

Finance and Resources Committee

10.00am, Thursday, 1 December 2016

Internal Audit Co-Sourced Services

Item number	7.5
Report number	
Executive/routine	
Wards	

Executive Summary

This report seeks the approval of the Finance and Resources Committee to award a contract for the delivery of co-sourced Internal Audit services, with options for additional interim provision as required.

The contract will be active for a period of two years between April 2017 and March 2019 with options to extend for a further two 12 month periods.

Links

Coalition Pledges	PO30
Council Priorities	CO25
Single Outcome Agreement	

Internal Audit Co-Sourced Services

1. Recommendations

- 1.1 It is recommended that the Committee approves the award of contract to PricewaterhouseCoopers LLP (PwC) for a period of up to four years between April 2017 and March 2021.

2. Background

- 2.1 Internal audit and risk services have been provided through a co-source partnership since April 2013. The Council's Chief Internal Auditor and Chief Risk Officer are currently provided by PwC under this co-source arrangement, and further capacity and capability is provided by PwC colleagues working in partnership with Council staff in a 'one team' approach. The current contract expires on 31 March 2017.
- 2.2 The Council's internal control environment will remain critical over the next 18-24 months as the Council moves through a period of major change, and as such it will continue to be important to maintain the strength of the Internal Audit and Risk function as a core component of the Council's internal control and assurance framework.
- 2.3 However, in order to ensure that the co-sourced model delivered best value for the Council, it was decided to move to a 'co-source light' arrangement, with an in-house Chief Internal Auditor being recruited working with a core Internal Audit team and drawing down specialist Internal Audit services from an external provider. The Risk function is proposed to be fully in-house, with two Principal Risk Managers already in post and recruitment for a Chief Risk Officer currently underway.
- 2.4 The 'co-source light' arrangement for Internal Audit will provide the Council with:
- access to specialist staff with deep expertise, for example in ICT;
 - access to wider sector knowledge and the latest internal audit methodology and developments;
 - greater opportunity to benchmark performance against other organisations; and
 - training and development opportunities for the in-house Internal Audit team.

3. Main report

- 3.1 The overall objective is to appoint a co-source Internal Audit partner to deliver eight specialist internal audits, of which it is currently anticipated six will relate to ICT and

data security. The supplier will also provide suitably qualified and experienced Audit Seniors to work in partnership with the in-house Internal Audit team to deliver generalist audits under the annual internal audit plan for 18 weeks each audit year.

- 3.2 Recruitment for a Chief Internal Auditor and a Chief Risk Officer is currently underway and it is hoped that suitable appointments will be made within two to three months. However, if the Council is unable to attract candidates of the desired calibre, the new contract will allow the Council to request that the co-source partner provide a suitably qualified and experienced individual to fill one or both roles as an interim solution.
- 3.3 A procurement exercise was undertaken in order to appoint suppliers to service this requirement.
- 3.4 A mini competition was carried out using Lot 2: Internal Audit (ICT) of Advanced Procurement Framework for Universities and Colleges Audit Services Framework (PFB1005AP).
- 3.5 Eight suppliers were eligible to tender on this lot and all of them were invited to submit bids. Four suppliers chose to tender.
- 3.6 The evaluation of tenders included an emphasis on quality, as well as price, with 70% of the overall evaluation score allocated to quality and 30% of the overall evaluation score allocated to price. This cost/quality ratio was assigned to ensure that those tendering were able to deliver the key tasks as required.
- 3.7 The quality analysis was based on answers provided in response to weighted Award Criteria Questions with responses to these questions being scored zero to four as per the scoring matrix included in the published invitation to tender documents.
- 3.8 Following completion of evaluation of the response to written award questions presentations were held and all suppliers chose to take the opportunity to provide a scenario of how they would plan and deliver an audit.
- 3.9 Following completion of the quality analysis, tenders were analysed from a cost perspective. The cost analysis established the full price of tenders as per the Pricing Schedule. The lowest priced bid was allocated the 30% weighting. All other bids were then scored on a pro-rated basis against the lowest priced bid.
- 3.10 Scores from the quality analysis were then combined with the scores from the cost analysis to reach a combined score and ranking for each tender submission.
- 3.11 Tenderers individual scores for each Lot are as below:

Company	Quality Score	Price Score	Combined Score
PwC	58.50	18.08	76.58
Tenderer 2	51.00	18.81	69.81

Tenderer 3	38.25	30.00	68.25
Tenderer 4	39.60	21.93	61.53

4. Measures of success

- 4.1 Testing and maintaining the effectiveness of the Council's control environment during a period of major change.

5. Financial impact

- 5.1 The cost of the generalist and specialist services is expected to be £157,850 annually which will amount £631,400 over the lifetime of the contract. This number may increase should additional audits or audit and/or risk services require to be drawn down under the contract.
- 5.2 The annual costs can be contained within the allocated budget for the service.
- 5.3 The costs associated with procuring this framework agreement are estimated at up to £10,000.

6. Risk, policy, compliance and governance impact

- 6.1 A strong internal audit function will play a significant role in providing assurance over the controls in place to mitigate the Council's most significant risks.
- 6.2 Efficient and effective risk management arrangements will help ensure that the Council's key risk areas are identified and monitored.

7. Equalities impact

- 7.1 It is considered that there is no equalities impact as a result of this report.

8. Sustainability impact

- 8.1 The Council has considered its obligations under the Climate Change (Scotland) Act 2009. Neither the content of this report nor its recommendations are anticipated to have any negative impact on sustainability.

9. Consultation and engagement

- 9.1 The Council's Commercial and Procurement team have been consulted during the preparation of this report to ensure compliance with the procurement regulations and the Council's Contract Standing Orders.

10. Background reading/external references

- 10.1 [Internal audit and risk services delivery model – Report to GRBV Committee: 21 April 2016.](#)

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11. Links

Coalition Pledges	PO30 – Continue to maintain a sound financial position including long-term financial planning.
Council Priorities	CO25 – The Council has efficient and effective services that deliver on objectives.
Single Outcome Agreement	Our public services are high quality, continually improving, efficient and responsive to local people's needs.
Appendices	Appendix 1 – Summary of Tendering and Tender Evaluation Processes

Appendix 1 – Summary of Tendering and Tender Evaluation Processes

Contract	Internal Audit Co-Sourced Services		
Contract Period	2 years with options to extend for up to 24 months.		
Estimated Value	£632k for the core services.		
Estimated Savings	A saving of approximately 25% based on the standard Framework rates.		
Standing Orders Observed	3.1 Director has responsibility for all Contracts tendered and let by their Directorate 5.1 (b) Tenders evaluated on basis of most economically advantageous criteria		
Invitations to Tender Issued	8		
Tenders Returned	4		
Preferred Supplier	PricewaterhouseCoopers LLP		
Primary Criteria	Question	Weighting	
	Environment, Culture and Risk	15%	
	Service Delivery Management	15%	
	Service Delivery Management	15%	
	Staff	16%	
	Value-added services	5%	
	Quality Assurance and continuous Improvement	14%	
	Corporate Social responsibility	5%	
	Presentation	15%	
Evaluation Team	Gemma Dalton – Principal Audit Manager Hugh Thomson – Principal Audit Manager Struan Fairbairn – Chief Risk Officer Lothian Pension Fund		
Procurement Advisors	Ben Fulton – Procurement Specialist		