

5.5.2 LATE ITEM: Audit Committee Minutes and Appointment of External Auditor

Ward:	Both	Date:	22 March 2017
Precinct:	All	File Ref:	SC2639
Attachments:	<p>1 – Unconfirmed Minutes Audit Committee 21 March 2017 2 – 08/17 - Request for Quotation document 3 – Confidential Attachment - Summary of Financial Evaluation 4 – Confidential Attachment - Draft External Audit Services Contract</p>		
Tabled Items:	Nil.		
Reporting Officer:	T Evans, Manager Governance and Risk		
Responsible Officer:	L Kosova, Director Corporate Services		

RECOMMENDATION:

That Council:

1. **RECEIVES** the unconfirmed Minutes of the Audit Committee Meeting held on 29 November 2016, as shown in Attachment 1; and
2. **APPOINTS BY ABSOLUTE MAJORITY** David Tomasi, Wen-Shien Chai and Greg Godwin from Moore Stephens as the City’s external auditors for the term of the 2016/17 and 2017/18 financial years; and
 - 2.1 **ACCEPTS** the quote submitted by Moore Stephens for the provision of External Audit Services to the City for the 2016/17 – 2017/18 financial years with an option to extend the contract for a further one year; and
 - 2.2 **ENDORSES** the draft External Audit Services contract and authorise the Mayor to execute the contract on behalf of Council.

PURPOSE OF REPORT:

To receive the unconfirmed Minutes of the Audit Committee Meeting held on 21 March 2017 and to consider the appointment of an external auditor.

BACKGROUND:

At its meeting on 21 March 2017, the Audit Committee considered an evaluation of submissions to provide External Audit Services to the City and resolved as follows:

“That the Audit Committee RECOMMENDS to Council to:

1. *appoint David Tomasi, Wen-Shien Chai and Greg Godwin from Moore Stephens as the City’s external auditors for the term of the 2016/17 and 2017/18 financial years (Absolute Majority required);*
2. *accept the quote submitted by Moore Stephens for the provision of External Audit Services to the City for the 2016/17 – 2017/18 financial years with an option to extend the contract for a further one year; and*
3. *endorse the draft External Audit Services contract and authorise the Mayor to execute the contract on behalf of Council.”*

At its meeting on 29 November 2016, the Audit Committee endorsed the following process for the appointment of an External auditor:

1. Quotations will be called from WALGA’s Audit Services panel;
2. Respondents will be asked to quote on terms of:
 - One year;

- One year, plus an option to extend for up to two years at the City's discretion;
 - Two years, plus an option to extend for up to one year at the City's discretion; and
 - Three years (with no option to extend).
3. The same organisation is not to be awarded both the external and internal audit contracts;

The flexible term of this contract was based on advice received from the Office of the Auditor General that it would not be in a position to take over responsibility for the external audits of local governments until at least the 2018/19 financial year.

In accordance with Council's decision, Administration then developed a request for quotation (RFQ) document, included as **Attachment 2**, and invited quotes from the seven audit firms listed on the West Australian Local Government Association (WALGA) preferred supplier list for audit services. Each respondent was asked to quote on both:

- Two years, plus an option to extend for up to one year at the City's discretion; and
- Three years (with no option to extend).

The City received four quotations from the following list of respondents:

- Butler Settineri (Audit) Pty Ltd
- Grant Thornton Audit Pty Ltd
- Macri Partners
- Moore Stephens

The submissions were evaluated by the Manager Governance and Risk and Manager Financial Services on 8 March 2017 using the selection criteria below in accordance with the RFQ documentation:

<i>Selection Criteria</i>	<i>Weighting</i>
Financial offer/fee proposal	40%
Organisational Capability/Key Personnel	30%
Methodology, key issues and risks	20%
References	10%
	100%

Of the four submissions received, all were considered suitable proposals and all were evaluated.

Criteria 1 - Financial offer / fee proposal

The weighting for pricing was 40%, and the scores for this criteria were calculated using the following method:

A range of prices for a potential three year contract (2 years + 1 year option) was set, such that the lower limit was the price of the lowest submission received and the upper limit was double the average price of all of the submissions received. Scores were awarded such that a submission priced at or above the upper limit would score 0, while a submission priced at the lower limit would score 40. Submissions that were priced within the range were scored on a linear scale between the lower and upper limits. A summary of the financial offers can be found in **Attachment 3**. The financial offers from both Butler Settineri (Audit) Pty Ltd and Moore Stephens were the lowest cost and consequently scored 40 points.

