

October 2, 2012

To: Members,
Finance and Administration Committee

Re: Appointment of Auditors

RECOMMENDATION

1. Based on the evaluation results of the audit RFP, that Deloitte be appointed as auditors for the years 2012 through 2016 to perform the annual audit of the following entities:
 - City of Regina including the General Trust Fund
 - Buffalo Pound Water Administration Board
 - Regina Downtown Business Improvement District
 - Regina's Warehouse Business Improvement District
 - Regina Regional Opportunities Commission
 - Regina Public Library
 - Regina Exhibition Association Limited
2. That the Deputy City Manager & CFO be authorized to finalize the terms for the audit services contract with Deloitte as prepared by the City Solicitor.
3. That the City Clerk be authorized to execute the contract.

CONCLUSION

The Administration has used a competitive procurement process to engage professional audit services for the City and its related entities for the years 2012 through 2016. On the basis of the criteria outlined in the request for proposals (RFP), the review committee ranked Deloitte as the highest ranked proponent. It is recommended that the Finance and Administration Committee award the contract for professional audit services to Deloitte as the highest ranked proponent.

BACKGROUND

Section 159(1) of *The Cities Act* requires that City Council appoint an auditor for the City of Regina as well as several other related entities. In Report CR12-85 from the June 11, 2012 City Council meeting, City Council considered the process for engaging professional audit services for the City of Regina and related entities for the years ending 2012 to 2016. In that Report the Administration recommended that a competitive process be used to engage these services and that the Deputy City Manager & CFO be authorized to award and finalize terms for the audit services contract, based on review of proposals from professional audit firms. At Council, this latter recommendation was amended to require that the Deputy City Manager & CFO get direction from the Finance and Administration Committee prior to awarding the contract.

A request for proposals for the annual audit was recently issued and the review committee conducted the review based on the stated evaluation criteria that were set out in the City's request for proposals. The purpose of this report is to provide information and clarification as to the process followed by the selection committee, to summarize proposals based upon the selection criteria established in the request for proposals and recommend the appointment of an auditor.

DISCUSSION

Procurement Process and Ranking of Proponents

On June 11, 2012, Council approved a recommendation that the Deputy City Manager and CFO be authorized to initiate a competitive procurement process to engage professional audit services for the City of Regina and related entities for the years ending 2012 to 2016.

The request for proposals were sent to the major auditing firms with offices in Regina. As well, it was advertised through opportunity notices posted on the City's web page and on the SaskTenders and MERX internet tendering services. The following firms responded to the request for proposals:

- Deloitte
- KPMG
- Virtus Group

Deloitte and KPMG represent local offices of national accounting firms. Virtus Group is a local, independently owned firm with national and international PKF membership. PKF is a network of legally independent member firms that provide local expertise in accounting and business advisory services.

A review committee was established which included the following:

- Chuck McDonald, CMA, Director of Finance
- Gail Krueger, CMA, Head of Finance and Administration Committee, Regina Public Library
- Lorrie Schmalenberg, CGA, Manager, Corporate Accounting
- Breanne Howden, CA, Senior Financial Reporting and Policy Advisor
- Curtis Smith, CA, Manager, Policy and Risk Management

The proposals were evaluated according to the criteria established in the request for proposals. Firms which were deemed qualified and close in ranking were invited to give a presentation to the committee to further assess the firms. The results of the evaluation were also reviewed with the Deputy City Manager & CFO, who concurred with the process and results.

In reviewing the proposals, the following criteria were used in the RFP:

Relevant experience – an auditor must have a sufficient understanding of the organization's business, accounting principles prescribed for that business and its related entities. The City of Regina is subject to the principles of the Public Sector Accounting Standards which prescribes

ongoing changes to these principles. An understanding of emerging issues as they relate to the City of Regina and its entities is also important. This knowledge is necessary to understand and assess potential areas of risk that should be examined as well as to reduce the effort required by City staff and management to explain the specialized policies and procedures. Evaluation criteria included knowledge in the audit of similar size organizations, municipalities and other government organizations.

Staff Resources – while junior and intermediate staff will change throughout the audit engagement, we requested a commitment for a senior designated audit partner for the full five-year term, as well as information to assess whether the firm has resources available to meet our deadlines. Since the last audit proposal in 2007, our audit timelines have accelerated by approximately nine weeks, which is a challenging timeline.

Audit Plan and Methodology – the Administration reviewed the proposals with an expectation that key areas and risks related to the City will be addressed in the proposal. Sufficient detail was expected to validate the proficiency of the audit firm to plan and execute the audit.

Audit Fees and Hours – the firms provided pricing for the audit of each separate entity that is consolidated in the financial statements as well as rates for special audits such as our third party funding audits (MAER) reports. Over the five year term of the last audit, the City of Regina consolidated entity changed significantly in its audit requirements. Tangible Capital Assets reporting was mandated by PSAS in 2009. This reporting requirement was a huge undertaking for all municipalities in Saskatchewan and resulted in higher audit fees. MAER reports, required by third party funding partners are not known at the time of RFP and were not required as part of the costing submission. The City of Regina has some known potential changes while others can be reasonably assumed from the known PSAS emerging issues. The costs of these additional/special audits can be a significant part of the complete cost; therefore, the proposals were also evaluated for an understanding of, and pricing for, potential extra audits.

All proposals included a caveat that, should the scope change during the course of the audit, the auditors will seek to negotiate additional fees. This is standard practice within the industry as the exact nature of the audit, changes to the entities and other unknowns can cause significant extra work for the audit, some of which can be requested by management if needed.

