

**CITY OF MARION
GENERAL COUNCIL MEETING
11 April 2017**

CONFIDENTIAL REPORT

Originating Officer: Jaimie Thwaites, Acting Manager Corporate Governance
General Manager: Vincent Mifsud, General Manager Corporate Services
Subject: Internal Audit Contract
Report Reference: GC110417F02

If the Council 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), Tony Lines (General Manager Operations), Abby Dickson (General Manager City Development, Jaimie Thwaites (Acting Manager Corporate Governance), and Victoria Moritz (Governance Officer) 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 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 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 25 August 2015 (GC250815F04), the Council resolved that KPMG be awarded the contract for the delivery of internal audit services for a period of two years, with the option to extend for an additional two years. This initial two-year contract is due to expire on 30 June 2017, however the contract provides the opportunity for Council to extend the contract for a further two years until 30 June 2019.

On the 15 December 2016, the Finance and Audit Committee considered a report regarding the KPMG contract (FAC151217F02). An extract of the minutes of this meeting is as follows:

The Committee discussed the work and outcomes of KPMG and feels that the quality has been to a good standard. KPMG have demonstrated that they are doing a good job and are working well within the City of Marion. The report quality is a good standard and the Committee would recommend extending the contract for a further two years.

The Committee discussed the new fee structure and suggested that some negotiation should occur on the figures, particular for the role of Director.

The Finance and Audit Committee resolved at this meeting:

1. *The Committee recommends that the KPMG contract for Internal Audit services be extended for a further two years until 30 June 2019.*
2. *That further negotiations occur regarding the fee structure for KPMG and the contract extension be finalised by 30 June 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 this 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. 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 (namely Director and Assistant Manager).

Following the recommendation of the Finance and Audit Committee on 15 December 2016 the originally proposed rates for the Director and Assistant Manager positions were both renegotiated and reduced from the original proposed rates.

The tables below outline the proposed changes.

Existing Rates Table		Proposed Rates Table	
	Hourly rate (excl. GST)		Hourly rate (excl. GST)
Partner/Director	\$ [REDACTED]	Partner/Director	\$ [REDACTED]
		Director	\$ [REDACTED]
Associate Director	\$ [REDACTED]	Associate Director	\$ [REDACTED]
Manager	\$ [REDACTED]	Manager	\$ [REDACTED]
		Assistant Manager	\$ [REDACTED]
Senior Consultant	\$ [REDACTED]	Senior Consultant	\$ [REDACTED]
Consultant/Grad	\$ [REDACTED]	Consultant/Grad	\$ [REDACTED]

RECOMMENDATIONS

DUE DATES

That:

1. Council notes the revised fee structure proposed by KPMG. 11 April 2017
2. The KPMG contract for Internal Audit services be extended (including the revised fee structure) for a further two years until 30 June 2019. 11 April 2017
3. The extension of the contract be negotiated and executed by 30 June 2017. 30 June 2017
4. In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Committee orders that this report, having been considered in confidence under Section 90(2) and (3)(d) of the Act, except when required to effect or comply with the Committee'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 General Council Meeting in December 2017. December 2017