



Haringey Council

Report for:	Cabinet Procurement Committee 12 January 2012	Item number	
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Title:	Contract for the supply of Internal Audit Services
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Report authorised by :	Director of Corporate Resources <i>J. Raw 3/1/12</i>
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Lead Officer:	Anne Woods, Head of Audit & Risk Management
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Ward(s) affected: All	Report for Key Decision
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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 contract by Deloitte and Touche Public Sector Internal Audit Ltd (Deloitte).

1.2 The current contract has been in place since April 2007 and is due to expire on 31/03/12. It is therefore necessary to consider how the service will be delivered from 2012/13 onwards in order to comply with statutory requirements and achieve the best value for money for the Council. The Council does have an option to extend the current contract for a further 12 months, but the daily rates to be applied to the extension would exceed the recommended option included in this report.

2. Cabinet Member Introduction

2.1 I concur with the recommendations of this report. This recommendation is based on cost efficiency, current experience, and performance in current contracts.



3. Recommendations

3.1 That in line with Option 3 outlined in the report below, a contract is entered into with the London Borough of Croydon, by means of their Audit Services Framework Agreement, from 1 April 2012 to 31 March 2015 to provide audit resources to deliver the Internal Audit service for the Council.

3.2 If the Croydon framework contract is extended in compliance with the EU regulations, and satisfactory contract performance is maintained, it is further recommended that the Council extends its contract with London Borough of Croydon and associated framework agreement.

4. Other options considered

4.1 As the existing contract with Deloitte comes to an end on 31st March 2012, and the cost of taking up the 12 month extension exceeds the recommended option, a replacement needs to be put in place. Three options have been considered and these are set out below.

4.2 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. 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.

Option 1 - Full Open Tender

4.3 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 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.

Option 2 – Government Procurement Service (GPS)

4.4 This is a framework agreement established by central government, (formerly OGC Buying Solutions) for the provision of internal audit services. 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: Deloitte, PWC and RSM Tenon PLC. To utilise the framework it would be necessary to conduct a 'mini-competition' between the contractors.



4.5 The time scales for such an exercise would be at least two months and would require Council-specific tender documents and specifications to be created prior to the exercise. While this option would ensure that the market is fully tested, it is considered that, as with the full tender (option 1), it is unlikely that the relatively small number of audit days Haringey would require would attract better rates than those available under the Croydon Framework. The current indicative standard daily rates quoted by each of the contractors within the overall Buying Solutions framework are higher than those currently paid by the Council, or available under the Croydon Framework.

Option 3 – London Borough of Croydon & associated Framework Agreement

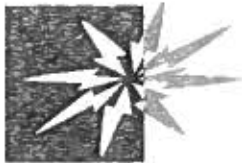
- 4.6 This option involves the Council using the framework agreement procured by the London Borough of Croydon. LB Croydon tendered for a single supplier framework agreement to take effect from 1 April 2008. LB Croydon has confirmed that the framework agreement has been tendered in compliance with EU Procurement Regulations. The LB Croydon's framework agreement is delivered by a single supplier, Deloitte and Touche, Haringey's current supplier. Haringey Council's Legal Services and Corporate Procurement Services have reviewed the OJEU notice to confirm that the Council would be able to participate in the framework agreement.
- 4.7 This is a shared services model, whereby LB Croydon 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. LB Croydon will invoice the Council for the audit work completed in accordance with the framework daily rates and the Council will undertake regular contract monitoring and review meetings with LB Croydon. Regular group meetings of the current framework users already take place and it is envisaged that the Council will participate in these to ensure service developments and operational arrangements are satisfactory.
- 4.8 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 framework rates are slightly lower, by approximately 5%, than the rates under our current contract for all areas apart from IT audit which is approximately 8% per day higher. However, the majority of the days in the current annual audit plan relate to the general rate, so total costs



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would be lower than the current contract costs by approximately £10k, based on current usage of 1000 audit days.

- 4.9 The framework agreement rates will be subject to a Retail Prices Index-linked increase in April 2012 but as stated above, the rates are subject to a discount scheme as more local authorities join the contract. LB Croydon currently estimates that daily rates will not increase significantly from April 2012, countering the inflationary uplift. The contract is structured as a call-off and, as such, offers the Council maximum flexibility in terms of the number of days purchased in any year, with no requirement to purchase a minimum number of days. Currently 19 London authorities participate in the framework agreement.
- 4.10 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.
- 4.11 As stated at 4.7 above, the contract for the internal audit service would be between the Council and LB Croydon. As the current framework agreement is scheduled to last until 31 March 2015, it is being recommended that the Council enter into a contract for a three year period, or if LB Croydon extends the framework agreement, up to 31 March 2018.
- 4.12 The framework agreement, whilst in theory being 'managed' by LB Croydon, is delivered through Deloitte and Touche, the Council's current provider, in accordance with the auditing approach which it currently uses in Haringey. 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.
- 4.13 The following outlines the contractual arrangements which would be in place if the council were to use the LB Croydon framework agreement:
- a) LB Croydon & Deloitte
This is the framework agreement onto which Croydon appointed 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 framework agreement commenced 1 April 2008 and runs for seven years, with an option to extend for a further three years.
 - b) Contract between Haringey and LB Croydon
A contract will be established between Haringey and Croydon, whereby Croydon would undertake to provide Haringey with a



number of audit days as per its requirement/ specification. Croydon would be responsible for delivering the services by calling-off a sub-contract from their framework agreement with Deloitte. Croydon 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 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 Haringey Council, rather than via LB Croydon.

