AGENDA ITEM NO 7

REPORT NO 479 /14

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 25 NOVEMBER 2014

POLICY AND RESOURCES COMMITTEE - 2 DECEMBER 2014

INTERNAL AUDIT CO-SOURCE TENDER – PROCUREMENT OPTIONS AND AUTHORITY

REPORT BY JANINE WILSON, SERVICE MANAGER-GOVERNANCE

ABSTRACT

This report recommends an option for the procurement of internal audit management co-sourcing services for the council and seeks the relevant procurement authority.

1. RECOMMENDATION(S)

It is recommended that the Scrutiny and Audit Committee:

(i) consider the two options for the procurement of internal audit co-sourcing services

(ii) agree the recommended option A as the most appropriate for the procurement of internal audit co-sourcing services and commend this option to the Policy and Resources Committee for procurement authority

(iii) should option A not be agreed, commend option B to the Policy and Resources Committee for procurement authority

It is recommended that the Policy and Resources Committee:

(i) consider the contents of this report and the option commended by the Scrutiny and Audit Committee (by way of verbal update)

(ii) authorise the Service Manager-Governance to procure the internal audit co-sourcing services for the council on the basis of the option commended by the Scrutiny and Audit Committee

(iii) grant exemption from financial regulations under section 16.24.10(c) if option A is the preferred option

And both committees note the current contract arrangements will be extended under chief officer delegated authority for a period of three months to allow the preferred option to be implemented.

2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/SINGLE OUTCOME AGREEMENT/COPORATE PLAN

This report supports the council and services in the delivery of all local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016.

3. BACKGROUND

Reference is made to Item 10 of the minute of meeting of the Strategic Policy Committee of 6 December 2011. The committee authorised the procurement of an internal audit co-source arrangement for a period of 18 months, with an option to extend for a further one year. The contract was subsequently extended and varied to reflect the co-source of an Audit Manager resource (Report 380/13 to this committee on 13 June 2013 refers).

At the meeting of 28 January 2014, this committee approved a further extension of the contract, at the previously agreed rates, for a period of six months from 1 August 2014 (Report 51/14 refers.) This extension was to allow time for an external quality assessment (EQA) to be conducted to inform final decisions around the future procurement arrangements. The EQA is now complete.

This report outlines the options for future internal audit co-source arrangements and requests procurement authorisation from the Policy and Resources Committee for the preferred option (option A) recommended to, and agreed by, by the Scrutiny and Audit Committee.

4. CURRENT POSITION

The Local Authority Accounts (Scotland) Regulations 2014 introduced a statutory requirement for local authorities to operate a professional and objective internal auditing service, which must be provided in accordance with the standards and practices set out in the Public Sector Internal Auditing Standards (PSIAS). This statutory duty applies from 10 October 2014.

The current internal audit co-source contract expires on 31 January 2015. This contract provides a part-time Audit Manager, responsible for providing a full independent core assurance internal audit service to the Council. The contract also provides specialist support to supplement the in-house audit team. The value of the contract is c. £50,000 p.a. The concept of the co-source is that the external provider and the internally employed team provide a seamless internal audit service for the council.

The results of the EQA are extremely positive in respect of the internal audit structural/co-source arrangements in place and the relationships that this partnership arrangement have allowed to be fostered between internal audit and their major stakeholders (EMT and the Scrutiny and Audit Committee). Broadly in relation to the co-source arrangement the EQA found:

- *"The Council has an enthusiastic, experienced internal audit team that is ably led by an Audit Manager who commands respect and credibility across officers and members alike."*
- *"The co-sourcing arrangements with Scott-Moncrieff work well in terms of securing access to a high quality resource and the fact that the Audit Manager is not a Council employee may be seen to strengthen the perception of independence."*
- *"The co-sourcing arrangement with Scott-Moncrieff, whereby the Audit Manager is contracted to the Council for 80 days per annum works (typically five days on-site every three weeks) well in terms of the robustness of management oversight and accessibility/availability."*
- *"This arrangement currently works well for the Council in terms of the management of the internal audit activity and it fully complies with PSIAS. Of course, it is difficult to determine how much of the success of this arrangement can be attributed to the personal qualities of the present incumbent, which must be a factor to some extent."*

The EQA findings are the subject of a separate report to this Scrutiny and Audit Committee (Report 478/14 refers).

Given that the EQA has found that the arrangement with the current provider within Angus has been very successful, this must be factored into the forward procurement arrangements and the option of continuing with the current partnership explored. This is considered in section 5.

5. PROPOSALS

To fulfil statutory obligations, there is an ongoing requirement for a Chief Audit Executive resource (PSIAS terminology) to lead the internal audit function and to provide an independent core assurance service. There is also an ongoing requirement for access to specialist support which is not available in-house.

Outlined below are two options for delivering the required service, essentially continue with the current arrangements through a new negotiated contract or tender through the open market.

Option A: negotiate direct contract award with the current provider (Scott Moncrieff) to deliver the requirement for a period of three years from 1 May 2015

The current audit management arrangement has been in place since 1 August 2013 with good working relationships established within the internal audit team, with the executive management team, with other senior officers and with elected members.

Continuing the contract with the current supplier has significant advantages in terms of continuity and efficiency:

- Continue to build on the good working relationships which the joint team has developed (see above).
- Retain the knowledge of council policies, procedures etc which has been built up by the current provider.
- Continue current joint development work (see below).

There are a number of specific pieces of audit development work which are being taken forward under the audit partnership arrangement and which will need time to bed in (the Audit Manager resource only having been in place for 15 months) including:

- The re-focus of the internal audit work to a more outcomes-based approach desired by the EMT – this is a 2-3 year project which has recently commenced
- Development and implementation over the next couple of years of a new approach to the corporate governance audit in conjunction with the Corporate Governance Officers Group
- Integration of the audit and counter-fraud arrangements and teams with a stepped approach to a more pro-active corporate counter fraud approach in conjunction with the demise of HB fraud – this again is a longer tail project

There are also significant advantages in terms of cultural fit which have been proven within the EQA findings which were complimentary in terms of the "innovative" arrangements in place, reflecting well on both the in-house team and the current co-source provider, Scott-Moncrieff.

Continuing for a three year period would also fit in with the timetable of the statutory EQA (required at least every five years). A three year contract would complete in April 2018 which would give time for any new arrangements to bed in before further EQA by September 2019. However, given that the intention is to support creation of a strategic provider relationship, the likely approach after expiry of this 3 year contract would be for procurement of a longer duration contract

Finally, initial exploratory discussions with the current provider have indicated that the cost envelope would be held over the three year period with a variation to the staff provided under the contract allowing additional days for the same spend and a degree of committed ongoing availability of the current individual providing Audit Manager services including a handover period, to allow a smooth transition to a new Audit Manager. This continuity/handover would not be committed as available if the Council chose to re-tender the contract.

In terms of cost, the day rate provisionally negotiated by the Service Manager-Governance with the current provider has been evaluated against the rates available on the ConsultancyONE Crown Commercial Service (CCS) Framework Agreement (contract ref: RM1502). The negotiated Scott-Moncrieff rate is c. 8% better than the lowest of framework rates, as bid (applying the Council's projected contracted provision profile). It is possible that lower pricing than that offered by negotiation by Scott-Moncrieff would be secured via mini competition on the framework but not from any provider of comparable quality. The negotiated blended day rate offered by Scott Moncrieff therefore represents value for money to the Council.

Negotiating with the current provider would require an exemption from financial regulations. Consultation with the Corporate Procurement Manager has taken place. Although he considers it to be at the limits of acceptability in terms of the period between formal market re-testing and risks arising from non-compliance with procurement transparency rules, given the (a) demonstrated operational and strategic advantage and (b) ongoing value for money to the

Council of proceeding by negotiated direct award to the current provider, he is supportive of the exemption request and agrees that the risk associated with proceeding with Option A is acceptable.

Taking together the excellent results from the EQA, the proven "fit", the ongoing development work, certainty over costs, additional days and the timing implications for the next EQA, this is the officer recommended option.

Option B: competitive tender

Option B is the standard competitive tender option which would let a contract for a 3 year period with a possible option to extend to 5 years on either an open market Angus Council tender or a mini competition using a compliant, pre-advertised national framework agreement (see below). This has the obvious advantage of testing the market directly for the specific requirement and obtaining a market rate which may or may not be less expensive, depending on rates returned. However, any cost savings would need to be set against the time that would be required for a new Audit Manager to develop knowledge of the council and build working relationships with the audit team, EMT and other senior officers and with elected members.

A review of the market position has determined that there are providers who would offer this scope and range of service. However it is also considered that the specialism involved in the Council's requirement here precludes locally-based non-specialist accountancy firms delivering this service in terms of lack of that specialist capability. It would not be appropriate to design the specification of requirement for this contract in a way which excluded this specialist requirement or allowed it to be separately provided as this would lose the synergy and efficiency benefit inherent in a co-sourced audit service.

