



To: Audit and Governance Committee

Date: 22nd April 2021

Report of: Head of Financial Services

Title of Report: Internal Audit Tender

Summary and Recommendations

Purpose of report:	To advise members of the Internal Audit tender process and result
Key Decision?	No
Executive lead member	Councillor Ed Turner (Cabinet Member for Finance and Assets)
Policy Framework:	Budget
Recommendation(s):	That members note the appointment of the Internal Auditors

Introduction

Summary / Background

1. Section 5 of the *Accounts & Audit (England) Regulations (2015)* requires the Council to "undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Whilst not a statutory requirement for our wholly owned companies it is considered good practice to have an internal audit function to give assurance on the operation of financial controls and governance within them and something which the shareholders would deem desirable. The Financial Reporting Council (FRC) also recommends that an independent internal audit function is in place to provide an independent assessment of the company internal controls to give assurance that they are operating effectively.
2. Oxford Direct Services Limited, (ODSL), have established an audit committee to oversee this function and the internal auditor reports to the committee accordingly based on an agreed audit plan. Oxford City Housing Limited, (OCHL), have expressed an interest to establish a similar function which would report to OCHL Board and their audit requirements have been incorporated into this tender for audit services.

3. The current internal audit contract with BDO LLP is due to end on 31st March 2021 after a period of 5 years and this report provides information on the results of the recent tender for audit services.
4. The initial audit contract with the Council provided for 210 days per annum Following the establishment of ODSL 25 days undertaken previously for Direct Services were allocated to the company audit, leaving the balance of 185 audit days in the plan to cover the audits for the Council . Currently OCHL do not have any audit days assigned under the current contract although this will now be incorporated into the new contract.

Tender process

5. Following a review of possible options a mini competition was run under the Crown Commercial Framework RM3745 – specifically Lot 3.
6. All 20 suppliers on the framework within Lot 3 were invited to submit a bid. The opportunity was published on the Council’s portal on the 27th January 2021 with a response date of 16th February 2021.
7. The mini competition documents included background on Oxford City Council and its wholly owned companies, and was divided into three sections:
 - Section 1 – standard qualifications qualification (although most of this was undertaken by Crown Commercial Services) the Council marked the returns as a pass or fail on the basis of receiving the submission by the deadline, all relevant questions having been answered, financial standing (Experian check), insurance, modern slavery, IR35 and declarations signed.
 - Section 2 – 12 questions related to the provision of Internal Audit Services, a 70% weighting was available for the quality questions and a 30% weighting for the cost submission
 - Section 3 – Interviews were not scored but were used to clarify areas of the bid
8. There were three compliant bids received by the deadline:
 - Ankura
 - BDO LLP
 - KPMG

Evaluation

9. Led by the Procurement Manager the evaluation panel consisted of
 - Head of Financial Services (Section 151 Officer)
 - Management Accountancy Manager
 - Strategic Finance Manager (OCHL)
 - Finance Director (ODSL)
10. Each of the panel independently evaluated the three submissions and all scores and comments were moderated.

11. All three suppliers were invited to attend an a meeting on Thursday 4th March 2021, to provide any further clarification on their bids and following these sessions the evaluation panel reviewed their scores with the following result for the technical element.

Table 1 : Scoring of suppliers on quality				
Question	Available Weighting	Supplier 1 Weighting	Supplier 2 Weighting	Supplier 3 Weighting
Q5 – Team mobilisation	8.00%	4.80%	8.00%	6.40%
Q6 – Seamless transfer of audit contract	7.00%	4.20%	5.60%	4.20%
Q7 – Indicative audit plan	4.00%	1.60%	4.00%	2.40%
Q8 – Delivery team skills & qualifications	8.00%	4.80%	6.40%	4.80%
Q9 – Methodology to deliver the audit plan	5.00%	4.00%	4.00%	4.00%
Q10 – Reporting on delivery of the plan	6.00%	2.40%	4.80%	3.60%
Q11 – Learning about good industry practice	7.00%	4.20%	5.60%	5.60%
Q12 – Innovative audit techniques	6.00%	3.60%	3.60%	4.80%
Q13 – SLA's and KPI's	6.00%	3.60%	4.80%	4.80%
Q14 – Additional areas of expertise	5.00%	4.00%	4.00%	4.00%
Q15 – Approach to apprenticeships	3.00%	0.60%	2.40%	1.80%
Q16 – Social Value	5.00%	3.00%	4.00%	3.00%
	70.00%	40.80%	57.20%	49.40%

12. The Cost element was based on the provision of a composite day rate for the provision of 928 days across the potential 4 years of the contract, a weighting of 30% was available for this element of the process.

Table 2 : Scoring of suppliers on cost				
Supplier	Available Weighting	Supplier 1 Weighting	Supplier 2 Weighting	Supplier 3 Weighting
Weighting	30.00%	25.94%	30.00%	24.90%

13. The procurement process has been undertaken in line with the council's constitution and in line with OCHL and ODSL schemes of delegation and Public Procurement Regulations.

Result

14. The contract for the provision of internal audit services has been awarded by OCC, ODSL and OCHL to supplier 2 which is BDO LLP for a period of 3 years commencing on 1st April 2021 until 31st March 2024 with the option to increase for one further year until 31st March 2025.

Financial Implications

15. The annual cost for audit services is currently around £59,200 for the council based on 185 days. In addition to this there are 25 days which are recharged back to ODSL via a Service Level Agreement.
16. The number of audit days that bidders were asked to price for were as follows, but these may be flexed and changed once the contract starts:
 - OCC – minimum number of days 185
 - ODSL – minimum number of days 35
 - OCHL – minimum number of days 12
17. Based on the day rate provided by the preferred bidder, the annual cost to the Council for the minimum number of days would be approximately £77k, this is a significant increase in the budget but 185 days is deemed to be the minimum appropriate level of audit days by the Section 151 officer to give reasonable assurance of internal controls in operation. The shortfall in the budget will be met from virements elsewhere in the Financial Services budget and therefore will have no immediate impact of the overall budget.
18. The expected costs for the minimum annual number of days for ODSL is expected to be approx. £14k and for OCHL approx. £14k.

Legal implications

19. The requirement for the council to undertake an adequate and effective internal audit service is contained within Section 5 of the *The Accounts & Audit (England) Regulations (2015)*. *The tender undertaken will ensure that this legal requirement continues to be met.*

Risk implications

20. The requirement to maintain an adequate and effective internal audit service is enshrined in legislation. Equally the absence of a service would present a clear risk to the Council from potential breaches in financial management and internal control which is essential to the duty of the Section 151 Officer

Name and contact details of author:-

Name: Anna Winship Job title: Management Accounting Manager Service Area / Department: Financial Services, Tel: 01865 252517 e-mail: awinship@oxford.gov.uk
--

Background papers: None