

TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON MAY 30, 2016
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	INTERNAL AUDIT SERVICES

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer:

- a) The current model of outsourced internal audit **BE CONTINUED**; and
- b) Civic Administration **BE DIRECTED** to develop a Request for Proposal for Internal Audit Services for approval at the June 13, 2016 meeting of the Audit Committee, it being noted that Audit Committee can request amendments or additional requirements be added to the original RFP document issued in 2010.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Auditor General vs Outsourced Internal Auditor, Audit Committee, November 15, 2010
RFP Process Internal and External Audit Services, Audit Committee, Sept 25, 2014
RFP Process for Internal and External Audit Services, Audit Committee, April 13, 2016

EXECUTIVE SUMMARY

This report provides information related to the history and results of internal audit services at the City of London. The highlights of the report as summarized below:

- The City of London moved to an outsourced internal audit model starting in 2011 reducing the City's budget requirement to \$300,000 from approximately \$600,000 in 2010.
- A number of other considerations were discussed at this time, including the potential of adopting an Auditor General model. This report (including Appendix "B") discusses the differences between an Auditor General model and internal audit model as well as the experiences in other municipalities.
- The history of the outsourced internal audit results are provided. The Audit Committee has received regular updated risk assessments from the internal auditors. Risk based internal audit plans have been reviewed and approved annually by the Audit Committee. Audit reports have been reviewed and discussed at the Audit Committees and are available on the City's website.
- A total of approximately \$5.2 million of cost avoidance, cost savings and/or new revenues have been incorporated in the 2016-2019 approved multi-year budget as a result of the value-for-money audits.
- Staff are recommending that the City continue the outsourced internal audit model and that an RFP be issued.

BACKGROUND

Municipal Council, at its meeting held on April 19, 2016 resolved that the following actions be taken with respect to the Internal and External Audit Service RFP process:

- a) *“on the recommendation of the Deputy City Treasurer, the staff report dated April 13, 2016 regarding the RFP process for internal and external audit services BE RECEIVED;*
- b) *an additional meeting of the Audit Committee BE SCHEDULED for a time in advance of the May 31, 2016 Municipal Council meeting;*
- c) *the Civic Administration BE DIRECTED to provide a report at the above-noted additional Audit Committee meeting with respect to the efficacy and realized results of the current out-sourced Internal Audit contract; and,*
- d) *a further additional meeting of the Audit Committee BE SCHEDULED for a time in advance of the June 14, 2016 Municipal Council meeting.”*

HISTORY OF INTERNAL AUDIT AND THE DECISION TO GO EXTERNAL

Internal auditing is defined by the Institute of Internal Auditors (IIA) as follows:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Internal audit services were historically provided internally through the Management Support and Audit Services Division. In 2009, several reports were provided to the Audit Committee and in conjunction with members of the Services Review committee, recommending strategies to strengthen the internal audit approach with a move towards implementing a balance between risk-based and value-for-money audit practices. On October 5, 2009 Council approved an updated Audit Mandate that would strengthen the internal audit function.

On April 19, 2010, City Council authorized the creation of two new business units; namely a Business Planning unit and an Assets Management unit. To support these two new units, Council authorized the **outsourcing** of the internal audit function and the reassignment of the internal audit staff to one of the new business units. An information report was provided to Audit Committee on May 19, 2010 outlining the process and timelines for transition as well as the Request for Proposal (RFP) to outsource internal audit. The Audit Committee, at its meeting on July 21, 2010, established a budget of \$300,000 for the outsourcing of internal audit services and approved a RFP for Internal Audit Services to be issued July 28, 2010. The budget approved at \$300,000 was a significant reduction from the approximately \$600,000 budget for the Management Support and Audit Services Division.

Auditor General Versus Internal Auditor

The *Municipal Act, 2001* section 223.19 allows the municipality to “appoint an Auditor General who reports to Council and is responsible for assisting Council in holding itself and its administrators accountable for the quality of stewardship over public funds for achievement of value for money in municipal operations.”

On November 15, the Audit Committee was provided with the report attached as **Appendix “A”** that provided information on the similarities and differences between an Auditor General and an outsourced Internal Auditor. The City of London elected not to proceed with establishing an Auditor General. The outsourced internal audit model was selected by Council over the Auditor General model on the basis of factors surrounding: accountability, independence, public reporting of audit reports and ability for cost containment.

It is important to clearly identify what problem or issue an Auditor General is intended to solve or address. Although the Act provides an Auditor General with additional tools to complete their assignments, internal auditors are able to conduct most, if not all, of the same work as an Auditor General under the general powers granted to municipalities by the *Municipal Act, 2001*.

The Table below summarizes the internal audit models that can be utilized in comparison to the Auditor General and the various significant factors that may impact Council's choice of model.

	Internal Internal Audit	External Internal Audit (Existing Model)	Auditor General
Perceived Independence	Medium	High	High
Degree of Control by Council	Medium	High	Low
Degree of Control by Administration	High	Low	Low
Cost	Medium	Low	High
Powers of Examination	Medium	Medium	High
Authority	High	High	High

Note: This chart was developed by Finance based on a review of various audit options.

Internal auditing has traditionally focused mainly on the control environment and compliance reviews. The Auditor General principally does value for money auditing but also undertakes compliance or financial control reviews. Internal auditors, however, are not precluded from carrying out value for money audits which examine activities for effectiveness and efficiency.

History of Auditor General Model in Ontario

Section 223.19 of the *Municipal Act, 2001* authorizes (but does not mandate) a municipality to appoint an Auditor General. Sections 223.20 to 223.23 govern the responsibilities, powers and duties of the Auditor General. Among these are the legislated guarantee of independence, free access to all financial and other records of the municipality and the power to examine individuals under oath. The Act provides for the following powers vested in the Auditor General position:

- The application of the Public Inquiries Act (power to summon a witness) to any examination (223.21);
- The protection with respect to confidentiality (223.22);
- The protection with respect to a civil proceeding (223.23); and
- The guarantee of no waiver of solicitor-client privilege, litigation privilege or settlement privilege when disclosure is made (223.30).

The *Municipal Act, 2001* does not require the appointment of an Auditor General. However, if an Auditor General is appointed, then all the relevant sections of the *Municipal Act, 2001* apply and must be observed. While the role is optional for all municipalities governed by the *Municipal Act, 2001*, the *City of Toronto Act, 2006* makes the role mandatory for that municipality.

While External and Internal Auditors have no legislated powers, privileges or immunity, the *Municipal Act, 2001* confers upon Auditor Generals certain powers, privileges and immunity and imposes certain obligations on audited entities. Research indicates that to date, the subpoena powers have not been used in the cities that have or have had an Auditor General. The main difference between the Internal Audit and the Auditor General models is the additional legislated powers granted to the Auditor General. This naturally comes with a cost and therefore, the potential benefits of this added power should be measured carefully against its cost and the actual benefits to be gained. Therefore, should an Auditor General model be considered, Council should clearly understand what objective it is trying to achieve so that the expected benefit can be measured.

Of Ontario's 444 municipalities, only 4 currently have an appointed Auditor General including Toronto which is legislatively mandated. They include Toronto, Ottawa, Markham and Sudbury. Oshawa and Windsor have previous experience with Auditor General models. The Table below provides a summary of the municipalities in Ontario that have or have had an Auditor General and the audit budget including the comparative information for the City of London.

Municipality	Population ¹	Auditor General 2015 Budget \$000's	Internal Audit 2015 Budget \$000's
Toronto	2,615,060	\$4,716	\$1,134
Ottawa	883,391	\$1,751	\$0
Markham ²	301,709	\$219	\$0
Sudbury	160,274	\$350	\$0
Oshawa ²	149,607	\$0	\$0
Windsor ³	210,891	\$0	\$300
London	366,150	\$0	\$300

Notes:

¹ Based on 2011 Census

² Lower-Tier municipalities within their respective regional municipalities.

³ Windsor had an Auditor General budget of \$573,272 in 2012 when it discontinued operations.

Appendix "B" attached describes background information on how each of these municipalities utilize and have organized their Auditor General function. It also includes information on the experience of Oshawa and Windsor with the Auditor General Model. It should be noted that Oshawa's experience with an auditor general was unique in that a controversial audit report resulted in physical altercations in Oshawa Council Chambers.

In addition, Bill 8, the *Public Sector & MPP Accountability & Transparency Act, 2014* which came into force and effect January 1, 2016 expanded the function of the Ontario Ombudsman to cover municipalities and local boards. Given that the Ombudsman's power to investigate is discretionary, it is not known at this time the extent to which the Ontario Ombudsman will investigate matters that have been reviewed by a municipal Integrity Commissioner, Ombudsman or Auditor General.

2010 CITY OF LONDON REQUEST FOR PROPOSAL - INTERNAL AUDIT SERVICES

On July 21, 2010, the Audit Committee established the budget for the outsourcing of internal audit services and approved the RFP 10-24 for Internal Audit Services to be issued July 28, 2010. **Appendix "C"** attached shows the approved Request for Proposal 10-24 Internal Audit Services that was issued. The firm of PricewaterhouseCoopers LLP (PwC) was appointed by Council on December 20, 2010.

The scope of work included in the RFP was written to include the **maximum scope of work and deliverables** possible for the internal audit function. Maximum scope is important to ensure that all requirements in the future could be delivered on by the successful Proponent as required during a given year as authorized by the Audit Committee.

The scope of the work for the internal audit provider was extended 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.

The audits would allow the outsourced firm to provide assurance to the City of London regarding the efficiency, effectiveness and reliability of risk management activities, control systems and governance processes including internal and external reporting. This work would also involve ensuring compliance with laws, legislation, regulations and internal policies and by-laws.

The RFP requested that the successful Proponent would provide a three (3) year risk-based audit plan. The development of the annual risk profile for the City of London as a specific deliverable was used to prioritize the areas of audit to be completed within the City of London. The risk-based audit plan, to be updated and revised annually with input from the Audit Committee and Administration, will be approved by the Audit Committee and Council.

Full and timely audit reports with issues, observations, recommendations and management responses will be provided to the Audit Committee and all final public audit reports will be published on the City's website subject to any MFIPPA, privacy or confidentiality issues.

Based on the maximum scope and deliverables outlined in the RFP, an annual workplan would be developed with specific work approved by year. The scope and deliverables approved each year as the annual audit plan become the basis for the annual work engagement with PwC. The term of the contract in the RFP was subject to the performance of the audit firm and whether the City chooses at some time to operate the business differently including operating the business under the Auditor General model.

Success factors

As outlined in the RFP for Internal Audit Services, during the term of the engagement, the internal auditor's performance will be evaluated based on the following criteria:

- i) **Persons assigned to the audit:**
For the initial year of the engagement, the persons assigned to the audit should be those originally proposed; and any subsequent changes to audit personnel must be acceptable to the Audit Committee.
- ii) **Performance in the manner proposed:**
It is expected that the audit will be carried out in the manner proposed. Any changes in the internal audit activities, including the audit plan and the audit methodology shall be discussed with and agreed to by the Audit Committee
- iii) **Adherence to Audit Deadlines:**
It is expected that the audit will be completed within the time frames agreed to once the three (3) year rolling audit plan has been determined.

The evaluation of the internal auditor's performance would be completed by the Audit Committee based on the persons assigned to the audit, quality of the reporting to Audit Committee, annual audit work plan proposed and the completion of the audits within the time frames agreed to.

Audit Committee Mandate

The Audit Committee continued to oversee all audit matters, including evaluation of internal and external services to ensure effective, independent, yet complementary audit services are received. The outsourced internal auditor reports functionally to the Audit Committee. As a result of the change to an outsourced internal auditor, the Audit Committee's Terms of Reference were updated on March 30, 2011 to reflect this new responsibility and includes:

- To oversee all audit matters, including evaluation of internal and external services to ensure effective, independent, yet complementary audit services are received;
- To annually review and approve the work plan from the outsourced internal auditor, including providing input for the risk-based audit plan;
- Authorize assignments (internal and/or external) as may be determined necessary from time-to-time;
- To receive reports of the external and internal auditors, including the interim and annual summary reports of findings from the auditors; and
- To receive the functional reporting of the outsourced internal auditor.

2011 RISK ASSESSMENT

Based on the evaluation of the level of risk within the City of London, the comprehensive audit plan for the year aligned with the City's strategic initiatives was proposed by PwC. As part of the 3 year risk-based internal audit plan, potential value-for-money opportunities were also identified. Each Department of the City as well as the components within the Department were assessed and colour coded as:

- Higher Risk
- Moderate Risk
- Low Risk

Appendix "D" attached entitled Proposed Risk Assessment and 3 Year Risk-Based Audit Plan presented on March 31, 2011, shows the initial risk assessment summary and proposed 2011-2013 internal audit work plan that was presented to the Audit Committee for approval.

PwC noted that each individual audit project identified will be performed in a risk-based, targeted manner in which key controls and functions will be prioritized. The risk-assessment completed by PwC was important to narrow the scope of the work to the higher-risk areas.

ANNUAL AUDIT PLAN APPROVAL AND RISK ASSESSMENT UPDATE

The initial proposed risk assessment and 3 year risk based audit plan was presented by PwC on March 31, 2011. This risk assessment was regularly reviewed and updated. These updates were also reviewed and approved by Audit Committee on the following dates:

- January 31, 2013
- December 5, 2013
- December 15, 2014
- January 13, 2016

The most recent audit plan presented to and approved by the Audit Committee on January 13, 2016 is included as **Appendix “E”** attached entitled Proposed Risk Assessment and 2016 Performance-Based Audit Plan.

The regular updates of the City’s risk assessment allows the Audit Committee to provide annual approval of the specific projects that are expected to be completed by PwC on an annual basis. This approval of the annual plan also serves to set the expectations of the internal auditor’s performance as set out in Section 3.5 of the RFP.

QUARTERLY REPORTS AND UPDATES

Quarterly Reports showing the Internal Audit Results were provided to the Audit Committee by PwC on the following dates:

- September 29, 2011
- January 31, 2013 (included 2011 & 2012 Internal Audit Results Summary)
- June 23, 2015 (also included an Internal Audit Scorecard and Status of Past Project Action Plans)

A list of all public reports with their respective link to each individual internal audit report and update completed by PwC is also available on the City of London’s website. They can be accessed at the following link:

<http://www.london.ca/city-hall/committees/task-forces/Pages/Audit-Committee.aspx>

In addition, a summary of all the reports completed since the start of the internal audit contract was requested by the Audit Committee in January 2016. The summary report prepared by PwC on February 23, 2016 listing all internal audit projects completed since their contract began in 2011 is attached as **Appendix “F”**. A number of value for money opportunities were identified by PwC during the completion of the internal audit projects. This report also summarizes the total value for money opportunities that were identified by PwC.