In determining the scoring for this criteria, the panel used the flat lump sum price for the full potential of three years. It was noted that audit services are generally priced at an hourly rate depending on the level of seniority and experience offered by the particular audit personnel working on the engagement. That is to say the hourly rates would scale up from graduate auditor, senior auditor, director to partner. Consequently, it could be argued that a lower overall fee proposal might simply result in a lower level of audit personnel. However, the panel took the view that the evaluation of key personnel was dealt with as part of selection criteria 2 and therefore did not factor this in to the scoring for the Financial offer/fee proposal.

It should be noted that, whilst the RFQ had called for quotes for both a two year contract with a one year option and a three year contract, in each case where both quotes had been provided the pricing was the same.

Criteria 2 - Organisational Capability / Key Personnel

In all cases, the panel was satisfied that the respondents each had sufficient organisational capability to undertake the work and in all cases the details of appropriately qualified personnel were provided.

Moore Stephens has the largest footprint within the local government sector and is the auditor (a combination of internal and external audits) for 46 local governments in Western Australia. The company employs 43 staff in its Local Government division and consequently was awarded the highest score for this criteria.

The other three respondents all had demonstrable experience within the local government sector, but were more generalist auditors in nature with less of a focus on the sector, or did not have a specialist local government section within the firm.

Criteria 3 - Methodology, key issues and risks

In assessing the methodology and understanding of the scope of the contract, the submission from Grant Thornton and Moore Stephens were considered to be comprehensive – to the extent that they were used as the benchmark to measure the quality of the other submissions.

The methodologies put forward by the other respondents were appropriate, but largely generic and only slightly tailored to the City's requirements.

Criteria 4 – References

All the respondents provided appropriate references from similar work undertaken for other Local Governments in WA and all scored highly.

Summary of Scores

The table below provides a summary of the overall evaluation scoring:

EXTERNAL AUDIT RFQ SUBMISSIONS <i>(2 years + 1 year)</i>	Butler Settineri	Grant Thornton	Macri	Moore Stephens
1. Financial offer / fee proposal	40.00	34.46	30.50	40.00
2. Organisational Capability / Key Personnel	24.00	27.00	24.00	30.00
3. Methodology, key issues and risks	19.00	20.00	18.00	20.00
4. References	10.00	10.00	10.00	10.00
TOTAL	93.00	91.46	82.50	100.00

As a result, the panel recommended (and the Audit Committee agreed) that Moore Stephens be awarded the contract for the City's External Audit Services for the following reasons:

- The quote submitted by Moore Stephens for the External Audit Services was considered to provide the "best value for money".
- The submission from Moore Stephens demonstrated the highest level of local government specific audit experience of the organisation and its key personnel.

CONSULTATION/ADVERTISING:

Not applicable.

LEGAL/POLICY:

Section 7.3 of the *Local Government Act 1995* states:

7.3 Appointment of Auditors

- (1) *A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint a person, on the recommendation of the audit committee, to be its auditor.*
- (2) *The local government may appoint one or more persons as its auditor.*
- (3) *The local government's auditor is to be a person who is –*
 - (a) *a registered company auditor; or*
 - (b) *an approved auditor.*

The Terms of Reference for the Audit Committee include the following Duties and Responsibilities:

- Recommend to Council the person or persons to be appointed as auditor.
- Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include:
 - the objectives of the audit;
 - the scope of the audit;
 - a plan of the audit;
 - details of the remuneration and expenses to be paid to the auditor; and
 - the method to be used by the local government to communicate with, and supply information to, the auditor.

RISK MANAGEMENT IMPLICATIONS:

Low: Administration considers that there are minimal risks associated with the appointment of an external auditor. However, it is noted that the external audit function is a key element in managing the City's overall level of risk.

STRATEGIC IMPLICATIONS:

Plan for the Future – Strategic Plan 2013 – 2023 – Strategic Objectives

“Objective 4.1: Provide good strategic decision-making, governance, leadership and professional management.