Commitment to Meet Deadlines – Deadlines are crucial to the City of Regina as we have an aggressive set of target to meet.

Independence – Audit firms were required to comply with the standards of their professional association in maintaining independence and objectivity. The City of Regina also has a policy on auditor independence.

The criteria were weighted according to the weights listed in the RFP and a detailed matrix was used to evaluate the proponents. The committee proceeded as follows:

- Immediately upon closing of the RFP, the committee rated the proponents on all criteria.
- As part of the evaluation, a template of the pricing was created for each firm over the five year contract, including any price escalations or assumptions of interest if and as provided in the proposal; these are included as Appendix A.

Virtus group was ranked notably lower than the other two firms with a price approximately 20% higher than the lowest price.

Deloitte and KPMG were invited to give a presentation to the committee. The purpose of the presentation was to give proponents an opportunity to further clarify the information in the written proposal. The presentations were evaluated based on the information provided and not the format of the presentation, i.e., no additional points or consideration given based on the “glitz” of the presentation such as multi media, etc.

The topics for the presentation were as follows:

General:

- What are the emerging issues under PSAS?
- What are the emerging issues around Tangible Capital Assets?
- What are the challenges when auditing large organizations during major ongoing financial software upgrades and implementations?
- What are the challenges when performing quasi-municipal audits when other entities are being consolidated?

Audit Methodology:

- Discussion of audit methodology in the context of the City of Regina and related entities. Identify potential risks and issues for the City of Regina and related entities.

Commitment to meet Deadlines:

- Confirm your firm’s commitment to meet the established deadlines for all audits.

In reviewing the proposals, and preparing the matrix, the following is a summary of the comparison between the criteria in the RFP and the qualifications of the proponents.

Knowledge, Relevant Experience – all three proponents have competent and professional level staff. Deloitte has local staff with experience in audits of large municipal clients. This experience ranged from two to fourteen years for the Deloitte staff. KPMG demonstrated minimal experience in audits of large municipal clients. Both Deloitte and KPMG have access to national office staff resources in the area of public sector accounting standards, while Virtus group is a member of PKF North America and PKF International.

Staff Resources – all proponents have sufficient staffing levels to meet deadlines and handle potential staff turnover as required by the criteria. The request for proposals asked for a commitment for a designated partner for the full five-year term. While all three proposals named a designated partner for the term, Deloitte gave a stronger and repeated commitment to maintain the same partner for the entire term.

Audit Plan and Methodology – all firms submitted industry acceptable plans and methodologies and all firms are capable of conducting an audit according to GAAS. Virtus groups’ plan was somewhat more generic while Deloitte and KPMG presented a good understanding of the potential issues and risks.

Commitment to Deadlines – all firms stated a commitment to meet deadlines and the committee agreed that all firms would do what was necessary and possible to meet our deadlines. The two top ranked firms in particular were not rated significantly different in this criteria.

Audit Fees and Hours – all firms received the full points for audit hours as the plans and proposed hours seemed reasonable and sufficient. Virtus group was approximately 13% higher in fees than the lowest price while Deloitte and KPMG each received full points for their fee proposal. All proposals included some kind of caveat that, should the scope change during the course of the audit, the auditors will seek to negotiate extra fees. This is standard practice within the industry as the exact nature of the audit, changes to entities and other unknowns can cause significant extra work for the audit, which can be requested by management if needed.

Independence – Audit firms were required to comply with the standards of their professional association in maintaining independence and objectivity. The City of Regina also has a policy on auditor independence. There were no concerns with the demonstrated independence of any of the proponent firms.

Both Deloitte and KPMG are large national firms who presented strong teams and are considered qualified. The process followed used the same criteria as the last audit RFP process, though an entirely different committee performed the review. The matrix for ranking the partner and local staff were similar to the last process.

As noted, on the basis of the evaluation criteria and process outlined in the RFP, Deloitte was ranking highest, and is being recommended as the City's appointed auditor for the 2012 to 2016 fiscal years.

RECOMMENDATION IMPLICATIONS

Financial Implications

The operating budgets for each fiscal year will include the costs for the City's portion of the audit. For 2012 this budget has been set and for 2013 it is likely to be set before the audit firm is selected, therefore there is some risk that not all costs have been budgeted for 2012 and 2013.

Environmental Implications

None related to this report.

Strategic Implications

Section 159 (1) of *The Cities Act* requires that City Council appoint an auditor for the City who is a member in good standing of an accounting profession. The auditor will express an opinion on the financial statements of the City which represents an auditor's judgement as to the fairness of presentation of the City's financial statements and their conformity with Generally Accepted Accounting Principles (GAAP). The source of GAAP for municipalities is Public Sector Accounting Standards (PSAS). This validates and strengthens financial controls, ensures financial data produced for management decision-making is reliable and verifiable.

Other Implications

None related to this report.

Accessibility Implications

None related to this report.

COMMUNICATIONS

A copy of this report has been provided to all of the firms who provided a proposal for these services.

DELEGATED AUTHORITY

The Finance and Administration Committee has been delegated the authority to award the professional audit services contract through Report CR12-85 from the June 11, 2012 City Council meeting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "B Sjoberg".

Brent Sjoberg,
Deputy City Manager & CFO

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Byron Werry".

Byron Werry, City Solicitor
Legal

LS/JMA/CM/BDS:a

Attachment

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