6. Procurement Authority - Option A

Procurement Procedure

Option A would involve a negotiation with the current provider to agree an outcomes focussed contract within the current cost envelope. The contract would be awarded (in terms of the council's general conditions of contract for consultancy services) on agreement between both parties of the service specification which, as well as the current terms, would include:

- The outcomes expected from the contract in terms of core assurance services, counter-fraud, consultancy and contingency elements
- The staffing mix and the balance between Audit Management and general co-source services
- Agreement on how performance would be measured and monitored
- Escalation and dispute resolution

In the event that agreement could not be reached on those terms to the satisfaction of the Service Manager – Governance an open market tender process would be undertaken.

Key terms

It is envisaged that the contract will be let for a three year period from 1 May 2015 with the value of the contract £150K over the three year term.

Monitoring

Contract and supplier management including performance measurement will be undertaken by the Service Manager – Governance. The delivery of the contract outcomes will be presented to the Scrutiny & Audit committee as part of their normal audit committee role.

Risks
The contract value for Option A is less than the current EU Procurement Rules threshold (£172K) so the full EU rules do not apply to this contract opportunity, However, the EU Treaty "procurement principles" including that of "Transparency" do apply and Option A does not address the Council's policy and "procurement principles" obligations towards transparency. The likelihood of a successful legal challenge to procurement under Option A is considered to

be very low or low albeit with the impact of a successful legal challenge between significant and major. In terms of Angus Council's risk strategy this gives a risk score of between 3 and 8 at most which is within the risk appetite for this project as determined by the Service Manager-Governance.

7. Procurement Authority – Option B

Market Considerations

The supply market has been analysed and is considered to be reasonably competitive in a national context. As referred to above, there is no local supply capability for the Council's stated requirements. Any implications for local providers are therefore negligible.

The tender requirements would be capable of being addressed within a single lot (Lot 5.1) under the CCS ConsultancyONE framework. This framework is considered to be competitive for services within its scope and offers an efficient route to market for the Council. Accordingly option B would see a competitive tender within the national framework.

There has been no consultation with TPC as the other partner authorities have a directly employed Chief Audit Executive.

The procurement is not considered to be a "major procurement" in terms of Financial Regulation 16.8.4. Approval of this Report would mean that the contract can be accepted without the need for further approval by the relevant committee.

Procurement Procedure

It is proposed to engage in a 'mini competition' process [as there is a range of suppliers available on the national, pre-tendered framework who can meet the requirement]. The contract opportunity will be distributed using the "Quick Quote" function of the Public Contracts Scotland Portal and made available to all the suppliers on the CCS ConsultancyONE framework.

Completed tenders returned to the Council shall be evaluated and the contract will be awarded in accordance with the terms of the CCS ConsultancyONE framework on the basis of the most economically advantageous tender, on a mix of quality and price. Due to the importance of ensuring the aims and values of the Co-source Audit Partner are aligned with those of the Council the price/quality split applied are those under the framework terms and will be 50/50. Approval for this will be sought in accordance with Financial Regulation 16.14.2 (the Corporate Procurement Manager has already indicated approval of that approach in principle). The price / quality criteria will be the same as were applied to the original tender in 2012:

Composite daily rate for provision of all service			**50%**
Quality Criteria			**50%**
(i)	Technical Merit	25.0%	
(ii)	Skills transfer	12.5%	
(iii)	Added value items	12.5%	

Key Terms

It is envisaged the contract would commence on 1 May 2015 for a three year terms with the option to extend for a further two years.

The potential value of the service is estimated at £50K per annum, £250K over the term of the contract (including the extension option).

Monitoring

As for Option A.

Risks

Only the normal risks for a procurement exercise of this nature would apply to Option B. These are considered to be nominal.

8. FINANCIAL IMPLICATIONS

The estimated value of the new contract over a three year period is £150,000. The costs will be contained within the current Governance Unit budget.

9. EQUALITIES IMPLICATIONS

The issues contained within this report fall within an approved category that has been confirmed as exempt from an equalities perspective.

10. CONSULTATION (IF APPLICABLE)

The Corporate Procurement Manager has been consulted in the preparation of this report.

NOTE: No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

REPORT AUTHOR: Janine Wilson
EMAIL DETAILS: ChiefExec@Angus.gov.uk