During the internal audit projects completed from 2011-2015, a total of 328 findings were reported by PwC with a total estimated cost savings/avoidance or additional revenue available to the City of London that was estimable and could result from the implementation of the internal audit recommendations in the amount of \$7.5 million.

Civic Administration reviewed the value for money estimates and conducted a follow up review to summarize the status of savings and/or revenue that had been realized to date. A total of approximately \$5.2 million of cost avoidance, cost savings and/or new revenues were realized by the City which are summarized in **Appendix “G”** attached. These have already been incorporated in the 2016-2019 approved multi-year budget.

Additional Special Projects

Throughout the contract term, several new special projects were also identified and added to the initial Proposed Risk Assessment and 3 Year Risk-Based Audit Plan.

In 2012, the Middlesex London Housing Corporation undertook to engage PwC to conduct an operational effectiveness review of the Housing Corporation. On December 11, 2012, Municipal Council approved the following recommendation from the Audit Committee:

“That on the recommendation of the Audit Committee, the City Manager and the Audit Chair be requested to jointly approach the City’s Boards and Commissions to:

- a) *request and encourage the Boards and Commissions to engage the services of PricewaterhouseCoopers for the purpose of an internal audit of their existing processes, under the City’s existing terms of engagement and at the City’s expense, subject to:*
 - i) *annual budget availability;*
 - ii) *submission of detailed requests to the City of London’s Audit Committee; and*
 - iii) *prioritization of the annual audit plan by the City of London’s Audit Committee; and*
- b) *suggest that any operational savings resulting from an internal audit of a board or commission be returned to the City of London to assist in covering the costs of the audit and, where there are “go-forward” savings, to reduce the overall budget of the Board or Commission;*

it being noted that the Middlesex London Housing Corporation recently undertook such an audit and is reviewing the potential implementation of recommendations and the associated cost-savings.”

During the period February 8 to 12, 2013, a communication e-mail was sent to all of the City’s Boards and Commissions, including a letter offering the internal audit service provided by PwC with the resolution from Council and also providing all of the background of the City’s experience with PwC for the first 2 years of the Internal Audit program. On May 23, 2013, potential value for money project ideas or opportunities were identified to the Audit Committee for the London Public Library and London Transit Commission and were approved to be incorporated into the audit plan.

Council also referred in late 2015 an additional project for inclusion in the 2016 audit plan as it related to discussions on the Normal School lessons learned and process change. Municipal Council, at its meeting held on November 24, 2015 resolved:

“That the Audit Committee BE DIRECTED to consider incorporating into the current work plan, a follow up review by the internal auditor, with respect to the City of London’s contract and tendering administration processes; it being noted that the follow up review would examine the City’s contract and tendering administration processes related to a recent key heritage project and other Facilities Design and Construction projects, in the spirit of continuous improvement, for the purposes of identifying any additional process changes and risk mitigation measures that would ensure safe, successful and affordable outcomes.”

In addition to these added internal audit projects incorporated into the approved audit plan, various confidential reviews were also completed.

INTERNAL AUDIT SERVICES FOR 2017

Why Recommend the Existing Model?

- It provides the lowest cost;
- High degree of flexibility;
- High degree of control by Council;
- Broad access to expertise; and,
- High degree of independence.

The outsourced internal audit method will allow Council to narrow the area of focus from the broadest mandate through an assessment of risk to Council’s desired focus of audit activity in any

given year. The factors above indicate that the outsourced internal audit model provides Council with the most options at the least cost. Given that administration is pursuing service review including lean six sigma, the focus of internal audit functions should be directed to reviews of internal control systems and compliance audits.

RFP Process

In late 2010, Council appointed PwC to provide outsourced internal audit services for a three year period plus two one year options, which have both been exercised. The agreement with PwC will expire at the end of 2016. Therefore, Council will need to procure a new contract for internal audit services starting in 2017 to ensure that no break in internal audit services occurs.

Civic Administration should be directed to develop a Request for Proposal and to report back to the Audit Committee at its next meeting scheduled on June 13, 2016.

The Audit Committee should approve the parameters for inclusion in the RFP and authorize issuance of the RFP:

- scope of work;
- expectations;
- tentative RFP schedule;
- contract term; and
- evaluation process.

The general composition of the evaluation committee should also be specifically set out and approved by the Audit Committee.

SUMMARY

PriceWaterhouseCoopers LLP (PwC) has been providing outsourced internal audit services to the City of London since 2011. Their recommendations have resulted in savings and/revenue that has been incorporated into the 2016-2019 approved multi-year budget. The agreement with PwC will expire at the end of 2016. Council should consider what objective it wishes to achieve should the model of outsourced internal auditor change so that it any expected benefit can be measured. Should Council endorse the continuation of the current outsourced internal audit model, Civic Administration should be directed to develop a Request for Proposal for approval at the June 13, 2016 meeting of the Audit Committee.

PREPARED BY:	RECOMMENDED BY:
ANNA LISA BARBON DIRECTOR, FINANCIAL SERVICES	MARTIN HAYWARD, MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER

cc. Art Zuidema – City Manager

Attachments

APPENDIX "A"

TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON NOVEMBER 15, 2010
FROM:	TOM JOHNSON MANAGING DIRECTOR, CORPORATE ASSETS
SUBJECT	AUDITOR GENERAL vs OUTSOURCED INTERNAL AUDITOR

RECOMMENDATION

That the following report **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

- Services Review Committee, Letter from the Chamber of Commerce regarding "the appointment of an Auditor General for the City of London – Nov 4, 2008
- Audit Committee Meeting, Strategies To Strengthen The Internal Audit Approach, March 11, 2009
- Audit Committee Meeting, Management Support and Audit Services RFP to Outsource Internal Audit Report - May 19, 2010
- Audit Committee Meeting, Request for Proposal Internal Audit Services Report - July 21, 2010
- Audit Committee Meeting, RFP To Outsource Internal Audit – Progress Update – September 29, 2010

BACKGROUND

Further to the Audit Committee meeting on October 27, 2010, this report provides information on the similarities and differences between an Auditor General (AG) and an outsourced Internal Auditor (IA).

On January 1, 2007 the *Municipal Statute Law Amendment Act, 2006* (Bill 130) was proclaimed which made substantial amendments to the *Municipal Act, 2001*. Under the accountability and transparency provisions, at the discretion of Municipal Council, optional officers could be appointed including an AG.

Over the past 2 years, Council has made the decision to strengthen the mandate of internal audit by making reports fully public and to increase independence by outsourcing the function to an external accounting firm.

Similarities

- Both an AG and an IA would;
 - Report functionally to Council through the Audit Committee
 - Be responsible for assisting council in holding itself and its administrators accountable for the quality of stewardship over public funds and for the achievement of value for money in municipal operations
 - Have a duty of confidentiality
 - Enhance openness, transparency and accountability at the City of London
 - Develop a risk based audit workplan
 - Perform financial, compliance, operational, information technology and forensic audits of programs, activities and functions
 - Perform Value for Money audits regarding the efficiency, effectiveness and economy of operations
 - Not perform the annual attestation audit of the financial statements as that is the responsibility of the external auditor

APPENDIX "A"

Advantages to an Outsourced Internal Auditor

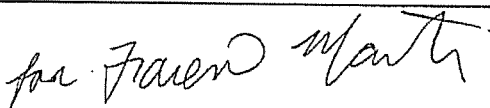
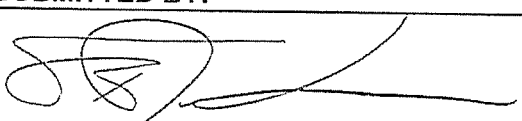
- The outsourced firm may be more independent of the municipality than an AG. Per section 229.19 (7) of the *Municipal Act*, the AG is not required to be a municipal employee, however all existing AGs in Ontario (and their staff – with the exception of Oshawa) continue to be municipal employees. The outsourced IA would be external to the City of London as they would be a contracted out supplier of internal audit services with no municipal employees.
- The budget for the outsourced IA is \$300,000 which would include access to the full complement of resources of the contracted firm including specialized staff (ie; IT specialists, value for money audit specialists etc.), whereas the equivalent amount of funds would likely only enable the City to obtain an AG and one and a half staff with no access to specialized staff resources.
- The outsourced IA would be able to start immediately, whereas it could take considerable time to hire an AG and their staff, therefore creating a void in the performance of audits in the interim.
- The contract with the outsourced IA may be cancelled with 120 days written notice with a majority vote of Council. There is no guidance in the *Municipal Act* on the removal of an AG, however, three of the six existing municipalities with an AG require a two thirds (2/3) vote of Council in order to remove/dismiss their AG.

Advantages of the Auditor General Model

- The AG (per Section 223.19 (3)) is able to audit a municipality's local boards and such municipally controlled corporations and grant recipients as the municipality may specify whereas the IA can audit Boards and Commissions by request only and do not have the legislative power to audit grant recipients. However, auditing of grant recipients could be achieved through the addition of a term or condition to future grants.
- A disclosure to the AG does not constitute a waiver of solicitor-client privilege.
- The AG may examine any person on oath
- Additional protection of audit files/working papers is provided to the AG regarding MFIPPA (Municipal Freedom of Information and Protection of Privacy Act)
- The AG is not required to testify at a subsequent legal proceeding, nor is any person acting under the instructions of the AG

Advantages of an AG Model that Could be Addressed Under a Contract with the Outsourced IA Model

- Duty to furnish information is required per section 223.20 (1) of the *Municipal Act* but this could be specified in the contract with the outsourced IA
- Access to records is required per section 223.20 (2) of the *Municipal Act* but this could be specified in the contract

PREPARED BY:	SUBMITTED BY:
	
DON IKENO, SENIOR MANAGER MANAGEMENT SUPPORT AND AUDIT SERVICES	TOM JOHNSON, MANAGING DIRECTOR CORPORATE ASSETS

Cc: Jeff Fielding

APPENDIX “B”

Auditor General in Ontario Municipalities

City of Toronto Model

The Auditor General evolved from the previous City Auditor position in 2002. The incumbent was appointed by Council to a seven year contract. The position is appointed by Council as obliged by the *City of Toronto Act* and reports to City Council through the Audit Committee. The Auditor General is responsible for carrying out financial, operational, compliance, performance, forensic and other special reviews of all programs, activities and functions of all City divisions and local boards (excluding Police, Library and Health), and the offices of the Mayor and members of Council. The Auditor General develops and carries out a work plan which identified and ranks projects to be completed based on a number of risk factors. In addition, it responds to requests from City Council, subject to the request being approved by a 2/3 majority resolution of Council.

City of Ottawa Model

The Office of the Auditor General was established in September 2004 to replace the Audit and Consulting Services Branch. The Auditor General is independent of the City administration and reports directly to Council and is responsible for carrying out financial, compliance and performance audits of all programs, activities and functions of all City departments, agencies, boards and commissions, corporations and the offices of the Mayor and members of Council. The Auditor General is also responsible for the Fraud and Waste Hotline, which is available for use by City employees and members of the public.

Town of Markham Model

In October 2007, Markham City Council approved an Auditor General position and scope of Services. In May 2008, Markham City Council appointed an Auditor General for a 3 year contract with no staff reports. The position reported directly to Council on a quarterly basis and was responsible for planning, conducting, evaluating and monitoring results of financial, compliance and performance (value-for-money) audits of all programs, activities and functions of all Town departments, local boards and such municipally controlled corporations and grant recipients as Council may specify.

In April 2015, City of Markham Council directed staff to implement a fully outsourced service model for an Auditor General and retain an Auditor General through an RFP process for a four year contract term. Terms and conditions included a requirement for the Auditor General to undertake 8-10 substantive audits over the term of the contract. In December 2015, the firm of MNP LLP was appointed to a four-year term to provide Auditor General Services following a rigorous selection process. The Auditor General reports directly to Markham City Council and amendments to the Auditor General's Audit Plan are permitted with 2/3 support of Markham City Council.

City of Greater Sudbury Model

The Auditor General was appointed by Council to a three year contract term effective June 2009. Unlike other municipalities who had developed structures and staff complement prior to the engagement of the Auditor General, Council approved the concept of the Auditor General and delegated development to the overall structure to the incumbent following his appointment. The Auditor General reports to City Council through its Finance Committee. The Auditor General is responsible for full implementation of audits on the City's programs and activities.

Sudbury's Auditor General was not replaced after he left the role to run for mayor of the municipality in 2014. In December 2015, a new Auditor General was appointed for a five-year term by Sudbury City Council.

APPENDIX “B” Cont’d

City of Oshawa Model

The Auditor General was initially recruited as a contract employee in 2006 on a four year contract and was renewed for a subsequent 3 year contract in 2010. This position had no staff reports. The Auditor General reports directly to Council and is responsible for evaluating the effectiveness of risk management, control and governance processes.

Oshawa City Council voted not to renew the contract of its Auditor General and to close its Auditor General office in 2013 following the release of a controversial audit report completed which resulted in physical altercations in Oshawa City Council Chambers.

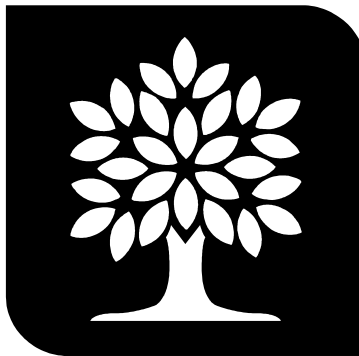
City of Windsor Model

In 2008, Windsor City council approved a motion to implement an internally staffed Office of the Auditor General. The existing Office of the City Auditor was converted to the new office of the Auditor General. However, due to the recent retirement of the previous City Auditor, the position of Auditor General was vacant as the new office commenced operations with three auditors, one of whom assumed a lead role pending the appointment of an Auditor General. The new Office of the Auditor General continued to report to the Audit Committee through the Acting Lead Auditor.

