	31	35	25%	22.1%
Delivery of cashable financial savings	2	3	15%	10.0%
Cost of additional services	6	9	5%	3.3%
Contract administration	11	12	5%	4.6%
Total		446	100%	66.7%

Bentley Jennisson

Section	Total Weighted Score	Maximum Score	Percentage Value for Section	Percentage Mark Awarded
QUALITY:				
Quality of the audit plan and outputs	17	42	15.00%	6.1%
Systems and working methods	49	102	5.00%	2.4%
Indicative resources, staff mix and management	20	71	10.00%	2.8%
Track record	28	39	5.00%	3.6%
Innovative solutions	7	30	2.50%	0.6%
Benchmarking	4	28	2.50%	0.4%
Collaborative approach	23	75	10.00%	3.1%
COST:				
Annual contract sum for core services	19	35	25%	13.6%
Delivery of cashable financial savings	2	3	15%	10.0%
Cost of additional services	6	9	5%	3.3%
Contract administration	8	12	5%	3.3%
Total		446	100%	49.1%

APPENDIX 2 (continued)

PriceWaterhouseCoopers

Section	Total Weighted Score	Maximum Score	Percentage Value for Section	Percentage Mark Awarded
QUALITY:				
Quality of the audit plan and outputs	29	42	15.00%	10.4%
Systems and working methods	67	102	5.00%	3.3%
Indicative resources, staff mix and management	51	71	10.00%	7.2%
Track record	32	39	5.00%	4.1%
Innovative solutions	28	30	2.50%	2.3%
Benchmarking	21	28	2.50%	1.9%
Collaborative approach	47	75	10.00%	6.3%
COST:				
Annual contract sum for core services	19	35	25%	13.6%
Delivery of cashable financial savings	2	3	15%	10.0%
Cost of additional services	4	9	5%	2.2%
Contract administration	11	12	5%	4.6%
Total		446	100%	65.8%