 <p>Adelaide Plains Council</p>	<p>8.1 Confidential Item</p>
<p>2 February 2021</p>	

8.1 Appointment of External Auditor




RECOMMENDATION

“that:

- 1. Pursuant to section 90(2) of the *Local Government Act 1999*, the Audit Committee orders that all members of the public, except Chief Executive Officer, General Manager - Finance and Business, Acting General Manager Governance and Executive Office, Administration and Executive Support Officer and Information Technology Officer be excluded from attendance at the meeting of the Audit Committee for Agenda Item 8.1 – *Appointment of External Auditor*;**
- 2. Audit Committee is satisfied that, pursuant to section 90(3)(d) of the Local Government Act 1999, Item 8.1 – Appointment of External Auditor contains commercial information of a confidential nature (not being a trade secret), being proposals for service, the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party and disclosure would, on balance, be contrary to the public interest; and**
- 3. Audit Committee is satisfied that the principle that Audit Committee meetings should be conducted in a place open to the public has been outweighed by the need to keep the information, matter and discussion confidential.”**



 Adelaide Plains Council	8.1	Appointment of External Auditor
	Department: Report Author:	Finance and Business General Manager - Finance and Business
Date: 2 February 2021	Document Ref:	D20/61460

EXECUTIVE SUMMARY

- The purpose of this report is to seek the Audit Committee’s recommendation in relation to the appointment of an external auditor for the next three (3) financial years from 2020/2021 to 2022/2023.
- Under section 128 of the Local Government Act 1999, a council must have an auditor and the auditor will be appointed by the council on the recommendation of the council’s audit committee.
- With the conclusion of 2019/2020 audit, the contract for the provision of external audit services with Bentleys has expired and therefore, Council management has undertaken a tender process in accordance with the Council’s *Procurement Policy* to appoint a suitably qualified auditor for the next three (3) financial years with a further options of an additional two (2) X one (1) year extensions, subject to satisfactory performance review and as determined by Adelaide Plains Council, commencing from 2020/2021 Financial Year to 2024/2025 Financial Year.
- Request for Tender document was sent to four (4) audit firms and each firm submitted their proposal before the due date of 4 January 2021.
- Tender submissions were evaluated against the following criteria:
 - Whether the it is a compliant tender
 - Organisation’s capacity and capability
 - Quality of Audit Service Plan, Methodology, Implementation Schedule and Audit Reporting
 - Organisational Structure, Qualifications, Responsiveness and Technical/Digital skills
 - Experience – SA LG Audits and/or statutory audits
 - Fee proposal.
- Following the tender evaluation, Council management is recommending Galpins Accountants, Auditors & Business Consultants be appointed as external auditor for the Adelaide Plains Council for the next three (3) financial years with a further options of an additional two (2) X one (1) year extensions.

RECOMMENDATION 1

“that the Audit Committee, having considered Item 8.1 – *Appointment of External Auditor*, dated 2 February 2021, receives and notes the report and in doing so recommends to Council that it:-



1. Acknowledges that the proposed fee structure for Galpins is appropriate to enable an adequate audit to be conducted;
2. Appoints Tim Muhlhausler of Galpins Accountants, Auditors & Business Consultants for the provision of external audit services for a period of three (3) financial years commencing with the audit for the financial year ending 30 June 2021, with an option of right to renew for a further period of two (2) X one (1) year extensions; and
3. Instructs the Chief Executive Officer be delegated to execute all required documentation to give effect to Council's appointment of the external auditor"

BUDGET IMPACT

Estimated Cost:	Subject to the outcome of tender process
Future ongoing operating costs:	Council makes a budget allocation each year for the expenses associated with the conduct of the external audit. Audit fee for 2019/2020 was \$15,200
Is this Budgeted?	Yes

RISK ASSESSMENT

By appointing suitably qualified independent external auditor, Council satisfies the requirements of *Section 128 (1) of the Local Government Act 1999*. It also assists in mitigating the risk of occurring poor financial governance practices that could lead to a loss of stakeholder (i.e. ratepayer and regulator) confidence and/or legislative breaches. Therefore, external audit is a key accountability function to the community regarding the financial governance of the Council.

Attachments

1. Tender Submission from Galpins Accountants Auditors & Business Consultants
2. Tender Submission from Audit firm 2
3. Tender Submission from Audit firm 3
4. Tender Submission from Audit firm 4
5. Provision of External Audit Services - Tender Assessment Matrix



DETAILED REPORT

Purpose

The purpose of this report is to seek Audit Committee's recommendation to the Council for the appointment of an external auditor for the next three (3) financial years from 2020/2021 to 2022/2023.

