



CONFIDENTIAL ORDINARY COUNCIL MEETING

Released 08 September 2020

CONFIDENTIAL MATTERS

Corporate Governance Committee

17.1	Audit Tender results (Attachments)	5
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Released 08 September 2020

COMMITTEE REPORTS

CORPORATE GOVERNANCE COMMITTEE

Confidential Matters

17.1 AUDIT TENDER RESULTS

Contact Person: Ms Grace Pelle

Why is this matter confidential?

Subject to an order pursuant to Section 90 (3) (k) of the Local Government Act 1999, this matter is confidential because it relates to a tender for the supply of services to council.

A. COUNCIL/COMMITTEE TO MOVE MOTION TO GO INTO CONFIDENCE

No action – this motion passed in the open section.

B. THE BUSINESS MATTER**17.1 AUDIT TENDER RESULTS**

Responsible Executive Manager : Ms Grace Pelle

Report Author : Ms Samantha Grieve

Delegated Authority : Matters for Information.

Attachments :

- 1. [Audit Tender Timetable](#)
- 2. [Audit Tender Scope](#)
- 3. [Audit Tender Recommendations](#)

Purpose

To provide the Corporate Governance Committee with a recommendation for the preferred external auditor following the completion of the tender evaluation process for the external audit engagement.

STAFF RECOMMENDATION

1. The Corporate Governance Committee receives the tender recommendation report (Attachment 3).
2. The Committee nominate BDO as the successful tenderer to provide external auditing services for an initial period of 48 months with a provision for one (1) 12 month extension period, commencing from October 2020.

COMMITTEE RESOLUTION**4116**

1. The Corporate Governance Committee receives the tender recommendation report (Attachment 3).
2. The Committee nominate BDO as the successful tenderer to provide external auditing services for an initial period of 48 months with a provision for one (1) 12 month extension period, commencing from October 2020.

Relevance to Strategic Plan

1: Smart Service Delivery Program

Outcome 1.2 Improved service delivery

Relevance to Public Consultation Policy

No public consultation required.

Background

Section 128 (1) of the Local Government Act 1999, states that Council must have an appointed external auditor.

Section 128 (2) of the Local Government Act 1999, states that the auditor must be appointed by Council on the recommendation of the Audit Committee.

The external auditor is engaged to provide Council with an audit opinion as to whether the financial report, presents fairly, in all material respects, the financial position as at the end of the financial year and its financial performance for the year ended on that date, in accordance with Australian Accounting Standards, the *Local Government Act 1999*, and the *Local Government (Financial Management) Regulations 2011*.

Section 128 (4a) of the Local Government Act 1999 limits the term of the external auditor to 5 years.

Galpin's were appointed as external auditors for Council on 20th October 2015. The initial contract expired on 18th October 2019. However, a 1-year extension was granted to the 18th of October 2020. This takes their total engagement, to the legislative limit of 5 years, with Tim Muhlhausler as the nominated audit partner. Thus, Council must appoint a new audit partner.

Council's procurement activities are conducted in accordance with a procurement policy. The policy applies to both staff and elected members. The policy is underpinned by the following values:

- Open and Fair Competition
- Probity, Accountability and Transparency
- Ethical Behaviour and Fair Dealing
- Value for Money
- Risk Management

Section 2.1 (f) of the Corporate Governance Committee Charter, states that the Committee will provide input into the appointment of the external auditor.

Current Situation

On 4th February 2020 the Corporate Governance Committee resolved the following, with regards to the procurement of the external auditor (Resolution 3898):

- Endorsed the documented audit scope for the procurement of the external auditor (Attachment 2)

- A member of the Corporate Governance Committee is to be involved in the procurement process, from the point of shortlisting the tender submissions, through to the appointment of an external auditor. Peter Brass was subsequently nominated to the Tender Assessment Panel as the Independent Member at the Corporate Governance Committee Meeting held on 5th May 2020.
- The external auditor to be procured using a full tender process

An updated timetable for the tender evaluation process has been provided (Attachment 1).

The timetable will facilitate the appointment of a new external auditor before Galpin's contract expires. Note that Galpin's will complete the full financial year audit for 2019/20 per their current contract terms.

