

Audit Committee Report

2nd Meeting of the Audit Committee
June 24, 2020

PRESENT: Deputy Mayor J. Helmer (Chair), M. van Holst, J. Morgan, S. Turner, L. Higgs

ALSO PRESENT: M. Schulthess and S. Spring.

Remote Staff Attendance: L. Livingstone, A. Barbon, B. Card, I. Collins, K. den Bok (KPMG), J. Freeman, S. Oldham, J. Pryce (Deloitte), M. Redden (KPMG), A. Ruffudeen (Deloitte), C. Saunders, K. Scherr, S. Swance, and B. Westlake-Power.

The meeting is called to order at 12:00 PM; it being noted that the following were in remote attendance: Councillors M. van Holst, M. Cassidy, J. Morgan, S. Turner, and S. Hillier.

1. Disclosures of Pecuniary Interest

That it BE NOTED that no pecuniary interests were disclosed.

2. Consent

None.

3. Scheduled Items

None.

4. Items for Direction

4.1 Internal and External Audit Services - Contract Extensions

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer the following actions be taken with respect to Audit Services:

- a) pursuant to section 13.3 of the Council Procedural By-law the decision of Municipal Council from the meeting held on March 24, 2020 with respect to clause 4.9 of the 1st Report of the Audit Committee, having to do with undertaking a Request for Proposal (RFP) process for the internal audit services, BE RECONSIDERED;
- b) consistent with RFP16-36 and the terms set out in the contract with Deloitte LLP for internal audit services, the internal audit services by Deloitte LPP BE RENEWED for one (1) additional one (1) year term;
- c) approval noted in b) above, hereby BE GIVEN to extend the current contract for a one (1) year period;
- d) the Civic Administration BE DIRECTED to enter into negotiations with KPMG LLP, 1400-140 Fullarton Street, London, Ontario N6A 5P2 for external audit services to extend the existing contract for two (2) more years;
- e) the Civic Administration BE AUTHORIZED to undertake all administrative acts that are necessary in connection with contracts to implement c) and d), above; and
- f) the approval hereby given BE CONDITIONAL upon The Corporation of the City of London entering into negotiations for satisfactory prices, terms and conditions with Deloitte LLP and KPMG LLP, to the satisfaction

of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer.

Motion Passed

4.2 Internal Audit Summary Update - Dashboard - Observation Summary

That the following actions be taken with regards to the Internal Audit submission from Deloitte dated June 15, 2020:

- a) the Internal Audit Summary Update, Internal Audit Dashboard Report, the General Internal Audit Consideration in Response to COVID-19 and the Audit Observation Status Summary of High and Medium Priority Observations, BE RECEIVED; and
- b) the Civic Administration BE DIRECTED to work with Deloitte and report back at a future meeting of the Audit Committee regarding a revised Audit Plan.

Motion Passed

5. Deferred Matters/Additional Business

None.

6. Adjournment

That the meeting BE ADJOURNED.

Motion Passed

The meeting adjourned at 12:46 PM.

TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON JUNE 24, 2020
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	INTERNAL AND EXTERNAL AUDIT SERVICES CONTRACT EXTENSIONS

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer the following actions be taken with respect to Audit Services:

- a) pursuant to section 13.3 of the Council Procedural By-law the decision of Municipal Council from the meeting held on March 24, 2020 with respect to clause 4.9 of the 1st Report of the Audit Committee, having to do with undertaking a Request for Proposal (RFP) process for the internal audit services, BE RECONSIDERED;
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- e) the Civic Administration BE AUTHORIZED to undertake all administrative acts that are necessary in connection with contracts to implement c) and d), above; and
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PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Request for Proposal Internal Audit Services, March 11, 2020, meeting of Audit Committee, Item #4.9

Internal and External Audit Services, December 15, 2014, meeting of Audit Committee, Item #3

BACKGROUND

On March 11th 2020, the Civic Administration proposed that to better manage workload, that the Request for Proposals for internal audit services and external audit services be spaced out so that the City of London would not seek an internal auditor and an external auditor at the same time. To do this, the renewal option for one additional one year term for internal audit services with Deloitte would not be exercised. In not exercising the renewal option, the City would look to issue a Request for Proposal (RFP) for Internal Audit Services in 2020. An RFP for internal audit services would be issued in 2020, and an RFP for external audit services would be issued in 2021.