Background/History

Under Sec 128 of the Local Government Act 1999;

- 1) A council must have an auditor.
- 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.
- 3) The auditor must be –
 - a) a registered company auditor; or
 - b) a firm comprising at least one registered company auditor.
- 4) A person is not eligible to be the auditor if—
 - a) the person is a member of the council; or
 - b) the person is a nominated candidate for election as a member of the council.

(4a) The term of appointment of an auditor of a council must not exceed 5 years (and, subject to this section, a person may be reappointed at the expiration of a term of office).

Bentley were appointed as the auditor for Adelaide Plains Council in July 2015 and their term (3+1+1) has expired with the completion of the 2019/2020 financial year audit.

Council management therefore conducted a select tender process requesting tenders for the position of independent external auditor in line with Council's Procurement Policy for an initial period of three (3) years with a further options of an additional two (2) X one (1) year extensions, subject to satisfactory performance review and as determined by Adelaide Plains Council, commencing from 2020/2021 Financial Year to 2024/2025 Financial Year.

An extract from the Audit Committee's Terms of Reference in relation to the appointment of the external auditor is given below:

2.5 External Audit

The Committee shall:

- 2.5.1 *develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter;*
- 2.5.2 *consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor;*
- 2.5.3 *oversee Council's relationship with the external auditor including, but not limited to:*



- 2.5.3.1 reviewing 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;
- 2.5.3.2 reviewing 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;
- 2.5.3.3 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;
- 2.5.3.4 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);
- 2.5.3.5 monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and
- 2.5.3.6 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).

Discussion

Request for Tender (RFT) for the provision of external audit service for financial years 2020/2021 to 2024/2025 was sent to four (4) audit firms on 3 December 2020 requesting them to provide their proposal by 4 January 2021.

All four (4) audit firms responded before the due date and their responses are provided under **Attachment 1 - 4**. The tender assessment process was conducted by General Manager - Finance and Business and WHS & Risk Officer based on following evaluation criteria and weightings:

Table 1: Tender Assessment Criteria

Assessment Criteria	Weightings (%)
Compliant Tender	Y/N
Organisations Capacity and capability	20
Quality of Audit Service Plan, Methodology, Implementation Schedule and Audit Reporting	30
Organisational Structure, Qualifications, Responsiveness and Technical/Digital skills	15
Experience – SA LG Audits and/or statutory audits	20
Fee proposal	15
TOTAL	100



Following the assessment of the tenders, Galpins Accountants Auditors & Business Consultants (Galpins) received a score of 415 and the tender evaluation matrix is provided under **Attachment 5**. Results of the tender evaluation is summarised below in **Table 2**.

Table 2: Results of the Tender Assessment

Rank	Tenderer	Score
1	Galpins Accountants Auditors & Business Consultants	415
2	Tenderer 2	380
3	Tenderer 3	365
4	Tenderer 4	335

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

Conclusion

Under *Section 128 of the Local Government Act 1999*, a council must have an auditor. The contract for the provision of external audit services has expired and therefore Council management has undertaken a tender process.

Based on the tender assessment, Galpins has received a score of 415 and therefore Council management recommend the appointment of Tim Muhlhausler of Galpins Accountants, Auditors & 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 2021, with an option of right to renew for a further period of up to two (2) years.

References

Legislation

Section 128 (2) of the Local Government Act 1999

Part 6 of the Local Government (Financial Management) Regulations 2011

Council Policies/Plans

Audit Committee Terms of Reference

Procurement Policy

RECOMMENDATION

“that the Audit Committee, having considered the matter of Item 8.1 – *Appointment of External Auditor* in confidence under sections 90(2) and 90(3)(d) of the *Local Government Act 1999*, resolves that:-

- 1. The agenda report and the minutes of this meeting pertaining to Agenda Item 8.1 – *Appointment of External Auditor* remain confidential and not available for public inspection until all consultants who submitted a proposal have been notified in writing of Council’s decision;**
- 2. Attachments 1 to 5 and any other associated information submitted to this meeting pertaining to Agenda Item 8.1 – *Appointment of External Auditor* remain confidential and not available for public inspection until further order of the Council;**
- 3. Pursuant to section 91(9)(a) of the *Local Government Act 1999*, the confidentiality of the matter will be reviewed every 12 months; and**
- 4. Pursuant to section 91(9)(c) of the *Local Government Act 1999*, Audit Committee delegates the power to revoke this confidentiality order to the Chief Executive Officer.”**

