

Report for: Cabinet 16th January 2018
Title: Contract for the supply of Internal Audit Services

Report authorised by : Bernie Ryan
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Ward(s) affected: All

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

1. Describe the issue under consideration

- 1.1 Haringey Council's internal audit service is currently provided via a framework agreement let by Croydon Council and delivered via Mazars Public Sector Internal Audit Ltd (Mazars).
- 1.2 The current contract with Croydon Council has been in place since 1 April 2012 and is due to expire on 31 March 2018. The framework agreement has been extended previously and there is no further extension available under EU procurement rules.
- 1.3 It is therefore necessary to consider how the internal audit service will be delivered from 1 April 2018 onwards in order to comply with statutory requirements and achieve the best value for money for the Council.

2. Cabinet Member Introduction

- 2.1 I am in agreement with the report's recommendations.
- 2.2 It is evident that the Procurement team identified and studied numerous options for the Council's Internal Audit Service and that the partnership with the London Borough of Croydon was recommended only after the completion of a thorough and exhaustive procurement process.
- 2.3 I believe that the recommended course of action will protect the Council's interests in terms of value and contract flexibility.

3. Recommendations

- 3.1 For Cabinet to approve:
 - 3.1.2 the Council entering into contract with Croydon Council, by means of their Audit Services Framework Agreement, from 1 April 2018 for six years to provide audit resources to deliver the Internal Audit service for Haringey Council at a total cost of £1.5m over the duration of the contract; and

3.1.3 if the Croydon Council framework contract is extended in compliance with the EU regulations (up to a maximum of two years), and satisfactory contract performance is maintained, it is further recommended that the Council extends its contract with Croydon Council and associated framework agreement up to a maximum of two years, subject to compliance with Haringey Council's Constitution. The total value of the contract for the 8 year period will be £2m.

4. Reasons for decision

4.1 The current internal audit contract commenced on 1 April 2012 and is due to expire on 31 March 2018. Internal audit is a statutory function which Haringey Council is required to maintain. It is therefore necessary to ensure that an appropriate internal audit service is in place from 1 April 2018, to ensure ongoing compliance with statutory requirements.

5. Alternative options considered

5.1 Five options have been considered and these are set out below.

5.2 It should be noted that experience 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 in its entirety. 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 specialist audit training required.

5.3 Option 1 – OJEU Open Tender

5.3.1 The potential contract values involved for this length of contract would require a full re-tender following European procurement legislation, commonly known as the OJEU rules, unless an acceptable alternative procurement route is used e.g. an appropriate framework agreement. The full open tender approach by Haringey alone is not recommended as 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.

5.4 Option 2 – Crown Commercial Services (CCS)

5.4.1 This is a framework agreement established by central government for the provision of internal audit services under their Management Consultancy Framework. Although geared towards provision within Central Government, local authorities are included in the list of organisations eligible to use the framework. The framework includes the provision of services from all the main providers of Local Government internal audit, namely: BDO LLP, Deloitte LLP, Ernst & Young LLP, Grant Thornton LLP, KPMG LLP, Mazars LLP, PWC LLP, and RSM Tax and Accounting PLC.

5.4.2 To utilise the framework it would be necessary to conduct a 'mini-competition' between the contractors. While this option would ensure that the market is tested, it is considered that, as with the full tender (option 1 above), it is unlikely that the relatively small number of audit days Haringey would require would attract better rates than those available under the Croydon Council Framework. The current indicative standard daily rates quoted by each of the contractors within the overall government framework are higher than those currently paid by the Council under the Croydon Council Framework.

5.5 Option 3 – Shared Service with another local authority

5.5.1 A number of London boroughs have entered into shared service arrangements to deliver their statutory internal audit service in recent years. Some of these arrangements form part of large shared arrangements covering a range of different council services, while others only cover internal audit arrangements.

5.5.2 In the longer term, it might be beneficial for the Council to consider shared service arrangements if issues with the existing and contractual delivery of internal audit services are identified. In such circumstances, shared service arrangements might provide:

- **Improved resilience** – less reliance on the external audit delivery partner to provide audit resources to the council;
- **Access to specialist internal auditors** – most councils would not have sufficient work to justify employing these to work solely at one authority;
- **Contract options** – explore alternative arrangements, including other frameworks, shared services etc.;
- **Career opportunities** – developing and retaining in-house audit staff to avoid reliance on external contractors; offering experience and training across one or more councils may attract higher calibre candidates;
- **Savings opportunities** – ongoing financial constraints mean councils look to review how services are delivered; exploring alternative arrangements may reduce overall costs across authorities.

5.5.3 A small number of the shared service arrangements have since reverted back to stand-alone internal audit services for their respective authorities; this has been for various reasons including: a recognition that the Head of the Shared Internal Audit Service had less capacity to be involved in corporate projects than in the past; service delivery arrangements had not met expectations; and strategic arrangements had changed.

