

AGENDA ITEM: 8	Pages 199 – 202
Meeting	Cabinet Resources Committee
Date	28 March 2011
Subject	Internal Audit Service – Extension of Contract
Report of	Cabinet Member for Resources and Performance
Summary	This report recommends that the Council extends a contract for a 6 month period (with an option for the Council to end the extended period after three months) to cover period of procurement for future internal audit services.

Officer Contributors	Andrew Travers, Deputy Chief Executive
Status (public or exempt)	Public
Wards affected	All
Enclosures	None
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Maryellen Salter, Assistant Director of Finance – Audit and Risk Management, 020 8359 3167

1. RECOMMENDATIONS

- 1.1 That requirements of paragraph 5.6.1.2 of the Contract Procedure Rules be waived as the initial contract had been extended before.**
- 1.2 That the Deputy Chief Executive be authorised to extend the contract for Systems Based Internal Auditing with Deloitte & Touche Public Sector Internal Audit Ltd for a period of six months with an option for the Council to end the extended period after three months.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 On 11 January 2006, the Director of Resources in consultation with Cabinet Member approved the appointment of Deloitte & Touche Public Sector Internal Audit Ltd for a 3 year period from 1 April 2006 until 31 March 2009. The decision allowed the provision in the contract for the extension of the contract for a further 2 years (at paragraph 7.7).
- 2.2 On 31 December 2008, the Director of Corporate Governance approved a delegated powers report (DPR 703) for the extension of the Systems Based Internal Auditing contract with Deloitte & Touche Public Sector Internal Audit Ltd, for a period of up to two years.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 This work is in line with all corporate priorities.
- 3.2 The Council, under Part 2 (Para 3) of the Financial Regulations of the Council's procedure rules, requires provision of an adequate and effective system of internal audit.
- 3.3 Effective audit and risk assurance arrangements support continuous improvement in the delivery of Council's key priorities in particular Better Services with Less Money.

4. RISK MANAGEMENT ISSUES

- 4.1 The risks of failing to secure this resource are as follows:
 - a) Weaknesses in the effectiveness of internal control in key areas are not identified and addressed owing to an inability to complete the audit plan and the inability to achieve the required audit coverage across all Council Services areas.
 - b) An inability, owing to the lack of adequate coverage, for Internal Audit to support assertions in the Annual Governance Statement or to express an opinion around the effectiveness of the Council's Governance framework, including the system of internal control which must be reported in the Annual Governance Statement under Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006.
 - c) Non compliance with the Accounts and Audit Regulation 2003 which states at Section 6 that "a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices."
- 4.2 It is not considered that the issues involved are likely to raise significant levels of public concern or give rise to policy considerations.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 The extension of the contract is not expected to alter the Council's obligations in meeting its statutory equality duties.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 The projected value of the contract over the extension period of 6 months, reviewed after 3 months, is approximately £20,000. The level of service required from the contract will fluctuate if staff either leave, or are seconded, however the overall spend will be retained within budget. The price for systems work, which forms the bulk of the work allocated, was fixed during the previous contract however these prices have been increased from £290 per day to £300 per day, this is comparable with the current market.

7. LEGAL ISSUES

- 7.1 Contract Procedure Rule 5.8, which deals with waiver of contract procedure rules, states that except in situations of urgency or emergency Contract Procedure Rules may only be waived on the decision of a Cabinet Committee and only where that Committee is satisfied, after considering a written report by the appropriate officer why this is justified because:

- 5.8.1 the nature of the market for the works to be carried out or the supplies of services to be provided has been investigated and is demonstrated to be such that a departure from the requirements of Contract Procedure rules is justifiable; or
- 5.8.2 the contract is for works, supplies or services that are required in circumstances of extreme urgency that could not have reasonably been foreseen; or
- 5.8.3 the circumstances of the proposed contract are covered by legislative exemptions (whether under EU or English Law); or
- 5.8.4 there are other circumstances which are genuinely exceptional.

8. CONSTITUTIONAL POWERS

- 8.1 The Council's constitution in Part 3, Responsibility for Functions, paragraph 3.6 states the functions of the Cabinet Resources Committee including agreeing exceptions to standing orders.
- 8.2 The Council's Contract Procedure Rules in Paragraph 5.6.2 states the acceptance parameters for Contract Extensions.
- 8.3 The Council's Contract Procedure Rules in Paragraph 5.8 states that a waiver of the Contract Procedure Rules maybe agreed by the appropriate decision making body if they are satisfied after considering a written report by the appropriate officer that the waiver is justified.

9. BACKGROUND INFORMATION

- 9.1 The contract for Internal Audit Service will expire on 31 March 2011. The contract had been previously extended through a delegated powers report and as such does not meet the criteria under the contract procedures rules 5.6.1.

- 9.2 This report concerns contracts for the provision of Internal Audit Services. The current annual value of the contract is approximately £65,000 and the contract is due to expire on the 31 March 2011. The initial contract was let in 2006 for a three year period with an option to further extend for a two year period. It is now proposed to extend this contract for a further six month, with an option to end the extended period after three months, to accommodate the completion of the framework procurement exercise currently being undertaken with the London Borough of Enfield for future internal audit services.
- 9.3 These circumstances are genuinely exceptional in that the joint procurement exercise will allow the Council to deliver economies of scale and also to avoid management time in completing an individual tendering exercise. There has been delay in progressing with the joint procurement due to the staff consultation at the London Borough of Enfield resulting from their budget reductions.
- 9.4 The value of the proposed extension to the contract is less than half the cost of the existing contract and has a budget allocation.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

Legal – MM
CFO – MC