

Internal Audit Tender

Originating Officer	Manager Corporate Governance - Kate McKenzie
Corporate Manager	Manager Corporate Governance - Kate McKenzie
General Manager	Acting General Manager Corporate Services - Ray Barnwell
Report Reference	GC190611F05

Confidential



Confidential Motion

That pursuant to Section 90(2) and (3)(k) and (d)(i)(ii) of the *Local Government Act 1999*, the Council orders that all persons present, with the exception of the following persons: Adrian Skull, Ray Barnwell, Abby Dickson, Kate McKenzie and Victoria Moritz, be excluded from the meeting as the Council receives and considers information relating to the Internal Audit Tender, upon the basis that the Council is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information relates to a tender for the provision of services and contains commercial information that would on balance be contrary to public interest.

REPORT OBJECTIVE

To provide Council with recommendations from the Finance and Audit Committee in relation to the evaluation and outcome process for Internal Audit services.

EXECUTIVE SUMMARY

In accordance with Section 128 (2) of the Local Government Act 1999, the Council auditor will be appointed by the council on the recommendation of the council's audit committee, hence both the Internal Audit and External Audit contracts are both referred to Council for consideration and appointment.

At its meeting of 28th May 2018, the Finance and Audit Committee (FAC) received a report on the Internal Audit Tender Evaluation. A copy of this report is attached as **Appendix 1**.

The current Internal Audit contract is due to expire on 30 June 2019. The FAC report outlines that the Tender for Internal Audit Services was a joint tender with the City of Charles Sturt. A total of six (6) tenders were received, however one (1) was considered non-conforming. The tenders were assessed by staff from both Councils and it was recommended that KPMG be appointed as the Councils Internal Auditor. After consideration of the report, the Finance and Audit Committee made the following recommendation to Council:

Moved Ms Hinchey, Seconded Councillor Gard,

That the Finance and Audit Committee:

- 1. Recommends to Council that KPMG is appointed as the Council's Internal Auditor from 1 July 2019 to 30 June 2021, with the option for a two (2) year contract extension, subject to the costs of the contract being provided to Council.*
- 2. In accordance with Section 91(7) and (9) of the Local Government Act 1999 orders that this report, the minutes arising from this report and any other information distributed at the meeting having been*

considered in confidence under Section 90(2) and (3)(d)(i)(ii) of the Act shall, except when required to effect or comply with Council's resolution(s) regarding this matter be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the December 2019 Council meeting.

Carried Unanimously

Financial Information and Budget

As requested by the FAC, the budget 2019/20 for Internal Audit Services is \$123k and the fee structure proposed for KPMG is listed below. The percentages are based on the average time spent on each audit by various staff.

Partner (5% of work) \$355

Director (20% of work)\$260

Senior Consultant (30% of work)\$155

Auditor (45% of work)\$110

RECOMMENDATION

That Council :

- 1. Appoints KPMG as the City of Marion Internal Auditors from 1 July 2019 to 30 June 2021, with the option for a two (2) year contract extension.**
- 2. The City of Charles Sturt is advised accordingly.**
- 3. In accordance with Section 91(7) and (9) of the Local Government Act 1999 orders that this report and an appendices arising from this report and any other information distributed at the meeting having been considered in confidence under Section 90(2) and (3) (k) and (d)(i)(ii) of the Act shall, except when required to effect or comply with Council's resolution(s) regarding this matter be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the December 2019 Council meeting.**
- 4. In accordance with Section 91(7) and (9) of the Local Government Act 1999, orders that the minutes arising from this report, having been considered in confidence under Section 90(2) and (3) (k) and (d) (i)(ii) of the Act shall, except when required to effect or comply with Council's resolution(s) regarding this matter be kept confidential and not available for public inspection, until 1 July 2019.**

GENERAL ANALYSIS

Attachment

#	Attachment	Type
1	Internal Audit	PDF File

Internal Audit Tender Evaluation

Originating Officer	Manager Corporate Governance - Kate McKenzie
Corporate Manager	Manager Corporate Governance - Kate McKenzie
General Manager	General Manager Corporate Services - Vincent Mifsud
Report Reference	FAC190528F01

Confidential



Confidential Motion

That pursuant to Section 90(2) and (3) (d)(i)(ii) of the *Local Government Act 1999*, the Finance and Audit Committee orders that all persons present, with the exception of the following persons: Adrian Skull, Ray Barnwell, Abby Dickson, Tony Lines, Kate McKenzie, Jamie Dunicliff be excluded from the meeting as the Finance and Audit Committee receives and considers information relating to the Internal Audit Tender, upon the basis that the Finance and Audit Committee is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information contains commercial information that would on balance, be contrary to the public interest.

