

<b>TO:</b>	<b>CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON MARCH 11, 2020</b>
<b>FROM:</b>	<b>ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>REQUEST FOR PROPOSAL INTERNAL AUDIT SERVICES</b>

<b>RECOMMENDATION</b>
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That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer the following actions **BE TAKEN**:

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

<b>PREVIOUS REPORTS PERTINENT TO THIS MATTER</b>
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2020-2022 Internal Audit Plan, November 6, 2019, meeting of Audit Committee, Item #4.4

Internal Audit Services, May 30, 2016, meeting of Audit Committee, Item #2

RFP Process for Internal and External Audit Services, April 13, 2016, meeting of Audit Committee, Item #2

RFP Process Internal and External Audit Services, Sept 25, 2014, meeting of Audit Committee, Item #2

<b>BACKGROUND</b>
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In 2016, the City issued two (2) RPFs; one (1) for external audit services RFP 16-31, and one (1) for internal audit services RFP 16-36. The external audit had a term of five (5) years, and the internal audit had a term of four (4) years, with the option to renew for one (1) additional year.

In late 2016, Council appointed Deloitte LPP (Deloitte) as the preferred firm for the provision of internal audit services for a four-year term beginning January 1, 2017, with the option to renew for one (1) additional one-year term. Based on the last update to Audit Committee (November 6, 2019), consistent with internal audit plans approved,

Deloitte has issued 13 project reports with five (5) projects currently on the go and four (4) more projects anticipated for 2020. The observations provided to date have been very insightful to Civic Administration, identifying areas to address along with advising on best practice opportunities.

## **DISCUSSION**

Based on the RFP processes undertaken in 2016, for both internal and external audit services, Civic Administration believes that it will be more advantageous to stagger the RFP processes for internal and external audit over two (2) years, rather than doing both in one (1) year. It was experienced that, in carrying out the RFP process for both audit services virtually at the same time, it created a workload imbalance as both processes were virtually undertaken at the same time.

As 2020 is the fourth (4<sup>th</sup>) year of the contract with Deloitte for internal audit services, notwithstanding that there is an option to renew for one (1) more year, this would be an opportune time to start the RFP process for internal audit services.

### **INTERNAL AUDIT REQUEST FOR PROPOSAL**

The RFP would seek to continue a fully outsourced internal audit function, delivered by a firm that will offer, to the City, the full capacity of its organization in delivering specialized and emerging audit functions. The key parameters that will be included in the RFP are explained in the various sections that follow.

#### **Scope of work**

The scope of work for the internal audit provider shall extend to all aspects of the operations of the City of London, and by request, to the Agencies, Boards, Commissions or other entities that are accountable to City Council and/or controlled by the City of London. The duties may also include the performance of such other assignments as the Audit Committee may authorize from time to time.

The successful Proponent will be requested to provide a four (4) year-risk based audit plan, to be updated annually, with input from the Audit Committee and Administration, that will be approved by the Audit Committee and Council. The following tasks are expected to form part of the four (4) year-risk based Audit Plan:

- 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) Assess the adequacy of established systems and procedures.
- g) 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; and

- iv) The needs of the users are met.
- h) 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.
- i) Undertake the performance of value for money audits in order to appraise the economy, efficiency and effectiveness with which resources are employed.
- j) Follow up and provide recommendations on any findings of non-compliance with proper controls, including any findings of fraud.
- k) Conduct special assignments and investigations (including fraud, forensic audits, review of lean six sigma projects, joint venture agreements etc.) on behalf of the Audit Committee into any matter or activity affecting the integrity, interests, reputation and operating efficiency of the City.

The scope of work to be included in the RFP will be written to include the maximum scope of work and deliverables possible for the internal audit function. The risk-based audit plan (developed and approved by year) sets out the narrowed scope and deliverables approved as the specific work-plan. Emphasis will be placed on workplans where, annually, there will be a balance between compliance audits and value for money audits.

The RFP document will also set out the submission requirement to include a sample Audit Plan that represents one (1) year of audit work for consideration as part of the evaluation. This will include the manner and methodology to complete a risk assessment and prioritization of audits for the City of London, including all significant assumptions as well as sample reporting to the Audit Committee.

### Timelines

A tentative timeline for the Internal Audit Services RFP, prepared below, allows the Audit Committee and Council to appoint the outsourced internal audit firm.

Event	Date
RFP Issue Date	Week of June 1, 2020
RFP Closing Date	Thursday, August 13, 2020
Review & Evaluation of RFP Submissions	Weeks of August 17 <sup>th</sup> thru September 25, 2020
Short List Selected by Evaluation Team	Tuesday, September 29, 2020
Interviews With Short Listed Firms	Starting week of October 5, 2020
Recommendation Audit Committee	Wednesday, November 4, 2020
Council Award	Tuesday, November 24, 2020

Audit Committee is required to endorse the timeline for the RFP and schedule dates for the interviews and presentations of the short listed Proponents starting the week of October 5, 2020. We require the interview dates to be established as they are included in the RFP document. The City reserves the right to alter the schedule at its sole discretion if required.

## **Evaluation Team and Process**

An evaluation team, known as the Internal Audit Services Evaluation Committee, will be established for the purposes of reviewing and evaluating all responses against pre-determined evaluation criteria set. The Internal Audit Services Evaluation Committee will consist of the following:

- Audit Committee Chair;
- Audit Committee Vice Chair;
- Managing Director, Corporate Services and City Treasurer, Chief Financial Officer;
- A representative from City Manager's Office; and
- A representative from Finance & Corporate Services.

The proposal submission will be evaluated based on criteria developed by the City which includes, but are not limited to, the following:

- Demonstrated knowledge of municipal government operations and emerging issues;
- Demonstrated knowledge of legislation relating to auditing provisions, and Freedom of Information requirements;
- Proponent's reputations, qualifications and experience;
- Information obtained by references provided by the Proponent;
- Information obtained from third parties;
- Contents, completeness, clarity and responsiveness of the Proponent's proposal submission;
- Skill and experience of the Proponent's proposed staff;
- Information provided by the Proponent in response to any Request for Additional information; and,
- Any other information provided by the Proponent or obtained by the City during the RFP process.

The evaluation criteria will be based on, but not limited to, the following:

- Firm profile;
- Audit experience and references;
- Proposed personnel and staffing;
- Proposed audit approach and methodology;
- Proposed Base Audit Plan, balanced between compliance and value for money; and,
- Proposed Fees.

The order of the items listed in this Section should not be taken as an indication of the relative importance of any particular criteria in the evaluation process.

The team will be supported by appropriate members of Civic Administration including Purchasing & Supply.

The Internal Audit Services Evaluation Committee will recommend a short list of Respondents to the Audit Committee for an interview and presentation.

The Audit Committee will interview the short listed Respondents. Once the interview & presentations are complete, the Audit Committee shall recommend the chosen Proponent to Council. City Council makes the final decision on the appointment of an audit firm.

## **Financial Implications**

The Multi Year Budget 2020 – 2023 contains an average annual budget of \$300,000.

<b>SUMMARY</b>
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In order to proceed with the RFP for Internal Audit Services, the Audit Committee is required to:

- a) endorse the scope of work including expectations of the successful proponent, timelines, and general parameters of the RFP;
- b) direct civic administration to develop and and issue an RFP for internal audit services; and
- c) approve the general composition of the evaluation committee and identify the additional Audit Committee member to participate in the Internal Audit Services Evaluation Committee.

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

cc. Lynne Livingstone – Acting City Manager/ Deputy City Manager