

Procurement Committee On 6th December 2005Report Title: **Internal Audit Services: Novation of contract**Forward Plan reference number (if applicable): **N/A**Report of: **Director of Finance**Wards(s) affected: **All**Report for: **Non-key decision****1. Purpose**

1.1 To seek Member agreement to novate the contract for the provision of internal audit services.

2. Introduction by Executive Member

2.1 Deloitte and Touche LLP has provided Haringey with internal audit services since 2001. Following the establishment of a specific subsidiary (Deloitte and Touche Public Sector Internal Audit Ltd) members are required to transfer the contract formally to the new entity.

3. Recommendations

3.1 That Members agree to novate the contract for the above project, as allowed under Contract Standing Order (CSO) 14, in accordance with the recommendations in paragraph 10.1 of this report.

Report Authorised by: **Director of Finance**

Contact Officer: Anne Woods, Head of Audit and Risk Management

Tel: 020 8489 5973

Email: anne.woods@haringey.gov.uk**4. Executive Summary**

4.1 The Council has a contract with Deloitte and Touche LLP (D&T) for the provision of

internal audit services. This 5 year contract was awarded in 2001, and a one year extension, in accordance with the terms and conditions of the original contract and Contract Standing Orders 13.0.1 (a), was formally approved by the Director of Finance on 10/11/05.

4.2 D&T has now set up a subsidiary company – Deloitte and Touche Public Sector Internal Audit Ltd – which it is proposed takes over their existing public sector contracts.

4.3 In order to comply with legal requirements, there needs to be a formal transfer (novation) of the contract from D&T to Deloitte and Touche Public Sector Audit Ltd. This transfer takes the form of a novation agreement, and all existing terms and conditions will be maintained.

4.4 In order to comply with Haringey's Contract Standing Orders, the novation agreement needs to be formally approved by the Procurement Committee.

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

5.1 None

6. Local Government (Access to Information) Act 1985

6.1 List of background documents:

- Deloitte and Touche contract
- Novation letter 19/9/05

7. Background

7.1 The majority of Haringey Council's internal audit service is currently provided by Deloitte and Touche LLP (D&T). The contract has been in place since November 2001 and approval was obtained at the Audit and Finance Scrutiny Panel in April 2005 to incorporate contract and procurement audit into the existing contract.

7.2 The contract has been operating satisfactorily and has shown improvements in both completion percentages and satisfaction levels from clients over the last two years. Regular contract monitoring meetings and review processes ensure that the terms and conditions of the contract are complied with.

7.3 Although 2005/06 is the last year of the current D&T contract, the terms and conditions allow for an extension of a further 12 months. To ensure the Council has a cost effective and efficient internal audit function, the Council exercised its right to extend the current contract, in accordance with the Council's Contract Standing Orders (CSO 13.0.1 (a)). This was formally approved by the Director of Finance on 10/11/05.

7.4 D&T has now set up a subsidiary company – Deloitte and Touche Public Sector Internal Audit Ltd – which it is proposed takes over their existing public sector

contracts. No changes to the existing contract terms and conditions are proposed by Haringey, or D&T.

7.5 D&T, the parent company, will no longer provide internal audit services to the public sector directly, therefore the Council needs to ensure that it continues to be able to discharge its statutory functions with regards to internal audit. The transfer of the contract to the new company would ensure that appropriate service provision is maintained.

7.6 In order to comply with legal requirements, there needs to be a formal transfer (novation) of the contract from D&T to Deloitte and Touche Public Sector Audit Ltd. This transfer takes the form of a novation agreement, and all existing terms and conditions will be maintained.

8. Budget

8.1 The existing contract terms and conditions include agreed annual increases to the charges made for completing the internal audit work. The contract sum is included within the budget for Audit and Risk Management.

9. Summary and Conclusions

9.1 Deloitte and Touche Public Sector Internal Audit Ltd will continue to provide the same services, based on the same terms and conditions as the previous contract with D&T. The novation will not have any detrimental impact on the operational provision of the service and the costs of the contract will continue to be contained within the revenue budget for Audit and Risk Management.

9.2 The parent company will no longer provide internal audit services to the public sector, therefore the Council needs to ensure that it continues to be able to discharge its statutory functions with regard to internal audit. Transferring the contract to Deloitte and Touche Internal Audit Services Ltd ensures that the Council maintains an appropriate internal audit function.

10. Recommendations

10.1 That Members approve the novation of the contract for internal audit services from Deloitte and Touche LLP to Deloitte and Touche Public Sector Internal Audit Services Ltd. The contract sum for 2006/07 will be approximately £350,000, minor variations to this sum may occur depending on any revisions agreed to the total amount of work completed.

11. Equalities Implications

11.1 There are no equalities implications arising from the novation of this contract

12. Health and Safety Implications

12.1 There are no health and safety implications arising from the novation of this contract

13. Sustainability Implications

13.1 There are no sustainability implications arising from the novation of this contract.

14. Financial Implications

14.1 The contract sum is included within the budget for Audit and Risk Management and can therefore be contained within the Audit and Risk Management revenue budget for 2006/07. There are no other financial implications relating to the extension of or the novation to the contract.

15. Comments of the Director of Finance

15.1 The Director of Finance has no additional comments to make.

16. Comments of the Head of Legal Services

16.1 In accordance with Contract Standing Order 14.01, the Executive must agree to a Novation of contracts of a value in excess of £250,000 (two hundred and fifty thousand pounds).

16.2 A formal Deed of Novation will be required between The London Borough of Haringey, Deloitte and Touche LLP and Deloitte and Touche Public Sector Internal Audit Services Limited.

16.3 Legal Services recommends that a Parent Company Guarantee be obtained from Deloitte and Touche Public Sector Internal Audit Services Limited to protect the Council's interest in the future performance of this contract.

16.4 The Head of Legal Services confirms that there is no legal reason preventing Members from approving the recommendations.

17. Comments of the Head of Procurement

17.1 This contract novation is in line with the Procurement Code of Practice.

17.2 The novation of Contract ensures contractual compliance and mitigates risk to the Council.

17.3 Regular contract monitoring meetings are taking place to ensure performance against the contract is fully compliant.