

Item No.	Classification: Open	Date: 17 April 2014	Meeting Name: Strategic Director of Finance and Corporate Services.
Report title:		Gateway 3 – Variation Decision/Extension Approval Internal Audit and Related Services	
Ward(s) or groups affected:		All Wards	
From:		Head of Anti-Fraud and Internal Audit	

RECOMMENDATION

1. That the strategic director of finance and corporate services agrees an extension to the term of the internal audit and related services contract with Baker Tilly for the maximum of two years for an estimated maximum of £780,000 per annum for the period 1 December 2014 to 30 November 2016.
2. That the strategic director of finance and corporate services notes that the contract value may fluctuate depending on which services are activated, and the level of any special project work.

BACKGROUND INFORMATION

3. This contract was awarded to RSM Bentley Jennison with effect from 1 December 2009. The contract was novated to RSM Tenon Limited on 13 January 2010 following a group restructure. In September 2013, RSM Tenon Limited was sold in its entirety to Baker Tilly. Following this sale, RSM Tenon Limited was renamed Baker Tilly Business Services Limited on 1 October 2013 and continued to provide Internal Audit and Related Services to the council.
4. The contract is for the provision of Internal Audit and Related Services to the council for five years with an option to extend for a further two single years (1+1). The contract includes options for anti-fraud, risk management administration, contract risk assessment and insurance claims handling.
5. At the time the contract was awarded, the estimated contract cost was around £700k per annum, and the split is shown in Appendix A. The total contract spend from 1 December 2009 to date has been £2.9m. The estimated spend until the current expiry date (30 November 2014) is a further £500,000.
6. The estimated spend is shown in Appendix A. It should be noted that the use of these services is based on fluctuating levels of need.
7. Anti-fraud services were activated in October 2011. The anti-fraud spend (for 2013/14) includes approximately £170,000 which relates to Operation Bronze, a housing allocations anti-fraud project, which has been funded by the department.
8. The risk management administration and insurance claims handling elements were activated at the time the contract commenced.
9. A contract risk assessment pilot was run at a cost of £5,000, however this service has not yet been formally activated. There will, however, remain an option to do so during the period of the extension. Based on the original contract value the

estimated cost of switching on this provision is £25,000 per annum and is included in the overall contract value. These costs would be recharged to the departments who use the service.

10. Future maximum expenditure based on the average from previous years, and anticipated future use, is forecast to be a maximum of £780k per annum. In line with the contract an increase based on the average weekly earnings index was applied in 2013/14 and will apply for the extension. The estimate of this is currently around 1%, and is included in the estimated contract values shown in appendix A.
11. In September 2013, RSM Tenon Limited was sold in its entirety to Baker Tilly. RSM Tenon Limited was renamed to Baker Tilly Business Services Limited on 1 October 2013. The sale of RSM Tenon Limited by RSM Tenon Group followed a period of financial instability of the Group. An Experian report on the Baker Tilly holding group showed a favourable financial assessment. Assurances have been provided that work will continue as business as usual, with staff and contractual arrangements continuing as before. The resultant change brings no threat to the contract, but the benefit of greater stability in being part of a larger organisation.

KEY ISSUES FOR CONSIDERATION

Key Aspects of Proposed Variation

12. The proposed extension is to utilise the option to extend the internal audit and related services contract with Baker Tilly for both the further two single years (1+1), at a total estimated maximum cost of £1.56 million. This increase represents 46% of the total contract.
13. Anti-fraud services are a key element of control within the council. There are proposals for the Department for Work and Pensions (DWP) to take over responsibility for what is currently Housing Benefit fraud investigation from a date to be confirmed in 2014/15. This is likely to impact on the need for anti-fraud services, and the extension of the contract provides flexibility around any future changes.
14. The risk management administration and insurance claims handling will continue to be required by the council for the life of the extension.
15. Following the pilot of contract risk assessment, no decision has been made to formally activate this service on a wider scale. However, it is intended to include this in the extension provision to give flexibility for the council.

