

Report of: Strategic Director Finance & Corporate Services

Title: Major project approval to award contract for the provision of Internal Audit Services

Ward: ALL

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Key Decision: Yes

Lead Member: Councillor Baker

**Scrutiny
Responsibility:** Finance

RECOMMENDATIONS

That the Executive Board agrees to:

1. Grant Major Project Approval for the award of the contract for the provision of Internal Audit Services.
2. Approve delegated powers to the Director of Finance and Corporate Services to award a contract for Audit services to one of the two final suppliers and carry out the final contract negotiations to resolve the legal contract issues and contract delivery.

The proposed contract has been tendered in accordance with the Constitution and EU regulations. Legal services have been involved throughout the whole of the tendering process.

1. Background and Context

- 1.1 This report explains why the Council has undertaken a tendering process to set up a contract with a supplier to provide the services, the processes undertaken and the reasons for requesting approval to award a contract.
- 1.2 The Audit and Risk Business Unit has been unable to recruit suitably skilled and qualified staff for the last two years despite several recruitment campaigns. As a result, performance is slipping and the unit has been unable to complete the annual audit plan.
- 1.3 The Unit has also struggled to recruit and retain the most senior audit position, the Senior Audit Manager, for several years. Previous appointees have not relocated to Oxford and staff turnover has been high. This important post has been vacant since June 2003.
- 1.4 In recent years a combination of increasing recruitment difficulties and budgetary pressures have seen the former Deputy Chief Cashier fill the Audit Manager post. The Insurance officer post has been reduced to 0.4 FTE and the remainder of her hours (0.4 FTE) committed to internal audit work. The Emergency Planning Officer has been transferred to Audit and Risk with 0.5 FTE of the post similarly committed to internal audit work. The only full-time auditor from an establishment of 4 posts left the organisation in July 2005. An Internal Auditor is being temporarily provided via an employment agency appointment.
- 1.5 We have previously made three unsuccessful attempts to recruit, working with Human Resources, even though we have set salaries at attractive levels. We have redesigned the structure so that it offers flexibility, encourages and recognises progression, and can adapt to changing demands. The most recent recruitment campaign sought to demonstrate the attractions of working in Oxford and the benefits, e.g. key worker home loan scheme, leisure concessions. This has still failed to attract suitable applicants.
- 1.6 The service has, to date, scored well in terms of quality as judged by internal customer satisfaction. Internal customers' quality assessment of internal audit work across a range of indicators averaged 8 out of 10 last year. However, due to reduced resources, the amount of planned work completed fell from 83% in 2003/04 to 63% in 2004/05, and if we do nothing will fall further. This is likely to give our external auditor cause for significant concern.
- 1.7 The procurement process has been undertaken in line with the Council's constitution and OJEU procurement rules. Advice from the Audit Commission has also been sought and their comments included in the report submitted to the Finance Scrutiny Committee in June 2005. An evaluation team of officers scored the pre-qualification questionnaires, tender submissions and supplier presentations. Quality was awarded

eighty percent of the final scores with the remainder being assigned to price.

1.8 The tender evaluation scores can be found in Appendix A.

1.9 Both suppliers A and E (in Appendix A) have put forward robust submissions and the officer panel has also taken up references and carried out interviews. It is felt that the final two suppliers can both undertake the work required to a good standard that would be acceptable to Oxford City Council.

1.9.1 Throughout the evaluation process both supplier A and E have consistently led in terms of quality. Both have a breadth of experience in delivering audit services and Value For Money reviews. Both suppliers are Audit Commission approved. As both the two final suppliers are so closely matched the panel would like to carry out final negotiations with the two suppliers before recommending the supplier that should be awarded the contract. Both suppliers have also raised issues in relation to the contract terms and the negotiations will also need to resolve these before a contract award is made.

2. Options

2.1 An options appraisal report supporting the procurement process that has been undertaken was submitted to Strategic Management Board and Finance Scrutiny Committee in June 2005 and was approved.

3. Financial implications

3.1 The cost of the proposed contract will be met from the existing Audit budget. It is anticipated that the new contract will result in financial savings being achieved as a result of the contract award. The provision of Audit Services by an external audit arrangement also enable the Council to free up the accommodation on the 3rd floor of its Blue Board Street offices. It is anticipated that the supplier's 'fresh' approach will deliver further financial and efficiency savings from the audit recommendations. This has been supported by one of the references.

