Provision of External Audit Services

ITEM 11.2 07/08/2020
Audit Committee

Strategic Alignment - Enabling Priorities

Program Contact:
Sonjoy Ghosh, AD Strategic Finance & Procurement 8203 7655

2020/00150
Confidential - s 90(3) (k) tenders

Approving Officer:
Clare Mockler, Deputy CEO & Director Culture

EXECUTIVE SUMMARY

The City of Adelaide requires the provision of Statutory Financial Audit Services for the financial years 2020/21 for a minimum of three (3) years and options to extend up to five (5) years. The current external audit contract with BDO expires on 31 December 2020 with the completion of the 2019/20 audit.

Offers to provide this service will now be sought in accordance with the role of the external audit as set out in Section 129 of the *Local Government Act 1999* (*the Act*) and Part 6 of the *Local Government (Financial Management) Regulations 2011* (*the Regulations)*.

RECOMMENDATION

THAT THE AUDIT COMMITTEE

1. Endorses the procurement plan for the Provision of External Audit Services, included as Attachment A to Item 11.2 on the Agenda for the meeting of the Audit Committee held on 7 August 2020.
2. Notes the outcome arising from the procurement process will be reported to the Audit Committee on 6 November 2020 for consideration and recommendation to Council.
3. In accordance with Section 91(7) and (9) of the *Local Government Act 1999* and on the grounds that Item 11.2 [Provision of External Audit Services] listed on the Agenda for the meeting of the Audit Committee held on 7 August 2020 was received, discussed and considered in confidence pursuant to Section 90(3) (k) of the *Local Government Act 1999*, this meeting of the Audit Committee, do order that:
   - 3.1. The resolution, report, the discussions and any other associated information submitted to this meeting and the Minutes of this meeting in relation to the matter remain confidential and not available for public inspection until 31 December 2027.
   - 3.2. The confidentiality of the matter be reviewed in December 2021.
   - 3.3. The Chief Executive Officer be delegated the authority to review and revoke all or part of the order herein and directed to present a report containing the item for which the confidentiality order has been revoked.

IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	Strategic Alignment – Enabling Priorities The Strategic Finance and Performance Program will ensure public resources and assets fund long term financially sustainable outcomes while maximising opportunities through responsible risk management.
Policy	Not as a result of this report
Consultation	Not as a result of this report
Resource	Not as a result of this report
Risk / Legal / Legislative	Not as a result of this report
Opportunities	Not as a result of this report
20/21 Budget Allocation	Budget allocation will be approximately $65,000 from general operating.
Proposed 21/22 Budget Allocation	Budget allocation will be approximately $65,000 from general operating.
Life of Project, Service, Initiative or (Expectancy of) Asset	The external audit contract will be for an initial three-year period with the option for renewal of a further two, one-year periods.
20/21 Budget Reconsideration (if applicable)	Not as a result of this report
Ongoing Costs (eg maintenance cost)	Not as a result of this report
Other Funding Sources	Not as a result of this report

GROUNDS AND BASIS FOR CONSIDERATION IN CONFIDENCE

Grounds

Section 90(3) (k) of the *Local Government Act 1999 (SA)*

(k) tenders for the supply of goods, the provision of services or the carrying out of works

Basis

This Item is confidential because the report outlines information and the process relating to the provision of external audit services to Council.

The disclosure of information in this report includes the procurement plan with the evaluation criteria and weightings outlined. Council is due to go to market this year for a new contract. Information released prior could compromise the outcome of the process.

Public Interest

The Audit Committee is satisfied that the principle that the meeting be conducted in a place open to the public has been outweighed in the circumstances because the disclosure of this information relates to a tender for the supply of external audit services.

DISCUSSION

1. Council's external audit contract with BDO comprises an initial period of three (3) years, with options to renew for a further two periods of one (1) year. The first three-year period ended with the completion of the audit for the year ended 30 June 2018. The renewal for a further two periods ends with the audit for the year ended 30 June 2020.
2. Council must now engage in a tender process as per Section 128 of the *Local Government Act 1999 (the Act).*
    - *2.1. Section 128 (2) the auditor will be appointed by the Council on the recommendation of the Council's Audit Committee.*
    - *2.2. Section 128 (2a) the Audit Committee must, in making a recommendation under subsection (2), take into account any factor prescribed by the regulations.*
    - *2.3. Section 128 (4a) the term of appointment of any auditor of Council must not exceed five (5) years.*
3. The Audit Committee Terms of Reference further define Audit Committee's duties in relation to the appointment of the external auditor; these are detailed in items 7.8.1 and 7.8.2 of the Terms of Reference and have been detailed in the procurement plan.
4. **Attachment A** is a proposed procurement plan for the provision of external audit services. Endorsement of the plan will enable the procurement process to commence on 1 September 2020 for a period of twenty-one (21) days closing on 22 September 2020.
5. The outcome of the procurement process will be brought back to Audit Committee for consideration on the 6 November 2020.