5.5.4 At a time when Haringey Council is undergoing significant organisational and service changes, the level of risk exposure is increased and therefore it is critical that an adequate level of internal audit work maintained to ensure new working systems and processes are implemented effectively across the organisation and relevant assurance is provided; and that sufficient senior level audit resources are available to support officers and members.

5.6 Option 4 – Alternative Framework contract

5.6.1 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 paid by the Council under the London Borough of Croydon framework contract. This alternative framework is due to end in 2018/19 and no information is available at present on what arrangements will be in place following the end of its current term. For these reasons, use of this framework has not been considered as part of this evaluation.

5.7 Option 5 – Croydon Council Framework Agreement

- 5.7.1 This option involves the Council using the framework agreement procured by Croydon Council. Croydon Council tendered for a single supplier framework agreement to take effect from 1 April 2018. The tender process was run as an OJEU open procedure (ref: 279176-2017); Croydon Council has confirmed that the framework agreement has been tendered in compliance with EU Procurement Regulations. Croydon Council's framework agreement is delivered by a single supplier, Mazars Public Sector Audit Limited (Mazars), Haringey's current supplier. Haringey Council's Legal Services and Corporate Procurement Services have reviewed the OJEU notice to confirm that Haringey Council would be able to participate in the Croydon Council framework agreement.
- 5.7.2 This is a shared services model, whereby Croydon Council is the contracting authority (and therefore the service provider) and will call off a contract on behalf of the authorities which participate in the framework agreement. The framework agreement is structured to provide cheaper daily rates for audit services as more authorities join the framework. The contract is structured as a call-off and, as such, offers Haringey Council maximum flexibility in terms of the number of days purchased in any year, with no requirement to purchase a minimum number of days.
- 5.7.3 The framework agreement rates are based on different daily rates for the various audit areas such as IT; Contract; and General audit (including Schools). This is in line with the Council's current contract. The daily rate costs in the new framework are higher than the current costs: general audit by 11.7% and ICT audit days by 3.8%. It should be noted that the existing framework rates have remained largely unchanged over its 10-year duration and general audit day rates are only 0.8% higher than they were at the start. The proposed daily rates still represent good value for money for the Council.
- 5.7.4 The framework agreement rates will be subject to review and a Retail Prices Index-linked increase in April each year. Over the six-year period, the contract value is expected to be £1.5m for Haringey Council. The internal audit service for Homes for Haringey is provided via the current framework contract and Homes for Haringey have confirmed that they wish to retain the current arrangements for the new framework contract. Additional audit days delivered to Homes for Haringey will be subject to a formal Service Level Agreement; these days will be in addition to those provided to the Council.
- 5.7.5 There are clear administrative benefits in retaining the services of our existing supplier as they are fully conversant with the Council's operational arrangements, systems and processes as well as the standard of work the Council expects and will therefore provide staff with the requisite skills.
- 5.7.6 As stated at 5.7.2 above, the contract for the internal audit service would be between Haringey Council and Croydon Council; it is being recommended that Haringey Council enter into a contract for a six-year period from 1 April 2018, with the option to extend for a further two years subject to compliance with EU regulations and satisfactory contract performance.
- 5.7.7 The framework agreement, whilst in theory being 'managed' by Croydon Council, is delivered through Mazars, the Council's current provider. It is considered highly likely, although not guaranteed, that the current provider

would continue to utilise staff working on the existing Haringey contract, thus retaining their accumulated knowledge about the Council.

5.7.8 Contract payment and monitoring arrangements. Croydon Council will invoice Haringey Council for the audit work completed in accordance with the framework agreement's daily rates and Haringey Council will undertake regular contract monitoring and review meetings with Croydon Council. Regular group meetings of the existing framework users already take place and it is envisaged that these will continue under the new framework agreement to ensure service developments and operational arrangements are satisfactory. Monthly contract monitoring review meetings take place under the current contract to ensure compliance with terms and conditions of the contract, including performance and output standards; and locally agreed performance and reporting arrangements. These meetings will continue under the proposed new contract.

5.7.9 The following outlines the contractual arrangements which would be in place if the council were to use the Croydon Council framework agreement:

a) Croydon Council and Mazars

This is the framework agreement onto which Croydon Council appointed Mazars following a full tender process for the provision of internal audit and anti-fraud services. This framework agreement is due to commence on 1 April 2018 and run for six years, with an option to extend for a further two years.

b) Contract between Haringey and Croydon Council

A contract will be established between Haringey and Croydon councils, whereby Croydon would undertake to provide Haringey with a number of audit days as per its requirement/ specification. Croydon Council would be responsible for delivering the services by calling-off a sub-contract from their framework agreement with Mazars. Croydon Council would charge Haringey 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).

c) Letter of engagement between Haringey Council and Mazars

This agreement is necessary to ensure that the process remains as streamlined as possible at the operational level and allows existing working practices to continue as far as is required. This agreement would enable Mazars to issue all audit reports direct to Haringey Council, rather than via Croydon Council.