The tender was released for submissions on the 31st March 2020 via the SA Tenders site. The tender period closed on the 22nd April 2020. Six tender submissions were received and were assessed against the tender criteria by the Tender Evaluation Panel.

The Tender Evaluation Panel included:

- Jacques Badenhorst (Acting Manager – Procurement and Accounts Payable)
- Elise Woolcock (Manager – Finance)
- Sunny Lim (Financial Accountant)
- Ninad Sinkar (Internal Auditor)
- Peter Brass (Corporate Governance Committee Presiding Member)

The Tender Assessment Panel reviewed the 6 tender submissions received using a weighted value for money matrix method and the following criteria:

- Compliance with brief;
- Compliance with Council Conditions of Contract for Services;
- Compliance to appropriate insurances;
- Organisational capacity, capability and organisational experience;
- Local Government experience;
- Methodology and proposed resources; and
- Cost submission.

The Tender Assessment Panel shortlisted 3 tenderers to take part in an interview/presentation process. This consisted of a 15 minute presentation by the tenderer followed by 15 minutes of question time and took place on 5th June 2020. The three shortlisted tenderers were:

- Galpins;
- BDO; and
- Grant Thornton.

Future Action

The Corporate Governance Committee to make a recommendation on the appointment of the external auditor, with the appointment to be finalised by September 2020 prior to the expiry of the current Galpin's contract.

TASK	Who	Internal Dates	Status	CGC involvement
Audit Scope endorsed by CGC	CGC	Feb-20	Completed	In Meeting
Commence Tender Process	Finance, Procurement	Mar-20	Commenced Mar-20	
Tender Period		Mar to Jun-20	Tenders closed 22nd April 2020	
Establish Tender Evaluation Panel	Finance, Procurement, CGC	May-20	Completed. Presiding Member Peter Brass nominated	In Meeting
Tender Evaluation Panel meet to review	Tender Evaluation Panel	May-20	Completed	
Meet with preferred tenderers if required	Tender Evaluation Panel	Jun-20	Completed. 3 shortlisted tenderers were interviewed 6 th June 2020	
Tender Evaluation Panel make recommendation to CGC	Tender Evaluation Panel	Jul-20		Decision in Meeting
Successful tenderer appointed	CEO	Sep-20		
Commencement of Provision of Services		Oct-20		

External Audit Services For The City Of Playford Financial Year 2020/21 to 2025/2026

1 Introduction

Council is required under Section 128 of the South Australia Local Government Act 1999 to appoint a suitably qualified person as its auditor. The auditor reports to Council on the General Purpose Financial Reports prepared annually in accordance with the Act as well as the internal controls of Council.

The auditor is also required to report to Council on particular matters arising from the audit (Section 129 of the SA Local Government Act 1999). The auditor must specifically identify in the report any irregularity in the Council's accounting practices or the management of the Council's financial affairs identified by the auditor during the course of an audit.

2 The Objectives of the Audit

There is a requirement for two external audits to be undertaken each financial year during the term of the audit appointment, with the objective being to provide an independent opinion within respect to the annual General Purpose Financial Statements and the internal controls of the City of Playford. The audits must meet both statutory requirements and Australian Auditing Standards.

3 Term of Audit Appointment

Council is seeking to make an appointment for an initial period of 48 months with a provision for one (1) 12 month extension period, available at the discretion of Council, commencing from October 2020.

During this appointment period, the auditor will undertake two audits each year. In February of each year, the auditor will undertake the interim audit with a focus on the internal controls of Council. After the end of each financial year, the auditor will undertake a final audit of the General Purpose Financial Statements of Council.

4 Scope of the Audit

When undertaking the interim audit, the auditor is to: –

4.1 carry out such work as is necessary to form an opinion as to whether:

- (a) the internal controls of the Council are designed sufficiently to provide reasonable assurance that the financial transactions of the Council have been conducted properly and in accordance with law
- (b) whether the controls operated effectively as designed during the financial year being audited

4.2 include in the audit report any matters identified during the normal audit procedures such as: -

- (a) any weaknesses in the internal controls in operation, in particular those listed in section 5;
- (b) make recommendations to improve internal controls

When undertaking the final audit of the General Purpose Financial Statements the auditor is to: –