The recruitment of the auditor general proved to be quite challenging, particularly in terms of the City's ability to recruit a qualified candidate despite a significant investment in external recruiting assistance. The recruitment was especially expensive as the first selected candidate rejected the job and additional recruitment effort was required. A 101 day strike in 2009 also served to create a delay in the recruitment process. Following council's extensive consideration and evaluation of the appropriateness of the final candidate's US qualifications, the position of Auditor General was filled in 2011 and the appointed individual assumed leadership of the Office of the Auditor General at that time. The Auditor General's employment with the Corporation ended in early 2012.

The Office of the Auditor General was eliminated on December 17, 2012, its three staff auditors were reassigned to other roles in the Corporation, and the Executive Committee of Council assumed the responsibilities of the Audit Committee. Windsor City Council, at the same time, approved an outsourced internal audit model that would extend to all aspects of the operations of the City including any agencies, boards, commissions or other entities that are accounting to Windsor City Council and/or controlled by the City subject to their respective board approvals if required.

The City of Windsor recently re-evaluated its model again in October 2015 to determine whether the outsourced internal auditor should be assigned to work under the authority of an Auditor General. Windsor City Council did not proceed to change the outsourced internal audit model.



London
C A N A D A

**THE CORPORATION OF
THE CITY OF LONDON**

**REQUEST FOR PROPOSAL 10-24
INTERNAL AUDIT SERVICES**

ANYONE DOWNLOADING THIS DOCUMENT AND WISHING TO SUBMIT A BID MUST ENSURE THAT THEY HAVE REGISTERED WITH PURCHASING AND SUPPLY ON THE CITY OF LONDON'S WEBSITE. BY REGISTERING, YOU WILL BE ADDED TO THE BIDDERS MAILING LIST. FAILURE TO REGISTER SHALL RESULT IN YOUR BID BEING DISQUALIFIED. TO REGISTER, PLEASE COMPLETE THE REGISTRATION FORM ON-LINE. http://www.london.ca/d.aspx?s=/Tenders_and_RFPs/default.htm

BIDS MUST BE RECEIVED BY PURCHASING AND SUPPLY IN A SEALED OPAQUE ENVELOPE OR PACKAGE CLEARLY MARKED WITH THE NAME AND ADDRESS OF THE RESPONDER, TITLE OF FILE AND FILE NUMBER. COMPLETED BIDS CAN BE **MAILED** TO PURCHASING AND SUPPLY, P.O. BOX 5035, LONDON, ONTARIO N6A 4L9 OR **HAND DELIVERED** (IN PERSON OR BY COURIER) TO PURCHASING & SUPPLY, 267 DUNDAS STREET, 4TH FLOOR. LONDON, ONTARIO N6A 1H2. RESPONDENTS ARE SOLELY RESPONSIBLE FOR ENSURING BIDS ARE RECEIVED BY PURCHASING & SUPPLY PRIOR TO THE CLOSING DATE AND TIME. FAILURE TO SUBMIT THE BID AS REQUESTED WILL RESULT IN IT BEING DISQUALIFIED.

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APPENDIX "C"

The Corporation of the City of London Request for Proposal 10-24 INTERNAL AUDIT SERVICES

1.0 PURPOSE

The Corporation of the City of London (hereinafter referred to as the City) is seeking Request for Proposals (hereinafter referred to as the RFP) from qualified, experienced firms to provide Internal Audit Services to the City. The scope of the work for the internal audit provider shall extend to all aspects of the operations of the City, and by request, to the Boards, Commissions or other entities that are accountable to City Council and/or are controlled by the City. The duties may also include the performance of such other assignments as the Audit Committee may from time to time authorize.

2.0 BACKGROUND

London, a City with a population of 363,000 (2009) is characterized by a diversified economic base - industrial, commercial and institutional. This has fostered an ideal climate for business investment and steady growth. The City provides the benefits of a large city with the convenience, responsiveness, economics and manageability of a smaller urban centre.

Effective with the election in October, London will have a fifteen member City Council which includes the Mayor and fourteen Councillors as the legislative and decision-making body of the Corporation.

London is a single-tier municipality. The City, including its Boards and Commissions, provides the following types of services: fire, police, transit, public works including roads, water and sewer, hydro, public health services, a home for the aged, social services, social housing, parks and recreation, libraries, museums, planning and development, a convention centre and a public market.

The above responsibilities are handled by five operating departments: Chief Administrative Officers Office, Engineering & Environmental Services, Finance, Community Services, and Planning & Development. In addition, there are several Boards and Commissions including, London Transit, London Convention Centre, Covent Garden Market, London Downtown and Old East Village Business Improvement Areas, London Public Libraries, London Middlesex Housing Corporation, Museum London, Middlesex London Health Unit, Public Utilities Commission and London Hydro Inc. The City also acts as administrator for the Lake Huron and Elgin Area Joint Water Boards.

The City uses the JD Edwards ERP system for all of its major corporate financial systems. The suite of systems includes human resources, payroll, general ledger and budget, accounts payable, accounts receivable, fixed assets, fleet and facility management, purchasing and inventory. The City is in the planning stage for an upgrade to a release in version ERP9 of the JD Edwards software. This process will begin in 2011, with expected completion in 2012. There are also other significant information systems: Class (Point of Sale system used for Clerks, Parking, Parks and Recreation), Vailtech for property taxes, Amanda for building permits, Goldcare/Campana for Dearness Home for the Aged, Service Delivery Model Technology (SDMT) for Social Services.

The City's technical environment includes the following: VMware, Windows 2003/2008 operating systems, the databases employed are Oracle and MS SQL, the messaging system is Exchange. The network connectivity is mainly fibre and wireless. In terms of hardware, the City's uses HP.

There has been an internal audit function in place since 1983 and it is currently operating under By-law A.-6426-312 (see attachment) which provides for both audit and management support activities.

As part of the City efforts to promote greater independence, openness, transparency and accountability of the audit function; Council authorized the outsourcing of internal audit on April 19, 2010.

APPENDIX "C"

2.0 BACKGROUND...cont'd

2.1 Role and Objectives of Internal Audit

Internal audit should support Council and Administration in achieving their goals, strategic objectives and legislated responsibilities. Internal audit is responsible for assisting the council in holding itself and its administrators accountable for the quality of stewardship over public funds and for achievement of value for money in municipal operations.

The audits must be in compliance with generally accepted auditing standards as promulgated by the Canadian Institute of Chartered Accountants, and the International Professional Practices Framework set forth by the Institute of Internal Auditors. Some of these objectives/standards are:

- To assist the City to accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.
- To review: the reliability and integrity of information, compliance with policies and regulations and contracts, the safeguarding of assets, the economical and efficient use of resources, and established operational goals and objectives.

The internal audit provider shall report functionally to the Audit Committee and will liaise for administrative purpose through the Chief Administrative Officer or his delegate and shall have unrestricted access to the Audit Committee and may meet with the Chair of the Committee to discuss issues pertaining to the Corporation.

Internal audit must at all times promote and ensure the independence and objectivity of internal audits, broad audit coverage and the implementation of audit recommendations.

Management is ultimately responsible for the establishment and maintenance of systems and processes for internal controls.

2.2 Audit Committee

The Audit Committee is a committee of City Council. It is currently composed of four members of the Municipal Council and one external member drawn from the public, nominated by Board of Control and selected by Council. The Committee meets at least four times annually and at such other times as shall be required and determined by the Chair. It reports directly to the Municipal Council, except for matters that have to be concurred in by the Board of Control or other committees. The responsibilities of the Committee include overseeing all audit matters, including evaluation of internal services to ensure effective, independent, yet complementary audit services are received, to annually review and approve the internal audit work plan, to receive full audit reports from internal audit; and to engage in confidential discussions between the internal audit provider and the Audit Committee as required.

2.3 External Audit Services

- a) Currently, the City is also seeking proposals from firms to perform the required External Audit Services for the next five (5) years. Firms will have an opportunity to bid on the RFP issued for providing the External Audit Services, which will be issued in conjunction with this RFP; however no firm will be allowed to provide both services.
- b) It is expected that the firm providing external audit services and the firm providing internal audit services will co-ordinate their efforts to maximize the audit coverage provided to the City.

APPENDIX "C"

3.0 SCOPE

3.1 Scope of Work

The scope of the work for the successful Proponent shall extend to all aspects of the operations of the City, and by request, to the Boards, Commissions or other entities that are accountable to City Council and/or are controlled by the City.

The City is seeking a fully outsourced internal audit function. The successful Proponent will be requested to provide a three (3) year risk-based audit plan that will be updated annually, with input from the Audit Committee and Administration and will ultimately be approved by the Audit Committee and Council. The risk-based audit plan should include projected time requirements per audit and be revised and updated throughout the duration of the contract.

The internal audit activities will be directed towards reviews relating to the areas of higher risk to the City.

Proponents should also note that the City does not have a resource dedicated to internal audit. However, it is expected that the provider of internal audit services will work with the Chief Administrative Officer (CAO) or his delegate in conducting the work.

Proponents should also be aware that it has been the practice of the City that all final public audit reports be published on the City's website.

It is critical that the successful Proponent understands the unique environment in which the City operates. The City is subject to the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA-also referred to as the Act). The Act requires municipal institutions to protect the privacy of an individual's personal information existing in government records. The Act creates a privacy protection scheme, which the government must follow to protect an individual's right to privacy. The scheme includes rules regarding the collection, use, disclosure and disposal of personal information in the custody and control of a municipal institution. Also, the Act provides individuals the right to access municipal government information, including most general records, subject to very specific exemptions and exclusions. Personal information collected and records related to work performed on behalf of the City may be subject to MFIPPA.

Specifics

- 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.

APPENDIX "C"

3.0 SCOPE...cont'd

3.1 Scope of Work...cont'd

- 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.

3.2 Deliverables/Expectations of Successful Proponent

The successful Proponent will be requested to provide:

- a) A three (3) year risk-based audit plan.
A proposed three (3) year risk-based audit plan will be prepared with input from the Audit Committee and Administration and will be approved by the Audit Committee and Council. The risk-based audit plan should be revised and updated throughout the duration of the contract.
- b) Working Papers - The Proponent shall prepare all work papers in accordance with IIA Standards. The City shall have access to review and photocopy the Proponent's work papers and other analytical documents during the course of the engagement and upon completion of the work. The Proponent shall deliver complete signed work paper files upon submission of the deliverables (hard copies and electronic files) in final form to the City. Working papers will encompass all documents collected, and created during the audit process which would include without limitation to documents in written or electronic format, notes made by the auditor, including notes from internal meeting amongst employees at the audit firm and interview notes, and summaries of documents reviewed or compilations of data. Therefore, working papers covers everything that would be involved in the audit.
- c) Full and timely audit reports with issues/observations, recommendations and management responses from the client will be given to Audit Committee and all final public audit reports will be published on the City's website subject to any MFIPPA, privacy and other confidentiality issues.
- d) On a regular basis, updates to the Audit Committee and CAO or his delegate on site or via telephone on (1) progress/ status of audits, (2) significant problem areas including a definitive plan, target dates for resolving each problem, (3) any impact on the deliverable due dates including budget to actual comparison, and (4) any impact to overall cost of the audit.

3.3 Meetings and Subsequent Assistance

The auditors shall attend such meetings as required to discuss their work and reports and shall provide such information as requested which will enhance the understanding of members of the Audit Committee of Council concerning matters pertaining to the internal audit. There are a minimum of four (4) Audit Committee meetings annually.

APPENDIX "C"

3.0 SCOPE...cont'd

3.4 Term of Engagement

The term of the contract will be for a period of three (3) years plus the option to renew the contract for two (2) additional one (1) year terms, negotiated annually. This is subject to the performance of the audit firm and, if the City chooses at some time to operate this business differently including operating the business under the Auditor General model.

3.5 Evaluating the Auditor's Performance

During the term of the engagement, the auditor's performance will be evaluated based on the following criteria:

- i) **Persons assigned to the audit:**
For the initial year of the engagement, the persons assigned to the audit should be those originally proposed; and any subsequent changes to audit personnel must be acceptable to the Audit Committee.
- ii) **Performance in the manner proposed:**
It is expected that the audit will be carried out in the manner proposed. Any changes in the internal audit activities, including the audit plan and the audit methodology shall be discussed with and agreed to by the Audit Committee
- iii) **Adherence to Audit Deadlines:**
It is expected that the audit will be completed within the time frames agreed to once the three (3) year rolling audit plan has been determined.

4.0 RFP SCHEDULE

The following is a tentative schedule to assist proponents:

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

5.0 SUBMISSION INSTRUCTIONS

5.1 Pre-Submission Meeting

- a) A Pre-Submission Meeting will be held **FRIDAY, AUGUST 13, 2010 at 10:00 a.m.** at City Hall, 300 Dufferin Ave., London, Ontario, 2nd Floor, Committee Room #1.
- b) The purpose of this meeting is to provide an opportunity to obtain clarification regarding the requirements of the RFP. Any resultant clarifications will be documented and forwarded as an addendum to all potential respondents.

APPENDIX "C"

5.0 SUBMISSION INSTRUCTIONS...cont'd

5.2 Closing Date and Time

Proponents are required to submit one (1) signed original and 6 (six) copies of the RFP in a sealed envelope clearly identified as **Request for Proposal 10-24, Internal Audit Services to Purchasing and Supply**. Completed submission can be **mailed** to Purchasing and Supply, P.O. Box 5035, London, Ontario N6A 4L9 or **hand delivered** (in person or by courier) to Purchasing & Supply, 267 Dundas Street, 4th Floor, London, Ontario N6A 1H2 and must be received before **12:00 noon, local time, Friday, September 10, 2010. Failure to submit the Form of Proposal (pg.15) will result in your proposal being rejected.** Respondents are solely responsible for ensuring bids are received by Purchasing & Supply prior to the closing date and time.

5.3 Late Submissions

Proposals received by Purchasing and Supply later than the specified closing time will be returned, unopened, to the Proponent.

5.4 Period of Acceptance

The proposal submission is to remain firm for acceptance for a period of one hundred and twenty (120) days from the date of closing.

5.5 Questions/Inquiries

- a) Inquiries regarding this RFP are to be directed to City of London, Purchasing and Supply, Terri Sue Wyatt, Procurement Officer, by facsimile at 519 661-5030 or e-mail to purch@london.ca. Inquiries must not be directed to other City employees or Elected Officials. **Directing inquiries to other than Purchasing and Supply will result in your submission being rejected.**
- b) All clarification requests are to be sent in writing to the individual mentioned above. No clarification requests will be accepted by telephone. **Responses to clarification requests will be in the form of Addenda which will only be posted on the City's website. No addendum will be issued forty-eight (48) hours prior to closing.**
- c) The City assumes no responsibility for any verbal (spoken) information from any City staff or from any Consultant firms retained by the City, or from any other person or persons who may have an interest in this Proposal. Amendments or changes to this Proposal prior to the closing date and time stated herein will only be in the form of written addenda and said addenda will be issued by the Purchasing & Supply Team of the City of London. Any Addendum will be posted on the City's Purchasing & Supply Web Site: <http://www.london.ca/d.aspx?s=/Tenders and RFPs/default.htm> It is the Proponent's sole responsibility to check this Web Site regularly to inform itself of any posted Addendum. The City makes no promise or guarantee that addenda will be delivered by any means to any bidder. By submitting a proposal in response to this Proposal, the Proponent acknowledges and agrees that addenda shall only be posted on the City's Web Site and it is the sole responsibility of the bidder to check this Web Site for said addenda. **FAILURE TO ACKNOWLEDGE RECEIPT OF ALL ADDENDA ON THE FORM OF PROPOSAL WILL RESULT IN YOUR BID BEING REJECTED**
- d) Each Proponent must review all proposal documents and promptly report and request clarification of any discrepancy, deficiency, ambiguity, error, inconsistency, or omission contained therein. Any such request must be submitted to the City in writing, prior to **Friday, September 3, 2010 at 4:00 pm.**
- e) Where a request results in a change or a clarification to the proposal, the City will prepare and issue an Addendum to this proposal as stated in 5.5c.

APPENDIX "C"

5.0 SUBMISSION INSTRUCTIONS...cont'd

5.6 Rights Reserved by the City

- a) The City is not liable for any costs incurred by the Proponent in the preparation of their response to the RFP or selection interviews, if required. Furthermore, the City shall not be responsible for any liabilities, costs, expenses, loss or damage incurred, sustained or suffered by any Proponent, prior or subsequent to, or by reason of the acceptance, or non-acceptance by the City of any proposal, or by reason of any delay in the award of the proposal.
- b) The lowest proposal will not necessarily be accepted. The City reserves the right to accept/reject any or all proposals and/or reissue the RFP in its original or revised form.
- c) The City reserves the right to request specific requirements not adequately covered in their initial submission and clarify information contained in the RFP.
- d) The City reserves the right to modify any and all requirements stated in the RFP at anytime prior to the possible awarding of a contract.
- e) The City reserves the right to cancel this RFP at any time, without penalty or cost to the City. This RFP should not be considered a commitment by the City to enter into any contract.
- f) In the event of any disagreement between the City and respondent regarding the interpretation of the provisions of the RFP, the Manger of Purchasing and Supply or an individual acting in that capacity, shall make the final determination as to interpretation.

5.7 Treatment of Information

- a) The information submitted in response to this RFP will be treated in accordance with the relevant provisions of the Municipal Freedom of Information and Protection of Privacy Act and in accordance with Section 8.11, "Confidentiality of Proprietary Information", of Council Policy 21 (1). The information collected will be used solely for the purposes stated in this request.
- b) The Proponent does, by the submission of a proposal, accept that the information contained in it will be treated in accordance with the process set out in this section of the RFP.

6.0 REQUIREMENTS AT TIME OF EXECUTION

Subject to an award of the proposal, the successful Proponent is required to submit the following documentation in a form satisfactory to the City for execution within ten (10) working days after being notified to do so in writing:

1. Professional Liability Insurance Documents
2. Clearance Certificate from the Workplace Safety and Insurance Board

If the successful Proponent for any reason, defaults or fails in any matter or thing referred to under "Requirements at Time of Execution", the City reserves the right to accept any other bid, advertise for new proposals or carry out the work in any way as the City may, at its sole discretion, deem best.

APPENDIX "C"

6.0 REQUIREMENTS AT TIME OF EXECUTION...cont'd

6.1 Professional Liability Insurance

Evidence of financial stability (via insurance) is as important for professionals as it is for contractors and suppliers. This type of insurance is on a 'claims made' basis. For example, when a policy is effective from January 1, 2010 to January 1, 2011 it only covers claims made in 2010. If work is completed in December, 2010 but no claim is made until February, 2011 the policy in effect in February is the one that insures the loss – not the policy that expired on January 1st. Most errors or omissions claims are made within the first 12 months after completion of the work. To ensure coverage on the date of claim we require evidence that insurance is in effect for 12 months after work is completed.

6.2 Insurance and Indemnity

- a) For the purposes of Article 6.1:
 - i. 'claim' or 'claims' shall mean a claim or claims whether in contract or torts.
 - ii. the 'Professional' includes Professional's officers, directors, employees, representatives and consultants.
- b) "The successful Proponent shall obtain and maintain until the termination of this Agreement, and provide the City with satisfactory evidence of Professional Liability Insurance covering the work and services described in this Agreement, such policy to provide coverage for an amount not less than Two Million (\$2,000,000.00) dollars and such insurance shall continue for twelve (12) months following completion of work.
- c) The consultant shall not commence work until satisfactory evidence of insurance has been filed with and approved by the City. Prior to the effective date of this Agreement and thereafter on renewal date of the insurance, the Consultant shall further provide that evidence of the continuation of said insurance is filed at each policy renewal date for the duration of the contract. The City reserves the right to request such higher limits of insurance or other types of insurance as it may reasonable require from time to time; failure to procure and maintain said insurance shall constitute a default under this agreement.
- d) The insurance shown in (a) above will not be cancelled or permitted to lapse unless the insurer notifies the City in writing at least thirty (30) days prior to the effective date of cancellation or expiry. The City reserves the right to request such higher limits of insurance or other types of insurance as it may reasonably require from time to time; failure to procure and maintain said insurance shall constitute a default under this agreement.
- e) The Professional shall indemnify and hold the City harmless from and against any liability, loss, claims, demands, costs, and expenses including legal fees, occasioned wholly or in part by an acts or omissions either in negligence or in nuisance whether wilful or otherwise by the Professional or other persons for whom it is responsible for at law.

6.3 Workplace Safety & Insurance Board

- a) The successful bidder shall furnish a WSIB Clearance Certificate indicating their WSIB firm number, account number and that their account is in good standing. This form must be furnished prior to commencement of work, every sixty (60) days or upon receipt of a Clearance Certificate from WSIB throughout the contract and must be submitted with final invoice before payment is made. The successful bidder further agrees to maintain their WSIB account in good standing throughout the contract period.
- b) If the successful bidder is a self – employed individual, partner or executive officer who does not pay WSIB premium and is recognized by WSIB as an 'independent operator' a letter from WSIB acknowledging independent contractor status and confirming that WSIB cover is not required must be provided to the City prior to commencement of work.

APPENDIX "C"

7.0 TERMS AND CONDITIONS

7.1 Contract Term

The term of the contract will be for a period of (three) 3 years plus the option to renew the contract for two (2) additional one (1) year terms, negotiated annually. This is subject to the performance of the audit firm. and, if the City chooses at some time to operate this business differently including operating the business under a different model.

If the performance of the audit firm at the sole discretion of the City is unsatisfactory, the City reserves the right to cancel the contract with one hundred and twenty (120) days written notice, without penalty. Also, if the City chooses to operate this business differently including operating the business under a different model during the term of the contract, at the sole discretion of the City, the City reserves the right to cancel the contract with one hundred and twenty (120) days written notice, without penalty.

7.2 Taxes

All bidders shall provide their Goods and Services Tax/Harmonized Sales Tax (GST/HST) registration number in their RFP Form of Proposal.

7.3 Assignment

Following award of the contract, the successful Proponent shall not, without written consent of the Manager of Purchasing and Supply make any assignment or any subcontract for the execution of any service hereby proposed.

7.4 Protection of Privacy and Confidentiality

The Proponent shall at all times comply with the provisions of the *Municipal Freedom of Information and Protection of Privacy Act*, R.S.O. 1990, c. M.5 (MFIPA). Use, collection and maintenance of information, documents and records, communicated to and acquired, collected and created by it in the course of providing audit services shall be in accordance with MFIPPA.

The Proponent will provide access to such information only to those officers and employees that are providing audit services to the City and only to the extent that the said employees and agents need to have access to provide audit services.

The successful Proponent shall treat all information, documents and records communicated to and acquired, collected and created by it in the course of providing the services as confidential and shall not release or disclose the same to any person without the express written consent of the City, except as may be required by law, or by judicial or administrative process.

The Proponent shall ensure that all necessary steps are taken to protect the said information, documents and records by making all necessary security arrangements against any and all risk including without limitation to unauthorized access, use, disclosure, publication or dissemination or destruction and to ensure that the said information, documents and records do not fall into the possession of unauthorized persons, in accordance with MFIPPA.

APPENDIX "C"

7.0 TERMS AND CONDITIONS...cont'd

7.5 Compliance with the Accessibility for Ontarians with Disabilities Act, 2005

The successful Proponent shall ensure that all its employees, agents, volunteers, or others for whom the successful proponent is legally responsible receive training regarding the provision of the goods and services contemplated herein to persons with disabilities in accordance with Section 6 of Ontario Regulation 429/07 (the "Regulation") made under the Accessibility for Ontarians with Disabilities Act, 2005, as amended the "Act"). The successful Proponent shall ensure that such training includes, without limitation, a review of the purposes of the Act and the requirements of the Regulation, as well as instruction regarding all matters set out in Section 6 of the Regulation. The successful Proponent shall submit to the City, as required from time to time, documentation describing its customer service training policies, practices and procedures, and a summary of its training program, together with a record of the dates on which training was provided and a list of the employees, agents volunteers or others who received such training. The City reserves the right to require the contractor to amend its training policies to meet the requirements of the Act and the Regulation.

7.6 Changes in Law

The parties acknowledge that performance of the obligations required hereunder may be affected by changes in applicable laws of the Province of Ontario. In the event of a change in applicable legislation that results in a material impact on the performance of any act required by this Agreement, the Parties shall renegotiate the provisions of this Agreement to achieve mutually acceptable terms for the performance of acts required hereunder. If the Parties are unable to agree on the revised terms and conditions either Party may submit the dispute to arbitration in accordance with the provisions of the Arbitration Act S.O. 1991, C. 17.

7.7 Exclusion of Proponent In Litigation

- a) The City may, in its absolute discretion, reject a proposal submitted by a Proponent if the Proponent, or any officer or director of the Proponent is or has been engaged, either directly or indirectly through another corporation, in a legal action against the City, its elected or appointed officers and employees in relation to:
 - i. Any other contract or services; or
 - ii. Any matter arising from the City's exercise of its powers, duties, or functions.
- b) In determining whether or not to reject a proposal under this clause, the City will consider whether the litigation is likely to affect the Proponent's ability to work with the City, its consultants and representatives, and whether the City's experience with the Proponent indicates that the City is likely to incur increased staff and legal costs in the administration of the contract if it is awarded to the Proponent.
- c) The General Manager shall document evidence and advise Purchasing and Supply in writing where the performance of a supplier has been unsatisfactory in terms of failure to meet contract specifications, terms and conditions or for Health and Safety violations.
- d) The City Treasurer may, in consultation with the City Solicitor, prohibit an unsatisfactory supplier from bidding on future contracts for a period of up to three (3) years.

8.0 SUBMISSIONS REQUIREMENTS

8.1 General

- a) The City is requesting proposals from firms who are both interested and capable of undertaking the project.

APPENDIX "C"

8.0 SUBMISSIONS REQUIREMENTS...cont'd

8.1 General...cont'd

- b) The onus is on the Proponent to show their knowledge, understanding and capacity to conduct the work outlined in the RFP.
- c) The responses will be assessed according to how well they assure the City's success in relation to the submission requirements. The detail and clarity of the written submission will be considered indicative of the Proponents expertise and competence.
- d) All information provided in response to this RFP must contain sufficient detail to support the services being proposed. **Incomplete submissions will not be considered.**
- e) All prices must be stated in **Canadian** funds.

8.2 Administration Fee

- a) Proponents who elect to retrieve the information from the City's website, www.london.ca will not be charged the administrative fee noted below, but must complete the **Registration Form** as instructed on the web page.
- b) Proponents who do not elect to retrieve the proposal information from the City's website will be required to submit a \$25.00 administrative fee with their proposal in the form of a cheque or Canadian Currency. Cheques are to be made payable to the "City Treasurer". **Failure to do so will result in a delay in processing of the bid. ". Please refer to section 4.5c) Questions/Inquiries regarding the issuance of all addenda.**
- c) Proponents who have not submitted a bid or remitted the administrative fee will be removed from future bidder's lists.

8.3 Mandatory Requirements

The following mandatory requirements are identified for inclusion in proposal submission:

Your proposal submission MUST follow the following format:

In order to receive a uniform format of response from all Proponents, the Proposal must be formatted as follows:

- a) Title page which will include the Proponent's legal name, address, telephone and fax numbers, e-mail address and name of primary contact and date.
- b) A table of content of all presented material.
- c) Proposal Details – describes the contents and structure of the proponent's proposal, showing how they meet the detailed requirements of Sections 8.4, 8.5 and 8.8.
- d) Fee and Fee Details as per Section 8.7.
- e) A least one (1) original signed "**Form of Proposal**" **MUST** be submitted with the proposal submission.

APPENDIX "C"

8.0 SUBMISSIONS REQUIREMENTS...cont'd

8.4 Audit Firm Technical Requirements

- a) Provide a list of the firm's current and prior largest municipal clients indicating the type(s) of service performed, the number of years served for each client. Please include specific examples related to internal auditing in the public sector and at least three (3) references.
- b) The relevant perceived strengths and weaknesses of the firm in the field of internal audit including the ability to identify evaluate and facilitate the minimization of the City's exposure to risks associated with inadequate and ineffective internal controls.
- c) Describe what your firm believes are the critical success factors for Internal Audit and how you will demonstrate value to the City.
- d) Demonstrated ability to carry out specialized audits e.g. value-for-money, information system, and fraud audits.
- e) Provide evidence the firm has experience in auditing a large, complex and computerized municipality.
- f) Explain your Internal Audit methodology and risk assessment process including the development of a three (3) year risk-based audit plan.
- g) Describe your approach to the planning, fieldwork and reporting phases of an internal audit assignment, including the normal depth of coverage of the audit fieldwork.
- h) Description of the ways in which your firm will bring innovation, thought leadership, better practices in Internal Audit, tools and technologies resident in the firm to help ensure easy access to such information and any other capabilities that will enhance the performance for the Internal Audit function and help ensure continuous improvement, influence and value to the organization. Please describe your approach to sharing such knowledge with the City.
- i) Description of how your firm would work with the Audit Committee.
- j) Explain your quality control process, including peer review.

