



Report to: General Committee

Meeting Date: October 22, 2019

SUBJECT: Contract Extension # 110-R-15 Auditor General Services
PREPARED BY: Alex Moore, Senior Manager, Procurement and Accounts Payable

RECOMMENDATION:

- 1) That the report “Contract Extension # 110-R-15 Auditor General Services” be received; and,
- 2) That the Contract for Auditor General Services be extended for an additional five (5) years (January 1, 2020 to December 31, 2024) with MNP LLP for a maximum annual amount of \$152,640 (\$150,000 + \$2,640) inclusive of HST;
 - \$152,640 – Year 1
 - \$152,640 – Year 2
 - \$152,640 – Year 3
 - \$152,640 – Year 4
 - \$152,640 – Year 5
 - \$763,200 – Total
- 3) That the annual amount of \$152,640.00 be funded from the Operating Account #110-110-5699 subject to Council approval of the annual budget; and,
- 4) That the tender process be waived in accordance with Purchasing By-Law 2017-8 Part II, Section 11.1 (c) which states “when the extension of an existing Contract would prove more cost effective or beneficial”; And (h) “where it is in the best interests of the City to acquire Consulting Services from a supplier who has a proven track record with the City in terms of pricing, quality and service”; and,
- 5) That the Chief Administrative Officer be authorized to execute an agreement with MNP LLP in a form satisfactory to the City Solicitor; and further,
- 6) That Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of this report is to extend the contract for Auditor General (AG) Services with MNP LLP (MNP) for an additional five years at the same annual fees as per the previous contract.

BACKGROUND:

The AG role assists 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 operations. The AG office is an independent, objective assurance activity designed to add value and improve municipal operations. This audit process assists the municipality to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and

improve the risk management, control and governance process by carrying out financial control audits, compliance audits, and performance audits focused on the effectiveness and efficiency of processes, programs, and departments.

In October 2007, Council approved the appointment of an individual, Ingrid Cutter, as the City's first Auditor General. After the Auditor General left the City in 2010, the role remained vacant for five years (from September 2010 to November 2015).

In April 2015, a Staff presentation was made to Council, which included an overview of the Auditor General role in municipalities and the related legislative framework, as well as AG models in other municipalities. Three options and models for an AG role were presented to Council:

- Option 1 - In-House Model (*Staff did not recommend this option*)
The City would hire an in-house AG on a full-time contract basis to perform audits, based on the audit plan. This was the model in Markham from 2007-2010.
- Option 2 – Hybrid / Co-Sourced Model (*Staff did not recommend this option*)
The in-house AG would contract with an outside Service Provider, as required to undertake more specialized audits based on the audit plan.
- Option 3 – Outsourced Model (*Staff recommendation*)
An outside Service Provider would perform the audits providing end-to-end services based on the audit plan.

Council endorsed Option 3, the outsourced model, because it enhanced independence of the role, provided access to a broader range of expertise to support audits, and City support Staff were not required.

In November 2015, Council approved the appointment of MNP to the position of the AG for a four-year term. Geoff Rodrigues (Partner, National Leader of Internal Audit Services) was named Auditor General.

In 2016, MNP commenced its role at the City by conducting a risk assessment of the full “audit universe” including input from Council members and senior City Staff. Based on the results of the risk assessment the four-year audit plan was developed which included the following audit priorities:

- Identification and review of the effectiveness of internal controls; and
- Evaluation of the adequacy, efficiency and effectiveness of governance and risk management.

The audit plan was also developed based on the following considerations:

- Strategic relevance to the organization
- Areas which have been audited in the past three years
- Areas where there have been a history of errors / issues

- Timing of audits, including addressing issues from prior audits
- The need for recurring audits to ensure continued compliance in certain areas
- Areas, functions, or processes where there had been significant change in the past year, or where change was expected within a year

The Auditor General committed to complete 10 audits over the four-year term. The completion and status of the deliverables under the 2016-2019 agreement are as follows:

#	Deliverable /Audit Name	Audit Status	Follow-up Status
1	Property Tax & Water Billing	Completed	Completed
2	Cash Handling	Completed	Completed
3	Vendor Management	Completed	Completed
4	Cyber Security	Completed	Planned for 2019
5	HRIS Implementation	Completed	Planned for 2019
6	Development Charges	Completed	Planned for 2020
7	Payroll	Completed	Not required
8	Asset Management	Completed	Planned for 2020
9	Information Management	In progress	Planned for 2021
10	Building and Development*	Cancelled	N/A

*This audit has been cancelled as it has been replaced by a review of the development planning and review process audit funded through the Ontario Government Audit and Accountability Fund. This audit is expected to be completed in late Fall 2019.

Each audit noted above followed a high-level work plan from MNP, which utilized the following methodology:

Project Planning

- Define objectives and scope;
- Confirm project duration and schedule;
- Assign team members and develop team structure;
- Describe deliverables; and
- Create the Audit Planning Memo and distribute to stakeholders.

Project Execution

- Obtain existing system implementation and data migration documentation;
- Conduct interviews / discussions;
- Develop audit work plan and audit procedures;
- Understand current state; and
- Evaluate current state by performing tests and assessing processes and controls in place.

Project Execution

- Identify improvement opportunities;
- Prepare draft report with findings and recommendations;
- Validate and present recommendations; and
- Issue final report, incorporating management responses.

Over the contract term, MNP has executed these deliverables and audits according to the 2016-2019 AG Services Agreement and the four-year Audit Plan, meeting the City's goals, objectives and timelines, within budget.

