

For General Release

REPORT TO:	Cabinet Member for Finance and Treasury 20 November 2017
SUBJECT:	Internal Audit & Anti-Fraud Contract Award
LEAD OFFICERS:	Richard Simpson, Executive Director of Resources & S151 Officer Simon Maddocks, Director of Governance
CABINET MEMBER:	Councillor Simon Hall, Cabinet Member for Finance and Treasury
WARDS:	ALL
CORPORATE PRIORITY/POLICY CONTEXT/AMBITIOUS FOR CROYDON: Internal Audit & Anti-Fraud work helps the Council to improve its value for money by strengthening financial management and supporting risk management. The external auditor relies on the work from the internal audit programme when forming opinions and assessments of the Council’s performance. The detection of fraud and better anti-fraud awareness contribute to the perception of a law abiding Borough. Strengthening value for money is critical in improving the Council’s ability to deliver services which, in turn helps the Council achieve all its visions and aims. The provision of an effective Internal Audit service is a statutory requirement.	
FINANCIAL IMPACT: The outcome of the procurement will generate net savings in the region of 11%.	
KEY DECISION REFERENCE NO.: 3617FT	

The Leader of the Council has delegated to the nominated Cabinet Member the power to make the decisions set out in the recommendations below

1. RECOMMENDATIONS

The Cabinet Member for Finance and Treasury is recommended to:

- 1.1 in consultation with the Leader, approve the award of the framework for Internal Audit & Anti-Fraud (“the Services”) to the successful Contractor upon the terms detailed in the associated Part B report, for a maximum contract term of eight years (initial term of six years to extend for further periods not exceeding two years)
- 1.2 Note that the maximum value of the framework for use by the public sector bodies detailed in the report is £50m over the maximum contract term.

- 1.3 Agree the annual contract value to Croydon of an estimated £396k, with a total estimated contract spend of £3.168m over the maximum eight year term of the contract, to be instructed through the placement of Service Orders against the framework.
- 1.4 Note that the name of the successful Contractor will be published upon conclusion of the standstill period required under regulation 87 of the Public Contract Regulations 2015.

2. EXECUTIVE SUMMARY

- 2.1 At its meeting on 9th January 2017 the Contracts and Commissioning Board approved the procurement strategy to establish a framework for the provision of Internal Audit and Anti-fraud Services (Ref: CCB1202/16-17). The framework will be awarded for an initial period of six years with options to extend up to a maximum of two years as per the Official Journal of the European Union (OJEU) notice (Ref: 2017/S 136-279176).
- 2.2 This report details the procurement process and recommends the award of a framework to Contractor B who submitted the most economically advantageous tender. In addition to the Council, a range of public sector bodies will be able to access the framework which has an estimated value over the term of £50m.
- 2.3 The content of this report has been endorsed by the Contracts and Commissioning Board.

CCB Approval Date	CCB ref. number
09/10/2017	CCB1279/17-18

3. DETAIL

Background to the procurement

- 3.1 The provision of an effective internal audit service is a statutory requirement for local authorities under the Accounts and Audit Regulations 2015. Croydon Council has worked with an external service provider to deliver this service since the early 1990s.
- 3.2 Since 2008, Croydon Council has held a single provider framework contract for the provision of internal Audit & Anti-Fraud services which is let to Mazars. The current framework contract provides services to approximately 30 other councils which ensures volume discounts for all users. The Council charges other users a small admin fee to generate an income to cover its costs associated with running the arrangement. This framework expires in March 2018.
- 3.3 The new framework contract will be extended to other public sector organisations, specifically the NHS, RSL's (Registered Social Landlord), Public Pension Funds (Including the LGPS) in addition to local authorities. Users will be charged an administration fee to cover the Council's framework running costs.

