

Item No. N/A	Classification: Open	Date: 8 August 2016	Decision taker: Cabinet Member for Finance, Modernisation and Performance
Report title:		Gateway 2: Contract Award Approval - Internal Audit, Anti-Fraud and Risk Management Administration	
Ward(s) or groups affected:		All	
From:		Head of Anti-Fraud and Internal Audit	

RECOMMENDATION

1. That the Cabinet Member for Finance Modernisation and Performance approves the award of the internal audit, anti-fraud and risk management administration contract to BDO LLP in the sum of £3.4m (estimated) for a period of four years commencing on 1 December 2016.

BACKGROUND INFORMATION

2. The contract is for the provision of internal audit and anti-fraud services to the council over a period of four years and includes the option to provide risk management administration. The pre-tender estimate for this contract was £900,000 per annum or £3.6m for the entire contract period.
3. Additional background information is provided within the gateway 1 report, including details of the route of procurement used, being the Eastern Shires Purchasing Organisation (ESPO) framework. The overall timeframe of the procurement has been met.
4. A minor change was necessary from the original planned evaluation criteria, reasons for this are set out below.
5. It was originally intended that a ratio of 60% quality: 40% price would be used for anti-fraud and internal audit in line with the ESPO framework criteria. The risk management administration service would, however, be procured based on a straight forward bid against a specification, and was to be based upon a 70% price:30% quality ratio to reflect that.
6. In setting out the evaluation criteria, however, it was considered that having the dual sets of ratios was unnecessarily complicated and risked confusion for both bidders and evaluators. Following further discussion and with advice from the procurement advice team, this was therefore reviewed. It was then agreed by the evaluation panel that as risk management administration was only a relatively small part of the contract, it would be appropriate to change to all areas being assessed on the basis of 60% quality and 40% price. This was agreed prior to the issue of and included in the invitations to mini-tender.
7. The contract includes an annual price increase (the first of which would be on 1 April 2018). The increase is in line with the consumer price index.

8. The contract end date will be 30 November 2020. There is no option to extend after that time.

Procurement project plan (Key Decision)

9. The following sets out the key timings of the project.

Activity	Complete by:
Put on to Forward Plan	15/11/2015
DCRB Review Gateway 1 report:	22/10/2015
CCRB Review Gateway 1 report:	12/11/2015
IDM	06/01/2016
Approval of Gateway 1 report: Procurement strategy report	15/01/2016
Completion of tender documentation	15/03/2016
Invitation to mini-tender	22/03/2016
Closing date for return of tenders	29/04/2016
Completion of clarifications	8/06/2016
Completion of evaluation of tenders	24/05/2016
DCRB Review Gateway 2: Contract award report	30/06/2016
CCRB Review Gateway 2: Contract award report	14/07/2016
Approval of Gateway 2: Contract Award Report	5/09/2016
Scrutiny/call-in period and notification of implementation of Gateway 2 decision	19/09/2016
Contract award	20/09/2016
Add to Contract Register	21/09/2016
TUPE Consultation period (if applicable)	1/10/2016
Contract start	1/12/2016
Contract completion date	30/11/2020

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

10. BDO LLP is the sixth largest accountancy firm in the UK and has a number of local authority clients.
11. The bid remains within the overall budget of the service and there is scope to reduce the number of internal audit days to further manage overall costs.
12. The overall costs are variable, and estimated levels were set out based on past/present requirements.

Key/non-key decisions

13. This report deals with a key decision.

Policy implications

14. Not applicable.

Tender process

15. A tender evaluation panel was set up for the project:

Quality:

Head of audit and anti-fraud
Divisional finance manager – housing and modernisation
Head of financial and information governance
Anti-fraud manager
Corporate Risk and Insurance Manager

Price:

Senior Finance Manager – Corporate Services/F&G

16. The ESPO route was selected as set out in the gateway 1 report. There are five companies named on the ESPO framework.

- Arcadis
- BDO LLP
- Ernst and Young LLP
- Grant Thornton
- RSM LLP

17. This list included Grant Thornton who are the council's current external audit provider. The International Standard on Auditing prohibits provision of both internal audit and external audit by the same supplier. Grant Thornton and the council were keen that the external audit contract was continued and therefore Grant Thornton opted not to be included in the process.

