

TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON DECEMBER 15, 2014
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	INTERNAL AND EXTERNAL AUDIT SERVICES

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) That approval hereby **BE GIVEN** to extend the current contract for a one (1) year period and enter into negotiations with KPMG LLP, 1400-140 Fullarton Street, London, Ontario N6A 5P2 for External Audit Services;
- b) That approval hereby **BE GIVEN** to extend the current contract for a one (1) year period and enter into negotiations with PricewaterhouseCoopers (PwC) LLP, 465 Richmond Street, Suite 300, London, Ontario N6A 5P4 for Internal Audit Services;
- c) That the Civic Administration **BE AUTHORIZED** to undertake all administrative acts that are necessary in connection with these contracts;
- d) That approval hereby given **BE CONDITIONAL** upon the Corporation entering into negotiations for satisfactory prices, terms and conditions with KPMG LLP and PricewaterhouseCoopers (PwC) LLP, to the satisfaction of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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RFP Process - Internal and External Audit Services – (September 25, 2014 meeting of Audit Committee)
<http://sire.london.ca/agdocs.aspx?doctype=minutes&itemid=29029>

RFP 10-24 Internal Audit Services Extension – (June 25, 2014 meeting of Audit Committee)
<http://sire.london.ca/agdocs.aspx?doctype=minutes&itemid=27422>

RFP 10-24 Internal Audit Services Extension – (June 27, 2013 meeting of Audit Committee)
<http://sire.london.ca/agdocs.aspx?doctype=minutes&itemid=20606>

RFP 10-24 internal Audit Services Appointment – (November 15, 2010 meeting of Audit Committee)

Extension of External Audit Contract – (March 11, 2009 meeting of Audit Committee)

BACKGROUND

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

“the Civic Administration BE DIRECTED to bring forward the staff report, to the 2014 to 2018 Audit Committee for further consideration of processes it would recommend to Municipal Council to be undertaken to retain future external and internal audit services.”

This report is a continuation of the matters discussed at the September 25, 2014 meeting.

External Audit Services

KPMG LLP has been the external auditor for the City and its Boards and Commissions since 1999. Their current contract, awarded under the Request for Proposal (RFP) process in 2010, will end in 2015, following the completion of the 2014 Financial Statement audit. The Corporation would normally plan to commence a Request for Proposal process for the next five year term in the summer of 2015 but due to ongoing work with KPMG, staff are requesting a one year extension.

From time to time, the Public Sector Accounting Board issues new accounting standards that must be implemented in upcoming year-ends. Effective for the 2015 year end, PS3260 – Contaminated Sites must be implemented, with retroactive restatement of the 2014 comparative figures. This new accounting standard requires public sector organizations to report on liabilities at contaminated sites it owns or has assumed responsibility to remediate. Even if there is no site contamination, this fact must be proven and substantiated to external auditors.

Implementation of this new accounting standard is already underway. Finance is the project lead and is working closely with Engineering and an interdepartmental team to facilitate the audit evidence that will be required to support the entry on the 2015 Financial Statements. KPMG has been working closely with staff on the project plan, definitions and project steps and will be reviewing staff's progress in late 2014 and early 2015.

In order to provide continuity of external audit services, staff are requesting a one year extension of KPMG's contract for external audit services. This would be beneficial from both a planning and audit perspective. A one year extension would allow KPMG to complete the initial audit of PS3260 for the 2015 year end.

After the one year extension, staff recommend that the Request for Proposal process be undertaken, in the summer of 2016, for external audit services for the next five year term.

Internal Audit Services

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 in 2010. Internal audit services include reviews and audits of a financial, compliance, value for money, operational and performance nature. In addition, the firm providing internal audit services may provide business advisory services such as efficiency and effectiveness reviews, benchmarking, continuous improvement and best practices reviews.

As a result, in 2010, RFPs were issued for both External and Internal Audit Services. Firms were given the opportunity to bid on the RFPs issued for both, however, no firm was allowed to provide both services as this would be a conflict of interest.

Staff recommend the continuation of the practice of engaging both an external and internal audit firm for these two distinct services. In order to allow all firms the opportunity to bid on both services, it is recommended by staff that a one year extension be granted to PwC as well so that the terms of both firm's contracts will expire together in 2016.

After the one year extension, staff recommend that the Request for Proposal process be undertaken, in the summer of 2016, for internal audit services in conjunction with the external audit services RFP, for the next five year term.

Financial Impact

Funding for these annual expenditures are provided in the 2014 Approved Operating Budget and are proposed in the 2015 Operating Budget. The Audit Committee and Council should specify the amount of work to be completed within the annual \$300,000 budget for internal audit services as one of the criteria for the annual audit plan.

PREPARED AND SUBMITTED BY:	RECOMMENDED BY:
SHARON SWANCE MANAGER, ACCOUNTING	MARTIN HAYWARD, MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER