

<b>TO:</b>	<b>CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON SEPTEMBER 25, 2014</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT</b>	<b>RFP PROCESS INTERNAL AND EXTERNAL AUDIT SERVICES</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following report **BE RECEIVED** for information with respect to a future RFP Process for Internal Audit Services; and

This report be brought forward to the new Audit Committee under the next term of Council for direction on the process it wishes to undertake for both future external and internal audit services.

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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Audit Committee – November 15, 2010 – RFP 10-24 Internal Audit Services Appointment

Audit Committee – June 27, 2013 – RFP 10-24 Internal Audit Services Extension

Audit Committee – June 25, 2014 – RFP 10-24 Internal Audit Services Extension

<b>BACKGROUND</b>
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In late 2010, Council appointed KPMG to provide external audit services for a five year period and appointed PwC to provide outsourced internal audit services for a three year period plus two one year options, which have been exercised. In 2015, Council will need to appoint an auditor.

Section 296 (1) of the Municipal Act, 2001 indicates: A municipality shall appoint an auditor licensed under the *Public Accounting Act, 2004* who is responsible for:

- a) Annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit;

Section 296 (3) indicates that the appointment shall not be for a term exceeding five years.

This requires Council to appoint an auditor for the external audit work every five years, however it is not specific to internal audit appointments. Each of the agreements with PwC and KPMG will expire at the end of 2015.

Previous appointments have been recommended based upon a Request for Proposal (RFP) process, although that is at the discretion of Council.

At the June 25, 2014 Audit Committee meeting, a resolution was passed requesting that:

“the Civic Administration BE DIRECTED to bring forward, for consideration at a future meeting of the Audit Committee, prior to the end of the current term of Council, a recommended Request for Proposal process for Internal Audit Services that would then be forwarded to the next term of Council for consideration.”

As part of the City’s efforts to promote greater independence, openness, transparency and accountability of the audit function; Council authorized the outsourcing of internal audit on April 19, 2010. An RFP was put together by the former Internal Audit Division requesting services that included the following:

- a) Examine and report on the adequacy and effectiveness of internal controls and recommend ways for their improvement;
- b) Examine the adequacy and effectiveness of the quality of performance in carrying out the assigned responsibilities and recommend ways for their improvement;
- c) Appraise the relevance, reliability and integrity of management, financial and operating data and reports;
- d) Review the systems established to ensure compliance with those policies, plans, procedures, statutory requirements and regulations which could have a significant impact on operations;
- e) Review the means of safeguarding assets and verifying the existence of these assets;
- f) Undertake the performance of value for money audits in order to appraise the economy, efficiency and effectiveness with which resources are employed;
- g) Review the operations or programs to ascertain whether they are consistent with the established objectives and goals and whether the operations or programs are being carried out as planned;
- h) Assess the adequacy of established systems and procedures;
- i) Review the planning, design and development, implementation and operation of major computer based systems to determine whether:
  - i. Adequate controls are incorporated in the system;
  - ii. A thorough system testing is performed at appropriate stages;
  - iii. System documentation is complete and accurate;
  - iv. The needs of the users are met.
- j) Conduct special assignments and investigations (including fraud) on behalf of the Audit Committee into any matter or activity affecting the probity, interests and operating efficiency of the City;
- k) Attend all audit meetings and as required at the request of the Audit Committee and periodic dialogue throughout the year as well as Council and other Committee meetings as required.

Below was the original schedule for the RFP process issued in 2010. Due to a new Council in December of 2010, there were some delays in the final Council appointment.

RFP Issue Date	Friday, July 23, 2010
Interviews With Short listed Firms	Friday, August 13, 2010
RFP Closing Date	Friday, September 10, 2010
Interviews With Short listed Firms	Starting week of October 5, 2010
Recommendation to Audit Committee	Monday, October 29, 2010
Council Appointment	Monday, November 15, 2010

### Recommended Process

- a) Proposals will be evaluated by the Audit Services Selection Committee, based on specific criteria. This Committee will consist of the Audit Committee Chair, one other Audit Committee member, a representative from both the City Manager's Office and Finance Service Area and will be supported by appropriate members of Civic Administration including Purchasing and Supply.
- b) The Audit Services Selection Committee will recommend the short list of respondents to the Audit Committee.
- c) The Audit Committee will interview the short listed respondents and recommend their selections to Council.

## **EVALUATION CRITERIA**

### **Evaluation Process**

The Audit Services Selection Committee will review all proposal submissions and will consider overall completeness and suitability of the responses. All responses will be evaluated against the pre-determined evaluation criteria. A short list will be recommended to the Audit Committee for interview and selection.

### **Evaluation Criteria**

The evaluation criteria may include but not be limited to the following:

- a) Mandatory Requirements
- b) Deliverables/Expectations of the Successful Proponent
- c) Audit Firm Technical Requirements
- d) Audit Personnel Technical Requirements
- e) Advisory Services and Publications
- f) Audit Fee including the Staffing Strategy
- g) Additional Requirements
- h) Presentation and Compliance with the RFP

### **Selection Process**

The interview will consist of a brief presentation by the Proponent (no more than thirty minutes) and then a question and answer period with the representatives of the City.

The interview/presentations shall be evaluated by the Audit Committee based on the following criteria:

- a) Presentation;
- b) Responses to questions; and
- c) Overall completeness and suitability to undertake this project.

Once the interview/presentations are complete the Audit Committee shall prepare a report to Council recommending the chosen Proponent. Council makes the final decision on the appointment of an audit firm.

### **Conclusion**

The Audit Committee and Council should consider a process similar to the process outlined above for internal audit services, including audit of the Boards and Commissions. They should consider a similar time frame to the one used in 2010 and that Council consider specifying the amount of work that can be completed within the annual \$300,000 budget as one of the criteria for the annual audit plan.

<b>SUBMITTED BY:</b>	<b>RECOMMENDED BY:</b>
<b>MIKE TURNER DEPUTY CITY TREASURER</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>