The Municipal Council, at the meeting held on March 24, 2020 resolved the following with respect to this matter:

“That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer the following actions be taken:

- a) the scope of work including expectations of the successful proponent, timelines, and general parameters described in this report for inclusion in the Request for Proposal (RFP) for internal audit services BE ENDORSED;
- b) the Civic Administration BE DIRECTED to proceed with the development and issuance of an RFP for internal audit services; and
- c) the striking of an Internal Audit Services Evaluation Committee BE APPROVED consisting of: Audit Committee Chair; Audit Committee Vice Chair; a representative from the City Manager’s office and from the Finance & Corporate Services area; Managing Director, Corporate Services and City Treasurer, Chief Financial Officer; with support by appropriate members of Civic Administration including Purchasing & Supply.”

The Civic Administration is requesting that the Audit Committee recommend to the Municipal Council, that the above-noted matter be reconsidered.

DISCUSSION

At this time, as the Civic Administration continues to adapt to COVID-19 and its impact on the work place. To manage workload as well as provide some certainty with respect to planned timing for both the Civic Administration and the City’s service providers given the delays experienced to date, it would be appropriate to exercise the City’s option to renew the contract with Deloitte for one additional one year term for internal audit services. This would reduce the possibility of having to “on-board” a possible new internal auditor in the Fall given possible uncertainty. Further, it would give the Civic Administration additional time to adjust to new processes and the adjusted work environment. RFP16-36 identified that the contract term for internal audit services would be for four (4) years plus an option for one (1) additional one (1) year term. Given that this option is available along with certainty in its price, given the current circumstance at this time, the Civic Administration believes it is prudent to exercise this option.

By exercising this option with Deloitte, this would mean that the RFP for internal audit services would be lined up for 2021. At that time, the City would also be required to RFP for external audit services. This, in effect, would lead to having the City issue one RFP for internal audit services at the same time as the external audit RFP. Due to workload issues that this would cause as acknowledged in a previous report, to stagger

these RFP's, the Civic Administration is recommending that the external audit contract with KPMG be extended.

Given that over the next few years, significant changes to Public Sector Accounting Standards are coming, such as Financial Instruments (PS3450)^a and Asset Retirement Obligation (PS3280)^b, best practice would indicate that consultation with the City's external auditor commence as soon as possible to ensure that the auditor review the changes to accounting policy and the transition approach prior to implementation. Given the breadth and involvement of other areas of services that would need to be consulted such as Legal Services, Facilities and Engineering to determine obligations, the planning for Asset Retirement Obligations would need to start in mid 2020, with information gathering commencing in late 2020 and processes flushed out in 2021/2022 in order to prepare for 2022 financial reporting. With these changes, it is recommended that the City look to extend KPMG's contract for two (2) years.

Under the Procurement of Goods and Services Policy, amendments to contracts are permitted under section 20.3 noting that since the total amended value of the contract will be greater than the administrative (Managing Director) approval threshold, Municipal Council approval is required. The extension to the City's external audit contract has been done previously when Contaminated Sites (PS3260)^c came into effect. To prepare for that reporting requirement, the City worked with an internal team as well as external consultants to assist in the implementation. The external auditor (KPMG) was updated throughout the process from pre-implementation all the way to post-implementation to ensure the City's efforts would meet the new accounting standards, including having the external auditor (KPMG) review the changes to the accounting policy prior to year end reporting. To meet that need, the City extended KPMG's contract, to ensure audit continuity. Once the first year of reporting on the new standard was done, the Civic Administration issued an RFP for external audit services.

Financial Impact

Funding for these annual expenditures are provided for in the 2020 to 2023 Multi-Year Budget.

