

**Cabinet – 19 May 2020**

**Internal Audit & Risk Management Service Contract Award**

**Portfolio:** Councillor Bird, Leader of the Council

**Related portfolios:** All

**Service:** Finance – Council Wide

**Wards:** All

**Key decision:** Yes

**Forward plan:** Yes

**1. Aim**

- 1.1 Provision of an internal audit and risk management service that supports the statutory requirements of the council's Section 151 officer and acts as an independent, objective assurance designed to add value and improve the council's operations by providing a systematic, disciplined approach to evaluate and improve the effectiveness of control and governance and risk management processes.

**2. Summary**

- 2.1 Section 151 of the Local Government Act 1972 specifies that 'every local authority will make arrangements for the proper administration of their financial affairs' with the Accounts and Audit (England) Regulations 2015 requiring councils to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes.'
- 2.2 Whilst these regulations do not stipulate how the council should provide these services, effective internal audit and risk functions require a diversity of skills that local authorities can find difficult to source and retain. As such the council previously agreed to provide these services from an external partner.
- 2.3 With the current contract for these services due to expire on 30 June 2020 a retendering exercise has been carried out to ensure the council is able to continue to meet its statutory duties going forward, utilising a mini competition process under the Crown Commercial Services Management Consultancy Framework (RM3745) Framework Lot 3. The benefits of using this framework being that pre-qualifications of finance, experience, and training have already been undertaken and all the companies on the framework are nationally known and reputable thereby reducing the potential risk to the council.
- 2.4 As the award of the contract incurs expenditure in excess of £250k it is a key decision.

- 2.5 Cabinet Members should refer to the private session report for confidential details and commercially sensitive matters relating to the evaluation of the tenders.

### **3. Recommendations**

Subject to consideration of the information in the private session of the meeting, Cabinet will be asked to:

- 3.1 Award the contract for the provision of an Internal Audit and Risk Management service to Mazars LLP from 1 July 2020 until 31 March 2022 (with the option to extend for 2 further 12 month periods).
- 3.2 Delegate authority to the Executive Director of Resources and Transformation to enter into a new contract to deliver the Internal Audit and Risk Management Service by using the most appropriate procedures and to subsequently authorise the sealing of any deeds, contracts or other related documents for the provision of such services.
- 3.3 Delegate authority to the Executive Director of Resources and Transformation to vary the contract during the contractual period to ensure the Council continues to achieve value for money and the services continue to meet the corporate priorities.

### **4. Report detail - know**

#### **Context**

- 4.1 Section 151 of the Local Government Act 1972 specifies that 'every local authority will make arrangements for the proper administration of their financial affairs and will secure that one of their officers has responsibility for the administration of those affairs'. The Executive Director for Resources and Transformation, acting as the Section 151 Officer, is the responsible officer for the council.
- 4.2 In addition, the Accounts & Audit Regulations 2015 refer specifically to matters pertinent to internal audit and risk within local authorities and state that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 4.3 Historically within Walsall these required functions were provided via an internal service, however in 2015 following the departure of the Head of Internal Audit, and with a number of vacancies within the team, the council chose to undertake a review of the service.
- 4.4 This review identified that:
- Effective internal audit and risk functions require a diversity of skills that local authorities find difficult to source and retain.
  - Difficulties had been experienced in trying to employ suitably qualified and experienced staff from agencies to provide additional audit coverage when required.
  - In house teams were not as able to keep abreast of / afford, continuing professional development and training.
  - Specialist expertise and in-depth knowledge could not as easily be sourced by an in-house team, and would need to be bought in on an annual basis.

