FINANCE AND GOVERNANCE COMMITTEE REPORT

TENDER EVALUATION REPORT: PROVISION OF INTERNAL AUDIT SERVICES

Division Office of the Chief Executive Officer

Presenter Keith Williamson, Manager Governance Services

Purpose

1. For the Finance and Governance Committee to recommend that Council gives approval to award a contract to Deloitte Touche Tohmatsu for the provision of internal audit services.

Recommendation from Management

2. That the Finance and Governance Committee recommend that Council award the contract for Provision of Internal Audit Services (contract number 3384) to Deloitte Touche Tohmatsu for a term of three years, commencing 1 July 2009, with an option to extend for a further two years for a total contract sum of $1,015,305 for three years and otherwise in accordance with the negotiated terms and conditions of contract.

Background

Current Arrangements

3. In May 2005 Melbourne City Council entered into a contract with Ernst & Young for the provision of Internal Audit Services. Ernst & Young had provided the service from November 2001 to April 2005. The contract entered into in May 2005 was for a three year period and an option to extend, for 14 months, was taken up with the approval of the Audit Committee. The current contract expires on 30 June 2009.

Proposed Arrangements

4. It is proposed that the service is awarded through the tender process for a period of three years with an option to extend for a further two years.

Rationale for putting out to tender

5. When Council intends to enter into a contract for the purchase of goods or services valued at $150,000 or more, section 186 of the Local Government Act 1989 (the “Act”) imposes a duty on the Council by public notice either to invite tenders or to invite expressions of interest.

Expected Outcomes

6. The business requirement for provision of the services encompasses the provision of Internal Audit Services to the City of Melbourne and its subsidiary entities: CityWide Service Solutions Pty Limited, Queen Victoria Market Pty Ltd and, for as long as it is in operation, the Melbourne Wholesale Fish Market Pty Ltd.
7. The specified key deliverables for each entity are:

7.1. an entity-wide risk assessment covering the period of the Contract;

7.2. development of an Audit programme, taking into account the results of the risk assessment, for approval by the relevant Audit Committee;

7.3. the Audit programme presented to the Audit Committee will include a draft project scope for each proposed audit in the first year of the programme which covers details of the Background, Objective, and Scope of the project;

7.4. the Audit programme will be updated each year, following a meet, review and amend process and the updated plan will include a draft project scope for each proposed audit in the upcoming year of the programme which covers details of the Background, Objective, and Scope of the project;

7.5. the management of the agreed audit programme;

7.6. the conduct of audit reviews;

7.7. the reporting of audit opinions, findings, recommendations and other items of note; and

7.8. the presentation to the relevant Audit Committee of deliverables and advice on key issues relevant to the City of Melbourne and its subsidiaries, such presentation to include discussion of findings and recommendations made.

Key Issues: Tender Evaluation Process

Invitation to Tender

8. Tenders for the Provision of Internal Audit Services Contract closed on 8 January 2009 after a five week tender preparation period. No late tenders were received.

Tender Submissions

9. Ten tender responses were received. These were from:

9.1. WHK Horwath;
9.2. PricewaterhouseCoopers;
9.3. Ernst & Young;
9.4. KPMG;
9.5. RSM Bird Cameron;
9.6. Stamfords Advisors and Consultants;
9.7. Deloitte Touche Tohmatsu;
9.8. Grant Thornton(Australia) Ltd;
9.9. BDO Kendalls; and
9.10. Protiviti
Evaluation Panel

10. The Tender Evaluation Panel (TEP) comprised of:

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
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<tbody>
<tr>
<td>Manager Governance Services</td>
<td>Chair</td>
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<tr>
<td>City of Melbourne Audit Committee Member (Independent)</td>
<td>Full member</td>
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<tr>
<td>Group Manager, Risk &amp; Compliance, CityWide Service Solutions Pty Ltd</td>
<td>Full member</td>
</tr>
<tr>
<td>Accountant, Queen Victoria Market P/L &amp; Melbourne Wholesale Fish Market P/L</td>
<td>Full member</td>
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<tr>
<td>Coordinator Risk Management</td>
<td>Full member</td>
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<tr>
<td>Internal Audit Officer</td>
<td>Full member</td>
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<tr>
<td>City of Melbourne Financial Analyst</td>
<td>Advisory member</td>
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Evaluation Criteria and Weighting System

11. The following table lists the evaluation criteria that were stated in the City of Melbourne's invitation to tender document. The weightings for the evaluation criteria were declared to tenderers.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weightings</th>
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<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
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<tr>
<td>Lump sum price</td>
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<tr>
<td>Hourly &amp; daily rates for specified personnel</td>
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<tr>
<td>Cost saving initiatives over the life of the contract</td>
<td>30%</td>
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<tr>
<td>Innovative value add proposals (education, sponsorships etc)</td>
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<tr>
<td><strong>Experience, Capability &amp; Past Performance</strong></td>
<td></td>
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<tr>
<td>Company organisational structure</td>
<td></td>
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<tr>
<td>Resource capacity</td>
<td></td>
</tr>
<tr>
<td>Core business and main client base (experience &amp; expertise)</td>
<td>40%</td>
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<tr>
<td>Current commitments</td>
<td></td>
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<tr>
<td>Resources: people and systems</td>
<td></td>
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<tr>
<td>Commitment to achieving work plans</td>
<td></td>
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<tr>
<td><strong>Plan for Proposed Services</strong></td>
<td></td>
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<tr>
<td>Proposed work plan and methodology</td>
<td></td>
</tr>
<tr>
<td>Proposed organisational structure for this contract (personnel)</td>
<td></td>
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<tr>
<td>Continuing availability of resources</td>
<td></td>
</tr>
<tr>
<td>Relationship management</td>
<td></td>
</tr>
<tr>
<td>Commitment to risk management / quality assurance and occupational health &amp; safety</td>
<td>30%</td>
</tr>
</tbody>
</table>