SUMMARY

In the wake of COVID-19, rather than attempt an RFP for internal audit services in 2020, the Civic Administration is recommending to extend the contract with Deloitte as the City's Internal Auditor for one more year, consistent with the existing option contained in the contract, and then look to extend the current contract with KPMG, which ends after the 2020 year end audit, by two more years. This will overcome the challenge presented by the Civic Administration of having two RFPs for audit services being undertaken concurrently. Also this will better position the City for a successful

^a Financial Instruments - establishes standards on how to account for and report all types of financial instruments including derivatives. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Derivative financial instruments meet the definition of a financial instrument and, accordingly, are within the scope of this Section. (PS3450 (.001))

^b Asset Retirement Obligations - establishes standards on how to account for and report a liability for asset retirement obligations. Specifically, it:
(a) defines which activities would be included in a liability for retirement of a tangible capital asset;
(b) establishes when to recognize and how to measure a liability for an asset retirement obligation; and
(c) provides the related financial statement presentation and disclosure requirements. (PS3280 (.01))

^c Contaminated Sites - establishes standards on how to account for and report a liability associated with the remediation of contaminated sites. Specifically, it:
(a) defines which activities would be included in a liability for remediation;
(b) establishes when to recognize and how to measure a liability for remediation; and
(c) provides the related financial statement presentation and disclosure requirements. (PS3260 (.01))

implementation of upcoming Public Sector Accounting Standards that take effect in the near future, namely Financial Instruments and Asset Retirement Obligations. Upon completion of extensions, Civic Administration will bring forward an RFP for internal audit services in 2021 and an RFP for external audit services in 2023.

PREPARED BY:	RECOMMENDED BY:
IAN COLLINS, CPA, CMA DIRECTOR, FINANCIAL SERVICES	ANNA LISA BARBON, CPA, CGA MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER

cc. Lynne Livingstone – City Manager

June 15, 2020

Members of The Corporation of the City of London Audit Committee

Subject: Internal Audit Summary Update

Internal Audit has included a summary memo with our material to highlight major accomplishments since our last update to the Audit Committee and to draw your attention to the matters of greatest importance. We will cover these documents in more detail at the meeting and respond to all questions you may have.

1. Internal Audit Dashboard Report

2020 IA Plan

- a. Given the current situation the approved 2020 internal audit plan has been delayed based on the request of management given the current circumstances.
- b. Internal Audit will re-evaluate the projects and timing with management as appropriate. As a result of COVID-19, there are a number of emerging risks impacting the municipal government that should be considered by the City. The key areas that would require further discussion with management are: digital security and working remotely, cyber incident response monitoring, and processes around return to work. Additional general information published by Deloitte on the emerging risk areas for Internal Audit to consider has been included in the package for reference.
- c. Fieldwork for Service London was completed in early March. Management and Deloitte have recently discussed the draft report and management comments are being finalized.









2. Audit Observation Status Summary of High and Medium Priority Observations

- a. Since the last Audit Committee meeting, Internal Audit has not followed up with management given the current circumstances. Management follow-up will recommence as appropriate. The status as of March 2, 2020 has been included in the package for reference.

The Corporation of the City of London

January – December 2020 internal audit dashboard as at June 15, 2020

Project status – 2020 internal audit plan

2020 Audit plan project	Percent complete	Est. timeframe ¹	Project status ²	Report issued
• Service London Assessment		90% Jan – Mar	DL	
• Traffic Management Project Review	0%	Apr – Jun	DL	
• Clerks Office Assessment		5% Jun – Aug	DL	
• Fire Process Assessment	0%	July – Sept	DL	
• Class replacement Pre-implementation Project Review		90% Ongoing	DL	

OT – On track DF – Deferred DL – Delayed

Internal audit activities – March to August 2020

- There has been no significant activity since our last meeting and the delays are all due to the COVID related slowdown in work
- Service London Assessment (Reporting)

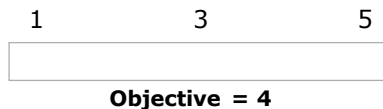
Other activities

- Prepare Audit Committee meeting materials
- Recommence observation follow-ups and validation

2020 Performance metrics

Project customer satisfaction

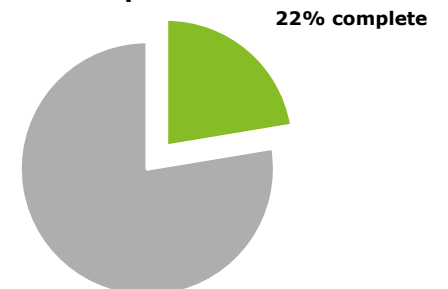
Overall quality of work/satisfaction level? (Based on completed reports surveys returned)



