

**ADELAIDE HILLS COUNCIL
ORDINARY COUNCIL MEETING
Tuesday 27 February 2018
CONFIDENTIAL AGENDA BUSINESS ITEM**

RELEASED 27 FEBRUARY 2019

Item: 19.3

Originating Officer: Lachlan Miller, Executive Manager Governance & Performance

Responsible Director: Terry Crackett, Director Corporate Services

Subject: Appointment of External Auditor

For: Decision

1. Appointment of External Auditor – Exclusion of the Public

Pursuant to section 90(2) of the *Local Government Act 1999* the Council orders that all members of the public, except:

- CEO, Andrew Aitken
- Director Engineering & Assets, Peter Bice
- Director Strategy & Development, Marc Salver
- Director Corporate Services, Terry Crackett
- Director Community & Customer Service, David Waters
- Executive Manager Governance & Performance, Lachlan Miller
- Minute Secretary, Pam Williams

be excluded from attendance at the meeting for Agenda Item 19.3: Appointment of External Auditor in confidence.

The Council is satisfied that it is necessary that the public, with the exception of Council staff in attendance as specified above, be excluded to enable the Council to consider the report at the meeting on the following grounds:

Section 90(3)(d) of the *Local Government Act 1999*, the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) that would, on balance, be contrary to the public interest, the disclosure of which could reasonably be expected to prejudice the commercial position of the business which supplied the information and to confer a commercial advantage on a third party.

Accordingly, on this basis the principle that meetings of the Council should be conducted in a place open to the public has been outweighed by the need to keep the information and discussion confidential.

2. Appointment of External Auditor – Confidential Item

SUMMARY

One of the roles of Council’s Audit Committee is to make recommendations to Council in relation to the appointment of Council’s external auditor.

The contract for the provision of external audit services has expired and the Administration has undertaken a tender process.

The Audit Committee considered a confidential report at its 20 February 2018 meeting and has made recommendations to Council regarding the appointment of the external auditor.

The purpose of this report is to provide details of the tender process and the Audit Committee’s recommendation to Council with a view to seeking Council’s resolution regarding the appointment of an external auditor for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years.

RECOMMENDATION

Council resolves:

1. That the report be received and noted
2. To appoint Galpins Accountants, Auditors and Business Consultants for the provision of external audit services for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years, with an indicative cost for the initial three (3) years of \$64,000.
3. To delegate to the Chief Executive Officer to conduct the final negotiations with regard to the composition and pricing of the external audit contract and to execute all required documentation to give effect to Council’s appointment of the external auditor.

2.1 GOVERNANCE

➤ Strategic Management Plan/Council Policy

Goal	Organisational Sustainability
Strategy	Risk and responsibility
Strategy	Governance

External audit is a key accountability function to the community regarding the financial governance of the organisation.

➤ Legal Implications

Chapter 8 – Administrative and financial accountability, Division 4 – Audit of the *Local Government Act 1999* (the Act) and Part 6 - Audit of the *Local Government (Financial Management) Regulations 2011* (the Regulations) set out the requirements regarding the appointment of the external auditor and the conduct of the audit.

➤ **Risk Management Implications**

The appointment of the external auditor consistent with the requirements of legislation assists in mitigating the risk of:

Poor governance practices occur which lead to a loss of stakeholder (i.e. customer and regulator) confidence and/or legislative breaches.

Inherent Risk	Residual Risk	Target Risk
Extreme (5C)	Medium (3D)	Medium (3D)

Note that there are many other controls that assist in mitigating this risk.

➤ **Financial and Resource Implications**

Council makes a budget allocation each year for the expenses associated with the conduct of the external audit.

The external audit function is managed by the Governance & Performance Department although the Finance Services Department is most significantly impacted throughout the external audit process.

➤ **Customer Service and Community/Cultural Implications**

There is a high expectation that Council's accounts are audited by appropriately qualified and independent external auditors.

➤ **Environmental Implications**

Not applicable

➤ **Engagement/Consultation conducted with Council Committee, Regional Subsidiary, Advisory Group, the Administration and Community**

Consultation on the development of this report was as follows:

Council Committees: At its 20 February 2018 meeting, in consideration of a report regarding the tender process, the Audit Committee made recommendations to Council regarding the appointment of the external auditor.

Workshops: Not Applicable

Advisory Groups: Not Applicable

Administration: Terry Crackett, Director Corporate Services
Lachlan Miller, Executive Manager Governance & Performance
Mike Carey, Manager Financial Services

Community: Not Applicable

2.2 BACKGROUND

Audit Committee's Role in External Auditor Appointment

The Terms of Reference for Council's Audit Committee's set out the following role in relation to the appointment of the external auditor:

The Committee shall:

- 3.5.1 Consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 3.5.2 Oversee Council's relationship with the external auditor including, but not limited to:
 - 3.5.2.1 Recommending the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;
 - 3.5.2.2 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;

External Audit Services Procurement

In 2013, following an open tender process, accounting firm, BDO, was awarded the tender to provide external audit services to Council for a five-year term.

The initial engagement partner was Ian Painter however, following his retirement, Geoff Edwards assumed the role and has overseen the last three financial audits.

With the impending expiry of the external audit services contract (following the completion of the 2016/17 audit), the Administration initiated an open tender process to contract a suitable firm for the provision of external audit services for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years.

