

TO:	CHAIR AND MEMBERS AUDIT COMMITTEE MEETING ON JUNE 24, 2020
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	INTERNAL AND EXTERNAL AUDIT SERVICES CONTRACT EXTENSIONS

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer the following actions be taken with respect to Audit Services:

- a) pursuant to section 13.3 of the Council Procedural By-law the decision of Municipal Council from the meeting held on March 24, 2020 with respect to clause 4.9 of the 1st Report of the Audit Committee, having to do with undertaking a Request for Proposal (RFP) process for the internal audit services, BE RECONSIDERED;
- b) consistent with RFP16-36 and the terms set out in the contract with Deloitte LLP for internal audit services, the internal audit services by Deloitte LPP BE RENEWED for one (1) additional one (1) year term;
- c) approval noted in b) above, hereby BE GIVEN to extend the current contract for a one (1) year period;
- d) the Civic Administration BE DIRECTED to enter into negotiations with KPMG LLP, 1400-140 Fullarton Street, London, Ontario N6A 5P2 for external audit services to extend the existing contract for two (2) more years;
- e) the Civic Administration BE AUTHORIZED to undertake all administrative acts that are necessary in connection with contracts to implement c) and d), above; and
- f) the approval hereby given BE CONDITIONAL upon The Corporation of the City of London entering into negotiations for satisfactory prices, terms and conditions with Deloitte LLP and KPMG LLP, to the satisfaction of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Request for Proposal Internal Audit Services, March 11, 2020, meeting of Audit Committee, Item #4.9

Internal and External Audit Services, December 15, 2014, meeting of Audit Committee, Item #3

BACKGROUND

On March 11th 2020, the Civic Administration proposed that to better manage workload, that the Request for Proposals for internal audit services and external audit services be spaced out so that the City of London would not seek an internal auditor and an external auditor at the same time. To do this, the renewal option for one additional one year term for internal audit services with Deloitte would not be exercised. In not exercising the renewal option, the City would look to issue a Request for Proposal (RFP) for Internal Audit Services in 2020. An RFP for internal audit services would be issued in 2020, and an RFP for external audit services would be issued in 2021.

The Municipal Council, at the meeting held on March 24, 2020 resolved the following with respect to this matter:

“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) the 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.”

The Civic Administration is requesting that the Audit Committee recommend to the Municipal Council, that the above-noted matter be reconsidered.

DISCUSSION

At this time, as the Civic Administration continues to adapt to COVID-19 and its impact on the work place. To manage workload as well as provide some certainty with respect to planned timing for both the Civic Administration and the City’s service providers given the delays experienced to date, it would be appropriate to exercise the City’s option to renew the contract with Deloitte for one additional one year term for internal audit services. This would reduce the possibility of having to “on-board” a possible new internal auditor in the Fall given possible uncertainty. Further, it would give the Civic Administration additional time to adjust to new processes and the adjusted work environment. RFP16-36 identified that the contract term for internal audit services would be for four (4) years plus an option for one (1) additional one (1) year term. Given that this option is available along with certainty in its price, given the current circumstance at this time, the Civic Administration believes it is prudent to exercise this option.

By exercising this option with Deloitte, this would mean that the RFP for internal audit services would be lined up for 2021. At that time, the City would also be required to RFP for external audit services. This, in effect, would lead to having the City issue one RFP for internal audit services at the same time as the external audit RFP. Due to workload issues that this would cause as acknowledged in a previous report, to stagger

these RFP's, the Civic Administration is recommending that the external audit contract with KPMG be extended.

Given that over the next few years, significant changes to Public Sector Accounting Standards are coming, such as Financial Instruments (PS3450)^a and Asset Retirement Obligation (PS3280)^b, best practice would indicate that consultation with the City's external auditor commence as soon as possible to ensure that the auditor review the changes to accounting policy and the transition approach prior to implementation. Given the breadth and involvement of other areas of services that would need to be consulted such as Legal Services, Facilities and Engineering to determine obligations, the planning for Asset Retirement Obligations would need to start in mid 2020, with information gathering commencing in late 2020 and processes flushed out in 2021/2022 in order to prepare for 2022 financial reporting. With these changes, it is recommended that the City look to extend KPMG's contract for two (2) years.

Under the Procurement of Goods and Services Policy, amendments to contracts are permitted under section 20.3 noting that since the total amended value of the contract will be greater than the administrative (Managing Director) approval threshold, Municipal Council approval is required. The extension to the City's external audit contract has been done previously when Contaminated Sites (PS3260)^c came into effect. To prepare for that reporting requirement, the City worked with an internal team as well as external consultants to assist in the implementation. The external auditor (KPMG) was updated throughout the process from pre-implementation all the way to post-implementation to ensure the City's efforts would meet the new accounting standards, including having the external auditor (KPMG) review the changes to the accounting policy prior to year end reporting. To meet that need, the City extended KPMG's contract, to ensure audit continuity. Once the first year of reporting on the new standard was done, the Civic Administration issued an RFP for external audit services.

Financial Impact

Funding for these annual expenditures are provided for in the 2020 to 2023 Multi-Year Budget.

SUMMARY

In the wake of COVID-19, rather than attempt an RFP for internal audit services in 2020, the Civic Administration is recommending to extend the contract with Deloitte as the City's Internal Auditor for one more year, consistent with the existing option contained in the contract, and then look to extend the current contract with KPMG, which ends after the 2020 year end audit, by two more years. This will overcome the challenge presented by the Civic Administration of having two RFPs for audit services being undertaken concurrently. Also this will better position the City for a successful

^a Financial Instruments - establishes standards on how to account for and report all types of financial instruments including derivatives. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Derivative financial instruments meet the definition of a financial instrument and, accordingly, are within the scope of this Section. (PS3450 (.001))

^b Asset Retirement Obligations - establishes standards on how to account for and report a liability for asset retirement obligations. Specifically, it:
(a) defines which activities would be included in a liability for retirement of a tangible capital asset;
(b) establishes when to recognize and how to measure a liability for an asset retirement obligation; and
(c) provides the related financial statement presentation and disclosure requirements. (PS3280 (.01))

^c Contaminated Sites - establishes standards on how to account for and report a liability associated with the remediation of contaminated sites. Specifically, it:
(a) defines which activities would be included in a liability for remediation;
(b) establishes when to recognize and how to measure a liability for remediation; and
(c) provides the related financial statement presentation and disclosure requirements. (PS3260 (.01))

implementation of upcoming Public Sector Accounting Standards that take effect in the near future, namely Financial Instruments and Asset Retirement Obligations. Upon completion of extensions, Civic Administration will bring forward an RFP for internal audit services in 2021 and an RFP for external audit services in 2023.

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

cc. Lynne Livingstone – City Manager