DATA AND SUPPORTING INFORMATION

Nil

ATTACHMENTS

Attachment A – Procurement Plan T2020 0038

- END OF REPORT -

PROCUREMENT PLAN

The purpose of this document is to outline the process to be followed throughout the Procurement and Contract Management lifecycle for the provision of goods, works or services to the Council. This document ensures that relevant considerations are made in accordance with the Council's Procurement Policy and associated Operating Guidelines.

Background		
Contract/Project Number:	T2020 0038	
Contract/Project Title:	Provision of External Audit Services	
Contract/Project Description:	The City of Adelaide requires the provision of statutory financial audit services for the financial years 2020/2021 for a minimum of three years and options to extend up to five years. Offers to provide the services are sought in accordance with the role of the External Audit as set out in Section 129 of the *Local Government Act 1999* (the Act) and Part 6 of the *Local Government (Financial Management) Regulations 2011* (the Regulations). Please refer to Appendix 1 in regard to obligation of the Audit Committee under the Act and the Audit Committee Terms of reference.	
Type of Procurement:	Services	
Category:	Business Services	
Procurement Tier:	Tier 3	
Estimated Value (Whole of Life):	*$325,000*	
Budget:	Budget is approved by Council each year as an operational expense. Budget amount: Approximately $65,000 per year	
Contract/Project Manager:	Liz Packer	
Procurement & Contract Management Advisor:	Carol Wilson	
Delegated Authority:	Clare Mockler, Director Culture	

Procurement Risk Assessment

Risk Type	Risk Level	Description and Mitigation Strategy
Capability	Moderate	An auditor may be engaged without the requisite experience and skills to conduct an audit. Mitigation - Include evaluation criteria relating to demonstrated experience in undertaking an audit of a similar size and demonstrated understanding of the local government environment and local government act. Proposed audit team has relevant experience
Capacity	Moderate	An audit company may be engaged which over commits it resources, which may result in a poor-quality audit and/or being unable to meet statutory time frames. Mitigation - Include evaluation criteria re capacity of the proposed audit team and organisational structure.
Price	Moderate	An audit company may seek to provide a low price to win the work, which may impact the quality of the audit or result in financial variations. Mitigation – Review pricing consideration after establishing capacity and capability.

Market Analysis

Market Structure:	The market is competitive with a large number of audit companies in the market place, some may have limited experience in local government.

Procurement Process

	Stage 1
Procurement Method(s):	Request for Tender
Justification:	*Open market approach*
Budget Line for Costing SA Tenders & Contracts Advertisement:	10-2397-6203
Probity Auditor / Advisor:	*Not required*

Evaluation Process – Stage 1	
Evaluation Methodology and Evaluation Criteria:	*Refer to Appendix 2*
Industry Participation Policy:	Employment Contribution Test This will be evaluated by the Procurement and Contract Management Business Advisor, Carol Wilson.
Evaluation Personnel:	*1. Liz Packer, Manager Financial Accounting* *2. Sonjoy Ghosh, Acting Director Strategic Finance and Performance* *3. Rudi Deco, Manager Governance* *4.Clare Mockler, Deputy CEO, Director Culture*
Interviews / Presentations with Respondents:	Shortlisted tenderers may be invited to present to the evaluation team and representatives from the Audit committee
Due-Diligence Checks:	☑ Reference Checks ☑ Financial Viability Assessment as required

Procurement Timelines

Milestone	**Due Date**
Procurement Plan	7 August 2020 – to be approved by Audit Committee
Specification and tender Documentation Development	August 2020
Approach to Market	1 September 2020
Closing Date	22 September 2020
Evaluation Process • Short list • Presentations	23 September – 7 October 2020 14/15 October 2020 -TBC
Sign off by Associate Director/Director	21 October 2020
Report to Audit Committee	6 November 2020
Report to Council/ Contract Award	15 December 2020
Contract Negotiation	January 2021
Contract Commencement Date	1 February 2021

Contract Details	
Type of Contract:	Services
Arrangement:	*Schedule of Rates*
Contract Term:	*3 years with 2 x 12 month options to extend*
Payment Terms:	*Standard*
Insurances:	☑ Public Liability ($20m) ☑ Professional Indemnity ($5m) ☑ Workers Compensation
Securities:	*Not Applicable*

Contract Management (Indicative)	
Key Performance Indicators:	Price – all work is invoiced according to quoted costs Timeframe – The Supplier will adopt the agreed end of year timeframe as agreed by the Audit Committee Service – All deliverables as outlined in the specification and agreed between the Parties are delivered as agreed. Flexibility – Demonstrates flexibility in delivering the audit in the event circumstances arise that require a change in the services in order to meet the documented timelines.
Review Meetings Frequency:	As required

Procurement Plan Sign-Off

Procurement & Contract Management Business Advisor	Contract Manager
Signature	**Signature**
Carol Wilson	Liz Packer
Name	**Name**
Procurement & Contract Management Business Advisor	Manager Financial Accounting
Title	**Title**
Date	**Date**

Project Sponsor	Delegated Authority
Signature	**Signature**
Sonjoy Ghosh	Clare Mockler
Name	**Name**
Acting Associate Director Finance and Performance	Director Culture
Title	**Title**
Date	**Date**

Approval to award the contract will be sought from: Council

Appendix 1 – Obligation of Audit Committee

http://classic.austlii.edu.au/au/legis/sa/consol_act/lga1999182/s128.html

(2) The auditor will be appointed by the council on the recommendation of the council's audit committee.

