

<b>Item No.:</b>	<b>Classification:</b> Open	<b>Date:</b> October 14 2009
<b>To</b>	Executive	
<b>Report title</b>	Gateway 2 – Contract Award Approval Internal Audit and Related Services	
<b>Ward(s) or groups affected</b>	All Wards	
<b>From</b>	Finance Director	

## RECOMMENDATIONS

1. That the Executive approve the award of the Council's Internal Audit and Related Services Contract for a period of five years.
2. That the Executive delegate authority to extend the term of the Internal Audit and Related Services Contract for up to a maximum of two single years (1+1) subject to appropriate reviews, to the Finance Director.

## BACKGROUND

3. This contract is for the provision of Internal Audit Services to the Council for five (5) years with an option to extend for a further two single years (1+1).
4. In addition the contract includes an option for the Council to purchase the following services:
  - (1) Anti-Fraud Services;
  - (2) Risk Management Administration;
  - (3) Contract Risk Assessment;
  - (4) Insurance Claims handling.
5. The Internal Audit element will become operational on the 1<sup>st</sup> December 2009, with the Risk Management Administration element currently planned to also be activated on the 1<sup>st</sup> December 2009 or shortly thereafter. The other services listed in paragraph 4 above which form part of this Contract may or may not be activated at a point during the Contract period subject to certain conditions being met in relation to for example budgets and value for money through switching on these additional services and satisfactory progress in terms of partnership development.
6. The internal audit and related services contract has a specific option to extend the contract for a further 12 months, on two separate occasions, built into the contract. Contract performance reviews will be carried out at appropriate times to inform any decision to extend.
7. The contract provides that contract prices are subject to annual indexation in accordance with the rise or fall in the Average Earnings Index (AEI), published by the National Statistics Office.
8. This procurement has followed an EU restricted procurement route as laid out in the Gateway 1 report which was approved by the Executive on 16th December 2008.
9. The Timetable of the EU procurement process followed for the Internal Audit and Related Services contract is follows:

Activity	Date completed
Gateway 1: CCRB Consideration	28th Nov 2008

Activity	Date completed
Deadline for Report to executive	5th Dec 2008
Procurement strategy for approval report by Executive	16th Dec 2008
Completion of tender Pre-Qualification Questionnaire (PQQ)	2nd Dec2008
Advertise the contract in OJEU	5th Jan 2009
Advertise the contract in Trade Journals	15th Jan 2009
Closing date for expressions of interest	4th Feb 2009
Issue of PQQ to Interested Companies	up until 5th Feb 2009
Deadline for return of completed PQQs'	13 <sup>th</sup> Feb 2009
Completion of short-listing of applicants	9th March 2009
Evaluation panel agreement to evaluation	22nd April 2009
Completion of tender Documentation	22nd April 2009
Invitation to tenders	25th April 2009
Presentation to short-listed applicants	27th April 2009
Closing date for return of tenders	11th June 2009
Completion of final clarification process	17 <sup>th</sup> September 2009
CCRB	1 <sup>st</sup> October 2009
Executive	14 <sup>th</sup> October 2009
Scrutiny / call in expires	21 <sup>st</sup> October 2009
Send out letters to Participants - 10 day statutory "Alcatel" standstill period	21 <sup>st</sup> October 2009
Contract award	31 <sup>st</sup> October 2009
Contract start	1st December 2009
Contract completion date	30th November 2014 subject to a further two years extension.

## Description of Contract Outcomes

10. This tender is compliant with the EU Restricted Procurement route and the contract will be awarded on the basis of the most economically advantageous tender.
11. This contract will provide the internal audit service, along with related services where appropriate.
12. It is noted that there is no requirement (legal or best practice) for a rotation of internal audit providers, to prohibit a bid or the appointment of PricewaterhouseCoopers.
13. A new specification was developed based upon assessments of the previous specification and service and involvement of key stakeholders, including departmental representatives and the Finance Director. The new specification and contract management arrangements will deliver the following outcomes:
  - build on the existing relationships with key service representatives and develop new relationships to ensure that the combined Service provides most effective support to satisfy the needs and requirements of stakeholders;

- further develop the relationship with the Audit Commission to ensure that there is a joined up approach to the external and internal audit service;
- manage emerging relationships and reporting arrangements with the Audit and Governance Committee to strengthen relationships and communication and to support the role of the Committee;
- provide innovative approaches through enhancements to the Council's service provision;
- achieve and enhance performance targets for the internal audit service; and
- add value to the Council through improvements in its performance.

