

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUTHORITY		
DATE:	16 DECEMBER 2014	REPORT NO:	CFO/114/14
PRESENTING OFFICER	DEPUTY CHIEF EXECUTIVE		
RESPONSIBLE OFFICER:	KIERAN TIMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	JANET HENSHAW, STEPHEN ASHTON		
TITLE OF REPORT:	INTERNAL AUDIT SERVICE PROVISION FROM 2015/16		
APPENDICES:	NONE		

Purpose of Report

1. To request that Members delegate authority to the Deputy Chief Executive (DCE) to negotiate a service level agreement with Liverpool City Council's Internal Audit Service.

Recommendation

2. That Members
 - a Instruct the DCE to enter into negotiations with Liverpool City Council (LCC), for the procurement of Internal Audit services for a three year period, and
 - b Delegate to the DCE authority to enter into a service level agreement with LCC for these services.
 - c Instruct the Director of Legal, Procurement and Democratic Services to enter into a procurement exercise before the three year period expires

Introduction and Background

3. Internal Audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources. (Source: Code of Practice for Internal Audit in Local Government).
4. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems. (Accounts and Audit Regulations 2011).
5. Most large local authorities fulfil this function through an in-house internal audit service. MFRA, in common with other metropolitan Fire and Rescue Authorities, had its internal audit service provided by a lead authority when it was established in

1986. The lead authority for MFRA was Liverpool City Council's Internal Audit Service (LCC).

6. In 2004, 2007 and again in 2010 a competitive tendering exercise for the provision of the Service's internal audit function was undertaken by MFRA. LCC won the contract on each occasion and it was clear the Council offered the best service for price and quality of services at that time. The value of the internal audit contract in 2014/15 is £35,500 for which the Authority receives 112 audit days and the work is undertaken by experienced qualified audit staff. It is considered that 112 days is sufficient based on the systems and risks facing the Authority. It would not be justifiable for the Authority to maintain an in-house resource to deliver this service. The current internal audit contract ends on 31st March 2015, and the Authority must enter into a new contract before this date.
7. Officers can continue to test the market to see if an alternative internal audit provider can offer the Authority an enhanced audit function at a similar or reduced cost to that currently being charged by LCC. This will require significant management input to create a contract specification, evaluate tenders and to negotiate with any potential contractor. In addition any new provider will need to familiarise itself with the Authority's systems and procedures.
8. LCC have confirmed that they are willing to continue to provide the Authority's internal audit function, however they are not in a position to commit the required senior management time to engage in a formal tendering process as a consequence of recent downsizing of the senior management levels in the department. The auditing resource available has so far not been affected by this.
9. The priority for the DCE is that the Service procures an effective internal audit function that offers value for money mitigates risk and minimises administration
10. For the past 28 years LCC have delivered an effective internal audit function and have on the three occasions the function has been market tested have proven to offer the best value for money option at the time. In addition;
 - External Audit when assessing the level of work required on checking MFRA fundamental systems have been able to rely upon the work LCC have carried out,
 - MFRA can access computer audit specialists through LCC
 - LCC staff have built up a significant knowledge of the MFRA systems and processes
 - LCC understand the local authority environment and priorities of a public sector service
 - LCC have established a good working relationship with the Authority and can prioritise the audit plan around the needs of the service
 - LCC have consistently offered value for money when the internal audit service has been market tested.

11. A “soft” market test has been carried out by the Procurement service in which three external internal audit providers were asked to provide an indicative price and suggested number of audit days to fulfil the Authority’s internal audit function. This information was used to assess if the service being offered by LCC would deliver a value for money (VFM) service. From the returns received the price based on 112 audit days ranged from £35,600 to £42,850. Some of these potential providers have indicated however that 112 days is not necessarily necessary.
12. The DCE seeks Members’ approval to delegate authority to him to enter into negotiations with LCC and agree a service level agreement for internal audit function. The DCE will undertake as a minimum a three yearly market test to ensure LCC continue to offer the most effective and value for money option to the Authority.

Equality and Diversity Implications

13. None arising from this report.

Staff Implications

14. None arising from this report.

Legal Implications

15. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems. (Accounts and Audit Regulations 2011).
16. The cost of the Internal Audit Service from LCC in 2014/15 is £35,500. The Authority had made adequate budget provision in 2014/15 and future years to cover this level of charge.
17. Section 1 of the Local Authorities (Goods and Services) Act 1970 enables local authorities to provide to any other "public body", including local authorities, maintained schools and academies *inter alia* any administrative, professional or technical services.
18. However, where the arrangements amount to a contract for relevant goods, services or works under the Public Contracts Regulations 2006, and the contract value exceeds the statutory threshold, the purchasing public authority is obliged to competitively tender the contract.
19. Over a three year period the value of this contract with LCC will amount to £106,500 (as thresholds are calculated along the full life of any contract). This will then have reached the threshold for a procurement exercise under the Authority’s own contract Standing Orders. The threshold for EU Tendering provided by the Public Contracts Regulations 2006 is £172,514.

20. Under these circumstances the Monitoring Officer advises that a procurement exercise is carried out in 3 years' time in order to ensure continuing value for money and compliance with relevant legislation.

Financial Implications & Value for Money

21. The cost of the Internal Audit Service from LCC in 2014/15 is £35,500. The Authority had made adequate budget provision in 2014/15 and future years to cover this level of charge.

Risk Management, Health & Safety, and Environmental Implications

22. Internal Audit is an essential tool in managing the financial control framework.

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

23. The Authority is committed to ensuring strong internal control processes are in place to ensure all information and services delivered are transparent and fair and all audit requirements are adhered to. The Authority continues to strive to maintain the highest level of standards and commitment to the community it serves.

BACKGROUND PAPERS

NONE

GLOSSARY OF TERMS

MFRA	Merseyside Fire and Rescue Authority
MFRS	Merseyside Fire and Rescue Service
DCE	Deputy Chief Executive
LCC	Liverpool City Council Internal Audit Services