- In house teams do not always have the awareness of current and emerging issues, both sector specific and general, that third party specialist providers may be privy to.
  - In cross organisational working, knowledge of best practice from other organisations / sectors can be shared and capitalised upon.
- 4.5 Additionally the review highlighted that the functional separation of internal audit and risk was outdated, with the most recent thinking instead focussing on Assurance Based Audit (ABA), which uses a risk based approach to co-ordinate all assurance activity to ensure that duplication is minimised and a co-ordinated assurance position is given to management. Under this methodology risk based auditing is employed in place of the traditional systems based audit approach. This raises the profile of risk management and embeds it in the day to day operations and management of the business as opposed to it being perceived as a 'bolt on' exercise.
- 4.6 The review therefore identified a number of available options to the council for the future service delivery of internal audit and risk:
- Retain an in-house function and merge internal audit & risk with reduced management costs.
  - Outsource the delivery of internal audit and risk to a third party provider.
  - Co-sourcing, adopting a similar approach as the outsourcing model, but with service delivery shared between the contracted third party provider and an in house team, with the third party provider delivering specialised areas or those that are more cost effective to outsource, such as IT audit and forensic investigations.
  - Shared Services, seeking to share service delivery with other local authorities / public sector organisations.
- 4.7 Having fully considered all options, an outsourced model was recommended and approved by Cabinet at their meeting on 16 December 2015, with a contract for the external service beginning in January 2016, which was awarded to Mazars LLP.
- 4.8 The provision of the outsourced service since that point has been effective, with the move to risk based auditing allowing an improved focus on evaluating and improving the effectiveness of control and governance, and with access to the wider resources of the company (to support in specialist audit areas and in instances of absence / sickness) supporting the service provider to consistently meet required performance targets across the contract period.
- 4.9 In preparation for the end of the current contract period a report was presented to Cabinet on 18 December 2019 asking them to endorse a 3 month extension to the current contract (from 31 March 2020 to 30 June 2020) to allow the required time to complete a retender process and allow for any associated TUPE arrangements to be put in place should there be a change in provider.
- 4.10 This retendering exercise has now been carried out using a mini competition process under the Crown Commercial Services Management Consultancy Framework (RM3745) Framework Lot 3. The benefits of using this framework are that pre-qualifications of finance, experience, and training have already been undertaken and all the companies on the framework are nationally known and reputable thereby reducing the potential risk to the council.

- 4.11 An Invitation to Tender (ITT) was published with a return date of 17 February 2020, with tender returns then being evaluated in accordance with the criteria published in the ITT, on the basis of cost and quality, with the recommended supplier identified based on the overall combined score for both these elements.

## **5. Council Corporate Plan priorities**

- 5.1 The provision of an effective internal audit and risk management service contributes to the Corporate Plan priorities of Internal Focus and ensuring all council services are efficient and effective, by seeking to improve the effectiveness of the council's risk management, control and governance processes.

## **6. Risk management**

- 6.1 The proposal to continue with an outsourced provision provides a number of opportunities and mitigates against the risks of either moving the service in house or seeking to identify either a co-sourcing or a shared service model.

Effective internal audit and risk functions require a diversity of skills that local authorities can find difficult to source and retain. Difficulties have previously been experienced in trying to provide this service internally and employ suitably qualified and experienced staff or procure staff from an agency when required to provide additional audit coverage.

In house teams are not as able to keep abreast of / afford, continuing professional development and training. Specialist expertise and in-depth knowledge cannot be as easily sourced by an in-house team, and would need to be bought in on an annual basis.

In house teams do not always have the awareness of current and emerging issues, both sector specific and general, that third party specialist providers may be privy to. In cross organisational working, knowledge of best practice from other organisations / sectors can be shared and capitalised upon.

- 6.2 The provider will be required to comply with all conditions, warranties and representations expressed or implied by statute or common law, council policies, strategies, rules and procedures in delivering the Internal Audit and Risk service to the standards required. This would ensure that the service to customers continues to be of a high standard.

## **7. Financial implications**

- 7.1 The tendered costs for the recommended supplier were £204k for the period 1 July 2020 to 31 March 2021, and £236k for the period 1 April 2021 to 31 March 2022. This cost is in line with the existing budget for the service.
- 7.2 The contract also includes a further contingency sum of up to £88k across the total contract period which is included to allow for unplanned work in relation to money and fraud / irregularity, however this will only be allocated on a call off basis subject to a proposal of the work being agreed prior to commencement.

## 8. Legal implications

- 8.1 Under the Accounts and Audit Regulations 2015, the council is required to 'undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. There are no restrictions placed on how this is delivered.
- 8.2 Subject to Cabinet approval of the recommendations set out in this report Cabinet should note that the Council will be entering into a contract on the Crown Commercial Services Management Consultancy Framework (RM3745) Framework Lot 3 terms and conditions of supply, rather than its own contractual terms and conditions.