5. Background information

- 5.1 In April 2007, the Council entered into a contract with Deloitte Public Sector Internal Audit Ltd (Deloitte) for the provision of internal audit services. This contract was awarded following a single tender exercise, but also included the internal audit service for Homes for Haringey. The contract was approved by the Cabinet Procurement Committee at its meeting on 13 February 2007 and runs from 1st April 2007 to 31st March 2012. The total cost of this contract over the five year period is estimated to be £1.6m.
- 5.2 The contract price was based on the delivery of approximately 1000 – 1100 audit days per annum. The small in-house team (two staff) undertook reactive fraud investigation work, plus a range of other audit and grant certification work as well as managing the Deloitte contract. In 2011/12, the agreement with Deloitte was to deliver 1000 internal audit days. During 2011/12, Audit and Risk Management has been re-organised and it now includes the Housing Benefit Fraud Investigation Team and resources to support the in-house team and create a corporate anti-fraud team undertaking pro-active counter-fraud work.
- 5.3 The Director of Corporate Resources, as the s151 Officer, has a statutory duty to ensure that the Council has an adequate and effective internal audit service. CIPFA benchmarking data for 2011 suggests that the number of internal audit days (compared to the Council spend) is lower than average when compared to Councils across London. However, this is mitigated by having a counter-fraud and investigation team within Audit and Risk Management. In carrying out reactive and pro-active fraud investigations, this team contributes to the identification and rectification of system weaknesses across the Council and within schools.
- 5.4 The current economic climate and significant organisational change which is ongoing across the Council would suggest that a reduction in



the number of internal audit days would not be prudent. It is therefore proposed that there is no reduction in the number of internal audit days purchased for 2012/13. The future contract will be flexible to allow for a review of days purchased depending on the risk and control environment over the next few years.

5.5 Since the current Deloitte contract was awarded by Haringey, the London Borough of Croydon has entered into a separate framework agreement with Deloitte and has offered to provide up to 15,000 audit days to other local authorities via this framework agreement (the Croydon Framework). This has been available from 1st April 2008 and is due to expire on 31st March 2015, although Croydon does have an option to extend it by a further 3 years until 31st March 2018. Authorities wishing to join this arrangement would contract directly with the London Borough of Croydon although internal audit services would effectively be delivered by Deloitte staff and managed by the procuring authority.

6. Comments of the Chief Financial Officer and Financial Implications

6.1 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 Procurement Committee.

6.2 The budget for the contract is within the Audit and Risk Management revenue budget. Entering into the Croydon contract will allow the current level of service to be maintained, reducing the risks to the Council and ensure that costs are contained within current budget constraints.

6.3 If the current contract rate differential between the Council and the Croydon framework were to be maintained, and the same numbers of days (1000) were to be purchased for 2012/13, the Council would save approximately £10k on current contract costs.

6.4 Budget for the current contract in 2011/12 is £292k. Costs of the current contract, which were agreed in 2007, are approximately £330k. The budget shortfall is being managed within the Audit and Risk Management service as a whole. This will be resolved for 2012/13 and the new contract as the budgets within Audit and Risk Management will be reviewed and realigned.

7. Head of Legal Services and Legal Implications

7.1 The estimated value of this 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 internal audit services is therefore governed in full by the EU Regulations



7.2 The Council's Internal Audit section has confirmed that Croydon Council has tendered for a Framework Agreement for internal audit services pursuant to Reg 19 of the EU Regulations. Pursuant to this tender Deloitte and Touche has been appointed to a single supplier framework agreement. It is proposed that the Council enters into a contract with Croydon Council for the delivery of the services under the Framework Agreement, and that Deloitte and Touche is a sub-contractor to LB Croydon.

7.3 As the estimated value of the contract is in excess of £500k, the procurement and award of the contract is classed as a 'key' decision and it is therefore necessary that it is included in the Forward Plan.

7.4. See further Head of Legal Services comments in the exempt part of the report

8. Equalities and Community Cohesion Comments

8.1 The aim is to ensure that good, services or works 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. Head of Procurement Comments

9.1 The proposed arrangement requires Haringey Council to enter into a contract with the London Borough of Croydon in accordance with their shared service offer for Internal Audit services.

9.2 London Borough of Croydon would then sub-contract Haringey's requirements to their single supplier framework agreement provider, currently Deloitte and Touche, as tendered through OJEU in December 2007.

9.3 This relationship would principally hold LB Croydon accountable for any contract issues.

9.4 Contract performance monitoring arrangements are in place.

10. Policy Implications

10.1 There are no direct implications for the Council's existing policies, priorities and strategies.

11. Use of Appendices



Haringey Council
11.1 N/A

12. Local Government (Access to Information) Act 1985
12.1 N/A