

**ADELAIDE HILLS COUNCIL
ORDINARY COUNCIL MEETING
Tuesday 20 December 2022
CONFIDENTIAL AGENDA BUSINESS ITEM**

Item: 18.3

Responsible Officer: Lachlan Miller
Executive Manager Governance & Performance
Office of the Chief Executive

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:

- Acting Chief Executive Officer, David Waters
- Acting Director Community Capacity, Rebecca Shepherd
- Director Corporate Services, Terry Crackett
- Director Development & Regulatory Services, Natalie Armstrong
- Acting Director Infrastructure & Operations, David Collins
- Executive Manager Governance & Performance, Lachlan Miller
- Governance & Risk Coordinator, Steven Watson
- Minute Secretary, Pam Williams

be excluded from attendance at the meeting for Agenda Item 18.3: (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 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 12 December 2022 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 2023, 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 BDO Audit Pty Ltd 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 2023, with an option of a further period of up to two (2) years, with an indicative cost for the initial three (3) years of \$83,600.**
- 3. To delegate to the Chief Executive Officer to conduct the final negotiations with regard to the pricing of the external audit contract and to execute all required documentation to give effect to Council's appointment of the external auditor.**

1. BACKGROUND

Audit Committee's Role in External Auditor Appointment

The Audit Committee's *Terms of Reference* sets out the following role in relation to the appointment of the external auditor:

- 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;**

External Audit Services Procurement

In 2018, following an open tender process, accounting firm, Galpins, was awarded the tender to provide external audit services to Council for a three-year term with a two-year option. Council, upon recommendation from the Audit Committee, exercised that option for the 2020-21 and 2021-22 financial years.

With the impending expiry of the external audit services contract (following the completion of the 2021-22 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 2023, with an option of a further period of up to two (2) years.

The request for tender (RFT), utilising Council’s standard procurement documentation and a specification developed by members of the Local Government Financial Managers Group (LGFMG) adapted to the AHC environment, was advertised for a three-week period on the Tenders SA site and attracted three (3) tender responses.

The Tender Evaluation Panel comprised:

- Executive Manager Governance & Performance, Lachlan Miller
- Manager Financial Services, Mike Carey
- Team Leader Finance, Liz Packer

The tender assessment process was conducted in two stages: non-fee-related assessment and fee (value for money) 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
Ability to Supply (Ability to supply required services, Ability to complete works on time, Adequate resources (current/future workload))	20%
Business Capability (Skills and experience of proposed audit team in Local Government External Audit)	35%
Technical (Appropriateness of audit methodology. Appropriate licences and accreditation)	30%
Risk Management (Adequate insurance coverage)	5%
Procurement Sustainability (Social Inclusion)	5%
Procurement (Local Economic Benefit)	5%
	100%

The scoring system utilised a 5-point Likert scale, ranging from: 0 (Will fail to satisfy required standards) to 5 (Excellent) for all of the criteria except Local Economic Benefit: 0 (Overseas based supplier) to 5 (Business based in AHC area).

As advised above, three (3) 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 (BDO Audit Pty Ltd), as follows:

Criteria	A	BDO	C
Compliant Tender	Y	Y	Y
Ability to Supply (Ability to supply required services, Ability to complete works on time, Adequate resources (current/future workload))	12	12	12
Business Capability (Skills and experience of proposed audit team in Local Government External Audit)	21	21	14
Technical (Appropriateness of audit methodology. Appropriate licences and accreditation)	18	24	12
Risk Management (Adequate insurance coverage)	2	2	2
Procurement Sustainability (Social Inclusion)	2	4	2
Procurement (Local Economic Benefit)	3	3	3
Non-Fee Assessment Totals	59	66	45
Fee Proposal (3 year)	\$73.6k	\$83.6k	\$67k

The areas of comparative strength of the BDO proposal were the superior ICT controls assessment methodology, sound transition plan, document portal, 25% more audit hours, and extensive local government external audit experience.

Negotiation with the preferred tenderer on the cost of acquittals has been undertaken with a reduction in these fees which will be reflected in the final contract.

2. ANALYSIS

➤ Strategic Management Plan/Functional Strategy/Council Policy Alignment

Strategic Plan 2020-24 – A brighter future

Goal 5 A Progressive Organisation

Objective O5 We are accountable, informed, and make decisions in the best interests of the whole community

Priority O5.3 Demonstrate accountability through robust corporate planning and reporting that enhances performance, is relevant and easily accessible by the community

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, Part 3 – Accounts, financial statements and audit, Division 4 – Audit of the *Local Government Act 1999* and Part 6 - Audit of the *Local Government (Financial Management) Regulations 2011* set out the requirements regarding the appointment of the external auditor and the conduct of the audit.

Key elements relevant to the appointment of the auditor are that a council must have an auditor and they must be appointed by council on the recommendation of the council’s audit committee. The auditor must be a registered company auditor and must not be appointed for a period exceeding five (5) years.

➤ **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)	Low (3E)	Low

The external auditor is a current control and therefore there is no predicted movement in the Residual Risk rating resulting from this report.

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 recommended tender price is within the current budget allocation.

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.

➤ **Sustainability Implications**

Not directly applicable.

➤ **Engagement/Consultation conducted in the development of the report**

Consultation on the development of this report was as follows:

Council Committees: The Audit Committee considered a report on the External Audit Tender process at its 12 December 2022 meeting and made the recommendation contained in this report to the Council.

Council Workshops: Not Applicable

Advisory Groups: Not Applicable

External Agencies: Not applicable

Community: Not Applicable

➤ **Additional Analysis**

At its 12 December 2022 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 in confidence as follows:

10.2 External Audit Tender – Confidential Item

**Moved Natalie Johnston
S/- Peter Brass**

AC48/22

The Audit Committee resolves:

- 1. That the report be received and noted.**
- 2. To recommend to Council the appointment of BDO Audit Pty Ltd 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 2023, with an option of a further period of up to two (2) years, as per the tender in Appendix 2.**
- 3. To recommend to Council that the proposed fee structure for BDO Audit Pty Ltd is appropriate to enable a legislatively-compliant audit to be conducted.**

Carried Unanimously

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

Following the appointment of the external auditor, work will commence in February/March 2023 to scope the audit program and an Audit Plan be provided to the Audit Committee and then Council for approval.

3. OPTIONS

Council has the following options:

- I. To be guided by the recommendations of the Audit Committee to the appointment of BDO Audit Pty Ltd as Council's external auditor for a period of three (3) years commencing with the audit for the financial year ending 30 June 2023, 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.

4. APPENDIX

Nil

3. Appointment of External Auditor – Duration of Confidentiality

Subject to the CEO, or his delegate, disclosing information or any document (in whole or in part) for the purpose of implementing Council’s decision(s) in this matter in the performance of the duties and responsibilities of office, Council, having considered Agenda Item 18.3 in confidence under sections 90(2) and 90(3)(d) of the *Local Government Act 1999*, resolves that an order be made under the provisions of sections 91(7) and (9) of the *Local Government Act 1999* to retain the Items in confidence as detailed in the Duration of Confidentiality Table below:

Item	Duration of Confidentiality NB: Item to be reviewed every 12 months if not released
Report	31 December 2024
Related Attachments	31 December 2024
Minutes	Until Council has appointed an External Auditor for the 30 June 2023 financial year.
Other (presentation, documents, or similar)	NIL

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.