12. The objective of the TEP was to critically assess the capability of each tenderer to provide best value and quality services and to select the preferred tenderer.

13. This objective was achieved by:

13.1. reviewing each tender response in detail;

13.2. scoring tenders on the basis of the weighted criteria;

13.3. ranking the tenderers in accordance to their criteria performance; and
13.4. undertaking reference checks and interviews with the two highest-ranking tenderers to confirm evaluation results.

14. The two highest scoring tenderers were reference checked and interviewed by the TEP to confirm the evaluation results.

15. As a result of the interviews Deloitte Touche Tohmatsu was confirmed as the highest scoring tenderer.

Performance Measurement

16. As part of the development of the invitation to tender documents and in particular the Service Specification an updated and robust set of Key Performance Indicators have been set out and form an important part of the contract. These Key Performance Indicators were developed with input from the Audit Committee member (Independent) who was on the TEP.

Concluding comments

17. All members of the TEP concur with the recommendation contained in the Management Report.

18. No Addendums were issued.

19. The recommended tenderer is one of the world’s leading professional services organisations serving some of the world’s largest and most prestigious companies in the areas of audit, assurance and advisory, taxation, corporate finance and consulting.

20. Deloitte’s has a number of local government clients throughout Australia and is currently the internal auditor for a number of councils including the City of Sydney.

Pecuniary Interest and Probity Statement

21. No member of the TEP has a pecuniary or personal interest in the tenders or contract.

22. The evaluation has fully complied with the Local Government Act 1989 and the Conditions of Tendering. No potential tenderer had access to the final specification prior to its release. All advice, written or verbal, provided to a respondent clarifying any aspect of the tender documentation was also provided to all other respondents. No tenderer was provided any advantage over other tenderers, and all were treated fairly and equally during the tendering process. Information provided by tenderers which has been deemed confidential, has been protected, and will not be disclosed. A consistent standard for all tenderers has been used in assessing any request for confidentiality by a tenderer/s.

23. Tenderers were provided Council’s Conditions of Tendering.

Time Frame

24. The expected contract commencement date is 1 July 2009. The duration of the contract is for three years with an option to extend for a further two years.
Relation to Council Policy

25. Council aims to deliver quality services that are responsive to business and community expectations, demonstrably cost-effective and subject to public accountability. The preferred tenderer has been evaluated as meeting these requirements.

Finance

26. The current budgeted amount for internal audit services at the City of Melbourne for the 2008/09 financial year is $265,000.

27. The financial impact of awarding the contract to Deloitte Touche Tohmatsu is a positive one. The tendered price per hour represents a saving of 19.5 per cent on the price per hour of the current service and this gives the Council the opportunity to either reduce the internal audit budget or to increase assurance by increasing service levels back to previous year levels.

28. The preferred tenderer has also committed to no cost increase over the initial three year term of the contract.

29. The annual fee proposed by the preferred tenderer is $338,435. This is broken up as follows:

   29.1. City of Melbourne  - $209,650 – 1400 hrs;
   29.2. CityWide Service Solutions P/L  - $83,860 – 560 hrs; and
   29.3. Queen Victoria Market P/L & Melbourne Wholesale Fish Market P/L - $44,925 – 300hrs.

30. Adequate budget has been set in previous years and no increase in the budget over the next three years is required under the current service levels.

Legal

31. Section 186 of the *Local Government Act 1989* sets out statutory requirements in relation to the purchase of goods and services by Council.

Sustainability

32. The Internal Audit service is expected to assist the organisation achieve its sustainability goals through the application of sustainability principles when reviewing Council’s services and seeking service solutions.
FINANCE ATTACHMENT

TENDER EVALUATION REPORT: PROVISION OF INTERNAL AUDIT SERVICES

The financial Implications are detailed in the body of the report.

The 2008/09 Annual Plan and Budget includes $265,000 for the Internal Audit Contract. The amount allocated for internal audit services is subject to the annual budget process.

Joe Groher
Manager Financial Services
LEGAL ATTACHMENT

TENDER EVALUATION REPORT: PROVISION OF INTERNAL AUDIT SERVICES

When Council intends to enter into a contract for the purchase of goods and services valued at 150,000 or more (levels increased by Order in Council dated 7 August 2008), section 186 of the Local Government Act 1989 (“the Act”) imposes a duty on the Council by public notice either to invite tenders or to invite expressions of interest.

If an expression of interest is called, before the Council can enter into the contract it must call tenders from a short list of registrants.

The Act does not require Council to accept the lowest tender.

Kim Wood
Manager Legal Services