- 4.3 carry out such work as is necessary to form an opinion as to whether:
 - (a) the accounts are properly kept; and
 - (b) the annual financial statements:
 - (i) are prepared in accordance with the financial records; and
 - (ii) represent fairly the operating result, cash flow and the financial position of the Council at 30 June in accordance with the Australian Accounting Standards, the Local Government Act 1999 (as amended) and other mandatory professional reporting requirements.
- 4.4 include in the audit report any matters identified during the normal audit procedures such as: –
 - (a) any significant adverse trends in the financial position or the financial management practices of the Council;
 - (b) any material irregularities in the Council's accounting practices or in the management of the Council's financial affairs identified during the course of the audit;
 - (c) review and make comment on outstanding management actions identified during the interim audit;

Also during the term of the appointment the auditor is required to:

- 4.5 attend pre-planning meetings with Council staff prior to the undertaking of each audit
- 4.6 review and sign off grant acquittals as requested by Council.
- 4.7 attend and present at least once per year (maximum two) to the City of Playford's Corporate Governance (Audit) Committee
- 4.8 attend and present at least once per year (maximum two) to the Elected Members at the Ordinary Council Meeting.

5 Audit Methodology and Approach

- 5.1 The auditor is required to comply with the requirements of the Local Government Act 1999 and the Local Government (Financial Management) Regulations 1999.
- 5.2 An audit is to be carried out in accordance with "Auditing Standards" and "AUASB Guidance Statements".
- 5.3 The auditor is to provide the Council with a general outline of their methodology. Where this may change, the auditor is to provide a revised outline. This may include the proposed analysis and review of internal controls and the extent to which these controls lead to reliance on the Council's administration and financial systems to produce accurate reports.
- 5.4 The auditor is to provide the Council with a plan for the audit including:
- (a) timing of interim audit visits, including the pre-planning meetings;
 - (b) final audit visit (within 30 days of being advised that the account and annual financial report are available for audit); and,
 - (c) the method to be used to communicate with, and provide advice and information to, the Council.
- 5.5 The auditor is required to produce an audit report as required by Section 129 of the Local Government Act 1999 and a report on particular matters arising from the audit.

6 Critical Matters to be Audited

The auditor should identify and include in their proposal critical matters that are important to the proper maintenance and reporting of Council's financial accounts. The auditor should set out in their proposal how to address them and the extent to which the matters identified will be examined in the course of forming their independent audit opinion of the accounts and annual financial report of the City of Playford.

7 Auditor Independence

The auditor is required, annually, to provide a declaration that he/she is independent of Council and nothing has transpired that would compromise his or her independence during the conduct of the audit.

8 Hours, Fees and Expenditure

The auditor is to provide the following detail:

- 8.1 an estimate of the effort to undertake the audit;
- (a) hours by nominated personnel (including level of person) by element of the audit
 - (b) hours by elements of the audit
 - (c) hourly rate applied to nominated level of personnel

- 8.2 fees for completing the audit in accordance with this specification;
- 8.3 the nominated auditor and registered company audit number; and,
- 8.4 the experience of the nominated auditor in completing Local Government audits.

Released 08 September 2020



Tender Evaluation and Recommendation

for

000902 – Provision of External Audit Services

1. BACKGROUND

Council is required under Section 128 of the South Australia Local Government Act 1999 to appoint a suitably qualified person as its auditor. The auditor reports to Council on the General Purpose Financial Reports prepared annually in accordance with the Act as well as the internal controls of Council.

The auditor is also required to report to Council on particular matters arising from the audit (Section 129 of the SA Local Government Act 1999). The auditor must specifically identify in the report any irregularity in the Council's accounting practices or the management of the Council's financial affairs identified by the auditor during the course of an audit.

2. PURCHASING INVITATION DETAILS

2.1. A public Request for Tender was advertised on 31 March 2020 on SA Tenders Website.

2.2. Tenderers were required to electronically lodge tenders via the SA Tenders Website by the closing date of 2:00pm on 22 April 2020.

2.3. By 2:00pm on 22 April 2020, six (6) tenders had been lodged via SA Tenders website.

2.4. Conflict of Interest

The presiding member of the Corporate Governance Committee, Mr Peter Brass, declared that he has a potential perceived conflict of Interest in relation to the Galpins submission. Mr Brass chairs the audit committee for the Rural City of Murray Bridge. The nominated Audit Manager for Galpins is Luke Williams who is an independent member of the audit committee.