## 9. Procurement Implications

- 9.1 The procurement and awards process are in accordance with the council's contract rules.
- 9.2 The contract value is above the current European Union procurement thresholds and therefore the service was tendered using a mini competition process under the Crown Commercial Services Management Consultancy Framework (RM3745) Framework Lot 3. The benefits of using this framework are that pre-qualifications of finance, experience, and training have already been undertaken and all the companies on the framework are nationally known and reputable thereby reducing the potential risk to the council.
- 9.3 Thirteen suppliers were attached to the project on the council's e-Tendering Portal and downloaded the Invitation to Tender with a return date of 17 February 2020.
- 9.4 Tenders were opened on 17 February 2020 using a formal opening ceremony on the In-tend e-tendering portal. The council received two tenders as set out below:

Bidder No.	Bidder Name
1.	BDO LLP
2.	Mazars LLP

### ***Tender Evaluation Process***

- 9.5 The tenders were evaluated in accordance with the criteria published in the ITT as shown in the tables below:

### ***Weighted Price Criteria:***

- 9.6 The evaluation of this section is against information included in the pricing schedule.

<b><i>Criteria</i></b>	<b><i>Percentage</i></b>
Price	40%
<b><i>Total</i></b>	<b><i>40%</i></b>

### ***Weighted Non-Price Criteria:***

- 9.7 The evaluation of this section is against information included in the Tender Quality Questionnaire

<b>Criteria</b>	<b>Percentage</b>
Social Value	5%
Quality Reviews	PASS/FAIL
Preparation of 3 year Audit Strategy & Audit Charter	8%
Preparation of annual internal audit plan	8%
Managing and Resourcing the Work	9%
Implementation Plan	10%
Audit Methodology and Software	5%
Computer Auditing	5%
Cost Saving initiatives	5%
Innovation & Effectiveness	5%
<b>Total</b>	<b>60%</b>

- 9.8 Tender price evaluation, due diligence checks and the evaluation summary were completed by Procurement. The tender non-price criteria evaluations were completed by senior council officers from the Finance service.

### ***Tender Outcome***

- 9.9 Given the commercially sensitive nature of the tender evaluation information, a report detailing the outcome of the evaluation appears in the Private Session Agenda Cabinet Report.
- 9.10 The successful bidder has made commitments to contribute to Social Value in the following areas;
- Walsall will receive opportunities to contribute to research and programmes implemented by the Centre for Social Value, and be party to the results
  - Through Mazars' efforts to be make environmental improvements, Walsall Council may benefit from the following:
    - Reduction of paper use
    - Reduction of energy consumption
    - Reduction of business mileage
    - Recycling of paper waste
    - Mazars' work and partnership with suppliers to meet appropriate environmental standards
- 9.11 Steps have been taken to minimise procurement related risk. However, there will always remain an inherent risk of legal challenge associated with any procurement undertaken by the Council.

## **10. Property implications**

- 10.1 None relating directly to this report.

## **11. Health and wellbeing implications**

- 11.1 The content of this report has taken into account the Marmot objectives and it is confirmed that the proposals have been tested against the relevant considerations in this respect which has found that there are no health and wellbeing implications.

## **12. Staffing implications**

- 12.1 None relating directly to this report.

### **13. Reducing Inequalities**

- 13.1 There is no direct impact on protected groups from this proposal as it is not withdrawing, changing or reducing any service, and is simply seeking to continue a contract for the provision of an internal audit and risk management service for the council. As such an Equality Impact Assessment has not been completed.

### **14. Consultation**

- 14.1 The public will not be impacted by this decision and therefore no public consultation has been required. However the provider will undertake consultation with all council directorates as part of the process of agreeing, finalising and implementing the annual audit plan.

### **15. Decide**

- 15.1 The ending of the existing contract gives the council the opportunity to review the options for provision of the service going forward. However as the same risks identified in 2015 to seeking to provide the service internally still exist, and the provision of the outsourced service has been effective in managing these risks, and has consistently met the required performance targets across the contract period, the recommended option is to continue with an outsourced service.

### **16. Respond**

- 16.1 Subject to approval of the recommendations, the Executive Director for Resources and Transformation will finalise and enter into contract with the recommended supplier.

### **17. Review**

- 17.1 Performance of the contract will be monitored through performance reports provided to council officers managing the contract and will also be reported quarterly to the council's Audit Committee.

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