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| <b>TO:</b>      | <b>CHAIR AND MEMBERS<br/>AUDIT COMMITTEE<br/>MEETING ON APRIL 13, 2016</b> |
| <b>FROM:</b>    | <b>ANNA LISA BARBON<br/>DEPUTY CITY TREASURER</b>                          |
| <b>SUBJECT:</b> | <b>RFP PROCESS FOR INTERNAL AND EXTERNAL AUDIT SERVICES</b>                |

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| <b>RECOMMENDATION</b> |
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That, on the recommendation of the Deputy City Treasurer, the following report BE RECEIVED for information.

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| <b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b> |
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RFP for External Audit Services, Audit Committee, May 19, 2010  
Request for Proposal 10-18 External Audit Services, Audit Committee, July 21, 2010  
Request for Proposal 10-18 External Audit Services, Audit Committee, Sept 29, 2010  
RFP 10-18 External Audit Contract, Audit Committee, October 27, 2010  
RFP 10-24 Internal Audit Services Appointment, Audit Committee, November 15, 2010  
RFP 10-24 Internal Audit Services Extension, Audit Committee, June 27, 2013  
RFP 10-24 Internal Audit Services Extension, Audit Committee, June 25, 2014  
RFP Process Internal and External Audit Services, Audit Committee, Sept 25, 2014

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| <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. Each of the agreements with PwC and KPMG will expire at the end of 2015.

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

At the February 23, 2016 Audit committee meeting, a resolution was passed requesting that:

“the Civic Administration BE DIRECTED to continue to develop a process for the outsourced internal audit RFP, and report back to the Audit Committee at the meeting to be held on April 13, 2016 with respect to this matter.”

This report outlines the process for consideration for the issuance of a Request for Proposal (RFP) for internal audit services as well as external audit services. As the two RFPs will be of interest to the same accounting firms and it is not possible for a firm to provide both services to the City, the issuance of the two RFPs will be coordinated to provide the firms with the opportunity to determine which RFP to bid on. The objective is to have the Audit Committee and Council concurrently appoint both the external audit firm and the outsourced internal audit firm.

### **RFP for External Audit Services Process**

Finance is preparing a Request for Proposal (RFP) to retain a firm to provide External Audit Services for the City of London including audit of the Boards and Commissions. The External Auditors are appointed in accordance with the *Municipal Act, 2001*. They provide specific reports to the Audit Committee of Council through the Administration. Administration has the authority to address audit-related issues. The External Auditors are required to report to the governing bodies of local Boards and Commissions where separate audited financial statements are issued.

Also included in the scope of the external audit services are related examinations required in order to produce the Accountant's Report for the Ministry of Municipal Affairs, as well as reports on trust funds, Dearness Services Long-Term Care Overall Reconciliation and the Dearness Day Program Annual Reconciliation Report, along with various Provincially or Federally funded programs.

The contract to provide this service would be for five years.

The estimated timelines for the RFP process will be established to mirror the timeline used for the RFP for Internal Audit Services which is discussed later in this report.

It is recommended that for the RFP for external audit services, a short list of eligible firms will be determined by an Evaluation Team. This Team will consist of Finance staff from the Corporation and some of the Boards and Commissions and will recommend a short list of firms to an External Audit Services Selection Committee for interview and evaluation. The External Audit Services Selection Committee will consist of two representatives from the Audit Committee in addition to the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer and Director, Financial Services. The External Audit Services Selection Committee will interview the short listed respondents and recommend their selection for the appointment of an audit firm to Audit Committee.

### **RFP for Internal Audit Services Process**

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. Finance is preparing a Request for Proposal (RFP) to retain a firm to provide Internal Audit Services for the City of London. The scope of the work for the internal audit provider shall extend to all aspects of the operations of the City of London, and by request, to the Boards, commissions or other entities that are accountable to City Council and/or are controlled by the City of London. The duties may also include the performance of such other assignments as the Audit Committee may from time to time authorize.

### **Budget, Contract Term and Timelines**

Approximately \$309,000 was approved for the 2017 operating budget for internal audit services as part of the 2016-2019 Multi-Year Budget.

A timeline has been prepared for the RFP process for the Audit Committee and Council to be able to approve the successful bidders in late October of 2016 and is attached as Appendix "A".

The contract term to provide this service would be for five years. The 5 year term was selected as it coincides with the term of the external audit and is within the next Council's term as well as the next multi-year budget.

### **Scope of Work**

The successful bidder will be requested to provide a 5 year risk-based audit plan, to be updated annually, with input from the Audit Committee and Administration that will ultimately be approved by the Audit Committee and Council.

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.

The services to be included in the RFP will be based on the audit services identified above.

Audit Committee may wish to consider specifying the amount of work that can be completed within the annual \$309,000 budget as one of the criteria for the annual audit plan.

### **Recommended Process**

- a) Proposals will be evaluated by the Audit Services Selection Committee, based on specific criteria. The Audit Services Selection 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 the proposed process outlined above for the concurrent issuance of the external audit services and internal audit services including audit of the Boards and Commissions. The time frame is similar to the one utilized in 2010, however, provides for an earlier RFP Issue that will assist in avoiding the challenges of the summer months and allows more time for evaluation of the submissions. Council should consider specifying the amount of work that can be completed within the annual budget as one of the criteria for the annual audit plan.

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| <b>RECOMMENDED BY:</b>                            | <b>REVIEWED &amp; CONCURRED BY:</b> |
| <br><br><br><br>                                  | <br><br><br><br>                    |
| <b>ANNA LISA BARBON<br/>DEPUTY CITY TREASURER</b> | <b>ART ZUIDEMA<br/>CITY MANAGER</b> |

Attachments:

## Appendix "A" – RFP Process Timeline