Mr Brass declared during the evaluation process, that his professional relationship will not influence his decision making when assessing the individual tenders. The evaluation team was satisfied with this declaration.

3. CONTRACT AUTHORITY

Councils purchasing policy, procedures and guidelines were followed with this tender call. Councils General Terms and Conditions for Services will be used for the contract.

4. FINANCIAL AUTHORITY

4.1. This will be a lump sum agreement for the performance of the services.

4.2. The following cost center will be used for this contract:

Cost Centre	Remaining Budget
GL 1004-1001-61111	\$38,000 annually

4.3. The contract will be executed by the Chief Executive Officer.

5. EVALUATION PROCESS

5.1. A tender evaluation team (TET) was established and consists of the following personnel:

- Jacques Badenhorst, Acting Manager – Procurement & Accounts Payable (evaluation chair);
- Elise Woolcock, Manager – Finance;
- Ninad Sindkar, Internal Auditor;
- Sunny Lim, Financial Accountant; and
- Peter Brass, Presiding Member – Corporate Governance Committee.

5.2. Submissions were evaluated by the TET using a City of Playford weighted value for money matrix method and the following criteria:

- compliance with Brief;
- compliance with Council Conditions of Contract for Services;
- compliance to appropriate insurances;
- organisational capacity, capability and organisational experience;
- Local Government experience;
- methodology and proposed resources; and
- cost submission.

5.3. Evaluation Summary:

Rank	Tenderer	Evaluated Score
1	Galpins	850 out of 1000
	BDO	850 out of 1000
3	Grant Thornton	830 out of 1000
4	Dean Newbury	750 out of 1000
5	PKF	725 out of 1000
6	Anderson Munroe Wylie	550 out of 1000

5.4. Financial Evaluation

Rank	Tenderer	Lump Sum Excl GST (4 year term)	Budget (4 year term)	Differential to Budget
1	Dean Newbury	\$98,354	\$152,000	\$53,646
2	PKF	\$129,460	\$152,000	\$22,360
3	Anderson Munroe Wylie	\$132,000	\$152,000	\$20,000
4	Grant Thornton	\$137,345	\$152,000	\$14,655
5	BDO	\$137,900	\$152,000	\$14,100
6	Galpins	\$140,698	\$152,000	\$11,302

5.5. Overall Summary

Rank	Tenderer	Total Evaluated Score	Rated on score	Value index*
1	Dean Newbury	750 out of 1000	4	131
2	BDO	850 out of 1000	Equal 1	162
3	Galpins	850 out of 1000	Equal 1	166
4	Grant Thornton	830 out of 1000	3	168
5	PKF	725 out of 1000	5	179
6	Anderson Munroe Wylie	550 out of 1000	6	240

* lowest value index represents best value for money

6. CONTRACT MANAGEMENT

Elise Woolcock, Manager - Finance, will contract manage this contract.

7. SUMMARY

Dean Newbury

Whilst Dean Newbury represented good value in terms of their pricing, their submission was not looked favorably on. The methodology was very brief without the required detail, they did not address internal controls to the evaluation team's satisfaction, and they proposed to have a junior staff member present to the Corporate Governance Committee.

With this in mind, the tender evaluation team shortlisted three tenderers to take part in an interview / presentation process. This presentation consisted of 15 minutes presentation by the tenderer followed by 15 minutes question time.

The three shortlisted tenderers were:

- Galpins;
- BDO; and
- Grant Thornton.

BDO Audit (SA) Pty Ltd

BDO gave a good presentation which did give a good impression that they understand the industry and the risks faced by Council. There were many positives including;

- Experience with SA Local Government Auditors Group, the Local Government Association and the SA Local Government Financial Management Group;
- Low partner/audit team ratio (3 partners:30 Staff) Excellent for South Australia;
- SA Local Government experience as external auditors with other large Councils;
- Access to additional services such as tax and advisory services;
- Audit approach and methodology – the planned methodology was sound and robust. It was advised that BDO may not rely on controls for the financials in consideration of the recent internal controls concerns raised through the recent audits, but will go back to the substantive documents. The initial plan included additional time on site to understand Playford and plan the best approach. Expected to be on site for 2 weeks during the year ;
- Knowledge of the Better Practice Model;
- Identified risks in the interview that were appropriate – Revaluation, PPE, WIP, Assets free of charge, grants, new accounting standards, controls risk and COVID 19;

000902 - Recommendation

- BDO use an online portal to manage document flow and the audit process, enabling better and more efficient communication and understanding of the audit status. This is a big positive as it enables better document control during the audit; and
- They were very well prepared and coordinated their presentation effectively between the partner and manager.

It will be important to work through the timing of the internal controls audit that Council would normally have completed in February and ensure the agreed timelines will meet the expectations of Council, the Corporate Governance Committee and BDO.

Grant Thornton

The presentation was not very specific about the value that Grant Thornton would bring to Council.

Concerns

- There were IT issues and we were told that IT doesn't work Fridays;
- The Audit Delivery Manager does not seem to have a lot of experience with SA Local Government; and
- Their presentation was messy and unorganised.

Positives included

- Experience with Local Government Association;
- Discussed how the emerging internal audit within Council would impact the financial statement audit ;
- Knowledge of the Better Practice Model;
- Audit approach and methodology – planned methodology included understanding the pressure points, understanding what reports are usually received and having an introductory session and planning meeting. The intention would be to have 2 weeks on site but mentioned additional time for the first year;
- Grant Thornton use an online portal to manage document flow and the audit process, enabling better and more efficient communication and understanding of the audit status. This is a big positive as it enables better document control during the audit;
- Value add –access to a resource who has a lot of Local Government knowledge (unsure if this resource is in Adelaide)
- Paperless process; and
- Their written proposal was of high quality and captured the overall methodology for delivering the audit.

Galpins

As the incumbent auditors, this interview had a slightly different approach. When asked what was the plan for improvement on the current processes that would give more value to Council, the response was that by having a new audit partner involved this would allow a different focus on areas such as credit card risk, assets and the implementation of the ICAC recommendations. It was surprising that a different audit partner for the same firm would have such a different direction and focus.

Positives included

- Existing relationship with the audit team (with a new audit partner);
- Experience with SA Local Government Auditors Group, the Local Government Association and the SA Local Government Financial Management Group;
- Knowledge of the Better Practice Model;
- SA Local Government experience as external auditors with other Councils; and

- Have historically been able to meet our timing requirements for interim and financial statements audits.

Concerns

- Galpins are undertaking a lot of work at implementing Artificial Intelligence into the audit process. It's not known how that will impact future audits;
- No use of an on line portal, still relying on emails from staff and reviewing documents on site. No intention of investing in this in the near future; and
- Less time for the audit manager has been allocated as he has moved up to a director role.

8. COVID-19 RISK

There is very little risk associated with the current Covid-19 pandemic. These services are easily completed remotely if required.

9. RECOMMENDATION

The evaluation team recommends that contract 000902— *Provision of External Audit Services* be awarded to **BDO**.

Jacques Badenhorst
Acting Manager – Procurement & Accounts Payable

C. COUNCIL/COMMITTEE TO DECIDE HOW LONG ITEM 17.1 IS TO BE KEPT IN CONFIDENCE**Purpose**

To resolve how long agenda item 17.1 is to be kept confidential.

STAFF RECOMMENDATION

Pursuant to Section 91(7) of the Local Government Act 1999, the Committee orders that the following aspects of Item 17.1 be kept confidential in accordance with Committee's reasons to deal with this item in confidence pursuant to Section 90 (3) (k) of the Local Government Act 1999:

- Report for Item 17.1
- Attachment(s) for Item 17.1
- Minutes for Item 17.1

This order shall operate until the successful tenderer has been notified

COMMITTEE RESOLUTION**4117**

Pursuant to Section 91(7) of the Local Government Act 1999, the Committee orders that the following aspects of Item 8.2 be kept confidential in accordance with Committee's reasons to deal with this item in confidence pursuant to Section 90 (3) (k) of the Local Government Act 1999:

- Report for Item 8.2
- Attachment(s) for Item 8.2
- Minutes for Item 8.2

This order shall operate until the successful tenderer has been notified.