## KEY ISSUES FOR CONSIDERATION

### Policy Implications

14. This internal audit contract fully meets the statutory requirements for provision of an internal audit service to the Council and the internal audit strategy.

### Tender Process

15. A project team was established comprising the Assistant Finance Director, Acting Head of Procurement, Head of Audit and Risk, the Corporate Risk Manager, Audit Manager, Fraud Manager, and CIFPA Trainee. This team, with support from Legal services, developed all documentation for the procurement process including the Pre-Qualification Questionnaire (PQQ), specification and conditions of contract.
16. The service specification for the internal audit service was expanded to include anti-fraud, risk management administration, contract risk assessment, and/or insurance claim handling services.
17. To ensure that a wide range of officers (including departmental reps) could participate in the tender evaluation, the methodology included stages with different officers participating in each stage/ elements of each stage. To ensure continuity, the Head of Audit and Risk participated in every stage. The stages included:
  - PQQ assessment
  - Reading and scoring written submissions
  - Interviews
  - Price assessment
18. The evaluation panel agreed the evaluation methodology that would be applied to this procurement. As part of this agreement a set of evaluation criteria was produced, which was based on a weighted model (**price** and **quality**).
19. Advertising of contract Official Journal - This contract was advertised in the Official Journal of the European Union.
20. Expressions of Interest; A total number of 15 applicants had requested a copy of the Council's PQQ in response to the OJEU and trade journal adverts.
21. Completed PQQ In order to qualify for the Invitation to Tender Stage (Stage Two), all applicants had to demonstrate that they were financially viable and technically capable to deliver this contract.
22. Returned Pre Qualification Questionnaires (PQQs) The Council received a total of five completed PQQs before the closing date of 13<sup>th</sup> February 2009.

23. Late Application: The Council received one late PQQ application as the applicant had submitted an electronic copy, but had not submitted a hard copy as required. Following legal advice, the company were allowed to submit a hard copy of their tender, providing the documentation was received the next working day and that this was in line with their electronic submission.
24. Short listing: The Council assessed the PQQ applications submitted by five applicants before the closing date of 13<sup>th</sup> February 2009. The Council shortlisted four applicants which met the selection criteria for the internal audit and related services contract. These four applicants were invited to tender for the internal audit and related services contract.
25. Rejected Applications: One applicant failed to meet the minimum selection **quality** criteria and they were not shortlisted.
26. Invitation to Tender Documents: Following a Bidders briefing session held on 27<sup>th</sup> April, the suite of tender documents was sent out on 1<sup>st</sup> May to the four bidders. The Council informed all the bidders in writing that the closing date for applicants to provide the Council with tender submissions was no later than 12 (Noon) on Thursday 11<sup>th</sup> June 2009.
27. Tender Clarification Question: There were a number of clarifications raised by bidders. All clarifications were responded to and both questions and answers circulated to all bidders.
28. Withdrawal of Tenderer On the Thursday 25<sup>th</sup> May 2009 one of the bidders notified the Council that they would not be bidding for the Council's internal audit and related services contract and they had decided to withdraw from the tender process. The bidder stated in writing that they felt that they were unable to provide the full range of service we required and were not able to commit to delivering the contract in the format that it was set out.
29. Tender Evaluation: The Council received three bid submissions.
30. Initial Quality Assessment The Bid submissions were assessed against the quality criteria contained in the evaluation methodology document. Bidders were required to meet a threshold of 60% in the areas of internal audit, anti-fraud and risk management administration. The evaluation panel met to deliberate on their assessments. During deliberations it became apparent that whilst all three bid submissions met the overall threshold for Internal Audit there were concerns with the submission from one bidder in relation to schools audits. Also one bidder failed to meet the threshold for anti-fraud and one bidder failed to meet the threshold for Risk management.
31. Price Assessment An independent panel was set up to assess the price proposals. During assessments it became apparent that there were a number of clarifications sought by the price evaluation panel in relation to all three submissions. Following advice from legal, these clarifications were sent out and responses were received that enabled appropriate assessment.
32. On further assessment it became clear that despite the documentation instructions, all three bidders had approached the pricing in different ways and there was a level of confusion about what assumptions and inclusions should be made. The main evaluation panel had concern that the assessments were not being made on a like for like basis.
33. Panel Conclusion - Given the concerns surrounding the results of the quality assessment and the variations in the approach to price proposals, the panel felt unable to make a recommendation for award at this time. Legal advice was sought and the panel were given two options: To halt the procurement process and start again or to continue with the process and seek further clarifications from all three bidders.
34. After careful consideration, the Panel decided that they would continue with the process as restarting a procurement process would involve additional time and resources and would not guarantee a satisfactory outcome.
35. Following legal advice, a series of clarification meetings were held with each of the tenderers on 5<sup>th</sup> August 2009. The purpose of the meetings was to help the panel seek assurances from the bidders that they could provide the full range of services to a satisfactory standard and to ensure that the price assessment was carried out on a like for like basis.

