

**ADELAIDE HILLS COUNCIL
AUDIT COMMITTEE MEETING
Monday 16 November 2020
CONFIDENTIAL AGENDA BUSINESS ITEM**

Item: 7.1

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

Subject: External Audit Contract

For: Decision

1. External Audit Contract – Exclusion of the Public

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

- CEO, Andrew Aitken
- Director Corporate Services, Terry Crackett
- Executive Manager Governance & Risk, Lachlan Miller
- Manager Financial Services, Mike Carey
- Governance & Risk Coordinator, Steven Watson

be excluded from attendance at the meeting for Agenda Item 7.1: (External Audit Contract) in confidence.

The Committee 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 Committee 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 confer a commercial advantage on a third party.

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

2. External Audit Contract – Confidential Item

SUMMARY

In February 2018 Council engaged external audit firm, Galpins Accountants, Auditors and Business Consultants (Galpins), on a five (5) year Professional Services Agreement (PSA) for the conduct of the Annual Financial Statements and Internal Financial Controls audits as required under the applicable legislative provisions. The structure of the PSA was for an initial 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 the completion of the 2019-20 audit, it is now the appropriate time to consider whether Council should exercise the two (2) year option. The Audit Committee, under its Terms of Reference has a role to advise Council on the engagement and remuneration payable to the external auditor.

The purpose of this report is to seek a recommendation to Council regarding whether to exercise the two (2) year option under the PSA.

RECOMMENDATION

The Audit Committee resolves:

1. That the report be received and noted
2. To recommend to Council to exercise the two-year option under the Professional Services Agreement for External Audit with Galpins Accountants, Auditors and Business Consultants for the conduct of the 2020-21 and 2021-22 Annual Financial Statement and Internal Financial Control audits.

1. GOVERNANCE

➤ Strategic Management Plan/Functional Strategy/Council Policy Alignment

Strategic Plan 2020-24 – A brighter future

Goal 5 A Progressive Organisation

Objective 05 We are accountable, informed, and make decisions in the best interests of the whole community

Priority 05.1 Enhance governance structures and systems to prudently adapt to changing circumstances and meet our legislative obligations

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 risks 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 (3E)

Internal control failures occur which leads to greater uncertainty in the achievement of objectives and/or negative outcomes.

Inherent Risk	Residual Risk	Target Risk
High (4C)	Low (2E)	Low (2E)

Note that there are many other controls that assist in mitigating these risks.

➤ **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 Financial 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**

Council Committees: The Audit Committee has not directly discussed or determined a position on the performance of the External Auditor during the current contract. The Presiding Member was contacted out of session regarding the option.

Council Workshops: Not Applicable

Advisory Groups: Not Applicable

Administration: Director Corporate Services
 Manager Financial Services

External Agencies: Galpins Accountants, Auditors and Business Consultants

Community: Not Applicable

2. BACKGROUND

Audit Committee's Role in External Auditor Appointment

The Audit Committee's Terms of Reference (**Appendix 1**) 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;

Current External Audit Contract

In November 2017, with the impending expiry of the external audit services contract (following the completion of the 2016-17 audit) with BDO, 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.

Following the tender assessment process¹, a confidential report was provided to the 20 February 2018 Audit Committee seeking the Committee's recommendation to Council for the appointment of Galpins, as follows:

¹ Full details of the tender assessment can be accessed in the 20 February 2018 Audit Committee report.

7.2.1. 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 consideration of the Audit Committee's recommendation, Council resolved on 27 February 2018 as follows:

19.4. Appointment of External Auditor – Confidential Item

RELEASED 27 FEBRUARY 2019

Moved Cr Malcolm Herrmann
S/- Cr Jan Loveday

60/18

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.

Carried Unanimously

In accordance with the Council's resolution, the negotiations for the Professional Services Agreement (PSA) with Galpins was finalised and the contract commenced on 30 April 2018.

Since their appointment Galpins have conducted the 2017-18, 2018-19 and 2019-20 Annual Financial Statement and Internal Financial Control audits. Galpins do not provide any non-audit-related services to Council.

In accordance with the provisions of Clause 2, Annexure A of the PSA, the initial engagement period of three (3) years is approaching completion and Council has the option to engage Galpins for a further period on two (2) years.

The option is to be under the same terms and conditions as the initial agreement with the pricing as set out in Galpins tender submission and incorporated into the PSA, unless otherwise agreed in writing by both parties.

