

Report for: Cabinet, 9 February 2016

Item number: 15

Title: Provision of Internal Audit Services, extension of existing contract.

Report authorised by: Assistant Director of Corporate Governance

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Key decision

1. Describe the issue under consideration

1.1 Haringey Council, under the Local Government Act 1972, has a statutory duty to maintain an adequate and effective internal audit service. To fulfil this requirement, the majority of the Council's internal audit service is currently provided under a framework agreement managed by Croydon Council and delivered by Mazars Public Sector Internal Audit Ltd (Mazars).

2. Cabinet Member Introduction

2.1 A strong internal audit service is critical to supporting the effectiveness of the council to deliver the Corporate Plan. I support the recommendations of this report based on the performance of the current contract and the fact that it represents good value for money.

3. Recommendations

3.1 That approval is granted for an extension from 1 April 2016 to 31 March 2018 of the Council's existing contract with the London Borough of Croydon to provide, by means of their Audit Services Framework Agreement, audit resources to deliver the Internal Audit service for the Council for an estimated value of £510k.

4. Reasons for decision

4.1 A one year contract extension from 1 April 2015 to 31 March 2016 was approved under delegated authority in December 2014; a one year extension was agreed in order to assess the continuing effectiveness of the contract. New management arrangements have been put in place by Mazars to deliver the service and the contract has satisfied the statutory and performance criteria required; therefore it is recommended that the option to extend for the remaining 2 year period available under the Croydon framework contract is taken up.

4.2 An extension of the contract for 12 months was approved in December 2014 by the Assistant Director of Corporate Governance. However, given the value of the extension now proposed for the remaining two years of the framework, approval for the extension is required at Cabinet level in accordance with CSO 10.02.2.

4.3 The framework contract with Croydon Council represents good value for money for Haringey in terms of service provision and costs; and therefore the extension to the existing contract is recommended.

5. Alternative options considered

5.1 Option 1 – Full Open Tender

The potential contract values involved for this length of contract would require a full re-tender following European procurement legislation unless an acceptable alternative procurement route is used e.g. an appropriate framework agreement. Haringey alone undertaking a tendering procedure under EU rules is not recommended, as recent assessments of the current market confirmed that taking an independent procurement route in this way would be resource-intensive and unlikely to achieve better results in terms of value for money than the other options available.

5.2 Option 2 – Alternative Framework contract

There is another framework agreement established by a London authority in 2014/15 for the provision of internal audit services and other local authorities are included in the list of organisations eligible to use the framework. The framework is delivered by another private sector contractor, but the daily rates quoted are substantially higher than those currently paid by the Council under the London Borough of Croydon framework contract.

5.3 Option 3 – In-house Provision/Shared Service with another authority

Haringey Council has no in-house internal audit resources. The experience of other London councils has proved that it is highly unlikely that an in-house resource could be recruited and retained to deliver the Council's internal audit service. All London boroughs have outsourced their internal audit service to some extent and none are looking to bring this service fully back in-house due to the ongoing costs of recruitment, retention and training. Some London authorities have adopted a 'shared service' model for the provision of their audit services, joining audit resources to provide greater resilience for their in-house service. However this has always, to date, been in conjunction with a private sector provider to supplement the in-house resources. Haringey does not have any in-house internal audit resources, so this option has not been considered to date.

5.4 It is proposed to review these options above during the two year extension as different service delivery models and options evolve. It may be more economically advantageous in the future to consider a different approach, but at the present time, this would not represent good value for money for the Council.