36. Following these meetings, the bidders were required to complete revised pricing schedules and given an opportunity to resubmit method statements relating to their bid submission areas of weakness. The responses to these clarifications resulted in a delay to the process with the final deliberation meeting being held on 17<sup>th</sup> September 2009. The revised scoring for the areas of weakness was capped at a maximum of 3 out of 5 for that specific component of the evaluation.

37. Evaluation outcome

38. The results of the final **quality** assessment for each of the returning bidders following the clarifications described above are contained in the table below:

Quality Evaluation Scoring Matrix	Maximum Possible (weighted) Score	Actual Total Scores		
		Bidder 1	Bidder 2	Bidder 3
Internal Audit	30.00	19.39	21.01	22.52
Anti-Fraud	5.00	3.00	3.30	2.87
Risk Management Administration	5.00	3.65	3.08	3.08
Contract Risk Assessment	2.50	2.00	1.50	1.00
Insurance Claim Handling	2.50	1.88	1.00	1.50
Combined Services	2.50	1.83	1.50	1.83
Interviews	2.50	2.00	1.83	1.50
<b>Quality Assessment Total</b>	<b>50.00</b>	<b>33.75</b>	<b>33.22</b>	<b>34.30</b>

39. All three bidders met the overall threshold for internal audit and as this is the key component of the service may be awarded the contract. One bidder failed to meet the threshold for the anti-fraud service.

40. Pricing Outcome The results of the final **price** assessment for each of the returning bidders following the clarifications described above are contained in the table below:

Price Evaluation Scoring Matrix	Maximum Possible (weighted) Score	Actual Total Scores		
		Bidder 1	Bidder 2	Bidder 3
Internal Audit	30.00	30.00	26.64	26.59
Anti-Fraud	10.00	9.30	8.36	7.04
Risk Management Administration	5.00	4.32	3.06	2.77
Contract Risk Assessment	2.50	2.49	0.64	1.71
Insurance Claim Handling	2.50	2.49	1.02	1.81
<b>Pricing Assessment Total</b>	<b>50.00</b>	<b>48.60</b>	<b>39.72</b>	<b>39.92</b>

41. Overall Scoring of Tender Submissions: The final evaluation was completed in line with the methodology as attached in appendix A. The **overall** results for each of the returning bidders following the clarifications described above are set out in the table below:

	<b>Bidder 1</b>	<b>Bidder 2</b>	<b>Bidder 3</b>
Price	48.60	39.72	39.92
Quality	33.75	33.22	34.30
<b>Overall</b>	<b>82.35</b>	<b>72.94</b>	<b>74.22</b>

42. The panel therefore agreed that it should be recommended to Executive that the contract be awarded to bidder 1 as the most economically advantageous tender evaluated in accordance with the stated evaluation criteria.

43. It should be noted that this contract may be extended for up to a maximum of two years (1+1) and approval is sought for the Finance Director to be able to exercise this option if it is considered appropriate at the relevant time and subject to appropriate performance reviews.

### **Plans for the Transition from the Old to the New Internal Audit and Related Services**

44. A detailed transition plan has been prepared for the internal audit service, based around the contract commencement date of 1<sup>st</sup> December. The key objectives are for the existing contractor to ensure that only internal audit work completed under the existing contract is paid for and that work is completed in line with the Audit Commission's requirements for the managed audit work to be completed to allow them to undertake their systems work in January 2010. Any work from the internal audit plan that has not been commenced prior to December 2009 will be undertaken under the new contractual arrangements.

45. Through the transition process of assessing the detail, we will be seeking agreement and confirmation of the following specific items:

- The engagement manager who will be appointed to the contract.
- Partner level involvement in the contract.
- The details of the incentive programme.
- Actual physical staff resource for the contract i.e. who we will be getting and from where.
- Reporting arrangements for work completed.
- IT arrangements.
- Details of the transition programme.
- Agreement of contract conditions.