The request for tender (RFT), utilising Council's standard procurement documentation, was advertised for a four week period on the TendersSA site and attracted six (6) tender responses.

The Tender Evaluation Panel comprised:

- Director Corporate Services, Terry Crackett
- Executive Manager Governance & Risk, Lachlan Miller
- Manager Financial Services, Mike Carey

The tender assessment process was conducted in two stages: non-fee-related assessment and fee assessment. For the non-fee-related assessment component the evaluation criteria and weightings for the tender assessment (aligned to the RFT) were as follows:

Criteria	Weighting
Compliant Tender	Y/N
Statutory Audit/ SA LG Audits	30%
Quals/Capability Experience of Audit Personnel	20%
Organisational Structure Resources Responsiveness	15%
Technical Skills including computerised	5%
Audit Approach/Methodology including how to address critical matters	25%
Value for Money	5%
	100%

The scoring system utilised a 10 point Likert scale, ranging from: 0 (Inadequate offer, many deficiencies, does not meet criterion) to 10 (Outstanding offer, greatly exceeds criterion).

As advised above, six (6) tenders were received and were scored individually by the evaluation team and then moderated to produce a final rating. The evaluation matrix has been de- identified for all but the recommended tender, as follows:

Criteria	A	B	Galpins	D	E	F
Compliant Tender	Y	Y	Y	Y	Y	Y
Statutory Audit/ SA LG Audits	6.6	6.6	5.7	5.7	1.5	4.2
Quals/Capability Experience of Audit Personnel	4	3.4	3.8	3.6	2.4	2.4
Organisational Structure Resources Responsiveness	2.85	2.7	2.55	0.9	1.65	2.25
Technical Skills including computerised	0.85	0.85	0.9	0.2	0.6	0.9
Audit Approach/ Methodology including how to address critical matters	4.75	4.75	5.75	3	3.75	3.25
Value for Money	0.85	1	0.95	0.2	0.5	0.95
Non-Fee Assessment Totals	19.9	19.3	19.65	13.6	10.4	13.95
Fee Proposal (3 year)	\$78k	\$87k	\$64k	\$75k	\$67k	\$75k

Based on the combination of the non-fee and fee assessments, the Tender Evaluation Panel identified Galpins Accountants, Auditors and Business Consultants (Galpins) as the preferred tender.

Referee reports were obtained from two councils that currently contract Galpins for their external audit function. These referee reports were positive in all key areas of performance.

On the basis of the tender assessment and referee reports, the Tender Evaluation Panel affirmed their preference to recommend Galpins to the Audit Committee for appointment as Council's external auditors.

The Panel did however note the desirability of conducting further negotiations with Galpins regarding the final composition and pricing of the audit services and raised this matter in the report to the Audit Committee.

2.3 ANALYSIS

At its 20 February 2018 meeting, the Audit Committee received a confidential report setting out the details of the tender process (as detailed above), the detailed tender specification and tender submission (not attached to this report).

In consideration of the report the Audit Committee resolved as follows:

Appointment of External Auditor – Confidential Item

**Moved Geoff Purdie
S/- Peter Brass**

AC18/17

The Audit Committee resolves:

- 1. That the report be received and noted**
- 2. To recommend to Council the appointment of Galpins Accountants, Auditors and Business Consultants for the provision of external audit services for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years, with an indicative cost for the initial three (3) years of \$64,000.**
- 3. To recommend to Council that the proposed fee structure for Galpins Accountants, Auditors and Business Consultants is appropriate to enable an adequate audit to be conducted**
- 4. To recommend to Council that the Chief Executive Officer be delegated to conduct the final negotiations with regard to the composition and pricing of the external audit contract and to execute all required documentation to give effect to Council's appointment of the external auditor.**

Carried

In considering the matter at Audit Committee, the desirability of pursuing an altered composition of audit personnel was identified and the recommendation to delegate the final contract negotiation to the CEO will enable this intent to be explored.

Galpins meet the external auditor requirements set out in the Act and Regulations.

Following the appointment of the external auditor, work will commence in March for the interim audit, as such time is of the essence.

2.4 OPTIONS

Council has the following options:

- I. To be guided by the recommendations of the Audit Committee to the appoint of Galpins as Council's external auditor for a period of three (3) years commencing with the audit for the financial year ending 30 June 2018, with an option of a further period of up to two (2) years subject to final negotiations on composition and pricing (Recommended).
- II. To determine an alternate course of action with regard to the appointment of the external auditor (Not Recommended). Delaying the appointment of the external auditor may impact negatively on the timely completion of the Annual Financial Statement Audit.

2.5 APPENDIX

Nil

3. Appointment of External Auditor – Period of Confidentiality

Subject to the CEO, or his delegate, disclosing information or any document (in whole or in part) for the purpose of implementing the Council's decision(s) in this matter in the performance of the duties and responsibilities of office, the Council, having considered Agenda Item 19.3 in confidence under sections 90(2) and 90(3)(d) of the *Local Government Act 1999*, that an order be made under the provisions of sections 91(7) and (9) of the *Local Government Act 1999* that the report of the Council and the discussion and considerations of the subject matter be retained in confidence until the completion of the contract.

Pursuant to section 91(9)(c) of the *Local Government Act 1999*, the Council delegates the power to revoke the confidentiality order either partially or in full to the Chief Executive Officer.