Procurement process

- 3.4 As this is a procurement for 'Services' with an estimated value in excess of the OJEU threshold, the procurement process must comply with EU legislation and the Public Contracts Regulations (PCR) 2015. In accordance with the agreed procurement strategy, the Open Tender procedure was adopted.
- 3.5 The OJEU contract notice was published on 17 July 2017 with a closing date for receiving bids of 29 August 2017. Although there was considerable initial interest, in the end only two firms submitted bids.
- 3.6 The bids were evaluated against the published criteria by an evaluation panel comprised of three subject matter experts from:
- Croydon Council
 - Hillingdon Council
 - Independent Internal Audit Consultancy
- 3.7 The evaluations were then moderated and scores agreed by the panel and a member of Croydon's Corporate Services category team.
- 3.8 The outcome of the evaluation is set out in Table 1 below. A detailed breakdown is provided in the Part B report.

Table 1: Allocation of weightings and scores achieved:

	Weighting	Contractor A	Contractor B
Quality	40%	21.2%	36.5%
Value for Money	30%	14.0%	28.0%
Pricing	30%	21.6%	29.11%
	100%	56.8%	93.61%

Benefits of the new framework

- 3.9 In addition to the delivery of core Services, the new framework will provide additional benefits and a focus on continuous improvement. Furthermore, it includes a requirement to deliver social value benefits against the below key priorities.
- Supporting local employment and maximising the employment generated for Croydon residents
 - The creation of accessible routes to employment and of enhancing employability
 - Supporting local businesses and local business growth
 - Supporting and contributing to Croydon as a community
 - The use of good governance and strong compliance

- Working with the Council and other strategic partners
- 3.10 Compliance with London Living Wage is a condition of the framework and the successful Contractor will work with Croydon Works to maximise opportunities for local people to secure employment opportunities available through the Service Orders placed.

Contract Management

- 3.11 The framework will be managed by the Governance team, overseen by the Director of Governance as Authorised Officer. Croydon procures the Services from the Contractor on behalf of other public bodies wishing to access the framework. Each public body will enter into an access agreement with the Council setting out the terms for provision of the services.
- 3.12 The Services are procured by way of Service Orders in a standard form setting out the task required, the contract price, the time periods for delivery and any necessary deviations from the specification. Any public body which has entered into an access agreement with the Council may order a task from the specification by serving a Service Order directly on the Contractor. Under the framework there is no guarantee of exclusivity, volume or spend. However, the benefits of volume discounts would be diminished should the Council and/or other public bodies cease to place Service Orders.
- 3.13 The performance of the Services will be reviewed through regularly scheduled performance meetings with the Authorised Officer. On an annual basis the Contractor will attend an annual meeting with the Authorised Officer of the Council to consider the quality of the Services provided. At least one month before the date of such meeting the Contractor will submit a report which reviews the standard achieved in the previous year and sets out proposals for improvements in quality for the forthcoming year.
- 3.14 The framework may be extended for a period or any number of periods of up to two years in aggregate. The decision to extend is subject to satisfactory performance, ongoing requirement for the services and a review of the suitability of the framework for provision of the Services.

4. CONSULTATION

- 4.1 The views of all of the Councils that use the current framework were sought to identify the requirements for this framework prior to tendering. In addition, Croydon Council's S151 Officer was involved in identifying the way forward.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 Revenue and Capital consequences of report recommendations

	Current year	Medium Term Financial Strategy – 3 year forecast		
	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Revenue Budget available				
Expenditure	474	396	396	396
Income	(83)	(48)	(48)	(48)
Effect of decision from report				
Expenditure	474	396	396	396
Income	(83)	(48)	(48)	(48)
Remaining budget	0	0	0	0

5.2 The effect of the decision

The net effect of the decision will be to reduce the costs to Croydon Council by 11% directly.

5.3 Risks

The recommended Contractor has a good track record of delivery, therefore with robust contract management there is little risk of non-delivery of the contract. There is, however, the risk that volumes bought by other organisations drop off which in turn would have an impact on the prices paid as these include volume discounts based on historic usage of the framework. A decrease in volumes would also have an impact on the income received by Croydon Council from other users.