The fees structure contained within the PSA is as follows:

	2017-18	2018-19	2019-20	2020-21	2021-22
Total Audit Fee	\$23,000	\$23,460	\$23,460	\$24,400	\$24,890

3. ANALYSIS

The Administration has assessed Galpins' performance against the provisions of the PSA and is satisfied that the requirements of the PSA have been fulfilled. The continuity of the Galpins' team and their expertise in local government sector auditing (approx. 20 clients) has facilitated the audit process over the initial term of the PSA. The Administration has not proposed any changes for negotiation with Galpins in consideration of exercising the option.

Galpins have confirmed their interest in the option being exercised and have not proposed any changes to the provisions of the PSA.

The Administration has not specifically tested the market in terms of the competitiveness of the Galpins' fee structure for the provision of external audits in assessing the appropriateness of exercising the option however the fee structure is consistent with tenders received for the provision of internal audit services within the last 12 months and are consistent with the published external audit fees in other council annual reports.

Further, the Administration is satisfied that the PSA specifications are consistent with the scope of work required for the Annual Financial Statement and Internal Financial Controls audits as set out in the Act and Regulations. While there are some proposed changes to the legislated audit requirements contained within the current iteration of the current iteration of the *Statutes Amendment (Local Government Reform) Bill 2020* (the Bill), it is not anticipated that these should impact on exercising the option at this point in time.

4. OPTIONS

The Committee has the following options:

- I. To recommend to Council to exercise the two-year option under the Professional Services Agreement for External Audit with Galpins (Recommended)
- II. To provide advice to Council on an alternative approach such as renegotiating elements of the PSA or undertaking a tender for the forthcoming period. (Not Recommended)

5. APPENDIX

- (1) Audit Committee – Terms of Reference

Appendix 1

Audit Committee – Terms of Reference

ADELAIDE HILLS COUNCIL

Audit Committee



TERMS OF REFERENCE

1. ESTABLISHMENT

- 1.1 The Audit Committee (the Committee) of Council is established under Section 41 of the *Local Government Act 1999* (the Act), for the purposes of Section 126 of the Act and in compliance with regulation 17 of the *Local Government (Financial Management) Regulations 2011*.
- 1.2 The Audit Committee does not have executive powers or authority to implement actions in areas which management has responsibility and does not have any delegated financial responsibility. The Audit Committee does not have any management functions and is therefore independent from management.

2. ROLE

- 2.1 The overall role of the Audit Committee will be to assist Council to accomplish its objectives by monitoring and providing advice on the adequacy and effectiveness of the systems and processes regarding financial management and reporting, internal control and risk management, internal audit and governance functions through the following functions:

3. SPECIFIC FUNCTIONS

- 3.1 Financial Reporting and Prudential Requirements

The Committee shall:

- 3.1.1 Provide comment on the assumptions underpinning Council's Strategic Management Plans (Strategic Plan, Annual Business Plan and Budget and Long Term Financial Plan), the consistency between plans and the adequacy of Council's plans in the context of maintaining financial sustainability;
- 3.1.2 Review and provide advice to Council on the degree to which the annual financial statements present fairly the state of affairs of the Council;
- 3.1.3 Monitor the integrity of the financial statements of the Council, including its annual report, reviewing significant financial reporting issues and judgements which they contain.;
- 3.1.4 Review and challenge where necessary:
 - 3.1.4.1 The consistency of, and/or any changes to, accounting policies;
 - 3.1.4.2 The methods used to account for significant or unusual transactions where different approaches are possible;
 - 3.1.4.3 Whether the Council has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

3.1.4.4 The clarity of disclosure in the Council's financial reports and the context in which statements are made; and

3.1.4.5 All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);

3.1.5 Review prudential reports prepared under Section 48(1) of the Act and provide advice to Council, upon request, on other prudential matters.

3.2 Internal Controls and Risk Management Systems

The Committee shall:

3.2.1 Ensure that appropriate policies, practices and procedures of internal control (and other financial and risk management systems) are implemented, reviewed and maintained in order to assist the Council to carry out its activities in an efficient and orderly manner to achieve its objectives;

3.2.2 Review Council's risk management framework and monitor the performance of Council's risk management program;

3.2.3 Monitor the corporate risk profile and significant risk exposures for the organisation to ensure that there are appropriate management plans to manage and mitigate this business risk; and

3.2.4 Ensure an appropriate legislative compliance framework exists to identify risks and controls over compliance with applicable legislation and regulations.