REPORT OBJECTIVE

To provide the Finance and Audit Committee (FAC) with an overview of the tender evaluation for the Internal Audit Tender and make a recommendation to the FAC regarding the preferred tenderer.

EXECUTIVE SUMMARY

The joint Internal Audit Tender, in collaboration with the City of Charles Sturt, was advertised on 17 April and closed on 6 May 2019. A total of six (6) tenders were received, however, one was determined to be non-conforming. The tenders were evaluated in accordance with the evaluation criteria. Based on the evaluation, it is recommended that KPMG is appointed as the City of Marion (and City of Charles Sturt) internal auditors for two years (with an option of a further 2 year extension).

RECOMMENDATION

That the Finance and Audit Committee recommends to Council that KPMG is appointed as the Council's Internal Auditors from July 2019 to 30 June 2021, with the options for a two (2) year contract extension

GENERAL ANALYSIS

The objectives of an Internal Audit Program are to:

- Ensure the strategic directions of Council are aligned to financial sustainability and organisational effectiveness
- Improve the public value of Council through efficient and effective operations
- Ensure the Council's risks are well managed and the Council has sound internal controls, and
- Ensure compliance with legislative and policy requirements.

The current internal audit function has been delivered by an external provider for over 10 years, with past providers including Deloitte, Ernst and Young, BDO and most recently, KPMG. The service was last tendered in 2015 with KPMG being awarded the contract for a period of 4 years (2 + 2). The current contract is due to expire on 30 June 2019.

A report was presented to the February 2019 FAC meeting, outlining the proposed timeline and approach for the tender. The FAC noted that City of Marion and Charles Sturt were progressing with a joint tender for the services.

The evaluation criteria was set as follows:

Capability = 20%

Capacity = 25%

Methodology = 35%

Costs = 20%

Total = 100%

The tender closed on Monday 6th May 2019. A total of 6 tenders were received from:

- [REDACTED]
- KPMG
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

The Tender Evaluation Panel (TEP) met on Monday, 13 May. The TEP included two representatives from each Council. The Manager Corporate Governance and the Manager Finance and Contracts represented the City of Marion. The process was overseen by the Strategic Procurement Lead who is a joint procurement resource for both Councils. The evaluations assessed the tenders as follows:

1. KPMG - 73.7

2. [REDACTED]

3. [REDACTED]

4. [REDACTED]

5. [REDACTED]

[REDACTED] did not comply as they only tendered for part of the service (Statutory and Regulatory) and they did not have any financial auditing experience or qualifications.

DISCUSSION

The tenders received from both KPMG and [REDACTED] were competitive and of a higher standard than other tenders submitted. This was based on their proposed resources, methodology and experience.

However, KPMG was the only proposal that clearly articulated:

- How a joint contract could operate,
- The benefits to each Council,
- A clear methodology and the crossover points between the two Councils.

In addition to this, KPMG also provided clear contract value adds (at no additional charge) which included:

- The managing partner (Justin Jamieson) as the Quality Relationship Partner to review deliverables, attend Audit Committee Meetings and to conduct customer satisfaction interviews.
- Twice yearly briefings from the KPMG National Local Government Lead
- A Fraud training workshop each year (for both Councils)
- A year end collaboration Health Check to help realise our vision of a combined assurance model
- Access to KPMG events.

Following the tender evaluation, KPMG were invited to present to the TEP along with Mr Greg Connor (City of Marion Finance and Audit Committee Chair - Independent Member) and Mr Peter Brass (City of Charles Sturt Audit Committee - Independent Member). This presentation occurred on Monday, 20th May 2019.

Following the presentation, the Tender Evaluation Panel (with the support of the two independent members) confirmed KPMG were the preferred tender.