

**CITY OF MARION
FINANCE AND AUDIT COMMITTEE MEETING
15 DECEMBER 2016**

CONFIDENTIAL REPORT

Originating Officer: Kate McKenzie, Manager Corporate Governance
General Manager: Vincent Mifsud, General Manager Corporate Services
Subject: Internal Audit Contract
Report Reference: FAC151216F02

If the Finance and Audit Committee so determines, this matter may be considered in confidence under Section 90 (3)(d) of the Local Government Act 1999 on the grounds that the report deals with commercial information of a third party.



Adrian Skull
Chief Executive Officer

RECOMMENDATION:

1. That pursuant to Section 90(2) and (3)(d) of the Local Government Act 1999 the Committee orders that all persons present, with the exception of the following persons (Adrian Skull (Chief Executive Officer), Vincent Mifsud (General Manager Corporate Services) Kate McKenzie (Manager Corporate Governance), be excluded from the meeting as the Committee receives and considers information relating to contract for the provision of Internal Audit Services upon the basis that the 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 relates commercial information that could reasonably be expected to prejudice the commercial position of the person who supplied the information.

BACKGROUND:

The City of Marion's internal audit function has been delivered by an external provider for over 10 years, with past providers including Deloitte, Ernst and Young, BDO and now KPMG.

An evaluation of the internal audit service was undertaken early in 2014 and the Audit Committee at the time confirmed that the internal audit program remained largely unchanged and it was best delivered by an external provider. This external provider model provides the greatest opportunity for independence, sourcing of appropriate skills and quality audits.

At the meeting of 18 August 2015 (FAC180815F8.2), the Audit Committee recommended to Council that KPMG be awarded the contract for the delivery of internal audit service for a period of two years. This two year contract is due to expire on 30 June 2017. The contract provides the opportunity for Council to extend the contract for a further two years until 30 June 2019.

The purpose of this report is for the Committee to discuss the performance of KPMG and make a recommendation to Council to either extend the KPMG contract for a further two years or commence a tender process in early 2017.

DISCUSSION:

Since KPMG has been appointed, they have developed a two year internal audit plan. That Plan has (for the majority) been delivered within scope, timeframe and budget. Some internal audits have been delayed for various reasons but has been at the request of the City of Marion and not due to any fault of KPMG.

Each of the scopes and completed reviews have been presented to the Finance and Audit Committee for review and endorsement. Each of the audits has delivered a number of recommendations for improvements and the strengthening of internal controls.

From a management perspective, the performance and quality of KPMG during this contract has been good.

KPMG have also recently proposed a new rate structure to the City of Marion. The tables below outline the proposed changes

Existing rates table

	<i>Hourly rate (excl GST)</i>		<i>Hourly rate (excl GST)</i>
Partner/Director		Partner/Director	
		Director	
Associate Director		Associate Director	
Manager		Manager	
		Assistant Manager	
Senior Consultant		Senior Consultant	
Consultant/Grad		Consultant/Grad	

Proposed Rates table

It is important to note that Jared Lawrence who is the client liaison for the City of Marion has been promoted to Director from Associate Director (an increase of [REDACTED] per hour). James Rivett is a new addition to the team who is appointed at the Assistant Manager level. Whilst KPMG have indicated they believe that the net change is likely to be negligible based on the current staffing, it should be noted that the two staff responsible for the City of Marion account are within the newly defined positions.

RECOMMENDATIONS**DUE DATES**

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| 1. That the Finance and Audit Committee discuss and provide feedback on the performance of KPMG. | December 2016 |
| 2. That the Finance and Audit Committee recommend to Council that the KPMG contract for Internal Audit services be extended for a further two years until 30 June 2019. | December 2016 |
| 3. That the extension of the contract be negotiated and executed by 30 June 2017. | June 2017 |
| 4. In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Committee 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) (k) of the Act be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. The confidentiality order will be reviewed at the December 2017 Council Meeting. | December 2017 |