

Report Title: **Procurement of Internal Audit Services**

Forward Plan reference number (if applicable): **N/A**

Report of: **Acting Director of Finance**

Ward(s) affected: **All**

Report for: **Non-key decision**

1.0 Purpose

1.1 To inform Members of the procurement process undertaken to appoint a provider for the Council's internal audit services from 1st April 2007, and to obtain approval from Members to award the contract to the selected provider.

2.0 Introduction by Executive Member

2.1 I concur with the recommendations of this report. This recommendation was based on the basis of cost, current experience, service improvement and performance in current contracts.

3.0 Recommendations

3.1 That Members approve the award of contract for the provision of internal audit services to the contractor outlined at paragraph 2.5 of Part B under Contract Standing Order 11.03.

3.2 That the contract be awarded for a period of five years, with effect from 1st April 2007, with the option to extend for a further one year.

Report Authorised by: **Gerald Almeroth**



Acting Director of Finance

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4 Executive Summary

4.1 Haringey Council is required to maintain an adequate internal audit service under the Accounts and Audit Regulations. The majority of the current provision of Haringey Council's internal audit service has been in place since November 2001 and the contract is due to expire on 31/03/07. Following recommendations made by the Council's Audit Committee in July 2006, that the existing balance of

work between in-house and contracted out services be retained, a full tender exercise was carried out in accordance with OJEU regulations and the Council's current contract Standing Orders.

4.2 The tender specification required that organisations submit tenders for the entire contract. This approach was taken to ensure that only organisations which had the appropriate skills and experience would be considered and avoid any duplication in contract management resources.

4.3 A total of four organisations subsequently returned tenders which were evaluated to ensure that they complied with the tender specification. A fifth organisation submitted a tender after the deadline for return and was therefore excluded from any evaluation. A full evaluation, including interviewing all relevant organisations, was then undertaken in accordance with the criteria and procedures outlined in the tender specification.

4.4 Following the analysis of tender documentation and further interview process, it is recommended that internal audit services are obtained from the contractor outlined at paragraph 2.5 of Part B. This organisation's proposals represent the most economically advantageous tender submission.

5.0 Reasons for any change in policy or for new policy development (if applicable)

N/A

6.0 Local Government (Access to Information) Act 1985

6.1 List of background documents:

- Tender specification
- Tender returns
- Tender evaluation summary

6.2 Part B of this report is **not for publication** as it contains exempt information under the following categories:

Exempt information under 12A of the Local Government Act 1972, namely:

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

7.0 Background

7.1 The majority of Haringey Council's internal audit service is currently provided under contract by Deloitte and Touche Public Sector Internal Audit Ltd (D&T). The contract has been in place since November 2001 and is due to expire on 31/03/07. The Council's Audit Committee recommended, in July 2006, that the existing balance of work between in-house and contracted out services be retained and that a full tender exercise should be completed in accordance with EU and the Council's regulations for the contracted out service.

7.2 An OJEU notice was issued on 10th November 2006, with a specified date for return of tenders of 5th January 2007. The tender was advertised as an open

procedure. The tender specification was compiled by the Head of Audit and Risk Management and included details of all work required under the new contract.

- 7.3 Four tenders were received in response to the OJEU notice. A fifth response was received after the deadline had passed. The tenders were evaluated in accordance with the process outlined in the specification and the allocation of marks was as below. Part B details the scores achieved by the tenderers.

Selection Criteria	Selection Percentage
Previous/current experience of providing this type and scale of contract	20%
Skills and experience of staff proposed for this contract	20%
Costs of the service	40%
Suggestions for service improvements to maximise the outcomes from risk based and anti-fraud work	10%
Performance in current contracts (references from existing clients)	10%

- 7.4 Interviews were held with all four tenderers who met the tender return deadline and complied fully with the instructions to tenderers. Outcome scores of the interviews and the evaluation criteria are contained in Part B.

8.0 Consultation

- 8.1 The Council's Audit Committee was consulted about the strategy for delivering internal audit services and ensuring that the Council's statutory responsibilities under the Accounts and Audit Regulations and Local Government Act 1972 were able to be fulfilled. The Audit Committee approved the overall strategy and approach for obtaining internal audit services in June 2006 and were kept informed of progress throughout the tender process.

9.0 Key Benefits and Risks

- 9.1 The Council benefits from an independent audit assessment of its processes, and can be assured that it has undertaken a compliant process to appoint a suitable provider to this activity. Employing a specialist external organisation will ensure that the Council's statutory functions with regard to internal audit can continue to be fulfilled.
- 9.2 The recommendation to continue with the existing contractor will also ensure that continuity of service is maintained and the level of knowledge about the Council and its activities can be retained. There are no risks identified with this procurement.