4.1.2 Manage the organisation in a responsible, efficient and accountable manner

- (a) *Continue to adopt best practise to ensure the financial resources and assets of the City are responsibly managed and the quality of services, performance procedures and processes is improved and enhanced.”*

SUSTAINABILITY IMPLICATIONS:

Not applicable.

FINANCIAL/BUDGET IMPLICATIONS:

An amount of \$30,000 has been included in the Annual Budget 2016/17 for the external audit services. The cost of the recommended submission is within budget at \$20,000 in 2016/17.

COMMENTS:

The appointment of an external auditor is a duty of Council.

Section 7.3 of the *Local Government Act 1995* applies as follows:

7.3 Appointment of Auditors

- (1) A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint a person, on the recommendation of the audit committee, to be its auditor [Absolute majority required].
- (2) The local government may appoint one or more persons as its auditor.
- (3) The local government's auditor is to be a person who is –
 - (a) a registered company auditor; or
 - (b) an approved auditor.

Section 5 of the State *Interpretation Act 1984* includes the following definitions:

Individual means a natural person

and

Person or any word or expression descriptive of a person includes a public body, company, or association or body of persons, corporate or unincorporate.
[emphasis added]

So, using these definitions, a local government can appoint an accounting firm to be its external auditor. It does not need to appoint an individual to the role.

The advantage to appointing a firm as auditor is that it gives clarity to the arrangement if the Partner leading the audit leaves the firm.

Administration sought advice on this aspect of the appointment from both the Department of Local Government & Communities and WALGA. Advice received from the Department indicated that, whilst the above interpretation would allow the appointment of a firm, only an individual could be a Registered Company Auditor. However, WALGA advised that the Department had advised other local governments that appointing a firm was acceptable; and this was now the trend in recent appointments.

All of the 3 nominated partners from Moore Stephens are Registered Company Auditors:

Name	Registered Company Auditor Number
David Tomasi	15724
Wen-Shien Chai	229761
Greg Godwin	310219

Administration is therefore recommending that the City appoints all three nominated partners as the City's External Auditors; and contracts with Moore Stephens to provide the External Audit Services.

All members of the WALGA Audit Services Panel have signed-up to the WALGA Audit Services Contract. This contract stipulates the minimum Scope and Methodology to be followed by the auditor, as outlined in Appendix 2 of the Department of Local Government's "Audit in Local Government" operational guidelines (https://www.dlgc.wa.gov.au/Publications/Documents/DLGC_LG_Operational_Guideline_9.pdf p14).

In the Request for Quotation (RFQ - **Attachment 2**) the City identified the Objectives of the Audit as:

- a) To provide an independent audit opinion of the accounts and annual financial report for each financial year covered by the term of the audit appointment; and

- b) To provide an annual review of the appropriateness and effectiveness of financial management system in accordance with section 6.10 of the *Local Government Act 1995* and Section 5(1) of the *Local Government (Financial Management) Regulations 1996*.

As well as the Scope and Methodology identified in the WALGA Audit Services Contract, the City identified the following additions in the RFQ:

Scope Additions:

- a) The financial ratios required by the *Local Government (Financial Management) Regulations 1996*.

Methodology and Approach Additions:

- a) The auditor is to provide the local government with a general outline of his/her methodology; and
- b) The auditor is to provide the local government with a plan for the audit including:
- timing of interim audit visits - between March and June in each year;
 - final audit visit to be agreed/negotiated, but within 30 days of being advised that the accounts and annual financial report are available for;
 - timing of the legislative requirement to meet with the local government and whether that meeting will be in person or by some other means; and
 - the method to be used to communicate with, and provide advice and information to, the local government;
 - include attendance at the annual general meeting of ratepayers and audit committee meetings as and when required; and
 - include attendance at the first meeting of the audit committee following their appointment to outline their approach to the audit assignment.

Administration has prepared a draft contract for the provision of external audit services (see **Attachment 4**). This contract combines the Objectives, Scope, Methodology and Approach from both the WALGA contract and the City's RFQ.

The Chief Executive Officer (CEO) has disclosed an impartiality interest on the recommended appointment of Moore Stephens, on the basis that he is acquainted with Mr Shaun Williams who works with the firm. However, Mr Williams does not work in the Local Government division of Moore Stephens. Regardless, the CEO has included a clause in the attached draft contract that specifically excludes Mr Williams from any involvement in the audit of the City.