Through the AG's audits and related recommendations, the City has been able to benefit from MNP's subject matter expertise to enhance internal controls. MNP's identification of opportunities for increased efficiencies, improved documentation controls and process improvements, promoted continuous improvement across a number of business areas as a direct results of the audits.

OPTIONS/ DISCUSSION:

The new contract for AG services will commence January 2020, and will require the completion of the following deliverables:

1. Refresh of the City's "audit universe" by performing a risk assessment exercise (by facilitating risk discussions with Council, the Executive Leadership Team and Senior Management);
2. Preparation of a five-year risk based audit plan;
3. Leading the execution of the approved audit plan by conducting two to three audits per year (in areas such as financial control compliance and operations), in compliance with audit standards, for a total of 12-15 audits over the term of the contract;
4. Follow-up audits of management's implementation of action plans and remediation of audit findings;
5. Reporting on all audit activities to the General Committee of Council; and
6. Completion of follow-up audits stemming from the previous contract term.

The new five-year audit plan will be prepared based on the results of a refreshed audit risk assessment which will consider the City's strategic priorities, areas with a history of issues, audits previously performed and new or emerging areas of risk. Further, the audit plan will allow flexibility to accommodate special requests from the General Committee of Council.

The approved audit plan will form the basis for conducting individual audit engagements and will be revisited annually to address new areas of concern, and the status of the audit plan will be reported to the General Committee on a regular basis.

RATIONALE FOR CONTRACT EXTENSION

MNP audits are individually tailored and involve a comprehensive review and assessment of the City's internal controls, business practices and procedures.

MNP brings the following expertise, efficiencies and value to the City:

- **Quality of Service:** The AG (Geoff Rodrigues) and audit team have a good understanding of the role of the AG and in depth knowledge about the City and its operations. The firm provided an excellent approach to the development of the four-year audit plan. Their project scheduling and plan for resource utilization was well executed, allowing them to fulfill their obligation, on time, on budget with value added recommendations. Further, all findings and recommendations were internally validated by an MNP Quality Assurance partner.
- **Experience and Subject Matter Experts:** The AG and audit team have extensive audit experience and knowledge of the City, as well as the broader public sector and can quickly apply this information to the City. In addition to its core engagement team, MNP leveraged additional subject matter experts, as needed who provided timely additional value to the audit work. The MNP audit team also has a demonstrated track record in delivering audit services to the City, other municipalities and the broader public sector.

Given the experience of MNP's core audit team and subject matter experts, Staff believe MNP is well positioned to understand the issues and challenges faced by the City. Staff are confident that MNP will continue to deliver quality audit services.

- **Cost Savings and Efficiencies:** Given MNP's extensive audit experience with the City over the past four years, MNP has developed a thorough knowledge of the City's unique environment. Due to their knowledge gained through the 2016-2019 audits of the City's internal controls, operations, business practices and procedures, MNP will only be required to undertake an audit risk assessment "refresh" in developing the new five-year audit plan. In addition, the City will have a seamless transition and interchangeability of audit services to complete the follow-up work required for current audits and to commence the work required for the 2020-2024 audits, as all members of their core MNP audit team who previously worked on audits in connection with the 2016-2019 contract will be retained.

Geoff Rodrigues, who has served as the City's AG since 2016, will continue in the same position and will oversee each audit and work closely with City Staff and Council. MNP is in a good position to continue to help the City maximize opportunities for improvement, reduce risk exposure and optimize efficiencies.

By extending the contract with MNP, the City will eliminate the need for a complete audit risk assessment and MNP will be able to initiate the new audit plan more quickly. The experience and knowledge gained by MNP during the 2016-2019 contract can be applied and transferred to the 2020-2024 contract, resulting in cost savings and efficiencies, and minimizing duplication of efforts/costs associated with engaging a new consultant. In addition, the cost, and Staff time associated with a full RFP process is avoided.

- **Additional Value-Add:** MNP has proactively invited City Staff to attend or has conducted seminars for Staff on pertinent matters such as cyber security and fraud awareness, free of cost. As part of the new contract, MNP will continue to provide advice and guidance on current issues and best practices.

Staff are of the opinion that MNP's performance supports the extension due to their in-depth knowledge and expertise, quality of audit work and their commitment to maintain existing fees and level of service.

NEXT STEPS

Following approval from Council, MNP will develop an audit plan through consultation with Council and Senior Management, to include the following:

- Refresh of the City's Audit Universe
- Preparation of a five-year risk based audit plan for Council approval
- Execution of the approved audit plan
- Performance of follow up audits of management's implementation of action plans and remediation of audit findings
- Report on all audit activities to General Committee

FINANCIAL CONSIDERATIONS

The contract award will be based on a total cost of \$763,200 inclusive of HST for the five-year term. The estimated annual cost is consistent with the current contract at \$152,640 (\$150,000 + \$2,640) inclusive of HST;

- \$152,640 – Year 1
- \$152,640 – Year 2
- \$152,640 – Year 3
- \$152,640 – Year 4
- \$152,640 – Year 5
- \$763,200 – Total

The annual amount of \$152,640.00 will be funded from the Operating Account #110-110-5699 subject to Council approval of the annual budget.

LEGAL CONSIDERATIONS

The City is subject to the following trade agreements, which apply to public sector procurement above a certain dollar threshold: the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), effective September 21, 2017; and the Canadian Free Trade Agreement (CFTA), effective July 1, 2017.

The recommended contract extension to MNP complies with the CETA and CFTA trade agreements.

HUMAN RESOURCES CONSIDERATIONS

Not applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Finance Staff was involved in the process and concurs with the recommendation.

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner Corporate Services