Reasons for Variation

16. Internal Audit is a statutory service and a requirement of the Accounts and Audit (England) Regulations 2011, which state that: 'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'. There are no known plans for any changes to the internal audit statutory regime. It is believed that the need for internal audit will continue for at least the life of the proposed extension to the contract.
17. Performance on internal audit and anti-fraud since December 2009 has been monitored by the head of anti-fraud and internal audit, and reported in Annual

Performance reports to the departmental contract review board (DCRB). Key performance indicators are also reported on a regular basis to the audit and governance committee. Overall performance has either met or been close to targets set. There has been successful activity in completion of work overall, and the level of customer feedback. There is scope for improvement in the number of high recommendations implemented by agreed dates and Baker Tilly have agreed to continue to work with the head of anti-fraud and internal audit and service managers to enhance the level of implementation. Each year a Service Improvement Plan is discussed and agreed with the contractor, which addresses both service improvements and any added value services the contractor can offer.

18. External audit have been able to place reliance on the work completed in previous years.
19. As noted above, the audit and governance committee receive regular performance reports, including details of work completed. Where suggestions have been made about the work or reporting style these have been addressed in future audit activity. Members are asked to provide formal feedback on an annual basis and satisfaction levels have been acceptable.
20. A benchmarking exercise based on discussions with peers at a number of London boroughs indicates that current day rates remain competitive within the market.
21. An additional consideration is raised by the Local Audit & Accountability Act (LAAA). With a degree of uncertainty over future arrangements and possible changes to the overall assurance frameworks, maintaining the same internal audit provider will provide some degree of continuity and handover.
22. An extension for the full period (1+1) will provide service stability (for internal audit and anti-fraud) whilst possible changes and impacts from the LAAA, and the DWP are confirmed by central government. The current contract allows flexibility on the level of service required, as well as to switch off services. Whilst this can be built in to future contracts, a clearer idea on future services required and demand will help inform the specification of services and ensure suppliers can best meet our requirements in the longer term. We also believe that extending for both years offers Baker Tilly a longer term commitment and assists with planning, staffing commitments.
23. It is, therefore, considered appropriate to extend the contract. The intention is to utilise both extension provisions at the same time, giving an extension of 2 years (rather than one year followed by another year). This is due to the complexity of the multiple services within the contract and the extended procurement review and evaluation process required.

Future Proposals for this Service

24. Future options for the provision of services would be to:

- look at a new procurement via a framework or a new OJEU tender; or
- an in-sourcing arrangement.

25. Based on the previous procurement exercise, we require a significant lead in time for any new contract to give sufficient time to review and procure new arrangements. A gateway 1 for the future provision will therefore be produced by May 2015.

Alternative Options Considered

26. Alternatives considered were

- i) Do nothing – due to the statutory nature of the internal audit service, this is not an option.
- ii) To undertake a new procurement process – whilst it is possible, this is not considered the optimum solution due to the uncertainty set out above. Performance and value for money from the extension are positive reasons for variation.
- iii) In-source the service – whilst it is possible, this is not considered the optimum solution due to the uncertainty set out, and the fluctuations in service requirements.

Identified risks for the extension

27. There are risks of change within a new/merged organisation. Assurances have been received around business as usual. Any changes or reduction in service should be promptly identified through our established contract management. This risk is therefore considered low and overall, the move to Baker Tilly should bring benefits from a larger more robust stable organisation.

Policy implications

28. There are no direct policy implications in extending the provision of this contract.

Contract management and monitoring

29. The existing management and monitoring arrangements for internal audit and anti-fraud services will be maintained. This includes monitoring by the head of anti-fraud and internal audit, monthly contract monitoring meetings, monthly report to the chief officer's team, reporting of key performance indicators to audit and governance committee and a six monthly audit partnership board.
30. Other elements of the service do not currently have such formal monitoring processes. There will be quarterly review meetings with a panel of the deputy finance director and head of financial and information governance, with relevant information presented by lead contract officers. On a six month basis a performance report will go to the DCRB. This will include budget management.

Community Impact Statement

31. There are no direct community impacts from the extension of this contract.

Economic considerations

32. There are no direct economic considerations from the extension of this contract. Staff of the contractor are paid in excess of the London Living Wage.

Social considerations

33. There are no direct social considerations from the extension of this contract.

Environmental considerations

34. There are no direct environmental considerations from the extension of this contract. Most of the work is conducted on council premises. Extensive use of electronic files has reduced the use of paper by the service.

Financial Implications

35. There is currently adequate budget for the internal audit and anti-fraud, risk management and insurance services. Other spend is met from departmental budgets. Whilst the service may need to identify savings during the extension period, these will need to be balanced against the statutory need for service. It is therefore felt that budget will be maintained at a level sufficient to cover contractual requirements for the duration of the extension.