8.5 Audit Personnel Technical Requirements

- a) Include resume(s) and experience profile of the Proponent's key people who will be responsible for this contract including the expected percentage of their time committed to the City.
- b) Describe the experience in municipal internal audits of the partner, manager/supervisor, and senior assigned to the audit including years on each job and their position on each audit. Describe the role of each member of the audit team assigned to the audit including staff in specialized areas.
- c) Indicate the local office(s) where the staff will be located, which office will be assigned the audit and provide a detailed list of audit staffing and their positions.
- d) Describe the relevant educational background of each individual assigned to the audit. This should include seminars and courses attended within the past two years.
- e) Describe any specialized skills, training and background in internal audit by assigned individuals. This may include participation in municipal or provincial consulting assignments, speaker or instructor roles in conferences or seminars or authorship of articles and books.

APPENDIX "C"

8.0 SUBMISSIONS REQUIREMENTS...cont'd

8.6 Advisory Services and Publications

Information should be included in the proposal regarding any advisory services which may be available to the municipality free of charge on routine matters. These may include staff assistance and/or publications.

8.7 Fee

Proponents are required to submit:

- A fee for the development of rolling three (3) year risk-based audit plan that should include projected time requirements per audit;
- The time it will take to develop the above noted three (3) year risk-based audit plan that should include projected time requirements per audit; and
- A schedule of proposed hourly rates for all project personnel by classification for the term of the contract.

Included with this should be the percentage of commitment to perform the work by personnel classification. Also, the Proponent should provide appropriate detail of both their proposed fees and billing arrangements, breaking out staff costs vs. expenses where applicable.

It should be noted that the recommended 2011 budget is \$300,000.

8.8 Additional Requirements

- a) Provide a brief explanation of why your firm should be selected (specific, detailed, verifiable information). Also, include comment on any ideas respecting the audit function that your firm believes the City should consider.
- b) The onus is on the proponents to show their knowledge, understanding and capacity to conduct the work outlined in the RFP. The proposals will be assessed according to how well they assure the City of success in relation to the RFP requirements. The detail and clarity of the written submission will be considered indicative of the proponent's expertise and competence.
- c) Proponents are to detail what additional value they can bring to the City if awarded the contract.

9.0 EVALUATION CRITERIA

9.1 Evaluation Team

- a) Proposals will be evaluated by the Audit Services Selection Committee. This Committee will consist of the Audit Committee Chair, one other Audit Committee member, a representative from both the CAO's Office and Finance Department 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.

APPENDIX "C"

9.0 EVALUATION CRITERIA

9.2 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.

9.3 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

9.4 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. If interviews are required they will commence the week of October 4, 2010, **these dates will not be changed.**

The interview/presentations shall be evaluated by the Audit Service Selection 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. It is anticipated that a firm will be appointed by City Council prior to the end of November 2010.

It should be noted that subsequent to the selection of the successful Proponent, the decision to proceed with the finalization of the contract will be subject to the approval of the 2011 budget.

BY RESPONDING TO THIS RFP, PROPONENTS ACKNOWLEDGE THAT THE EVALUATION TEAM IS SOLELY RESPONSIBLE FOR RECOMMENDING THE SUCCESSFUL PROPONENT TO CITY COUNCIL AND THAT CITY COUNCIL MAKES THE FINAL DECISION.

APPENDIX "C"

10.0 FORM OF PROPOSAL

AT LEAST ONE SIGNED ORIGINAL OF THIS FORM OF PROPOSAL MUST BE INCLUDED IN YOUR SUBMISSION

- 10.1 Please state terms of payment (Note: Early payment discounts will be considered in the award of the contract, and will apply **after** taxes):

- 10.2 I/WE, the undersigned authorized signing officer of the Proponent, HEREBY DECLARE that no person, firm or corporation other than the one represented by the signature (or signatures) of proper officers as provided below, has any interest in this proposal.
- 10.3 I/WE further declare that all statements, schedules and other information provided in this proposal are true, complete and accurate in all respects to the best knowledge and belief of the Proponent.
- 10.4 I/WE further declare that this proposal is made without connection, knowledge, comparison of figures or arrangement with any other company, firm or persons making a proposal and is in all respects fair and without collusion for fraud.
- 10.5 I/WE further declare that the undersigned is empowered by the Proponent to negotiate all matters with the Corporation representatives, relative to this proposal.
- 10.6 WE further declare that the agent listed below is hereby authorized by the Proponent to submit this proposal and is authorized to negotiate on behalf of the Proponent.
- 10.7 I/WE have allowed for Addenda numbered as follows: #_____ through to #_____.

Failure to acknowledge all addenda will result in your proposal being rejected.

COMPANY NAME: _____

ADDRESS: _____

CITY/PROVINCE: _____

POSTAL CODE/ZIP CODE _____

AUTHORIZED SIGNATURE: _____ TITLE _____
I/WE are authorized to bind the COMPANY/CORPORATION

NAME (Please print or type): _____

TELEPHONE NUMBER () _____ FAX NUMBER () _____

GST REGISTRATION # _____

HST REGISTRATION # _____

EMAIL ADDRESS _____

DATE OF PROPOSAL _____

NOTE: Please return page **15** on or before **12:00 Noon, Local Time, FRIDAY, SEPTEMBER 10, 2010.**

The Corporation of the City of London

Proposed Risk Assessment and
3 Year Risk-Based Audit Plan
March 31, 2011

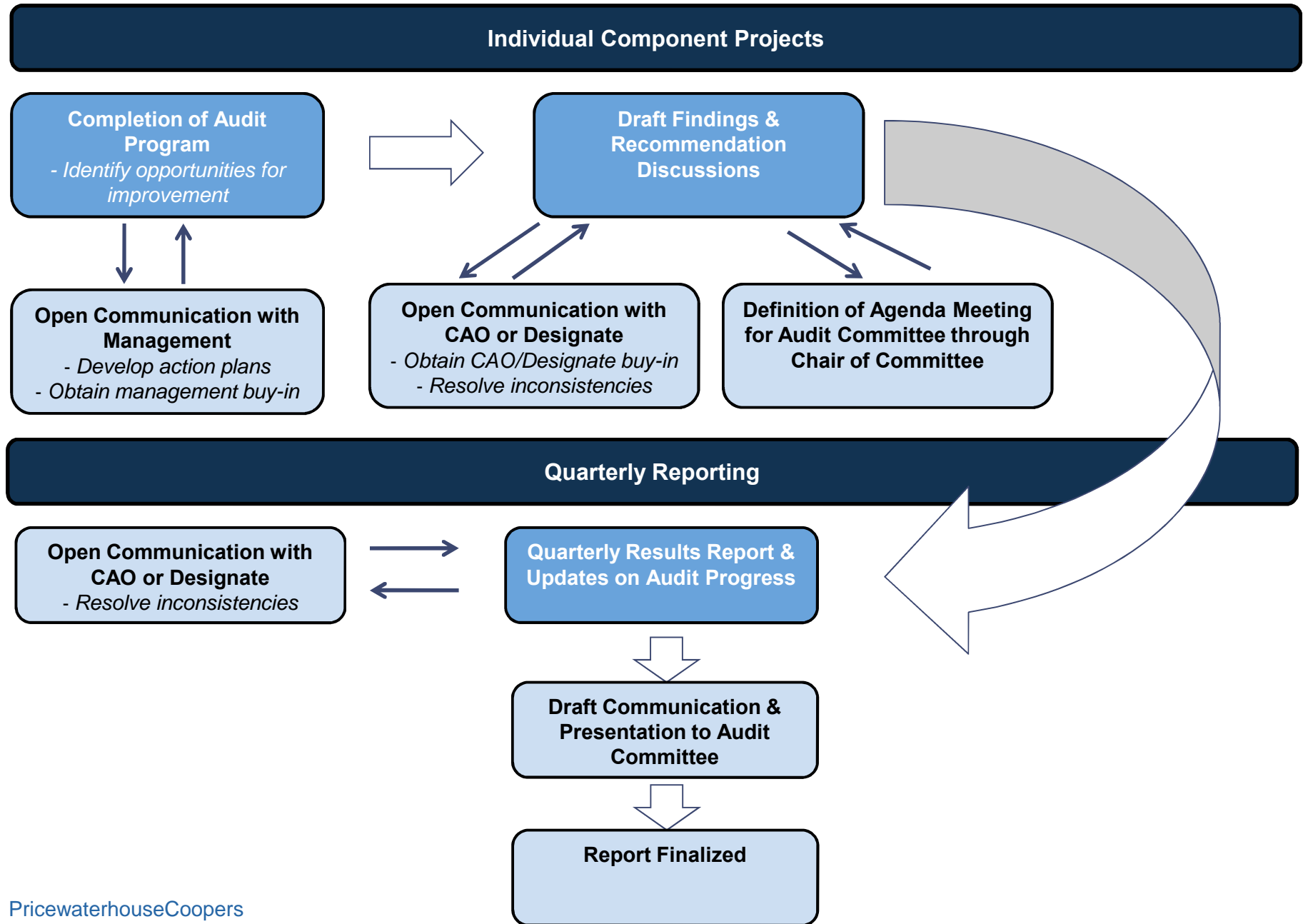
APPENDIX "D"

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APPENDIX "D"

Reporting Process



Risk Assessment Summary - Introduction

Purpose

- To develop a risk-based approach for the execution of the Internal Audit program.
- To help identify internal audit activities that are aligned with the City's key strategic initiatives.

Approach



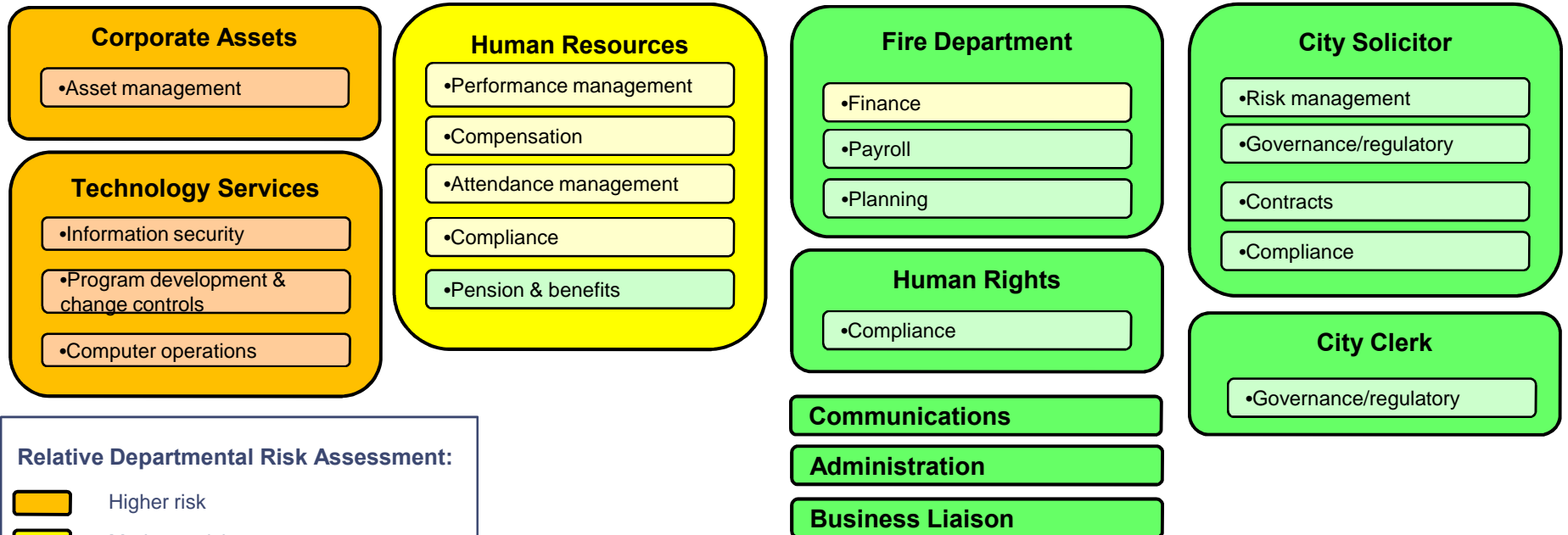
Deliverables

- A risk profile for the organization
- A comprehensive annual internal audit plan, that is aligned with the City's strategic initiatives

APPENDIX "D"

Risk Assessment Summary

CAO's Department



Relative Departmental Risk Assessment:

- Higher risk
- Moderate risk
- Low Risk

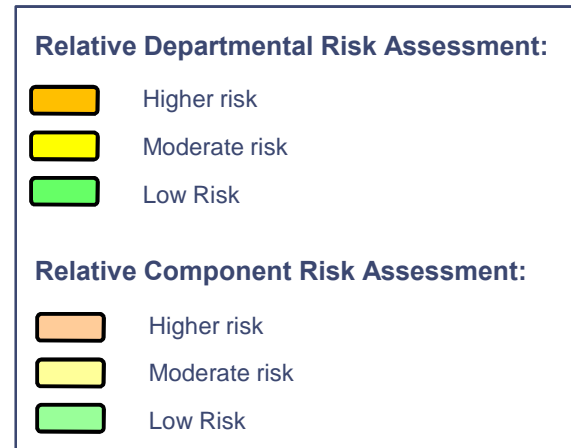
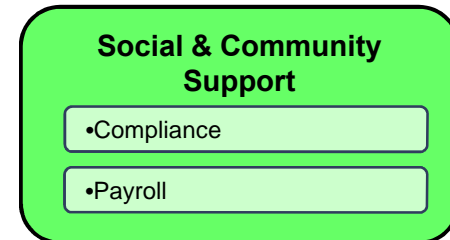
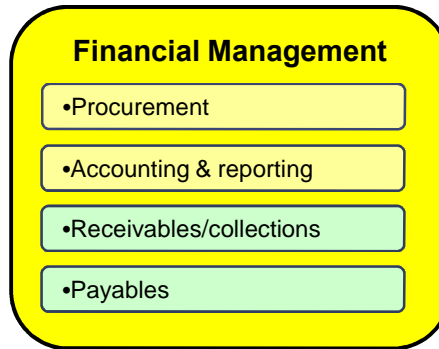
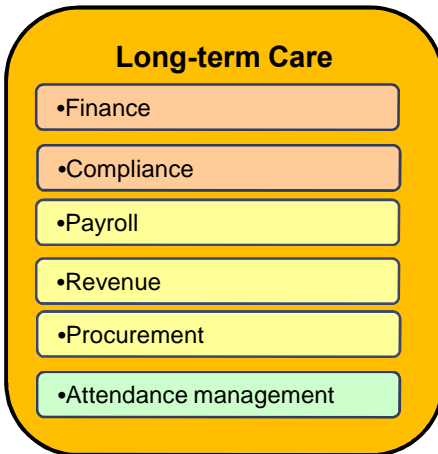
Relative Component Risk Assessment:

