

	<p style="text-align: center;"><b>Executive</b> 11 February 2013</p> <p style="text-align: center;"><b>Report from the Deputy Director of Finance</b></p>
<p style="text-align: right;">Wards Affected: ALL</p>	
<p><b>Internal Audit Contract - 2013 to 2015</b></p>	

## 1. Summary

- 1.1. This report seeks approval for the council to enter into a contract with the London Borough of Croydon for the provision of internal audit services for a two year period from April 2013 to March 2015. The anticipated cost of this contract over two years, including inflationary uplift is £590,000. The Audit Committee endorsed the proposal at its meeting on 9<sup>th</sup> January 2013.

## 2. Recommendations

- 2.1. The Executive give approval for the council to enter into a contract with the London Borough of Croydon to provide internal audit services from April 2013 to March 2015 and to enter into a related third party agreement with Deloitte and Touche Public Sector Internal Audit Ltd.

## 3. Detail

### Background

- 3.1. In April 2011 the Council entered into a contract with the London Borough of Croydon for the provision of internal audit services. The contract was approved by the Executive at its meeting on 15<sup>th</sup> November 2010<sup>1</sup> and ran from 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2013. The gross cost of the contract over the two year period is estimated to be £586,000. The council recovers some £60,000 per annum from Brent Housing Partnership relating to planned audit work.
- 3.2. The London Borough of Croydon entered into a framework agreement (“the Croydon Framework”) with Deloitte and Touche Public Sector Internal Audit Ltd (“Deloitte”) and are able to call off from the Croydon Framework a variable number of days per annum, in order to service the contract with Brent. The

Croydon Framework commenced in April 2008 with an initial term of expiry on 31 March 2015. There was however an option to extend the term of the Croydon Framework and it now runs until March 2018. Croydon currently provide audit services to twenty local authorities, including fourteen in London, via the Croydon Framework. They currently call off some 8,500 audit days from a maximum of 15,000 available days. The contract price is based upon daily rates for different types of audit work. The prices for 2013/14 will not be set until February 2013 although are unlikely to vary significantly from the current rates.

- 3.3. The rationale for entering into this contract in 2011 was documented in an earlier report to the Executive<sup>1</sup>. In summary, the options at the time were to join the Croydon Framework, go out to tender as an individual authority or attempt to recruit an in-house team. The alternate options were seen to be either not cost effective or carry too much risk.
- 3.4. At the time of entering the contract under the Croydon Framework, there was an option to contract for a period of four years. There was no financial advantage in doing so and the Executive agreed to a two year contract on the basis that it would provide an opportunity to review the situation over a shorter time frame. There have been no significant changes in the audit market in the intervening period and the original rationale for using the Croydon Framework remains sound.
- 3.5. The contract has primarily been delivered using staff from Deloitte who had previously been contracted directly by the council on a four year contract between 2007 and 2011. This has provided a degree of continuity and has enabled managers within Deloitte to become familiar with the systems and structures within the council. Over the two year period between 2011 and 2013, Deloitte have delivered some 1,900 audit days. Whilst there have been some concerns over performance, these have been resolved during the relevant period. Auditees within the council and BHP appear satisfied with the service, as evidenced by satisfaction surveys issued after each audit. Schools are generally less happy with the internal audit service although their concerns tend to relate to the assurance assessment by audit rather than the competence or conduct of staff.
- 3.6. The audit plan for 2013/14, which will determine the number of days required to be procured and hence the cost, has not yet been developed and would normally be presented to the audit committee for approval in February 2013. Whilst the council's expenditure is shrinking and some services will reduce over the next two year period, the risks remain significant. Although the contract allows flexibility in the number of days being procured, for the purposes of this report it would be prudent to allow for a similar number of audit days. The maximum anticipated cost to the council is, therefore, likely to be £590,000 over the two year period.
- 3.7. This proposal was discussed and endorsed by the Audit Committee at its meeting on 9<sup>th</sup> January 2013<sup>2</sup>.

#### **4. Financial Implications**

- 4.1 The Council's Contract Standing Orders state that contracts for supplies and services exceeding £500,000 or works contracts exceeding £1million shall be referred to the Executive for approval to invite tenders and in respect of other matters identified in Standing Order 89.
- 4.2 The estimated value of this services contract is £590,000.
- 4.1. It is anticipated that the cost of this contract will be funded from existing resources.

#### **5. Staffing Implications**

- 5.1. Internal audit services are currently provided by a combination of Deloitte staff and staff employed by the council. As it is intended to retain the in-house provision, there will be no staffing implications for Council staff.

#### **6. Legal Implications**

- 6.1. The estimated value of an outsourced contract over its lifetime is in excess of the current EU threshold for Services and the nature of these services means they fall within Part A of Schedule 3 of the Public Contracts Regulations 2006 ("the EU Regulations"). The tendering of the services is therefore governed in full by the EU Regulations. As the estimated value of the contract over its lifetime is in excess of £500k, the procurement and award of the contract is subject to the Council's own Standing Orders in respect of High Value Contracts and Financial Regulations.
- 6.2. It is proposed that the council procure the majority of its internal audit services through the Croydon Framework. Contract Standing Order 86 (d) indicates that no formal tendering procedures apply where contracts are called off under a framework agreement established by another contracting authority where the framework agreements is recommended by the relevant Chief Officer to include confirmation that there is budgetary provision for the call-off, provided that the Borough Solicitor has advised that participation is legally permissible save that any High Value contract may only be awarded on the approval of the Executive.
- 6.3. The Croydon Framework has been set up with Croydon acting as a Central Purchasing Body. Regulation 22(2) of the EU Regulations permits the Council as a contracting authority to enter into a contract for services with any other contracting authority provided such contracting authority is acting as a Central Purchasing Body and in carrying out the procurement exercise in question, has fully complied with the Public Contracts Regulations 2006. Croydon is acting as a Central Purchasing Body under the Croydon Framework and has informed the council that it has fully complied with the Public Contracts Regulations 2006 in concluding the Croydon Framework. It would thus appear that the council is able to use the Croydon Framework
- 6.4. To use the Croydon Framework requires the following contractual agreements:

- a) main contract between Croydon and Deloitte - This is the agreement that Croydon entered into with Deloitte following a full tender process for the provision of up to 15,000 audit days per annum (covering all routine audit work and fraud work). This contract commenced 1 April 2008 and runs for 10 years.
- b) sub contract between Brent and Croydon - Underlying this main contract would be a sub contract between the Brent and Croydon, whereby Croydon would undertake to provide Brent with a number of audit days as per its requirement / specification. Croydon would be responsible for delivering the services using their main contract with Deloitte. Croydon would charge Brent at the same contract day rates for any work they undertake in managing and monitoring this contract (the number of days would be agreed in advance each year and would be kept to the absolute minimum necessary).
- c) third party agreement between Brent and Deloitte - This agreement is necessary to ensure that the process remains as stream lined as possible at the operational level and allows existing working practices to continue as far as is required. This agreement would enable Deloitte to issue all audit reports direct to Brent rather than via Croydon

## **7. Diversity Implications**

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

### **Background Information**

1. Report to the Executive from the Director of Finance and Corporate Services: Internal Audit Provision 2011 onwards, 15<sup>th</sup> November 2010
2. Report to the Audit Committee from the Deputy Director of Finance and Corporate Resources: Internal Audit Contract 2013 – 2015, 9<sup>th</sup> January 2013

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