6. Background information

6.1 Internal audit is a statutory service and has to be provided in accordance with the Accounts and Audit Regulations 2015 which require that "a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".

6.2 It is the S151 Officer's responsibility to ensure that an appropriate level of internal audit work is undertaken to fulfil this statutory requirement. There is no clearly defined minimum statutory level set; this is a professional judgement made by the S151 Officer and the Head of Audit and Risk Management to

ensure that there is sufficient audit coverage on which to base assurance on the Council's overall control environment and on which External Audit can rely.

- 6.3 Internal audit delivers an annual audit plan, undertaking audit work across all the Councils' services. The plan is a mix of risk based, compliance and systems based audit and includes IT audits, key contracts, schools and other establishments.
- 6.4 Since 1 April 2012, the Council's internal audit service has been delivered via the current Croydon Council framework contract, following approval by the Cabinet Procurement Committee. Approximately 800 days of audit days per annum have been purchased each year over the period of the contract, although this has reduced to ensure expenditure is kept within budget. A counter-fraud team, which undertakes both reactive and pro-active investigations, is also in place within Audit and Risk Management. The counter-fraud team also contributes to the identification and rectification of system weaknesses across the Council and within schools. This level of internal audit and counter-fraud work has enabled the Head of Audit and Risk Management and the S151 Officer to confirm compliance with their statutory requirements; and enable the Council to fulfil its requirements as part of the Annual Governance Statement process to confirm an adequate and effective internal audit service is in place. In addition, no significant issues with regard to the internal audit service have been highlighted by the Council's external auditors.
- 6.5 The Council's internal audit service must be able to adapt to the changing and emerging risks facing Haringey and provide appropriate assurance to senior officers and members. Poor quality audit work can lead to the provision of audit assurance to senior managers which is incorrect and could ultimately result in key control weaknesses having a detrimental effect on the achievement of objectives and/or resulting in an inefficient use of resources; at worst, it could result in a fraud being committed.
- 6.6 Audit and Risk Management's current budget allows for an appropriate level of risk based audit assurance work to be undertaken to fulfil statutory requirements. Although the increase in daily rates will reduce the number of days purchased in 2018/19, the audit plan focuses on the key risks and control environment over all services, supplemented by work by the Fraud Team, therefore it is still considered that the statutory and assurance work can be completed within existing budgets.

7. Contribution to strategic outcomes

- 7.1 The internal audit work makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

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

8.1 Chief Finance Officer

- 8.1.1 The Council's Contract Standing Orders state that a contract for supplies and services exceeding £500k is a key decision which should be included in the Council's Forward Plan and approved by the Council's Cabinet.

8.1.2 The budget for internal audit services is contained within Audit and Risk Management's revenue budget; the costs of the contract can be contained within the available budget resources.

8.2 Head of Procurement comments

8.2.1 The Croydon framework agreement allows for Haringey Council to contract for the internal services and prescribes the contract arrangement between the Council, Croydon Council and Mazars. The agreement allows for a direct instruction and reporting relationship with Mazars to ensure simplicity and efficiency of operation.

8.2.2 Although the options of the council running an OJEU tender and working with an alternate framework were investigated it is considered that that Croydon framework agreement will offer the best method for contracting for the internal audit services.

8.2.3 Procurement therefore support the decision to award the contract under the Croydon framework as it will offer the best value for money.

8.3 Legal

8.3.1 The Assistant Director of Corporate Governance notes the contents of the report.

8.3.2 Under the Public Contracts Regulations 2015 (the "Regulations") (as amended) the term of a framework agreement should not exceed 4 years save in exceptional circumstances. The term of the Croydon framework is for an initial period of 6 years with an option to extend for a further period up to 2 years. The reasons for the duration of the framework beyond 4 years were stated in the OJEU contract notice as best value considerations and to address any potential investment required by the provider. The Assistant Director of Corporate Governance notes that there have been no challenges to the duration of the Croydon framework, and is of the view that the duration of the Croydon framework beyond 4 years is in compliance with the Regulations.

8.3.3 This is a key decision and the Service has confirmed it is on the Forward Plan.

8.3.4 The Assistant Director of Corporate Governance sees no legal reasons preventing Cabinet from approving the recommendations in the report.

8.4 Equality

8.4.1 The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
- advance equality of opportunity between people who share those protected characteristics and people who do not;

- foster good relations between people who share those characteristics and people who do not.

8.4.2 There are no specific equality implications for the Council; as contracted providers of Haringey Council, the awarded internal audit services will be required to demonstrate a strong commitment to equality and fairness in their actions and work practices, and adherence to the Equality Act 2010

9. Use of Appendices

N/A

10. Local Government (Access to Information) Act 1985

N/A