

7.1 APPOINTMENT OF INTERNAL AUDIT SERVICES (CF 2008155 – MK)

Recommendation from Audit Committee

RECOMMENDATION

The Audit Committee recommends to Council:

1. *That PricewaterhouseCoopers, be appointed to provide Internal Audit services for a three-year term commencing July 2008 for the lump sum price of \$505,550 (GST inclusive).*
2. *That the Chief Executive Officer be authorised to sign and seal the contract documents.*

BACKGROUND

This report seeks Council approval to accept the tender for the provision of Internal Audit Services to Monash City Council for a period of three years, consisting of 1000 hours annually. Council's current contract for Internal Audit Services expires on 30 June 2008. The Audit Committee acknowledges that whilst not competitive in this instance Ernst & Young as the provider of Internal Audit Services to Monash City Council for the past 9 years have provided a quality service during this time.

On Saturday 1 March 2008, tenders were called in the Age newspaper for the provision of Internal Audit Services - Contract No. 2008155 for a period of three years.

Fourteen organisations requested and were sent the tender documents. Tenderers were required to provide a lump sum price for the provision of 1,000 hours per annum for Internal Audit Services for a three-year period. The tender required interested parties to provide detailed information regarding the profile and experience of the firm and nominated staff in relation to the provision of internal audit services, particularly as that experience related to Local Government.

Tenders closed on Wednesday 19th March 2008 with 11 conforming tenders received as follows:

1. Acumen Alliance
2. Deloitte
3. DFK Collins
4. Ernst & Young
5. HLB Mann Judd
6. McLean Delmo Hall Chadwick
7. PKF
8. PricewaterhouseCoopers
9. RSM Bird Cameron
10. WHK Horvath
11. William Buck

TENDER EVALUATION PANEL

A Tender Evaluation Panel was formed comprising Councillor Charlotte Baines (Councillor member of the Audit Committee), Mark Hamill (Independent Audit Committee member) and Marilyn Kearney (Director Corporate Planning & Finance), to evaluate the tenders and conduct interviews for short listed tenderers. Danny Wain (Manager Finance Services) provided secretariat services to the Panel.

TENDER ANALYSIS

Prior to receipt of the tenders the evaluation criteria and weightings were reviewed with input from Audit Committee members. The Evaluation Panel evaluated the tenders based on the following criteria and weightings:

- Price 50%
- Internal Audit Experience 15%
- Innovation and audit processes 10%
- Demonstrated understanding of risks in a local government environment 10%
- Staff seniority/experience mix 10%
- Ability to undertake additional services 5%

Note: In accordance with Council tender and contract policy approval was sought and granted by the CEO to reduce the weighting for price to 50% rather than 60% on advice from Audit Committee members in order to give higher weightings to the qualitative aspects of the criteria. The importance of this became apparent when tenders were received. This is discussed in more detail below.

The preliminary evaluation process resulted in the 4 highest-ranking tenderers being invited to interview. Table 1 Preliminary Short-list Scoring table ranks the tenderers from highest to lowest, the top 4 tenderers interviewed were:

1. Deloitte
2. PKF
3. PricewaterhouseCoopers
4. William Buck

Based on a lump sum cost to Council, submitted tenders ranged in price from \$355,500 to \$717,750. The Tender Evaluation Panel's confidential tender evaluation report has been provided to Councillors under separate cover detailing the specifics of each of the tender submissions.

The short listed tenderers were invited to interview by the Tender Evaluation Panel. Each team provided a summary of their tender and responded to a series of prepared questions. The results of the interviews confirmed the panel's view that there was significantly differing capacity within each of the tender bids to provide the level of quality and local government experience for internal audit services as required by Council. The results of the interviews were collated to re assess the initial assessments made by the panel as appropriate. The panel determined from the interview process that PricewaterhouseCoopers (PWC) was the preferred tenderer.

On a qualitative basis, independent of price, PWC scored significantly higher than the other less expensive tenderers. As identified in the qualitative aspects of the

tender evaluation quality and experience of the nominated internal audit provider and their team are particularly important in the day-to-day requirements of internal audit in the local government environment.

PREFERRED TENDERER – PRICEWATERHOUSECOOPERS (PWC)

PWC is a “Big Four” accounting firm with a dedicated Internal Audit arm, which currently provides internal audit under contract at Glen Eira and Darebin Councils as well as for a number of other public sector clients.

The PWC team attending the interview demonstrated a high level of understanding of the Local Government risk environment and identified key areas relevant to internal audit that would suit Monash Council’s requirements and demonstrated a sound understanding of the risk environment.

PWC discussed their proposal in regard to taking an innovative approach to developing the risk assessment and audit plan for Monash linking the assessment to the key components of the Corporate Planning framework and highlighting the positive aspects of the process as outlined in their tender submission. PWC scored highly in all categories of the qualitative evaluation criteria and scored equal or above the other short-listed firms in each category.

References were checked with other councils at which PWC are either currently or recently have been the internal audit service provider in the local government sector. The responses were extremely positive in regard to the level of service and capability demonstrated by PWC as the contracted internal auditor in each instance.

FINANCIAL IMPLICATIONS

The tendered price submitted by PricewaterhouseCoopers is \$505,550 (GST inclusive) for the three-year contract term.

It should also be noted that the value for money component of the tender submission by PWC is enhanced by their offer to develop the 1st year Audit Plan and controls diagnostic at no cost, effectively providing \$20,000 additional value to the bid.

It is proposed that the tendered price can be managed within budget.

POLICY IMPLICATIONS

The project is consistent with the aims, values and objectives of Council’s Corporate Plan in particular as it relates to responsible corporate governance and effective management of resources.

CONCLUSION

The Audit Committee is satisfied that the tender process conducted to secure the provision of internal audit services has been a successful competitive process. The Audit Committee is confident that the appointment of PricewaterhouseCoopers as the Council’s internal auditor for the next three years will provide quality and value for money as well as a comprehensive understanding of internal audit in a local government setting.