- Higher risk
- Moderate risk
- Low Risk

APPENDIX "D"

Risk Assessment Summarycontinued

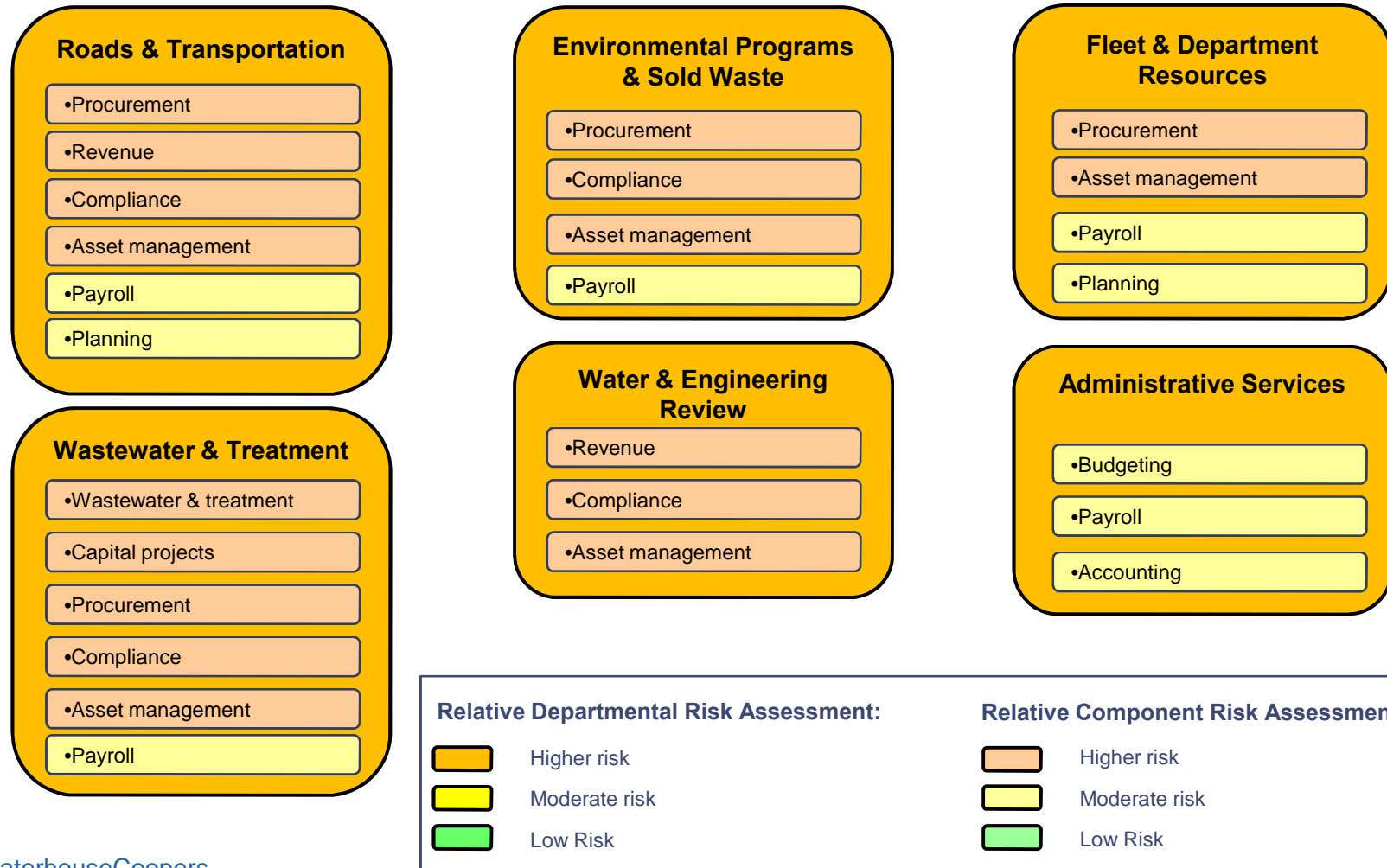
Community Services



APPENDIX "D"

Risk Assessment Summarycontinued

Environmental & Engineering Services



Risk Assessment Summarycontinued

Planning & Development

Municipal Housing

- Finance
- Programs
- Compliance

Development Approvals

- Compliance

Building Control

- Compliance

Land Use Planning

- Compliance

Relative Departmental Risk Assessment:

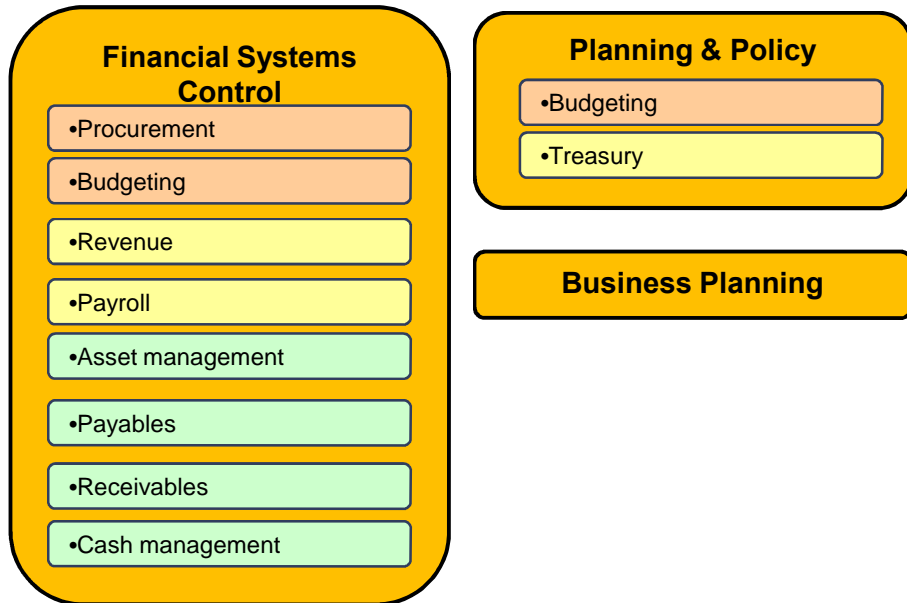
- Higher risk
- Moderate risk
- Low Risk

Relative Component Risk Assessment:

- Higher risk
- Moderate risk
- Low Risk

Risk Assessment Summarycontinued

Finance



Tourism London



Relative Departmental Risk Assessment:

- Higher risk (Orange)
- Moderate risk (Yellow)
- Low Risk (Green)

Relative Component Risk Assessment:

- Higher risk (Light Orange)
- Moderate risk (Light Yellow)
- Low Risk (Light Green)

APPENDIX "D"

Proposed 3 Year Risk-Based Internal Audit Plan by Year

→ Each individual audit project below will be performed in a risk-based, targeted manner in which key controls and functions will be prioritized.

→ Based upon information gathered through these projects, and input of the Audit Committee, this 3-year internal audit plan may be modified in the future.

→ See Appendix for descriptions of each project.

2011	2012	2013
<i>Development Approvals:</i> Approvals and development charges	Grant and loan program administration (multiple departments)	<i>Corporate Assets:</i> Asset management
<i>Municipal Housing:</i> Finance and monitoring	<i>Environmental & Engineering:</i> Project tendering and contracts	<i>Community Services:</i> Cash handling
<i>Technology Services:</i> Governance assessment	<i>Human Resources:</i> Succession planning	<i>Parks and Recreation:</i> Health and safety
<i>Long-term Care:</i> Regulatory compliance	<i>Community Services:</i> Financial reporting	<i>Environmental & Engineering:</i> Payroll
<i>Environmental & Engineering:</i> Water and sewage revenue	<i>Building Control:</i> Compliance	<i>Financial Systems Control:</i> Property tax assessments and collections
<i>Environmental & Engineering:</i> Fleet asset management	<i>Financial Systems Control:</i> Credit cards	<i>Planning & Policy:</i> Business planning
<i>Human Resources:</i> Attendance management	<i>Financial Systems Control:</i> Payroll	<i>Planning & Policy:</i> Budgeting process
<i>Financial Systems Control:</i> Bid process and approved consultants	<i>Financial Systems Control:</i> Expenditure approval and payment	<i>Technology Services:</i> Placeholder

APPENDIX "D"

Proposed 3 Year Risk-Based Internal Audit Plan by Department

Project	Year Ending December 31		
	2011	2012	2013
CAO's Department			
<i>Human Resources:</i>			
Attendance management	X		
Succession planning		X	
<i>Technology Services:</i>			
Governance assessment	X		
Placeholder			X
<i>Corporate Assets:</i>			
Asset management **			X
Community Services			
<i>Long-term Care:</i>			
Regulatory compliance	X		
<i>Financial Management:</i>			
Financial reporting		X	
Grant and loan program administration *		X	
Cash handling			X
<i>Parks & Recreation:</i>			
Health and safety			X

* Multiple department project

** Potential value-for-money opportunity

APPENDIX "D"

Proposed 3 Year Risk-Based Internal Audit Plan by Department

Project	Year Ending December 31		
	2011	2012	2013
Environmental & Engineering Services			
Water and sewage revenue **	X		
Fleet asset management **	X		
Project tendering and contracts **		X	
Grant and loan program administration *		X	
Payroll			X
Planning & Development			
<i>Municipal Housing:</i>			
Finance and monitoring	X		
<i>Development Approvals:</i>			
Approvals and development charges **	X		
<i>Building Control:</i>			
Compliance		X	
Grant and loan program administration *		X	

* Multiple department project

** Potential value-for-money opportunity

APPENDIX "D"

Proposed 3 Year Risk-Based Internal Audit Plan by Department

Project	Year Ending December 31		
	2011	2012	2013
Finance			
<i>Financial Systems Control:</i>			
Bid process and approved consultants **	X		
Credit cards **		X	
Payroll		X	
Expenditure approval and payment **		X	
Property tax assessments and collections **			X
<i>Planning & Policy:</i>			
Business planning			X
Budgeting process			X

* Multiple department project

** Potential value-for-money opportunity

APPENDIX "D"

Balanced Scorecard

Corporate Strategy

Audit Committee

Objectives	Measures
Achieve a high level of satisfaction of Audit Committee	Number of concise, value-added recommendations
Meet the risk concerns of Audit Committee	Approval of annual risk-based audit plan focusing on high priority items
Engaged and informed Audit Committee	<ul style="list-style-type: none"> • Number of reports presented to the Audit Committee • Timely reporting of recommendations
Value-for-Money	Estimated quantification of future cost savings

Management/Auditees

Objectives	Measures
Develop and maintain appropriate relationships with key contacts	Number of closing meetings held with management
Obtain recommendations and identify action plans to improve the City's efficiency and effectiveness	Number of concise, value-added recommendations

Innovation/Capabilities

Objectives	Measures
Application of industry expertise and best practices	Number of best practices identified by internal audit
Application of effective tools and technology	Use of internal audit resources and processes

Internal Audit Processes

Objectives	Measures
Complete projects in a timely manner	Percentage of projects completed on time
Creation of an accurate and effective risk assessment	Completion of annual risk assessment and updates to audit plan
Manage conflict resolution process	Number of outstanding action plans

Internal Audit Strategy

APPENDIX "D"

Appendix – Project Descriptions

The work performed in each project will be focused on controls relating to the following:

Project	Key Focus
<i>Municipal Housing:</i> Finance and monitoring	<ul style="list-style-type: none"> - review and approval of government subsidies - monitoring of low-income housing rates - planning processes regarding the long-term capital requirements and property maintenance of municipal housing
<i>Development Approvals:</i> Approvals and development charges	<ul style="list-style-type: none"> - review and approval of development projects with respect to the applicable regulatory standards - processes surrounding the effective management and resolution of development project issues such as cost overruns or missing targeted timelines - validity of development charge claims submitted by contractors
<i>Building Control:</i> Compliance	<ul style="list-style-type: none"> - review of building code approvals with respect to applicable regulations - compliance with document retention policies
<i>Human Resources:</i> Attendance management	<ul style="list-style-type: none"> - tracking of sick leave, vacation and other leave balances - compliance with attendance related policies
<i>Human Resources:</i> Succession planning	<ul style="list-style-type: none"> - planning for future staffing needs and changes - review plans for training, reorganizing and redefining roles
<i>Technology:</i> Governance assessment	<ul style="list-style-type: none"> - readiness assessment to ensure that the structure and key functions of the Technology Services Division are meeting the objectives of the recent reorganization
<i>Technology:</i> Placeholder	<ul style="list-style-type: none"> - to be defined subsequent to the results of the information technology governance assessment performed in year one
<i>Corporate Assets:</i> Asset management	<ul style="list-style-type: none"> - planning and approval processes surrounding the spending of infrastructure renewal and development project funds - planning and budgeting processes relating to future capital spending needs - reliability of financial and strategic capital planning data generated by the modified system for tracking corporate assets
<i>Long-term Care:</i> Regulatory compliance	<ul style="list-style-type: none"> - compliance with changing legislative standards, including accurate calculations of funding

APPENDIX "D"

Appendix – Project Descriptions

The work performed in each project will be focused on controls relating to the following:

