Agenda – Executive Policy Committee – June 10, 2015

AUDIT COMMITTEE

Item No. 2 Extension of Contract - External Audit Services

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That the contract for external audit services solicited under Request for Proposal 110-2010B and awarded to KPMG LLP be extended for fiscal years 2015 to 2019 for a total of $979,150 (plus GST and MRST, as applicable.)

2. That the Proper Officers do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

Title: **Extension of Contract for External Audit Services**

Critical Path: **Audit Committee - Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO/COO
P. Olafson	Mike Ruta	Mike Ruta	M. Jack A/COO

RECOMMENDATIONS

1. That the contract for external audit services solicited under Request for Proposal 110-2010B and awarded to KPMG LLP be extended for fiscal years 2015 to 2019 for a total of $979,150 (plus GST and MRST, as applicable.)

2. That the Proper Officers do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Section 100 of The City of Winnipeg Charter Act (the "Act") directs the Chief Financial Officer to prepare annual financial statements for submission to City Council and to the Province of Manitoba. Section 105(1) of the Act directs the City Auditor to ensure a proper and complete audit of the consolidated financial statements of the City Winnipeg be undertaken. In satisfaction thereof, Section 107(2) of the Act authorizes Council to assign the audit of the City of Winnipeg to an external auditor.

On July 21, 2010, City Council approved the award of contract to KPMG LLP ("KPMG") for external audit services for the five year term encompassing fiscal years 2010 to 2014. Request for Proposal 110-2010B included an option of one mutually agreed five year extension. In awarding the original contract, City Council reserved the authority to extend the contract for an additional five years if it is determined to be in the best interest of the City.

EXECUTIVE SUMMARY

This report is seeking Council approval to extend the current contract for external audit services with KPMG LLP for another five years (fiscal years ending 2015 through 2019). The current contract, being for the five year period ending in 2014, includes provision for this mutually agreed contract extension.

IMPLICATIONS OF THE RECOMMENDATIONS

KPMG will deliver the external audit services detailed in Appendix A - External Audit Fees (2015 to 2019) for a total cost of $979,150 (plus GST and MRST, as applicable).

Budgets for this work are included in various 2015 tax-support, utility and special operating agency budgets. The related work to be completed for fiscal years ending 2016 through 2019 will be accommodated through future operating budget approvals for those specific years.

HISTORY

On June 21, 2000, City Council adopted Clause 8 of the Report of the Executive Policy Committee, which motion was passed by the Audit Committee on June 13, 2000, that recommended the appointment of Ernst & Young LLP as the City's External Auditor for a five year term for the years ending December 31, 2000 - 2004 inclusive, with an option to renew the appointment for a further five years at the sole discretion of the City.

On May 18, 2005, City Council approved that Ernst & Young LLP be re-appointed as external auditor and the agreement with Ernst & Young LLP for attest audit services be extended for the years ending December 31, 2005 through December 31, 2009.

Previous to this, Deloitte & Touche was the City's external auditor for the fiscal years ending 1991 through 1999.

On July 21, 2010, City Council adopted the following:

1. That a contract for external audit services for fiscal years 2010 to 2014 solicited under Request for Proposal 110-2010B be awarded to KMPG LLP for a total of $798,545 (plus MRST and GST as applicable).
2. That Council approval be required to extend the contract for an additional five years if it is determined to be in the best interest of the City.
3. That the Proper Officers do all things necessary to implement the intent of the foregoing.

Proposal

The City of Winnipeg requested and received from KPMG a proposal to extend the present contract for an additional five years (the "Proposal"). In summary, KPMG is proposing the following (2014 provided as a base line):

YEAR	* 2014	2015	2016	2017	2018	2019	Total (2015 to 2019)
Fee for Consolidated Financial Statements	$91,800	$91,800	$93,600	$95,450	$97,350	$99,250	$477,450
Fee for Other Assurance Services	96,470	96,470	98,395	100,320	102,245	104,270	501,700
Total Fee	$188,270	$188,270	$191,995	$195,770	$199,595	$203,520	$979,150
% Increase over previous year		No change	1.98%	1.97%	1.95%	1.97%	

* Adjusted from fee bid for additional audit work added since contract awarded.

For additional details on fees, please see Appendix A.

The fees quoted in the first year of the extension remain unchanged from 2014 fees. Thereafter, annual increases approximate projected annual inflation.

In a survey of other Western Canadian cities requesting information on fees charged for their consolidated financial statements' audit, based on the information supplied, the fee quoted by KPMG in the Proposal is competitive.

The Proposal also includes hourly rates for other assurance service needs that arise, such as requirements under new funding agreements entered into with senior governments. It is not unusual for these agreements to require filing audited financial statements. The rates quoted for such work are 65% to 68% of KPMG's normal hourly rate. These rates do not change over the five year period.

Finally, the Proposal includes annual service credits of $20,000. These service credits can be applied against other special services procured from KPMG, meaning there will be no additional cost for these services (or at amounts reduced by application of the service credit). The Proposal also provides that if the final year's annual service credit is not fully utilized, it can be applied against the external audit fee for that year.

All fees include administrative charges and out of pocket costs, but exclude GST and MRST.