46. If further services are activated, separate individual timetables will need to be agreed with the successful contractor.

### **Plans for the Monitoring of the Internal Audit and Related Services**

47. It is anticipated that this new contract will require an enhanced approach to contract monitoring. In recognition of this the internal audit team is in the process of developing a contract monitoring manual identifying the key requirements of the contract, including outputs, payment mechanisms and key performance indicators.

48. The Council has identified a provisional number of important performance indicators (ref appendix A) which will need to be monitored on a daily and weekly basis. The categories to be regularly reviewed and monitored will include exception reports on a monthly basis.

49. A new body, the Contract Partnership Board will meet six monthly to monitor actual performance against the agreed performance targets along with any other contractual issues that may arise.
50. It is expected that the new contract with the new style of management including the introduction of the Contract Partnership Board will lead to better service delivery across the organisation.

### **Community Impact Statement**

51. The provision of these services fulfils the Council's responsibility to protect public funds.

### **Sustainability Considerations**

#### **52. Market Development Considerations**

The successful tenderer is a limited liability partnership business organisation

The successful tenderer has in excess of 250 employees

The successful tenderer has a national area of activity

### **Resource Implications**

#### **Staffing Implications**

53. Staffing Implications – There are no internal staffing implications as the in-house staffing level will be maintained at existing levels.

### **Financial Implications**

#### **54. Financial implications –**

- The total costs of the internal audit contract will be within the resources available in the audit and risk budget including the savings targets.
- In addition, it is noted that cashable and non cashable benefits of the additional non Internal Audit functions being included in the new contract may allow for some savings on the existing Audit and Risk budget.

### **Legal Implications**

55. Legal Implications – Advice has been taken and will continue to be sought where necessary from the Contracts Section of Communities, Law & Governance.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Communities, Law & Governance Services**

56. The Strategic Director of Communities, Law & Governance notes the contents of this report which seeks the approval of the Executive to the award of the contract for Internal Audit and Related Services to bidder 1.

57. This contract is classified as a strategic procurement and therefore CSO 4.5.2 (i) requires the Executive to authorise the award of this contract, after taking advice from the Corporate Contracts Review Board.
58. On the basis of the information contained in this Report it is confirmed that this procurement was carried out in accordance with Contract Standing Orders and the relevant legal requirements. As noted in paragraph 42 the tender submitted by bidder 1 is the most economically advantageous tender and is therefore recommended for award in accordance with the evaluation criteria
59. CSO 2.3 requires that before a contract may be awarded, the expenditure relating to that award should be included in approved estimates or revenue accounts or be otherwise approved by the council. Paragraph 54 confirms the financial implications of this award.
60. CSO 4.5.3 requires any possible options to extend the contract to be included as part of the proposed recommendations within the Gateway 2 report and paragraph 43 of this report confirms those options. In accordance with CSO 4.5.3 the Executive is therefore asked to delegate the decision to exercise those options at a future date, to the Finance Director.

### **Finance Director**

61. The total costs of the internal audit contract will be within the resources available in the audit and risk budget. The budget plan contains savings relating to the audit contract, these will be achieved in full.
62. The contract includes the option for the Council to purchase certain other services in addition to the internal audit work. Paragraph 4 of this report notes that the exercise of such an option will be subject to certain conditions being met in relation to for example budgets and value for money. The scope for achieving further savings in the long term should also be a consideration.

### **Head of Procurement**

63. This report is seeking approval to award the Internal Audit and related services contract to bidder 1. The procurement process followed a restricted procedure as detailed in the gateway 1 report signed off by the Executive on 16th December 2008.
64. Following the planned evaluation process, the panel which was set up to assess the bids submitted felt unable to make a recommendation for award. Paragraph 33 - 36 explains that following legal advice further clarification were sought from all three bidders. This additional step in the process gave the panel the necessary reassurance to be able to make a recommendation. There are some pre contract issues to be agreed with the new provider before the start of the contract and these are detailed in paragraph 45.
65. The monitoring arrangements for this contract have been enhanced with KPIs being introduced and a contract partnership board set up to review performance and any contract issues that may arise. This coupled with the revised specification with emphasis on stakeholder engagement including representation from Service managers will assist with the achievement of the contract outcomes contained in paragraphs 10 – 13.



### **KEY POINT SUMMARY**

- This procurement followed a *strategic* protocol
- This contract is for *services* and is *a replacing an existing provision*
- EU Regulations were followed during the procurement of this contract
- The EU Regulations applied were those of the restricted procedure route

## BACKGROUND PAPERS

None.