Project	Key Focus
<i>Community Services:</i> Cash handling	- safeguarding and record keeping of cash balances at a sample of locations
<i>Community Services:</i> Financial reporting	- accuracy of financial reporting for those entities which are maintained on separate accounting systems
Grant and loan program administration (multiple department project)	- internal consistency of grant and loan programs and the administration of the programs
<i>Parks and Recreation:</i> Health and safety	- compliance and ongoing monitoring of safety training requirements for staff members with respect to regulatory standards - compliance and ongoing monitoring of safety standards at a sample of parks and recreational locations
<i>Environmental & Engineering:</i> Water and sewage revenue	- monitoring of funds remitted to the City from London Hydro
<i>Environmental & Engineering:</i> Project tendering and contracts	- consistent execution and documentation of the project tendering/bid process - consistency in the development of business cases supporting the use of City funds - monitoring of the utilization of warranty clauses for re-work claims
<i>Environmental & Engineering:</i> Payroll	- accuracy and validity of payroll hours, rate changes, new hires, terminations and relocations - proper segregation of duties and maintenance of documentation
<i>Environmental & Engineering:</i> Fleet asset management	- monitoring controls surrounding the cost management and maintenance of the City's fleet of vehicles - monitoring of fleet rates - fleet inventory access and usage

APPENDIX "D"

Appendix – Project Descriptions

The work performed in each project will be focused on controls relating to the following:

Project	Key Focus
<i>Financial Systems Control:</i> Bid process and approved consultants	<ul style="list-style-type: none">- consistent execution and documentation of the project tendering/bid process in line with policy- consistent development of business cases supporting the use of City funds- consistent utilization of an approved list of vendors/consultants
<i>Financial Systems Control:</i> Credit cards	<ul style="list-style-type: none">- review and approval of expenditures processed through corporate credits cards for validity and compliance with the purchasing policy
<i>Financial Systems Control:</i> Payroll	<ul style="list-style-type: none">- controls surrounding the accuracy and validity of payroll hours, rate changes, new hires, terminations and relocations- controls surrounding proper segregation of duties and maintenance of documentation
<i>Financial Systems Control:</i> Expenditure approval and payment	<ul style="list-style-type: none">- approval of fund disbursements, whether through cheque payment, electronic funds transfer or cash, in line with the purchasing policy and in accordance with terms of original contracts
<i>Financial Systems Control:</i> Property tax assessments and collections	<ul style="list-style-type: none">- accuracy and validity of property tax assessments and property tax rates- collection and monitoring of outstanding property tax balances
<i>Planning & Policy:</i> Business planning	<ul style="list-style-type: none">- this new function's ability to meet its goals and objectives as set out during creation of the group
<i>Planning & Policy:</i> Budgeting process	<ul style="list-style-type: none">- consistent creation, review and approval of budgets incorporating all related costs for decision making purposes

*The Corporation of the
City of London*

Proposed Risk Assessment
and 2016 Performance-Based
Audit Plan

January 13, 2016

Agenda

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Risk Assessment Summary	9
Proposed 2016 Performance-Based Audit Plan	16

Team Members



Chirag Shah

Partner, PricewaterhouseCoopers LLP

+ 1-519-640-7914

chirag.p.shah@ca.pwc.com

Profile

Chirag is a Partner in the Audit and Assurance Group and is also the London Market Leader. He has over 23 years of audit experience across a broad range of clients and industries. Chirag's experience extends through municipal, public, private as well as not-for-profit enterprises from diverse industries including manufacturing, retail, education, financial services and investment management. He has led a variety of engagements including internal audit reviews, acquisition and divestiture assistance, controls assurance reviews, due diligence exercises, financial modeling and financing assistance.

Experience with the City of London

Chirag is the lead engagement partner for the internal audit outsourced services for the City of London. Chirag has led the development of our risk assessment, project development, scoping and execution of internal audit with a focus on value added findings and a collaborative approach with management.



Duncan McLean

Manager, PricewaterhouseCoopers LLP

+1 519-640-8002

duncan.a.mclean@ca.pwc.com

Profile

Duncan is a Manager in the Audit and Assurance Group and has over 8 years experience working with clients that range in both size and industry, with a particular depth of clients in the not-for-profit sector including registered charities and housing co-operatives. This diverse experience helps create a broad understanding and skillset which is particularly valuable for assignments involving value added recommendations and innovative thinking.

Experience with the City of London

Duncan has been involved with several projects and assignments for the City of London beginning in 2015. Duncan's role as interim Director of Finance for the London Middlesex Housing Corporation in 2013 has helped develop knowledge and appreciation of the challenges and opportunities that exist in the unique public sector environment.

Team Members...continued



Christopher O'Connor

Consulting Leader – Southwest Ontario, PricewaterhouseCoopers LLP

+1 519-570-5709

christopher.w.oconnor@ca.pwc.com

Profile

Christopher is the leader of PwC's Consulting practice in Southwest Ontario. Christopher is based in our Waterloo office. With more than 18 years of experience, Christopher's extensive knowledge has enabled him to specialize in governance, risk and internal controls assurance and advisory services to both public and private companies with a focus on the public sector (education, municipalities, healthcare and crown corporations) and technology.

Experience with the City of London

Christopher has significant experience with internal audit and the public sector and is relied upon as a resource for the PwC team in performing our internal audit services for the City. Christopher has led internal audit and other consulting projects at the City, primarily relating to IT.

Risk Assessment Summary

Engineering & Environmental Services

Regional Water Supply

- Treatment and transmission operations, compliance and maintenance management
- Treatment transmission engineering construction and optimization



Lake Huron and Elgin Areas Board of Management*

* The City has an administration role

Water & Wastewater

- Pollution control operations
- Wastewater and drainage engineering
- Sewer operations
- Construction administration
- Water operations
- Water engineering




Roads & Transportation

- Roadway lighting and traffic control
- Transportation planning and design
- Transportation and roadside operations
- Geomatics
- Stormwater management
- Industrial development

Environment, Fleet & Solid Waste

- Environmental programs
- Solid waste management
- Solid waste operations
- Fleet services

Relative Division Risk Assessment:

-  Higher risk
-  Moderate risk
-  Low Risk

Risk Assessment Summary, Continued

Development & Compliance Services

Building

- Inspections
- Plans examinations
- Property standards
- Property compliance and zoning
- Minor variances

Licensing & By-Law Enforcement

- Municipal by-law enforcement
- Business licensing
- Parking enforcement
- Animal care and control




Development Compliance Services

- Site plans
- Engineering review
- Consents
- Condominiums
- Subdivisions

Business Services

- Operational support and administration
- Cash handling
- Customer call centre

Relative Division Risk Assessment:

-  Higher risk
-  Moderate risk
-  Low Risk

Risk Assessment Summary, Continued

Planning

Environmental & Park Planning

- Natural heritage planning
- Environmentally Significant Area conservation master plans
- Parks and pathway project design and management
- Parkland dedication negotiation
- Community projects collaboration

Urban Forestry

- Forestry master planning
- Pest and disease strategies
- Planting plans and programs




Policy Planning & Programs

- Official plan policy development and stewardship
- Policy projects
- Heritage planning
- Downtown and business district revitalization
- Incentive program administration

Community Planning & Design

- Urban design
- Official plan amendment processing
- Zoning by-law amendment processing
- Secondary plans and community improvement plans

Relative Division Risk Assessment:

-  Higher risk
-  Moderate risk
-  Low Risk

Risk Assessment Summary, Continued

Corporate Services – Finance & IT

Finance

- Purchasing
- Tangible capital assets
- Financial systems controls
- Accounting
- Taxation and revenue
- Payroll
- Development financing
- Asset management

Information Technology




- Information security
- Information system security and software
- Computer controls and hardware
- Business system analysis

Facilities

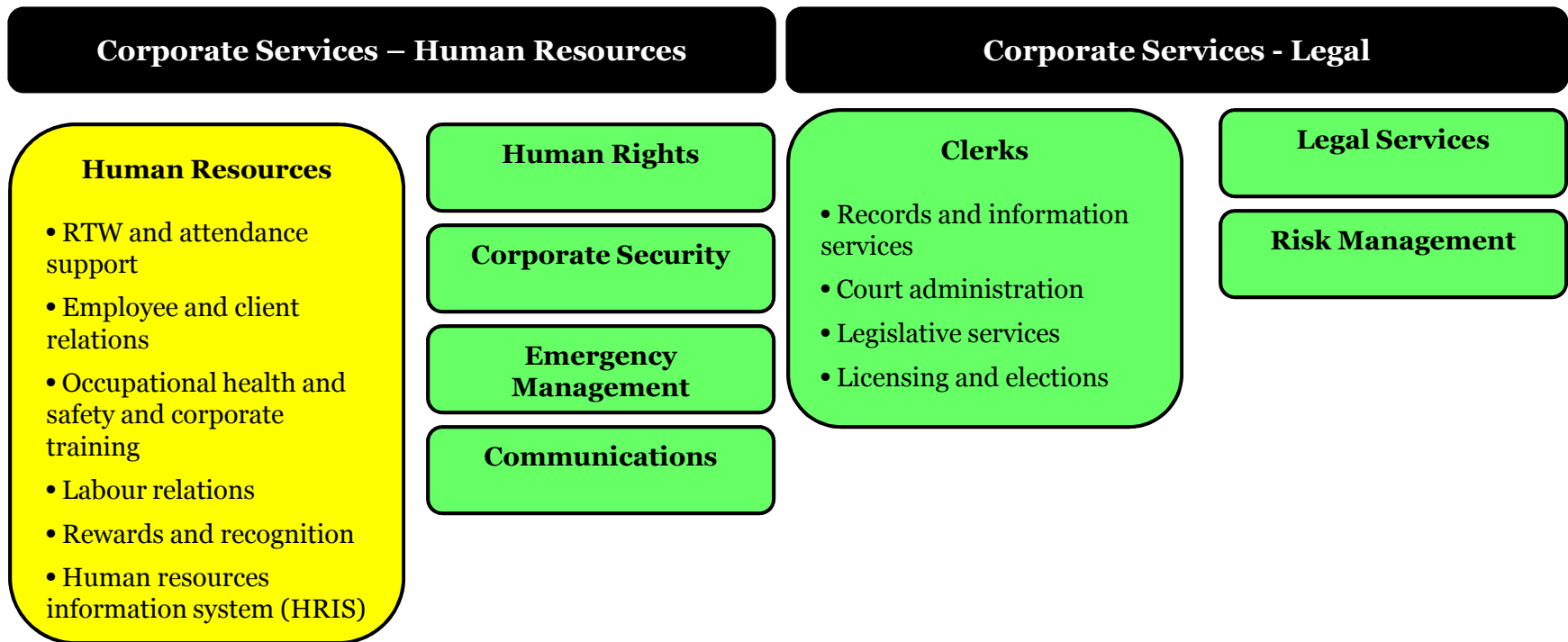
Financial Planning & Policy

Investment & Partnerships

Relative Division Risk Assessment:

-  Higher risk
-  Moderate risk
-  Low Risk

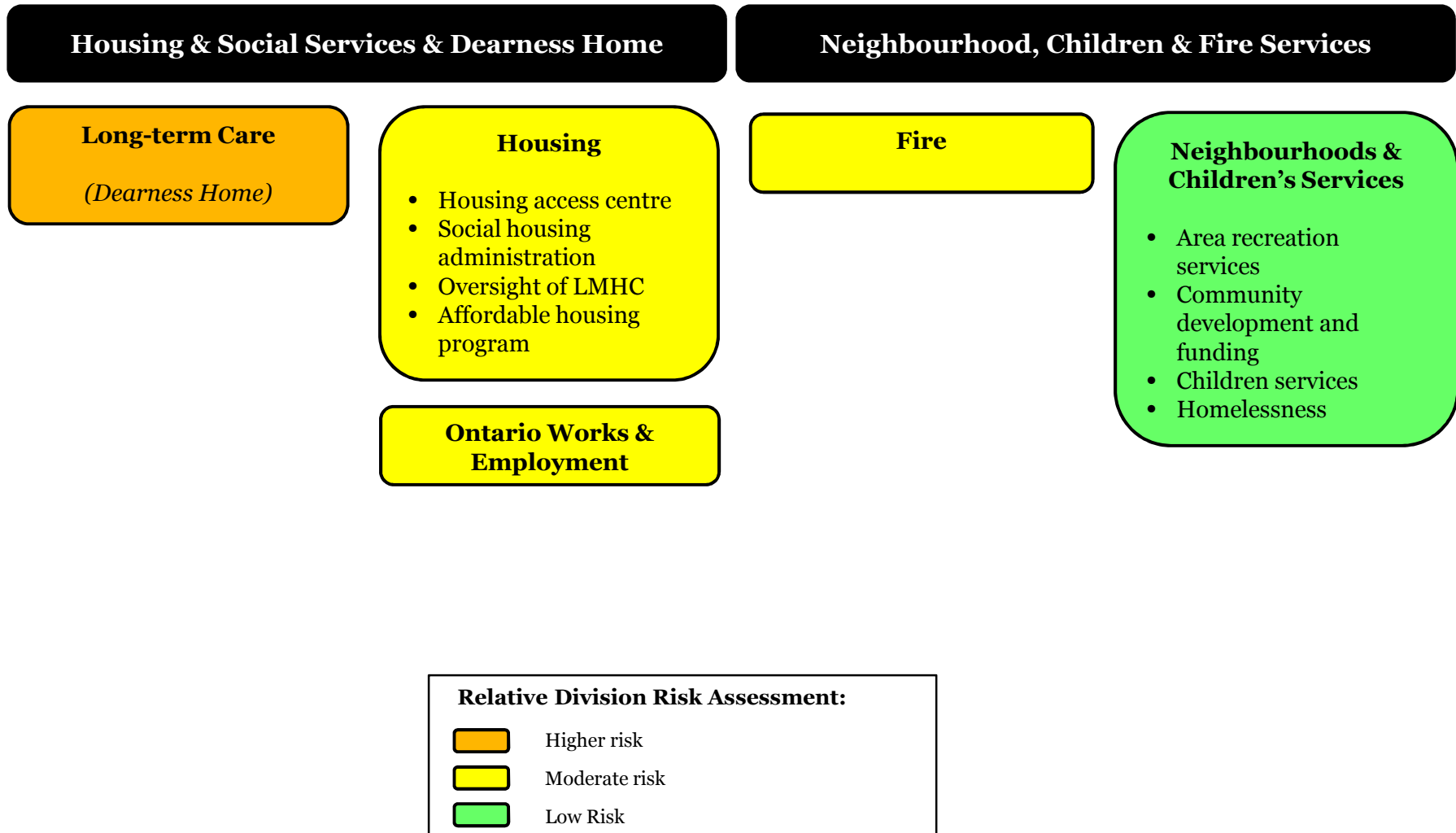
Risk Assessment Summary, Continued



Relative Division Risk Assessment:

- Higher risk
- Moderate risk
- Low Risk

Risk Assessment Summary, Continued



Risk Assessment Summary, Continued

Parks & Recreation

Parks & Community Support

- Parks operations
- Golf
- Allocations and support services
- Special events




Arenas, Aquatics and Attractions

- Arena operations
- Aquatics operations
- Storybook Gardens

Administration

- Customer service
- Business solutions

Relative Division Risk Assessment:

-  Higher risk
-  Moderate risk
-  Low Risk

APPENDIX "E"

Ongoing projects from 2015 Performance Based Audit Plan

	Project	Key Focus
1	<i>Development & Compliance Services:</i> Development Services - processes and approvals surrounding site plans and subdivisions	<ul style="list-style-type: none">- Review of development services processes and approvals surrounding site plans and subdivisions- Compliance with document retention policies
2	<i>Housing, Social Services & Dearness Home:</i> Long-term care – oversight and cost structure review	<ul style="list-style-type: none">- Process review for efficiency and effectiveness, including communications with key stakeholder groups- Compliance with key regulatory requirements

APPENDIX "E"

Proposed 2016 Performance-Based Internal Audit Plan

	Project	Key Focus
1	<i>Corporate services – Finance & IT/ Environmental & Engineering Services:</i> Construction and procurement of higher risk assets	<ul style="list-style-type: none"> - Review of process, approvals, and risk assessment related to the procurement or construction of higher risk assets - Review of procurement process related to Normal School
2	<i>Engineering & Environmental Services:</i> Fleet asset management follow-up review	<ul style="list-style-type: none"> - Follow-up review of action plans determined from previous internal audit engagement, including updated evaluation of fleet rental rates and vehicle utilization (2012)
3	<i>Corporate Services – Finance & IT:</i> Project management and prioritization	<ul style="list-style-type: none"> - Process-based management of projects supported by adequate planning, monitoring and controlling activities - Prioritization of projects based on lifecycle renewal and timing of related projects
4	<i>Corporate Services – Finance & IT:</i> Segregation of duties	<ul style="list-style-type: none"> - Evaluate the design and implementation of IT security initiatives, including access controls and segregation of duties
5	<i>Corporate Services – Finance & IT:</i> Software utilization, consistency and integration (deferred from 2015)	<ul style="list-style-type: none"> - Review of number and types of software applications to assess for redundancies/overlap and opportunities for streamlining and improving integration - Assessment of software/module utilization
6	<i>Corporate Services:</i> Review of inter-municipal agreements	<ul style="list-style-type: none"> - Review of agreements with other municipalities for provision of services
7	<i>Corporate Services – Human Resources:</i> Succession planning follow-up review (deferred from 2015)	<ul style="list-style-type: none"> - Follow up review of action plans determined from previous internal audit engagement, including updated summary of critical positions, available talent pool, and talent pool's career goals and aspirations (2013)
8	<i>Engineering & Environmental Services:</i> Review of allocation of administrative costs to Lake Huron & Elgin Areas Water Supply Boards	<ul style="list-style-type: none"> - Review the determination of cost allocation (or recovery) to/ from the Lake Huron & Elgin Areas Water Supply Boards
9	<i>Development and Compliance Services:</i> Building control	<ul style="list-style-type: none"> - Review the design and operating effectiveness of controls surrounding cash handling

The Corporation of the City of London

Summary of internal audit projects from 2011 to 2015

February 23, 2016



Contents

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Summary of internal audit projects by year	3

Summary of internal audit projects by service area

Service Area	Year	Project Description	# of Findings	Value for \$ ¹
City of London	2014	- Shared services review	9	-
Corporate Services - Finance & IT	2011	- Information and security governance assessment & JDE IT general controls - Procurement Bid Process	25	-
	2012	- Purchasing cards - Expenditure approval and payment - Payroll administration	18	-
	2013	- Budgeting process - Facilities & property utilization - Property tax assessments & collections - IT project management & utilization	37	225,000
Corporate Services - Human Resources	2011	- Time-off provisions	7	-
Development & Compliance Services	2011	- Development approvals	8	-
	2012	- Building control	8	500,000
	2015	- By-law enforcement and licensing	14	170,000
	2015	- Process and approvals on inspections of site plans & subdivisions	4	42,000
Engineering & Environmental Services	2011	- Water & sewage revenue - Fleet asset management	27	3,140,000
	2012	- Contract and tendering administration	8	425,000
	2014	- Landfill review process	2	-
	2014	- Solid waste collection and recycling process review	8	720,000
	2015	- Roads and transportation - capital budget development and project costing	5	400,000
	2015	- Roads and transportation - project management and resource utilization	4	-
Housing & Social Services	2011	- Housing Division	13	250,000
	2012	- Financial management	8	-

¹ This is a summary of the estimated cost savings or additional revenue available to the City that are estimable and could result from the implementation of internal audit recommendations. Quantifications have been estimated based on information provided by City management and actual cost savings/revenues could differ from these estimates. This excludes other potential efficiencies which may exist through the implementation of other recommendations, and savings that could not be quantified or relate to recommendations presented in-camera.

	2014	- Housing access center process review	7	50,000
London & Middlesex Housing Corp.	2013	- Organizational review - Purchased services review	38	-
London Convention Centre	2013	- Revenue & growth opportunities	7	600,000
London Public Library	2013	- Revenue base & fee structure	7	200,000
London Transit Commission	2013	- Payroll & time-off provisions	5	-
Long-term care	2011	- Long-term care compliance	4	-
Middlesex London Health Unit	2013	- Efficiency & shared services review	8	-
Parks & Recreation	2012	- Health and safety	7	10,000
	2013	- Revenue strategies	9	555,000
	2015	- Cost structure and delivery model	3	-
Planning	2013	- Urban forestry & planning application	14	95,000
The London Police Services Board	2015	- Revenue-generating opportunities	14	95,000
		- Personnel costs		
		- Budgeting process		

Summary of internal audit projects by year

Year	Service Area	Project Description	# of findings	Value for \$ ²
2011	Corporate Services - Finance & IT	- Information and security governance assessment & JDE IT general controls - Procurement Bid Process	25	-
	Corporate Services - Human Resources	- Time-off provisions	7	-
	Development & Compliance Services	- Development approvals	8	-
	Engineering & Environmental Services	- Water & sewage revenue - Fleet asset management	27	3,140,000
	Housing & Social Services	- Housing Division	13	250,000
	Long-term care	- Long-term care compliance	4	-
2012	Corporate Services - Finance & IT	- Purchasing cards - Expenditure approval and payment - Payroll administration	18	-
	Development & Compliance Services	- Building control	8	500,000
	Engineerin & Environmental Services	- Contract and tendering administration	8	425,000
	Housing & Social Services	- Financial management	8	-
	Parks & Recreation	- Health and safety	7	10,000
	Corporate Services - Finance & IT	- Budgeting process - Facilities & property utilization - Property tax assessments & collections - IT project management & utilization	37	225,000
	London & Middlesex Housing Corp.	- Organizational review - Purchased services review	38	-
	London Convention Centre	- Revenue & growth opportunities	7	600,000
	London Public Library	- Revenue base & fee structure	7	200,000
	London Transit Commission	- Payroll & time-off provisions	5	-
	Middlesex London Health Unit	- Efficiency & shared services review	8	-
	Parks & Recreation	- Revenue strategies	9	555,000
	Planning	- Urban forestry & planning application	14	95,000
2014	City of London - organizational	- Shared services review	9	-

² This is a summary of the estimated cost savings or additional revenue available to the City that are estimable and could result from the implementation of internal audit recommendations. Quantifications have been estimated based on information provided by City management and actual cost savings/revenues could differ from these estimates. This excludes other potential efficiencies which may exist through the implementation of other recommendations, and savings that could not be quantified or relate to recommendations presented in-camera.

	Engineering & Environmental Services	- Landfill review process	2	-
	Engineering & Environmental Services	- Solid waste collection and recycling process review	8	720,000
	Housing & Social Services	- Housing access center process review	7	50,000
2015	Development & Compliance Services	- By-law enforcement and licensing	14	170,000
	Development & Compliance Services	- Process and approvals on inspections of site plans & subdivisions	4	42,000
	Engineering & Environmental Services	- Roads and transportation - capital budget development and project costing	5	400,000
	Engineering & Environmental Services	- Roads and transportation - project management and resource utilization	4	-
	Parks & Recreation	- Cost structure and delivery model	3	-
	The London Police Services Board	- Revenue-generating opportunities - Personnel costs - Budgeting process	14	95,000

Appendix "G"

SUMMARY OF INTERNAL AUDIT PROJECTS BY YEAR 2011-2015

NOTE: All cost savings & new revenues have already been incorporated in the 2016-19 approved multi-year budget

Service Area	Year	Project Description	# of Findings	Annual Value for \$ Identified by PwC	Status Update	Value for \$'s taken into account in Budget
Corporate Services - Finance & IT	2011	- Information and security governance assessment & JDE IT general controls - Procurement Bid Process	25	\$0	No financial impact.	\$0
Corporate Services - Human Resources	2011	- Time-off provisions	7	\$0	No financial impact.	\$0
Development & Compliance Services	2011	- Development approvals	8	\$0	No financial impact.	\$0
Engineering & Environmental Services	2011	- Water & sewage revenue - Fleet asset management	27	\$340,000	Reduced fleet complement by 17 vehicles based on utilization.	\$343,099
Engineering & Environmental Services	2011	- Water & sewage revenue - Fleet asset management		\$2,800,000	Introduced a Fire Protection Charge as part of Water Rate Review. Increased Water Rate for Temporary Connection for Construction from \$14.02 to \$45 (residential fee example).	\$2,847,464
Housing & Social Services (HSSD)	2011	- Housing Division	13	\$250,000	Cost avoidance was realized from 2013-2015 in reduced Housing Provider Subsidies as a result of many factors, including improved business practices, increased monitoring of Housing Providers.	\$370,000
Long-term care (HSSD)	2011	- Long-term care compliance	4	\$0	No financial impact.	\$0
Corporate Services - Finance & IT	2012	- Purchasing cards - Expenditure approval and payment - Payroll administration	18	\$0	No financial impact.	\$0
Development & Compliance Services	2012	- Building control	8	\$500,000	Net impact included in 2017 budget (\$200,000).	\$200,000
Engineering & Environmental Services	2012	- Contract and tendering administration	8	\$425,000	No agreement reached to increase Construction Administration project management.	\$0
Housing & Social Services (HSSD)	2012	- Financial management	8	\$0	No financial impact.	\$0
Parks & Recreation	2012	- Health and safety	7	\$10,000	Recommendations were reviewed and majority have been implemented in conjunction with Facilities and Occupational Health & Safety	\$0
Corporate Services - Finance & IT	2013	- Budgeting process - Facilities & property utilization - Property tax assessments & collections - IT project management & utilization	37	\$225,000	Establishing a long-term corporate space planning strategy and growth projections could result in cost savings of \$130k - \$270k. Budgetary savings realized as a result of productive hours review.	\$668,730
London & Middlesex Housing Corp.	2013	- Organizational review - Purchased services review	38	\$0	LMHC's 2015 Business Plan indicates that shared services with the City have allowed LMHC to find annual cost savings of approximately \$260k per year, however this has not been validated.	\$0
London Convention Centre	2013	- Revenue & growth opportunities	7	\$600,000	Naming Policy was established. LCC is currently working to seek sponsorship.	\$3,950

Appendix "G"

SUMMARY OF INTERNAL AUDIT PROJECTS BY YEAR 2011-2015

NOTE: All cost savings & new revenues have already been incorporated in the 2016-19 approved multi-year budget

Service Area	Year	Project Description	# of Findings	Annual Value for \$ Identified by PwC	Status Update	Value for \$'s taken into account in Budget
London Public Library	2013	- Revenue base & fee structure	7	\$200,000	Various rates (lease rates, and proctoring rates) have been adjusted, but a corresponding decrease in volume has occurred.	\$32,000
London Transit Commission	2013	- Payroll & time-off provisions	5	\$0	No financial impact.	\$0
Middlesex London Health Unit	2013	- Efficiency & shared services review	8	\$0	No financial impact.	\$0
Parks & Recreation	2013	- Revenue strategies	9	\$555,000	The fee structures have been adjusted consistent with Administration's plans and supported by PWC's recommendation resulting in incremental revenues. However, some of this incremental revenue has been eroded by other factors including participation levels, external competition, etc. which was not factored into PWC's revenue estimate.	\$350,000
Planning	2013	- Urban forestry & planning application	14	\$95,000	Fees increases effective Jan 1, 2014.	\$96,000
City of London	2014	- Shared services review	9	\$0	No financial impact.	\$0
Engineering & Environmental Services	2014	- Landfill review Process	2	\$0	No financial impact.	\$0
Engineering & Environmental Services	2014	- Solid waste collection and recycling process review	8	\$720,000	For future consideration.	\$0
Housing & Social Services (HSSD)	2014	- Housing access center process review	7	\$50,000	Several of these findings are in progress and dependent on new Housing Information System (expected to be implemented in 2017).	\$0
Development & Compliance Services	2015	- By-law enforcement and licensing	14	\$170,000	Changes not recommended to residential licenses fee schedule. ☐	\$0
Development & Compliance Services	2015	- Process and approvals on inspections of site plans & subdivisions	4	\$42,000	User fee review underway. Increases expected in 2017.	\$0
Engineering & Environmental Services	2015	- Roads and transportation - capital budget development and project costing	5	\$400,000	Four initiatives were implemented in late 2015. ☐	\$320,000
Engineering & Environmental Services	2015	- Roads and transportation - project management and resource utilization	4	\$0	No financial impact.	\$0
Parks & Recreation	2015	- Cost structure and delivery model	3	\$0	No financial impact.	\$0
The London Police Services Board	2015	- Revenue-generating opportunities - Personnel costs - Budgeting process	14	\$95,000	London Police Services Board commissioned the audits directly. No status available.	\$0
TOTAL			328	\$ 7,477,000		\$ 5,231,243