Internal audit 2020 reporting

	Draft (days)	Management comment (days)	Issue final (days)	Final (days)
• Objective	5.0	15.0	10.0	30.0
• Performance	N/A	N/A	N/A	N/A

% Complete of the 2020 internal audit plan



Comments

¹ Agreed timing with management to scope project and kick-off fieldwork

² Project is currently delayed due to current circumstances

It is not just Internal Audit that will be changed by the COVID-19 experience. We expect there will likely be more remote working, less travel, greater use of technology, and many other changes, depending on industry (e.g. closing physical points of sale, rethinking offshoring, pushing people to digital channels, dealing with other fundamental and permanent changes to customer behaviour, changes to regulatory approaches and people strategy to name but a few. Internal Audit needs to consider these and the impact on their future focus within organizations.



Emerging risk areas for Internal Audit to consider

Risk Area	Areas to consider
User Access Controls	<p>Due to flexible working arrangements and individuals requiring greater access to systems to help cover for people who are off, user access controls may be compromised and conflicts of interest may arise.</p> <p>IA considerations could include:</p> <ul style="list-style-type: none"> • Monitoring controls in place – whilst it may be necessary to remove segregation of duties rules in place, it is critical for organizations to maintain an audit trail that can be referred to at a later date. • The detection of fraud risks and management overrides.
Finance	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Understanding working capital requirements against scenario planning assumptions and assessing cash flow forecasts. • Has the organization done all it can to access government provided fiscal support and does it understand the longer term implications of that support (for example repayment of loans)? • Challenging the completeness of management’s accounting and reporting impact analysis, particularly in the context of finalizing December 2019 year-end financial statements and forthcoming quarterly reporting deadlines.
Internal Controls	<p>IA should understand the changes, both temporary and permanent, being made to the organization’s internal control environment, with a specific focus on the following:</p> <ul style="list-style-type: none"> • Management review controls; • Accounting judgment controls (bad debt provision, inventory provision, impairment of goodwill and intangible assets, fair value of financial and non-financial assets); • Associate or joint venture accounting controls; • Transaction processing controls; • Cash payments controls; • Automated business controls; • Outsource service providers; • Insider Trading concerns; • Key person dependency/Super User access; and • Resilience and remote working.
Cyber	<p>As the number of remote working environments and the use of third-party software to improve the effectiveness of remote working increases, individuals may inadvertently compromise business security. Internal Audit considerations could include:</p>

Risk Area	Areas to consider
	<ul style="list-style-type: none"> • Are remote access controls built to scale? • How are organizations raising awareness and bolstering threat detection and response to promote proactive identification of malicious activity? • How are organisations tracking third party security plans to prioritise access availability of services? • Are hand-held devices being used more as people work remotely and, if so, are they secure and controlled? • Does the organization have sufficient and appropriate licenses in place to cover greater use of tools, technology, and software to support remote working? • How is the organization monitoring malicious or inadvertent insider threat risk caused by disgruntled or displaced employees and contractors? • How is the organization monitoring the increased use of collaboration tools and other, often unapproved and unmanaged, SaaS applications (Shadow IT)?
Insurance	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • As kitchens and bedrooms become more permanent home offices, are there increased exposures in insurance liabilities? • Are health and safety regulations still being complied with?
Risk Management	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Does the organization have on-going processes in place to continue to meet all of its regulatory responsibilities? • Does the risk assessment process need to become more agile and adopt more dynamic risk assessment methodologies?
Business Continuity	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Helping organizations understand any single points of failure e.g. processes, employees and technologies. • Developing and/or testing appropriate scenarios, plans or measures, including war-gaming, to restore business operations (disaster recovery plans). • Validating and challenging key MI used by management to make decisions on mission-critical activity and challenging and benchmarking management's assumptions regarding the nature, extent, and duration of the situation; • Challenging management's forecasts of business impact (e.g. going concern, pension scheme accounting, goodwill and intangibles, expected credit losses) noting that Q1 reporting deadlines are approaching and that many organizations have made public promises regarding customer concessions – are these being delivered and is the financial impact estimated appropriately? • Considering management's assessment, monitoring, and contingency plans of key outsource service providers.
Supply Chain	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Assessing whether sufficient resources, including third parties, are in place to maintain critical activities at sufficient levels. • Determining how organizations understand and prepare for changes in demand and balancing the availability of both stock and resources accordingly. • How best to provide assurance over joint ventures, whose owners may have different priorities.