18. The specification and associated tender documentation was therefore issued to the four remaining companies.

19. Two bidders chose to withdraw from the process prior to the submission deadline. One felt the opportunity was not right for them, the other did not feel they had the local resources in place to deliver to standards they would set.

20. This left two potential bidders. The project team was notified and agreed the process should continue and would still be competitive.

21. The two remaining bidders both submitted a tender. Both were found to be compliant and therefore moved on to the evaluation stage.

Tender evaluation

22. The evaluation weightings were:

	Max Score	Weight	% of total score
Quality			
Internal Audit	75	60%	45
Anti-Fraud	15	60%	9
Risk Management Administration	10	60%	6
Total Quality	100	60%	60
Price			
Internal Audit (estimated annualised cost)	60	40%	24
Anti-Fraud (estimated annualised cost)	20	40%	8
Risk Management Administration (fixed annual fee)	20	40%	8
Total Price	100	40%	40
Overall Total	100	100	100

23. The two elements were assessed and scored separately. The quality scores were confirmed to the group prior to scoring of pricing being reviewed and overall totals combined.
24. A minor clarification was required on the returns. One of the bidders had included follow-up time in the terms of reference in their quality submissions, indicating that there was an additional charge for it. In the pricing specification it was required that all direct and indirect overheads, including but not limited to all expenses, administration, management and other costs or charges such as follow-ups were included in price. The clarification was to confirm that follow-ups were included in their prices. Both bidders confirmed that their pricing included all such overheads.
25. Quality criteria were based upon the previous tendering exercise. Those criteria were reviewed and updated. All criteria were weighted and agreed by the evaluation panel.
26. The quality criteria were weighted to internal audit, anti-fraud and risk management administration and then split into key categories, with weightings set and agreed by the evaluation panel as follows:

Category		Criteria Scores		Quality Weight
INTERNAL AUDIT				60%
1	Independence	4	75	
2	Resources	11		
3	Delivery Capability	42		
4	Continuous Improvement	6		
5	Relationship Management	6		
6	Quality Assurance	6		
ANTI-FRAUD & SPECIAL INVESTIGATIONS				
7	Delivery Capability	7	15	
8	Resources	8		
RISK MANAGEMENT ADMINISTRATION				
9	Delivery Capability	5 5	10	

27. A method statement covering assessment criteria was set and returns completed by bidders. Each was assessed by two of the panel members. Each panellist scored each of the criteria out of a possible five points based on the following and a set of expected requirements.

Assessment	Score	Basis of score
No Submission	0 points	No submission was made
Very Poor	1 points	Unacceptable, an unsatisfactory response
Poor	2 points	Only some of the requirements met
Acceptable	3 points	A satisfactory response, which meets the basic requirements.
Good	4 points	Good response, which meets all requirements and gives confidence
Excellent	5 points	Outstanding response, exceeds expectations, adds value, full confidence.

28. These scores were then consolidated through a moderation process.
29. The quality scores from both bidders were very close and well in excess of the threshold minimum required (60 out of 100).
30. Pricing was assessed on the basis of proximity (as a percentage) to the lowest bid for each area. The lowest bid received full marks. Higher bids were then scored in relation to the lowest bid; on a reducing percentage equivalent to the amount the bid is higher (in percentage terms).

Element	Criteria Scores	Pricing Weight
Internal Audit (Estimated Annual Total Cost of current plan)	60	40%
Anti-Fraud (Estimated Annual Total Cost)	20	
Risk Management Admin (Fixed Rate Component)	20	

31. BDO achieved the highest overall score. It is therefore recommended BDO are awarded the contract.

Plans for the transition from the old to the new contract

32. A full transition plan is being formulated, however, some key measures have already been put in place:

- The internal audit plan was split into current contract and new contract timings. This included no new work being commenced by the existing provider in October to allow two months for any existing work to be completed, and finalised.
- The current provider have agreed that they will only be paid once a project has been finalised so individual audits will not need to be handed over.
- TUPE lists were shared during the tender process and will be reviewed following confirmation of the recommendation.
- Most anti-fraud projects are undertaken by the in-house team so minimal handover will be required.
- There is no handover required on risk management, this service is currently being undertaken internally and is under review by the corporate risk and insurance manager.

33. The following measures are also being considered:

- BDO have offered to undertake familiarisation of work as part of their submission. This will include meetings with key stakeholders which can be used to inform the internal audit planning.
- The remaining audit plan for 2016/17 will be agreed with BDO ahead of commencement and key projects prioritised to allow prompt commencement in December.
- A client pack of key documents, contacts etc., will be compiled to allow hand over.
- Agreeing arrangements for the current provider's staff to attend court on anti-fraud cases (two known cases). This is also subject to TUPE.

Plans for monitoring and management of the contract

34. The current monitoring arrangements have worked well on the outgoing contract. These will be continued to help ensure smooth transition and progress in to the new arrangements.

35. The council has identified key performance indicators which will be monitored and reported to the audit, governance and standards committee as well as DCRB every 6 months. The categories to be regularly reviewed and monitored will include exception reports on a monthly basis.

36. The Contract Partnership Board will meet six monthly to monitor actual performance against the agreed performance targets, provide issue logs, updates and help ensure things work smoothly.

Identified risks for the new contract

37. The following risks and mitigations are considered:

Risk	Likelihood	Mitigations
1. BDO do not complete their share of the 2016/17 audit plan.	Medium	<ul style="list-style-type: none"> • BDO have confirmed in their tender that they have a pool of staff to call upon. • Early conversations will be held with BDO management to ensure staff are made available to undertake the work. • Key projects will be prioritised. • Assistance will be provided by the head of anti-fraud and internal audit to set up meetings with key officers as soon as the contract commences. • The contract will be closely monitored during this time.
2. The 2017/18 audit planning timeframe is not met.	Low	<ul style="list-style-type: none"> • Familiarisation meetings will be held with key stakeholders, will include time to discuss planning, to allow early consideration of issues. • Meetings will be set up in the time prior to contract commencement.
3. Critical evidence, knowledge of fraud investigations is lost.	Low	<ul style="list-style-type: none"> • As the contract end date becomes nearer, in-house staff will handover/cover projects and hold work if necessary until BDO commence. • Court attendance process will be agreed with the current provider and a day rate paid as necessary..

Community impact statement

38. Pursuant to section 149 of the Equality Act 2010 the council has a duty to have due regard in its decision making processes to the need to:

- Eliminate discrimination, harassment victimisation or other prohibited conduct.

- Advance equality of opportunity between person who share a relevant protected characteristic and those who do not.
- Foster good relations between those who share a relevant characteristic and those that do not share it.

39. The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. The Public Sector Equality Duty also applies to marriage and civil partnership, but only in relation to the first point above. It is considered that there are no equalities issues arising from the award of this contract.

40. The transition plan will include training for the contractor to ensure sensitivities are managed on fraud investigation.

Sustainability considerations

41. The Public Services (Social Value) Act 2012 requires the council to consider a number of issues including how what is proposed to be procured may improve the economic, social and environmental well-being of the local area. These issues are considered in the following paragraphs which set out economic, social and environmental considerations.

Economic considerations

42. None identified.

Social considerations

43. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, contractors and subcontractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate. It is fully expected the contractor will meet this, but the requirement has been confirmed in the tender documents and will also be included in the contract conditions. BDO LLP have confirmed compliance with this requirement.

Market considerations

44. BDO is a limited partnership. It is the sixth largest accountancy firm, and operates across the UK and will employ more than 250 employees. They have a number of Local Authority clients across the UK.

Staffing implications

45. There are no implications for Southwark Council staff. TUPE does apply and a list of the current provider's staff who might be affected has been received by the council and provided to BDO.

Financial implications

46. There are considered to be sufficient funds to cover the core internal audit and anti-fraud and risk management administration work. Where additional work is required, costs will need to be funded from departmental budgets or reserves.

Legal implications

47. Please see comment from the Director of Law and Democracy in paragraph 58

Consultation

48. Public consultation was not considered necessary for this service which is largely internal to the council.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (F&G16/002)

49. The strategic director of finance and governance notes the recommendations in the report for the award of the internal audit, anti-fraud and risk management administration contract to BDO LLP. The estimated cost of £3.4m will impact financial years from 2016-17 to 2020-21.