3.2 The contract will be managed on a day to day basis by the Finance & Asset Management Business Unit. In addition reports and regular meetings will also be held with the Council's Section 151 Officer and the Audit Commission.

4. Legal implications

4.1 Both of the two final suppliers has requested changes be made to the contract terms and conditions. The points raised by the suppliers have been discussed with the Head of Legal Services who will negotiate and seek to arrange for the issues to be resolved prior to the award and commencement of the contract.

5. Staffing Implications

5.1 One current staff member would be classed as 'vulnerable' under the Council's stability policies. The Audit and Risk Business Unit will cease to exist.

6. Other possible means of achieving the objectives

6.1 There are no other means of achieving the objective for the reasons set out in the options appraisal.

7. The timetable for action following the decision

7.1 The successful supplier will be notified following the Executive Board decision. It is planned to start the contract in October 2005.

8. List of appendices

8.1 Appendix A – Evaluation Team Scores and Pricing

THIS REPORT HAS BEEN APPROVED BY:

Councillor Baker: (Corporate Governance and Procurement)

Mark Luntley: (Director for Finance and Corporate Services)

Michael Bailey (Legal and Democratic Services)

Emma Burson (Financial Management)

Background Papers

Finance and Overview Scrutiny Report on 22nd June 2005 – Internal Audit Service Review

Appendix A – Procurement Process

- 1.1 An OJEU Notice was issued on 11th March 2005.
- 1.2 Supplier responses to the questionnaire were received on 29th April 2005.
- 1.3 Seven suppliers invited to tender on 3rd June 2005.
- 1.4 Reference questionnaires were sent out to two referees for each supplier with responses due on 11th July 2005.
- 1.5 A Supplier Open Day was held for suppliers to ask questions of Oxford City Council on 20th June. All questions were responded to by the 1st July 2005 deadline.
- 1.6 All seven suppliers responded by the 18th July 2005 deadline.
 - The Evaluation Team evaluated the Tender Responses based on an automated Excel spreadsheet and agreed evaluation guidelines outlined in the Tender Evaluation Methodology.

		Supplier A	Supplier B	Supplier C	Supplier D	Supplier E	Supplier F	Supplier G
	Weighted - 80/20							
80	Quality Average	51	48	33	34	54	44	47
20	Pricing Average	7	15	7	16	10	11	14
100	Weighted Average	58	64	40	51	64	55	61
	Ranking	4	1	7	6	1	5	3

Figure 1 – Tender Evaluation results

- 1.7 Based on the table in Figure 1 it was decided to select the top four suppliers to attend a presentation and interview. The other three suppliers were rejected on the combination of price and quality as agreed by the Evaluation Team.
- 1.8 On 17th August the four suppliers were given ninety minutes to present to the Evaluation Team. The purpose of the presentations was to establish that the supplier could successfully deliver the audit plan, add value to the audit process and do it within budget.
- 1.9 Figure 2 shows the scoring from the Evaluation Team for the presentations on the 17th August. At the end of the Supplier Presentations it was felt that Supplier B and Supplier G could not provide the quality of staff or experience that was required. Neither of these suppliers instilled the confidence required to undertake the Council's audit plan.

	Key Criteria	Supplier A	Supplier B	Supplier E	Supplier G
5	Provide Audit Service	4	3	4	2
5	Provide Value for Money	4	2	4	1
5	Pricing and Charging	1	4	3	3
5	Confidence in Supplier	4	2	4	1
20	Average Total	13	10	14	6
	Ranking	2	3	1	4

Figure 2 – Evaluation Team scores from Supplier Presentation Day

- 1.10 The Evaluation Team felt that Suppliers A and E could both undertake the work to the accepted standard and deliver additional Value For Money work.
- 1.11 Telephone references were undertaken on 31st August with the relevant Section 151 Officers to ensure that both suppliers could deliver the quality of service required. As part of the telephone references it was clear that Supplier A had delivered a superior service to their client.
- 1.12 After taking into account the telephone references the evaluation panel failed to agree on a final choice as both suppliers A and E were so close. Therefore before a final recommendation is made the panel wish to meet the two suppliers once more and negotiate the final contract arrangements and resolve the legal issues. The negotiations will take place in the next two weeks.