6. Background information

- 6.1 Haringey Council, under the Local Government Act 1972, has a statutory duty to maintain an adequate and effective internal audit service. To fulfil this requirement, the majority of the Council's internal audit service is currently provided under a framework contract let and managed by the London Borough of Croydon. Mazars Public Sector Internal Audit Ltd (Mazars) delivers the service as the sole framework provider under the London Borough of Croydon framework contract.
- 6.2 The original framework contract has been in place since 2008; Haringey joined the framework after the expiry of its stand alone contract on 1 April 2012. Subsequently the London Borough of Croydon Framework Agreement was extended from the framework's initial seven year duration for a further 3 years, until 31 March 2018, as allowed for in the initial OJEU notice initiating the tender of the framework.
- 6.3 Haringey Council has an option to extend the current contract until 31 March 2018 in accordance with the Croydon extension as approval for this was granted by the Cabinet Procurement Committee decision on 12 January 2012: <http://www.minutes.haringey.gov.uk/ieListDocuments.aspx?CId=153&MId=5367&Ver=4>
- Minutes:**
The Committee considered a report seeking approval to enter into a contract with LB Croydon and to subsequently access their supply chain Audit Services Framework Agreement to provide audit resources to deliver a statutory internal audit service following expiry of the current contract with Deloitte in March 2012. Confirmation was provided that the recommended option was more cost effective than extending the current contract and was forecast to deliver a £10k annual saving against the current audit plan. It was also noted that LB Croydon served as the contracting authority and would therefore be accountable for any contract issues.
- RESOLVED**
- *That approval be granted to enter into a contract with the London Borough Croydon, to use their Audit Services Framework Agreement, from April 2012 to 31 March 2015 to provide audit resources to deliver the Internal Audit service for the Council.*
 - *That should the Croydon framework contract be extended in compliance with the EU regulations and satisfactory contract performance is maintained, approval be granted for the Council to extend its contract with the London Borough Croydon and associated framework agreement.*
- 6.4 Performance and quality has been satisfactory from Mazars and the s151 Officer's requirements have been met in respect of the internal audit function. The Council's external auditors, Grant Thornton, have relied fully on the work completed by Mazars, thereby making this contract cost effective as no additional external audit costs are incurred to complete extra controls/assurance testing. Monthly contract monitoring meetings are held to ensure costs are kept under review and quality is maintained.
- 6.5 It is therefore recommended that the Council extend the current framework contract with Croydon Council for two years from 1 April 2016 to 31 March 2018. There is no minimum number of days required to be purchased under the

framework contract, so the Council has flexibility to amend the number of days purchased (subject to budgetary constraints).

- 6.6 This extension will allow a further assessment of the market for the provision of internal audit services and related costs.

7. Contribution to strategic outcomes

- 7.1 The provision of an internal audit function is a statutory requirement under the 1972 Local Government Act. However, the internal audit service makes a significant contribution to providing assurance about the adequacy and effectiveness of internal control throughout the Council, which covers all strategic Priority outcomes.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance

- 8.1.1 The total costs of the contract can be contained within the Audit and Risk Management revenue budget.

8.2 Procurement

- 8.2.1 Procurement does appreciate that the option for the Council to procure the service through a full OJEU process in line with the applicable EU procurement regulations is a costly and timely process and is unlikely to offer any further savings.

8.3 Legal

- 8.3.1 This report is seeking approval for the extension of an existing contract with the London Borough of Croydon for provision of audit services via a framework contract with sole framework provider, Mazars.
- 8.3.2 This contract with Croydon was previously approved by the Cabinet Procurement Committee in January 2012 for 3 years with a provision for extension provided that Croydon's framework contract was duly extended beyond that period and subject to satisfactory contract performance. As reported in paragraph 6, Croydon's framework contract has been extended through to 31 March 2018. This was allowed for in the original OJEU notice advertising the tender for that framework.
- 8.3.3 In December 2014, an initial one-year extension of the Council's contract to 31 March 2016 was approved under delegated authority. As the further 2 year extension currently proposed is for an estimated value of over £500k, approval for it must now be sought from Cabinet under CSO 10.2.2.
- 8.3.4 Subject to the further comments in paragraph 2 of the exempt information, there are no legal reasons preventing approval of the recommendation in paragraph 3 of this report.

8.4 Equality

8.4.1 The aim is to ensure that good services provided on behalf of the Council not only meet the fit-for-purpose and value-for-money criteria but also meet the needs of Haringey service users in all their diversity. This requirement applies in essence to services with outwards focus to the community and less so to services supporting internal Council processes such as an audit service. This requirement is not applicable in this contract.

9. Use of Appendices

Exempt Appendix 1

10. Local Government (Access to Information) Act 1985

This appendix is not for publication as it contains information classified as exempt under Schedule 12A of the Local Government Act 1972 under the following categories:

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

(5) information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