Firstly to mitigate against this risk the likely levels of interest from current contract users was sought and gauged through enquiries made of current contract users by Croydon Council with the result that interest was still high. Secondly the scope availability of the framework contract has been extended from only for local authorities to include the NHS and Housing Associations as well.

5.4 Options

As internal audit is a statutory function there are three main options for service delivery:

- Insource the provision – The internal audit team for a single council is inevitably small and this makes it difficult to ensure that there is the up to date range of skills needed by such complex organisations. For this reason the option was discounted.
- Let a contract for Croydon Council only – if let to a reasonably sized contractor then the above issues would be mitigated. However, it is more difficult to obtain good prices when procuring for a single organisation and to maintain a position of priority with the contractor once the contract is let. For this reason the option was discounted.

- Let another framework – By following this option Croydon Council
 - avoids the problems of maintaining the breadth and depth of skills needed for the task;
 - obtains pricing that reflects the likely volumes that will be purchased;
 - and as the leader of the framework we remain a priority for the Contractor throughout the term of the contract.

In addition to the above the Council has found there to be significant 'soft' benefits from working in collaboration with a number of other organisations. This option was approved as part of the procurement strategy.

5.5 Future savings/efficiencies

Included in the bid of the recommended contractor are opportunities for further future discounts for Croydon Council based on increasing the total number of days used by all organisations using the framework. These have not been taken account of in the financial projections above, but could further reduce the costs of the service to Croydon Council.

Approved by: Luke Chiverton, Head of Finance (Place)

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Council Solicitor comments that the proposal set out in this report is in accordance with the Council's Tenders and Contracts Regulations and seeks to support the Council's duty to achieve Best Value pursuant to the Local Government Act 1999.

Approved by: Sean Murphy, Head of Commercial and Property Law and Deputy Monitoring Officer on behalf of the Director of Law and Monitoring Officer

7. HUMAN RESOURCES IMPACT

- 7.1 There are no immediate HR implications that arise from the recommendations in this report for LBC staff.

Approved by: Sue Moorman, Director of Human Resources

8. EQUALITIES IMPACT

- 8.1 An Initial Equality Analysis was undertaken to assess the likely adverse impact on protected groups compared to non-protected groups. The analysis concluded that a full equality analysis will not be required because the change will not have a significant impact on groups that share a protected characteristic (compared to non-protected groups).

9. ENVIRONMENTAL IMPACT

9.1 There are no direct environmental considerations arising as a result of the recommendations set out in this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 The detection of fraud and better anti-fraud awareness contribute to the perception of a law abiding Borough.

11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

11.1 The provision of an effective internal audit service is a statutory requirement. By following the option of letting a framework to be used by several other organisations Croydon Council avoids the problems of maintaining the breadth and depth of skills needed for the task, obtains pricing that reflects the likely volumes that will be purchased and as the leader of the framework we remain a priority for the Contractor throughout the term of the contract. In addition, we have found there to be significant 'soft' benefits from working in collaboration with a number of other organisations.

12. OPTIONS CONSIDERED AND REJECTED

12.1 The procurement process set out in this report has concluded and the recommended Contractor has been selected in line with the award criteria set out in the OJEU contract notice. The option of not making an appointment was rejected as the Contractor has produced a compliant solution capable of meeting the Council's requirements. Furthermore, failure to appoint would mean that the Council would not be able to deliver its statutory duties under the Accounts and Audit Regulations 2015.

12.2 Alternative routes to market were considered and rejected as part of the options appraisal prior to commencement of the procurement exercise:

- Insource the provision – The internal audit team for a single council is inevitably small and this makes it difficult to ensure that there is the up to date range of skills needed by such complex organisations.
- Let a contract for Croydon Council only – if let to a reasonably sized contractor then the above issues would be mitigated. However, it is more difficult to obtain good prices when procuring for a single organisation and to maintain a position of priority with the contractor once the contract is let.

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BACKGROUND PAPERS - None