(2a) The audit committee must, in making a recommendation under subsection (2), take into account any factor prescribed by the regulations.

Audit committee Terms of Reference 2020 – extract

7.7 External Audit:

7.7.1 The Audit Committee shall consider and make recommendations to the Council, in relation to the appointment, reappointment, and removal of the Council's External Auditor.

7.7.2 The Audit Committee shall oversee the relationship with the External Auditor, including, but not limited to:

(a) Endorsing the audit timetable and audit plan;

(b) Recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;

(c) Assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the auditor, including the provision of any non-audit services;

(d) Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Council (other than in the ordinary course of business);

(e) Monitoring the external auditor's compliance with legislative requirements on the rotation of individuals that have played a significant role in the audit for five (5) successive financial years; and

(g) Assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process

(which shall include a report from the external auditor on the audit committee's own internal quality procedures).

7.7.3 The Audit Committee shall meet as needed with the External Auditor. The Audit Committee shall meet the External Auditor at least once a year, without management being present; to

discuss their merit and any issues arising from the External Audit.

7.7.4 The Audit Committee shall review and make recommendations to the Annual External Audit Plan and ensure that it is consistent with the scope of the External Audit engagement and relevant legislation and standards.

7.7.5 The Audit Committee shall review the findings of the External Audit with the External Auditor. This shall include, but not be limited to, the following:

(a) A discussion of any major issues which arose during the audit;

(b) Any accounting and audit judgements; and

(c) Levels of errors identified during the audit.

7.7.6 The Audit Committee shall also review the effectiveness of the External Audit.

7.7.7 The Audit Committee shall review any representation letter(s) requested by the External Auditor before they are signed by management.

7.7.8 The Audit Committee shall review the Report to the Chief Executive Officer and management's response to the External Auditor's findings and recommendations.

Appendix 2 Evaluation Methodology and evaluation criteria

Evaluation Criteria:	**Weighting**
Cost and Value for money (Total 30%)	
Quality services at a competitive price.	**30%**
Employment contribution Test (Total 15%)	
% of labour hours undertaken in South Australia which contributes to the economic benefit of the State.	**15%**
Audit Approach & Methodology: (Total 35%)	
Demonstrated appropriate methodology to complete the audit as required under *the Act and Regulations,* including timing and frequency of on-site and off-site work. Appropriate number of hours and associated levels of staff to be assigned appropriate for level of Audit work required.	**10%**
Demonstrated appropriate methodology to complete the Internal Control audit as required under *the Act and Regulations,* including timing and frequency of on-site and off-site work. Appropriate number of hours and associated levels of staff to be assigned appropriate for level of Audit work required.	**5%**
A demonstrated track record in providing audit services of the type required by local government and similar size service organisation and proven ability to interpret Accounting Standards.	**15%**
Appropriate response times and other performance-related factors that will be adhered to during the audit process.	**5%**
Resource Base and Personnel: (Total 20%)	
Appropriately qualified and experienced staff (and support personnel), demonstrated evidence of key personnel with relevant technical expertise. Demonstrated evidence that the level of staffing resources is flexible and sufficient to meet the reporting timetable as set out in *the Act/Regulations,* or as determined by the Corporation.	**20%**
Total	**100%**

10. Confidential Item 11.2 - Provision of External Audit Services [2020/00150] [AC]

Mr Sonjoy Ghosh, Associate Director Information Management and Acting Associate Director Strategic Finance & Performance, City of Adelaide and Ms Liz Packer, Manager Financial Accounting, City of Adelaide provided an overview of the report and responded to questions.

It was then –

Moved by the Lord Mayor,
Seconded by Ms Davies –

<u>THAT THE AUDIT COMMITTEE</u>

1. Notes the report.
2. The report is provided to the next meeting of the Council as part of the confidential report of Audit Committee meeting.
3. In accordance with Section 91(7) & (9) of the *Local Government Act 1999* and on the grounds that Item 11.3 [Update on Activities of the Strategic Risk and Internal Audit Group Meetings] listed on the Agenda for the meeting of the Audit Committee held on 7 August 2020 was received, discussed and considered in confidence pursuant to Section 90(3)(i) of the *Local Government Act 1999*, this meeting of the Audit Committee, do order that:
   - 3.1. The resolution becomes public information and included in the Minutes of the meeting.
   - 3.2. The report, the discussion and any other associated information submitted to this meeting and the Minutes of this meeting in relation to the matter remain confidential and not available for public inspection until 31 December 2027.
   - 3.3. The confidentiality of the matter be reviewed in December 2021.
   - 3.4. The Chief Executive Officer be delegated authority to review and revoke all or part of the order herein and directed to present a report containing the Item for which the confidentiality order has been revoked.

Carried

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