## APPENDICES

Appendix number	Title of appendix
Appendix A	A provisional list of year 1 performance indicators for the contract.

## AUDIT TRAIL

<b>Lead Officer</b>	Duncan Whitfield, Finance Director		
<b>Report Author</b>	Mike Pinder, Head of Audit and Risk		
<b>Version</b>	Final		
<b>Dated</b>	October 6 2009		
<b>Key Decision?</b>	Yes	<b>If yes, date first appeared on forward plan</b>	September 2009
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER</b>			
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>	
Strategic Director of Communities, Law & Governance.	Yes	Yes	
Finance Director	Yes	Yes	
Head of Procurement	Yes	Yes	
<b>Date final report sent to Constitutional Support Services</b>	October 6 2009		

## Appendix A – A Provisional List of Year 1 Performance Indicators for the Contract

Internal Audit KPIs (1)	Performance Target Percentage
The % of draft terms of reference that are issued within five working days of the planning meeting	95%
The % of final terms of reference that are issued within five working days of receipt of management comment on the draft Terms of Reference	95%
The % of draft reports issued within ten working days of exit meeting	95%
The % of final reports issued within ten working days of receipt of management response	95%
The % of audits completed within the budgeted audit working days	95%
The % of audits from the Audit Plan completed by the end of the Financial Year (31 <sup>st</sup> March)	95%
The % of audits completed to the satisfaction of the Client Contract Manager	90%
The % of returned audit client satisfaction survey forms achieving an overall score of 'adequate' or above	85%
The % of returned annual Chief Officer satisfaction survey forms achieving an overall score of 'adequate' or above	85%
The % of returned annual Audit and Governance Committee survey forms achieving an overall score of 'adequate' or above	85%
The % of critical and high recommendations which are followed up within three months of the final report being issued	95%

Internal Audit KPIs (2)	Performance Target Percentage
The % of Audits where field work is started within ten working days of the issue of the final Terms of Reference	95%
The % of exit meetings held within ten working days of completion of audit fieldwork	95%
The % of management responses received within 15 working days within issue of draft report	95%
The % of recommendations in a draft reports that are accepted by the audit owner/ audit sponsor	95%
The % of critical and high recommendations made which are implemented by the agreed implementation date	95%
The % of recommendations made which are implemented at the time of follow-up	95%

### Anti-Fraud KPIs

Anti-Fraud KPIs	Performance Target Percentage
The % of special investigations (including fraud investigations) completed within the agreed investigation	95%

plan	
The % of proactive activities completed in accordance with the agreed work plan	95%
The % of draft reports issued within five working days of the case closure agreement	95%
The % of final reports issued within five working days of receipt of the management response	95%
The % of reactive cases that do not become inactive in excess of seven working days	95%
The % of report revisions returned within three working days or receipt	95%
The % of referrals assessed against the decision matrix within five working days of the referral receipts	95%
The % of preliminary enquiries completed with five working days of referral receipt	95%
The % of cases where there are no breaches of legislation covering investigations	95%
The % of cases which adhere to the fraud file management requirement	95%
The % of cases where case notes are timely, accurate, detailed and completed	95%

Anti-Fraud KPIs	Performance Target Percentage
The % of recommendations made in the draft report that are accepted by the client owner	95%
The % of critical and high recommendations made that are implemented by the agreed implementation date	95%
The % of recommendations made which are implemented at the time of follow-up	75%

### Risk Management KPIs

Risk Management Administration KPIs	Performance Target Percentage
The % of returned risk workshop client satisfaction survey forms that achieve a score of 'adequate' or above.	90%
The % of updates on JCAD of risk registers within five working days of changes being agreed by the Department Risk champion	95%
The % of key reports that are submitted to the Corporate Risk Manager at least three weeks in advance of deadline in accordance with the Board, Group, and Committee timetable for report submission.	95%

### Contract Risk Assessment KPIs

Contract Risk Assessment KPIs	Performance Target Percentage
The % of returned Departmental client satisfaction survey forms that achieve a score of 'adequate' or above	90%

The % of assessments carried out within the deadline agreed with the Client Department	95%
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**Insurance Claims Handling KPIs**

Insurance Claims Handling KPIs	Performance Target Percentage
The % of returned Departmental client satisfaction survey forms that achieve a score of 'adequate' or above.	90%
The % of insurance claims passed to the relevant external authority within the Council's required timescale	95%