3.3 Public Interest Disclosures

The Committee shall:

3.3.1 Review annually the Council's Public Interest Disclosure arrangements and compliance with the requirements of the *Public Interest Disclosure Act 2018*.

3.3.2 Provide recommendations to Council regarding Public Interest Disclosure Policy and resourcing required to comply with legislative requirements

3.3.2.1 2013.

3.4 Internal Audit

The Committee shall:

3.4.1 Monitor and review the effectiveness of the Council's internal audit function in the context of the Council's overall risk management system;

3.4.2 Consider and make recommendation on the program of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.

3.4.3 Review all reports on the Council's operations from the internal auditors;

- 3.4.4 Review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 3.4.5 Where appropriate, meet the "head" of internal audit (internal or outsourced) at least once a year, without management being present, to discuss any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Principal Member of the Council and to the Presiding Member of the committee.

3.5 External audit

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;
 - 3.5.2.3 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;
 - 3.5.2.4 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);
 - 3.5.2.5 Monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and
 - 3.5.2.6 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);
- 3.5.3 Meet as needed with the external auditor. The Committee shall meet the external auditor at least once a year, without management being present; to discuss the external auditor's report and any issues arising from the audit;
- 3.5.4 Review and make recommendations on the annual audit plan, and in particular its consistency with the scope of the external audit engagement;

3.5.5 Review the findings of the audit with the external auditor. This shall include, but not be limited to, the following;

3.5.5.1 a discussion of any major issues which arose during the external audit;

3.5.5.2 any accounting and audit judgements; and

3.5.5.3 Levels of errors identified during the external audit. The committee shall also review the effectiveness of the external audit.

3.5.6 Review any representation letter(s) requested by the external auditor before they are signed by management;

3.5.7 Review the management letter and management's response to the external auditor's findings and recommendations.

3.6 Economy and Efficiency Audits

The Committee shall:

3.6.1 Propose and review the exercise of powers under Section 130A of the Act; to examine and report on any matter relating to financial management, or the efficiency and economy with which the council manages or uses its resources to achieve its objectives,

4. OTHER MATTERS

The Committee shall:

4.1 Have access to reasonable resources in order to carry out its duties, recognising the constraints within Council's Budget;

4.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

4.3 Give due consideration to laws and regulations of the Act;

4.4 Make recommendations on co-ordination of the internal and external auditors;

4.5 Oversee any investigation of activities which are within its terms of reference;

4.6 Oversee action to follow up on matters raised by the external and internal auditors;

4.7 Invite Council's external auditors and internal auditors to attend meetings of the Committee, as considered appropriate; and

4.8 At least once in its term, review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval.

5. MEMBERSHIP

- 5.1 The Committee will comprise 5 members as follows:
 - 5.1.1 Three (3) Independent Members; and
 - 5.1.2 Two (2) Council Members
- 5.2 All members of the Committee will be appointed by the Council.
- 5.3 Independent Member(s) of the Committee shall have recent and relevant skills and experience in professions such as, but not limited to accounting, financial management, risk management, law, compliance, internal audit and governance.
- 5.4 It is desirable for the Council Members to be appointed to the Committee to have a sound understanding of financial management, risk management and governance.
- 5.5 In considering appointments to the Committee, Council should give consideration to the diversity of the membership.
- 5.6 Appointments to the Committee shall be for a period of up to three (3) years.
- 5.7 Members of the Committee are eligible for reappointment at the expiration of their term of office.
- 5.8 The terms of appointment of the Independent Members should be arranged to ensure the orderly rotation and continuity of membership despite changes to the composition of the Council.

6. SITTING FEES

- 6.1 The applicable Remuneration Tribunal (or its successor) Determination outlines the applicable allowance for Council Members on the Committee.
- 6.2 The Independent Members are to be paid a sitting fee as determined by Council for attendance at meetings and authorised training sessions. Council may determine a higher sitting fee for the presiding member.

