

**To: City Executive Board**

**Date: 10 September 2015**

**Report of: Head of Financial Services**

**Title of Report: Internal Audit services contract award**

### **Summary and Recommendations**

**Purpose of report:** To seek authorisation to award a contract to deliver the Council's Internal Audit service.

**Key decision:** Yes

**Executive lead member:** Councillor Ed Turner, Executive Board Member Finance, Asset Management and Public Health

**Policy Framework:** Sustaining Financial Stability.

**Recommendation:** That the City Executive Board resolves to:

Approve the award of the Internal Audit Service contract to BDO LLP for a period of 3 and a half years initially with the possibility of an extension for up to 2 years.

### **Appendix 1 Risk Register**

#### **Background**

- 1 In order to fulfil its statutory responsibilities under Section 6 of the '*The Accounts & Audit (England) Regulations (2011)*' to undertake an adequate and effective internal audit of its accounting records and of its systems of internal control the Council is required to maintain an internal audit function.
- 2 The role of internal audit is to independently examine, evaluate and report on the adequacy of internal controls throughout the organisation and provide assurance to management; as appropriate; on the proper, economic, efficient and effective use of resources.
- 3 In 1996 the Council resolved to externalise its internal audit function and since 2011/12 this function has been undertaken by Price Waterhouse

Coopers (PWC). The contract with PWC expires on 30<sup>th</sup> September 2015 and the Council has recently tendered the service.

### Tender Process

- 4 An EU restricted tender process was conducted using the South East Business Portal. The Council issued a Pre Qualification Questionnaire (PQQ) via the portal in April 2015, and received 13 responses. These responses were evaluated and seven bidders were invited to complete invitation to tender responses.
- 5 The Council received all seven responses in July, and a further evaluation exercise, including moderation, was undertaken by Finance and Procurement staff.
- 6 The top three tenderers were then invited in to present to a panel and answer further tender clarification questions.

### Evaluation Criteria

- 7 The evaluation criteria was set at 70% Quality and 30% price, with quality determined by how well the tenderer indicated they would meet the needs of the contract. Each question was weighted to reflect its importance and the Council's standard 0-10 scoring mechanism was used.
- 8 Following the evaluation process the final scores for the seven responses received were:

Tenderer	Overall Weighted score for price and quality	Overall ranking
Tenderer A	63.6%	3
BDO LLP	70.0%	1
Tenderer C	64.6%	2
Tenderer D	61.6%	5
Tenderer E	55.6%	7
Tenderer F	62.0%	4
Tenderer G	57.2%	6

- 9 The BDO LLP submission demonstrated a large amount of research on the current business and pressures experienced by Oxford City Council and gave the panel confidence that they would carry out internal audit services to a high standard including :
  - The use of staff experienced in both the profession and local government. The offer included the use of a specialist local government advisory team who would provide 10% of the service and the Council would also benefit from specialist ICT auditors,

- also for 10% of the service. Daily rates will be the same for all specialist auditors.
- Audit day rates are fixed throughout the life of the contract unless CPI is at 5% or above.
- On-line access to track the progress of all audits, reports and outstanding recommendations
- Inclusion in reports of best practice from other internal audit clients

### **Contract Rules Compliance and Financial Assessment**

- 10 Unlike other bids, BDO quoted the same daily rate throughout each year of the contract for all audit specialisms including standard auditors, contract auditors and ICT auditors subject to CPI not exceeding 5%. Payment will be made on a quarterly basis, based on the number of days of internal audit work carried out during that quarter.
- 11 A financial assessment has been carried out on the successful tenderer which confirms that they are financially sound. BDO are currently ranked 6<sup>th</sup> in the top 50 UK accountancy firms with fee income of around £400 million.

### **Mobilisation of Contract**

- 12 The Council will seek assurance from its current auditors PWC on the audits they have undertaken in the first half year. This will be presented to the Council's Audit and Governance Committee on 15<sup>th</sup> September 2015. A revised audit plan, largely based on the existing plan, will be agreed by the Audit and Governance Committee and completed by BDO in the second half of the year. It is expected that there will be a seamless transfer between the two sets of auditors.

### **Financial Implications**

- 13 The tender price from BDO over the five and a half year term is £388,542 which is within budget. Based on the blended rate of £319 day, 1,218 audit days will be provided to the Council over the life of the contract which is considered adequate to cover the audit requirement for a Council of this size.

### **Legal Implications**

- 14 There are no legal implications relating to this report.

### **Risk Implications**

- 15 The Risk implications relating to this report have been outlined within the attached risk register at Appendix 1.

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