10.0 Contract and Performance Management

- 10.1 The contract specification and terms and conditions include specific performance and management information requirements and standards in terms of service delivery, quality, timescales and price. Regular contract monitoring meetings, as defined within the contract conditions, will be held with the contractor to ensure that service standards are maintained.
- 10.2 Overall responsibility will rest with the Head of Audit and Risk Management, and regular progress reports will be presented to the Council's Audit Committee.

11.0 Recommendations

- 11.1 That Members approve the award of the contract for internal audit services to the organisation outlined at para. 2.5 Part B.
- 11.2 That the contract be awarded for a period of five years, with the option to extend for a further one year, with effect from 1st April 2007.

12.0 Equalities Implications

- 12.1 In the Equality Public Duty Scheme recently adopted by the Council, the Council is committed to promoting equality through procurement. The Council seeks to do this in three fundamental ways:

i. Equality of opportunity to Council contracts.

The aim is to open up the supply chain so that all potential suppliers who are interested have the opportunity to tender through a process that is fair, transparent and accessible to all. (Equality Scheme, para 5.11 – 5.11.1)

In regard to the proposals in this report, the tender specification was designed to give all organisations with the appropriate skills and experience the opportunity to tender. The evaluation criteria and process formed Part A of the tender document which was made available to bidders. The results of the evaluation process are given in table in Appendix A of the report. The tenders were interviewed and given the opportunity to present their proposals and answered questions on their submissions, and their performance evaluated against the same criteria and ratings used at an earlier evaluation stage and the scores set out in this report for Member scrutiny. The requirements of accessibility, transparency and fairness are therefore satisfied in accordance with the council's Equality Scheme in respect of procurement.

ii. Influencing (promoting equality with) the people we do business with.

The aim is to ensure that we continue to operate a tender process and an evaluation process embedded with equalities criteria that are part of the Pre-Qualification Questionnaires (PQQ) and in contract performance monitoring. The PQQ was used in regard to this tender evaluation, thus complying with the Equality Scheme in respect of procurement.

iii. Taking account of equalities issues when drafting contact specifications.

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.

13.0 Health and Safety Implications

13.1 The consultant would be working at Haringey's premises and is therefore obliged to comply with the Council's health and safety policy and practices.

14.0 Sustainability Implications

14.1 There are no sustainability implications as a result of this procurement exercise.

15.0 Financial Implications

15.1 Budget for the current contract in 2006/07 is £285,000. Costs of the current contract, which were agreed in 2001, are £336,000.

16.0 Comments of the Director of Finance

16.1 The budget shortfall for the internal audit services contract in 2006/07 is being managed across Corporate Finance as a whole. This will be permanently resolved for 2007/08 and the new contract as the budgets within Corporate finance and Audit and Risk management will be reviewed and realigned as part of restructuring of the service.

16.2 The Director of Finance has no further comments to add.

17.0 Comments of the Head of Legal Services

17.1 The value of the services to be provided under the contract is above the threshold where EU tendering is required under the Public Contracts Regulations 2006 (currently £144,459). EU procurement rules are applicable.

17.2 The contract has been tendered in accordance with the open procedure provided for by the Public Contracts Regulations 2006.

17.3 Under the Public Contracts Regulations 2006, reg. 30(1) an award may be made either on the basis of the lowest price tender or on the basis of the most economically advantageous tender. The contractor selected has been recommended for award of the contract on the basis that it submitted the most economically advantageous tender in accordance with reg. 30(1)(a).

17.4 As the contract value exceeds £250,000 the proposed award must be approved by Members pursuant to CSO 11.03. This says that the Executive must award all contracts over this value.

17.5 The Head of Legal Services confirms that there are no legal reasons preventing members from approving the recommendation in paragraph 11 of this report.

18.0 Comments of the Head of Procurement

18.1 The existing contract for the provision of audit services has been in place since November 2001, since which time the market for the provision of this service may have changed considerably.

- 18.2 It is therefore not only an obligation under EU regulations to undertake a full tender (given the value of the service to be provided) but also good practice in ascertaining market values.
- 18.3 A full and thorough evaluation of the tenders received has been undertaken, on the basis of the most economically advantageous tender – MEAT – and the supplier has been selected on this basis.
- 18.4 The Head of Procurement therefore supports the recommendation to Members to award the contract as outlined in Part B.