Other Considerations

The main benefit derived from extending the contract another five years is the knowledge base KPMG has developed. The senior engagement staff proposed have been in place since the beginning of the contract. Limited turnover at this level gives the immediate insight to deal with issues as they arise, as well as identify opportunities for the City. KPMG has gained a strong understanding of the City's key issues, operations, areas of risk, accounting methods, transactions and internal control environment. KPMG audit approach has been found to be strong, demonstrating high quality service delivery.

In addition to drawing from their experience with the City, the members have broad experience to draw from, including through assurance services delivered to other Canadian cities and municipalities.

KPMG is the external auditor for numerous large Canadian cities.

In consultation with other finance professionals within the City, it is clear that the City is very satisfied with the level of service KPMG has delivered on these engagements (and others) over the past five years.

In a survey of other major Canadian cities, the noted practice is that the same external auditor is engaged beyond five years. Examples were noted where the same external auditor had been engaged far beyond 10 years.

It is the Corporate Finance Department's opinion that KPMG has the skills and resources to satisfactorily complete the work.

FINANCIAL IMPACT

Financial Impact Statement **Date:** April 28, 2015

Project Name: **First Year of Program** **2015**

Extension of Contract for External Audit Services

	2015	2016	2017	2018	2019
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 188,270	$ 191,995	$ 195,770	$ 199,595	$ 203,520
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 188,270	$ 191,995	$ 195,770	$ 199,595	$ 203,520
Less: Existing Budget Amounts	188,270	191,995	195,770	199,595	203,520
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

1. This contract is an extension to Request For Proposal 110-2010B, approved by Council on July 21, 2010, which include an option of one mutually agreed five year extension.

2. The extension covers audit services for fiscal years 2015 to 2019 for the fees presented above, based on the Proposal received from KPMG. These fees, totalling $979,150 over 5 years, include administrative charges and out-of-pocket costs, but not GST and MRST. Funding for this work is available through budgets in various 2015 tax-supported departments, utilities and special operating agencies. The related work to be completed for fiscal years ending 2016 through 2019 will be accommodated through future operating budget approvals for those specific years.

3. The fees quoted in the first year of the extension remain unchanged from 2014 fees. Thereafter, annual increases approximate projected annual inflation.

4. The Proposal includes annual service credits of $20,000. These service credits can be applied against other special services procured from KPMG, meaning there will be no additional cost for these services (or at amounts reduced by application of the service credit). The Proposal also provides that if the final year's annual service credit is not fully utilized, it can be applied against the external audit fee for that year.

(Original signed by R. Hodges)
Ramona Hodges
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

In preparing this report there was consultation with:

Audit Department

Legal Services Department (as to legal issues)

Materials Management Division

SUBMITTED BY

Department: Corporate Finance
Division: Corporate Controller's
Prepared by: Paul D. Olafson, CA
Date: April 27, 2015
File No. External Audit Contract

Appendix A –
External Audit Fees (2015 to 2019)

Service	**2015**	**2016**	**2017**	**2018**	**2019**
Consolidated Financial Statements of The City of Winnipeg	$91,800	$93,600	$95,450	$97,350	$99,250
Financial Statements of Animal Services, Special Operating Agency	5,400	5,500	5,600	5,700	5,800
Financial Statements of Golf Services, Special Operating Agency	6,500	6,625	6,750	6,875	7,000
Financial Statements of Fleet Management, Special Operating Agency	8,700	8,900	9,100	9,300	9,550
Financial Statements of Winnipeg Parking Authority, Special Operating Agency	8,700	8,900	9,100	9,300	9,550
Financial Statements of Council Pension Plan (By-law No. 7869/2001)	6,500	6,625	6,750	6,875	7,000
Statement of Operations of City of Winnipeg Emergency Response and Inter-Facility Transfer Service	7,550	7,700	7,850	8,000	8,150
Statement of Revenues and Expenses of Library Services Division	7,550	7,700	7,850	8,000	8,150
Annual Expenditure and Compliance with Criteria Established by Agreement Reports of the City of Winnipeg Gas Tax Fund	6,500	6,625	6,750	6,875	7,000
Bill 57 Compensation Disclosure	2,200	2,250	2,300	2,350	2,400
General Support Grant Reconciliation Statement	2,200	2,250	2,300	2,350	2,400
Memoranda of Agreement between The City of Winnipeg and Specific Bargaining Agent (assume 2 per year)	1,200	1,250	1,300	1,350	1,400
Audit of the Province of Manitoba Transit Operating Grant	10,000	10,150	10,300	10,450	10,600
Audit of Revenues and Expenses of the Winnipeg Police Services	10,000	10,150	10,300	10,450	10,600
Audit of Expenditures of the Winnipeg Police Board	5,000	5,100	5,200	5,300	5,400
Audit of Revenues and Expenses of the Homelessness Partnering Strategy	4,120	4,220	4,320	4,420	4,520
Audit of the Annual Summary of Eligible Expenditures of the Waverley West Arterial Roads Project	4,350	4,450	4,550	4,650	4,750
TOTAL	**$188,270**	**$191,995**	**$195,770**	**$199,595**	**$203,520**