Legal Implications

36. Please see concurrent comments from the director of legal services.

Consultation

37. N/A

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

38. This gateway three report is seeking approval to extend the internal audit and related services contract currently in place for a 2 year period from December 2014 to November 2016. The report confirms that the current contract has extension provision in the form of two one year extensions. However the report provides some justification for the council committing to a 2 year extension at this time.
39. The report confirms there is an ongoing need for these services. Internal audit services are required in order for the council to fulfil its statutory obligations and anti fraud services form a key element of control within the council.
40. The report confirms that performance and customer feedback have both been satisfactory on this contract. Paragraph 20 confirms that the current day rates on the contract remain competitive. It would appear that there is no reason why the council should not continue with these arrangements for the extension period recommended.
41. Paragraphs 29 – 30 outline the monitoring arrangements in place for this contract. In addition to the existing arrangements, quarterly review meetings will take place with the deputy finance director and the head of financial information governance. This will help ensure that all elements of the contract are monitored during the extension period.

Director of Legal Services

42. This report seeks the approval of the strategic director of finance and corporate services to the extension of the existing contract for the provision of internal audit and related services which is being performed by Baker Tilly Business Services Limited. This report sets out the reasons why this extension is necessary.

Paragraph 4. of the report confirms that the existing contract includes provisions that allow the council to exercise the two 12 month contract extensions referred to in this report.

43. CSO 4.6.2a) provides that the decision to allow the variation of this contract can be taken on the basis of a written report by the strategic director of finance and corporate services. In making this decision, the strategic director of finance and corporate services should satisfy himself that the requested variation offers best value to the council.

Strategic Director of Finance and Corporate Services (FC13/111)

44. This report recommends the extension of the existing contract for internal audit and related services. The figure of £780k per annum is likely to be a maximum, but this does depend on the work commissioned, particularly for anti-fraud work.
45. The financial implications confirm that the 2014/15 budget is adequate for the internal audit and anti-fraud, risk management and insurance services. As the contract extends into the 2015/16 financial year, funding requirements will need to be considered as part of the annual budget planning process. Whilst the services may need to identify savings during the extension period, these will need to be balanced against the statutory requirement for the internal audit service.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendations contained in the above report.

Signature  Date 13.5.14

Designation STRATEGIC DIRECTOR OF FINANCE AND CORPORATE SERVICES

BACKGROUND PAPERS

Background Papers	Held At	Contact
Open gateway 1 - Internal Audit and Related Services	Anti-Fraud and Internal Audit, F&CS, 160 Tooley St.	Mike Pinder x 54346
Open gateway 2 - Internal Audit and Related Services	Anti-Fraud and Internal Audit, F&CS, 160 Tooley St.	Mike Pinder x 54346
Internal Audit Progress reports to Audit and Governance Committee	Anti-Fraud and Internal Audit, F&CS, 160 Tooley St.	Mike Pinder 020 7525 4346

APPENDICES

No	Title
A	Contract Values, spend and estimates

AUDIT TRAIL

Lead Officer	Mike Pinder, Head of Anti-Fraud and Internal Audit	
Report Author	Mike Pinder, Head of Anti-Fraud and Internal Audit	
Version	with CCRB feedback	
Dated	17 April 2014	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Head of Procurement	Yes/No	Yes/No
Director of Legal Services	Yes/No	Yes/No
Strategic Director of Finance and Corporate Services	Yes/No	Yes/No
Cabinet Member	No	No
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	No	No
Date final report sent to Constitutional/Community Councils/Scrutiny Team	Date/Month/Year e.g. 5 July 2010	

Appendix A: Contract Values, Spend and estimates

	Date of activation	Original contract estimate annum £'000	Original contract value per annum	Estimated outturn spend for 2013/14 £'000	Estimated maximum Annual Value of the extension £'000
Internal Audit	01/12/2009		509	422	450
Anti-Fraud Services	01/10/2011		98	220	225
Risk Management Administration	01/12/2009		32	35	40
Contract Risk Assessment	pilot exercise only		23	5	25
Insurance Claims handling	01/12/2009		36	25	40
Total			698	707	780

All services will be included in the extension, but there are no plans at present to utilise the contract risk assessment element. The use of the anti-fraud services element, in particular, will be subject to considerable fluctuation, depending on any additional anti-fraud projects such as Project Bronze.