50. For the year 2016-17 there are considered to be sufficient funds to cover the core internal audit and anti-fraud and risk management administration work.

51. The council faces significant reductions in government grants for the years 2017-18 and 2018-19, and indicative gaps of £1.2m and £5.3m respectively, subject to the final settlement announcement and future uncertain pressures.

52. The division already faces budget cuts of £1.2m in these years and so the service must continue to seek efficiencies through these contractual arrangements.

53. Where additional work is required, costs will need to be funded from departmental budgets or reserves.

Head of Procurement

54. This report is seeking approval to award the internal audit, antifraud risk management administration contract to BDO LLP following a tender exercise using the ESPO framework.

55. The report confirms that the procurement strategy set out in the Gateway 1 report approved in December 2015 has been followed with a competitive tender process being undertaken. Paragraph 6 confirms that a minor alteration was made to the evaluation model in favour of the councils standard weightings of 70% quality and 30% price following discussion with officers from Corporate procurement.

56. The report confirms that this standard model was used determine the most economically advantageous tender (MEAT and that the highest scoring provider has been recommended for award.

57. Paragraphs 34 to 46 outline the monitoring and management arrangements that will be in place during the life of the contract, which should go some way to ensuring the contract is delivered to the required standards.

Director of Law and Democracy

58. The Director of Law and Democracy notes the content of this report which seeks approval of the award of a contract to BDO LLP for the provision of internal audit, anti-fraud and risk management administration and services.
59. 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 (“CSOs”) and the relevant European and domestic legal requirements. CSO 3.3.2 provides that any procurement involving the use of a third party’s framework contract is subject to usual Gateway 2 procedures and this report seeks the appropriate approval.
60. Paragraph 2 of this report confirms that an existing framework managed by ESPO, which complies with the EU procurement regulations has been used to procure the services required by the council. The Gateway 1 report approved the use of this framework and set out the details of the process used to evaluate tenders received under the mini-competition.
61. CSO 4.5.2 b) reserves to the relevant individual decision maker the decision to authorise the award of this contract, after consideration by the corporate contracts review board (CCRB) of the report.
62. CSO 2.3 provides that a contract may only be awarded if the expenditure has been included in approved revenue or capital estimates or has been otherwise approved by, or on behalf of the council. Paragraph 46 of this Report advises that this requirement will be satisfied.

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Gateway 1 report internal audit, anti-fraud and risk management administration http://moderngov.southwark.gov.uk/ie/DecisionDetails.aspx?ID=5594	Anti-Fraud and Internal Audit Finance and Governance 2nd Floor Hub 1 160 Tooley Street PO Box 64529 London SE1P 5LX	Mike Pinder 020 7525 4346

APPENDICES

No.	Title
None.	

AUDIT TRAIL

Lead Officer	Jennifer Seeley, Director of Finance	
Report Author	Mike Pinder, Head of anti-fraud and internal audit	
Version	Draft	
Dated	8 August 2016	
Key Decision	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		5 August 2016

BACKGROUND DOCUMENT – CONTRACT REGISTER UPDATE - GATEWAY 2

Contract Name	Internal audit, anti-fraud and risk management
Contract Description	The provision of internal audit, anti-fraud and risk management administration services
Contract Type	Gateway 2
Lead Contract Officer (name)	Mike Pinder
Lead Contract Officer (phone number)	020 7525 4346
Department	Finance and Governance
Division	Finance
Procurement Route	Framework
EU CPV Code (if appropriate)	N/A
Departmental/Corporate	Departmental
Fixed Price or Call Off	Call off
Supplier(s) Name(s)	BDO LLP
Contract Total Value	£3.4m
Contract Annual Value	£850,000
Contract Start Date	1 December 2016
Initial Term End Date	30 November 2020
No. of Remaining Contract extensions	None
Contract Review Date	N/A
Revised End Date	N/A

SME/ VCSE (If either or both include Company Registration number and/or registered charity number)	N/A
Comments	N/A
London Living Wage	Yes

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