Risk Area	Areas to consider
Customers	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Has the organization adopted a clear communication plan for its customers, including those customers who are particularly vulnerable?
Contracts	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • Has the organization identified, or does IA have access to assist in identifying, key contractual clauses which may offer relief during this time, such as: <ul style="list-style-type: none"> ○ Force Majeure; ○ Notice Provisions; ○ Disaster Recovery and Business Continuity Provisions; ○ Limitation of Liability; ○ Liquidated Damages; ○ Governing Law and Jurisdiction; ○ Supplier/Subcontractor location and supply chain path; ○ Termination Rights; ○ Insurance; and ○ Other applicable clauses.
Human Capital	<p>IA considerations could include:</p> <ul style="list-style-type: none"> • The adequacy of plans being put in place by organizations to maintain the health and well-being of their workforce, including the implications for impact on mental health of remote working. • Ensuring that any 'work arounds' used during lockdown period are regularized and appropriately controlled. • Is there guidance available and complied with on the appropriate use of social media in this crisis period? • Has the impact been considered on business as usual HR processes such as annual performance assessments potentially being suspended?



**City of London Audit Committee Observation Summary
As at March 2, 2020**

LEGEND	
Observations closed	All observations have been addressed by management
Remediation in progress	Observations in progress are being addressed by management including observations where initial timeline was missed but a plan is in place for remediation that appears acceptable
Remediation in progress - exceptions noted	Management has missed implementation deadlines for observations and no adequate resource plan has been identified
Management accepts the risk	Management has accepted the remaining risk

Report Summary				Observation Status for Management Action Plans due March 2, 2020.					
Internal Audit Plan Year	Report	Report Issue Date	Total High & Medium Observations	Observations Closed Per Management	Closed Per Internal Audit	In Progress Observations (Not Due)	Past Due Observations	Observations Closed by IA Since November 2019 update	Timing
2017/2018	Building Permit Process Assessment	Jan-18	3	3	3	0	0	1	Complete
2017/2018	Parking Revenue Generation Assessment	Jun-18	5	4	4	1	0	2	Jun-20
2017/2018	Homeless Prevention Assessment	Oct-18	4	2	2	2	0	1	Jun-20
2017/2018	Health and Safety Assessment	Mar-19	3	3	3	0	0	2	Complete
2017/2018	Housing Process Assessment	Mar-19	5	5	5	0	0	4	Complete
2017/2018	IT Portfolio Management and Project Management Assessment	Mar-19	4	3	3	1	0	0	Apr-20
2017/2018	Class Replacement Pre-implementation Project Review (Progress Memo)	Jun-19	2	1	1	1	0	0	Apr-20
2017/2018	Construction Procurement Process Assessment	Aug-19	8	8	8	0	0	8	Complete
Sub-total 2017/2018 reports			34	29	29	5	0	18	
2019	IT Security Assessment	Nov-19	1	0	0	1	0	0	Sep-20
2019	Electronic Fund Transfer Assessment	Feb-20	1	0	0	1	0	0	May-20
2019	Computerized Maintenance Management System (CMMS) Review	Feb-20	9	0	0	9	0	0	May-20
2019	Dearness Home Process Assessment	Feb-20	4	0	0	4	0	0	Mar-21
Sub-total 2019 reports			15	0	0	15	0	0	
Total High and Medium observations			49	29	29	20	0	18	

Closed per Management: Management has indicated that action plans due to be acted upon by March 2, 2020 are complete.

Closed per IA: Internal Audit has validated Management's assertions of observation closure through review of evidence.

In Progress Observations: Management action plans due beyond March 2, 2020 are underway or management has asserted observations are closed but Internal Audit has not yet validated.

Past Due Observations: Actions plans due by March 2, 2020 have not been fully acted upon.

Observations Closed by Internal Audit since last update: Management has indicated in the current period that action plans are complete and Internal Audit has validated through review of evidence.