7. PRESIDING MEMBER

- 7.1 The Council will appoint the Presiding Member of the Committee.
- 7.2 The Council authorises the Committee to determine if there will be a Deputy Presiding Member of the Committee and, if so, authorises the Committee to make the appointment to that position for a term determined by the Committee.
- 7.3 If the Presiding Member of the Committee is absent from a meeting the Deputy Presiding Member (if such position exists) will preside at that meeting. If there is no position of Deputy Presiding Member, or both the Presiding Member and the Deputy Presiding Member of the Committee are absent from a meeting of the Committee, then a member of the Committee chosen from those present will preside at the meeting until the Presiding Member (or Deputy Presiding Member, if relevant) is present.

7.4 The role of the Presiding Member includes:

7.4.1 overseeing and facilitating the conduct of meetings in accordance with Act and the *Local Government (Procedures at Meetings) Regulations 2013* (the Regulations); and

7.4.2 Ensuring all Committee members have an opportunity to participate in discussions in an open and encouraging manner.

8. REPORTING RESPONSIBILITIES

8.1 For the purposes of Section 41(8) of the Act, the Committee's reporting and accountability requirements are:

8.1.1 The minutes of each Committee meeting will be included in the agenda papers of the next ordinary meeting of the Council;

8.1.2 The Presiding Member will attend a meeting of the Council at least once per annum to present a report on the activities of the Committee;

8.1.3 The Committee shall make whatever recommendations to the Council it deems appropriate on any area within its terms of reference where in its view action or improvement is needed; and

8.1.4 The Presiding Member may attend a Council meeting at any time that the Presiding Member sees fit to discuss any issue or concern relating to the Committee's functions. Depending on the nature of the matter, this may be held in confidence in accordance with Section 90 of the Act and staff may be requested to withdraw from the meeting.

9. MEETING PROCEDURE

9.1 Meeting procedure for the Committee is as set out in the Act, Parts 1, 3 and 4 of the Regulations. Insofar as the Act, the Regulations, or these Terms of Reference do not prescribe the procedure to be observed in relation to the conduct of a meeting of the Committee, the Committee may determine its own procedure.

9.2 In accordance with Section 90(7a), one or more Committee members may participate in the meeting by telephone or other electronic means provided that members of the public can hear the discussion between all Committee members.

9.3 Only members of the Committee are entitled to vote in Committee meetings. Unless otherwise required by the Act not to vote, each member must vote on every matter that is before the Committee for decision.

9.4 Council Employees may attend any meeting as observers or be responsible for preparing papers for the committee.

10. SECRETARIAL RESOURCES

10.1 The Chief Executive Officer shall provide sufficient administrative resources to the Committee to enable it to adequately carry out its functions.

11. FREQUENCY OF MEETINGS

- 11.1 The Committee shall meet at least four times a year at appropriate times and places as determined by the Committee. A special meeting of the Committee may be called in accordance with the Act.
- 11.2 If after considering advice from the CEO or delegate, the Presiding Member of the Committee is authorised to cancel the respective Committee meeting, if it is clear that there is no business to transact for that designated meeting.

12. NOTICE OF MEETINGS

- 12.1 Notice of the meetings of the Committee will be given in accordance with Sections 87 and 88 of the Act. Accordingly, notice will be given:
- 12.1.1 To members of the Committee by email or as otherwise agreed by Committee members at least 3 clear days before the date of the meeting; and
- 12.1.2 To the public as soon as practicable after the time that notice of the meeting is given to members by causing a copy of the notice and agenda to be displayed at the Council's offices and on the Council's website.

12.2 PUBLIC ACCESS TO MEETINGS & DOCUMENTS

- 12.3 Members of the public are able to attend all meetings of the Committee, unless prohibited by resolution of the Committee under the confidentiality provisions of Section 90 of the Act.
- 12.4 Members of the public have access to all documents relating to the Committee unless prohibited by resolution of the Committee under the confidentiality provisions of Section 91 of the Act.

13. MINUTES OF MEETINGS

- 13.1 The Chief Executive Officer shall ensure that the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance are minuted and that the minutes otherwise comply with the requirements of the Regulations.
- 13.2 Minutes of Committee meetings shall be circulated within five days after a meeting to all members of the Committee and will (in accordance with legislative requirements) be available to the public.

3. External Audit Contract – 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 Council's decision(s) in this matter in the performance of the duties and responsibilities of office, Council, having considered Agenda Item 7.1 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* that the report, related attachments and the minutes of Council and the discussion and considerations of the subject matter be retained in confidence until Council has determined its position in relation to the exercise of the two-year option under the Professional Services Agreement.

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