

External Audit Services Contract – Request for Extension

Date:	October 31, 2007
To:	Audit Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2007\Internal Services\Treasurer\ac07003Treasurer (AFS 6228)

SUMMARY

This report requests Council's authority to allow the Auditor General, in consultation with the Treasurer, to negotiate a contract extension to the external audit services contract with the Ernst & Young LLP for the fiscal years 2008 and 2009. The approval of this extension will assist the Office of the Treasurer in completing its major projects that are taking place during this period. It will also ensure that the Office of the Treasurer receives consistent advice over the term of the Capital Asset Accounting Project that is taking place during this period.

RECOMMENDATIONS

The Treasurer recommends that:

1. Council authorize the Auditor General, in consultation with the Treasurer, to negotiate a two-year contract extension with Ernst & Young LLP for external audit services for fiscal years 2008 and 2009 and report back to Council through Audit Committee with the proposed terms and conditions of the contract extension for approval; and
2. the appropriate City officials are directed to take the necessary action to give effect thereto.

Implementation Points

Should Council approve this report, the Auditor General will negotiate an extension of the contract with Ernst & Young by January of 2008 and report to Council through the first Audit Committee of 2008. Should the Auditor General be unable to negotiate a contract extension under terms and conditions that he feels will be acceptable to Council, an RFP will be issued for the external audit services in early 2008 for award in June 2008.

Financial Impact

There are no financial impacts as a result of this report

DECISION HISTORY

Council approved the existing five-year contract with Ernst & Young at the Council meeting of June 24, 2003. The Auditor General has the responsibility for the management of the external auditor contract and has been consulted in the development of this report and requested that the Treasurer initiate this request.

ISSUE BACKGROUND

The five-year contract for external audit services with Ernst & Young is set to expire with the completion of the 2007 financial statement audit. In the normal course of business, the Auditor General would issue an RFP in late 2007 and recommend the preferred bid to Council in the spring of 2008. Should the RFP proceed and an auditor other than Ernst & Young win the competition, a transition plan would be executed to change auditors in the summer and fall of 2008. The Divisions within the Office of the Treasurer would bear most of the transition work at a time when they are engaged in a number of major projects.

In addition, the Office of the Treasurer requires immediate and consistent advice from the City's external auditor as it works through the Capital Asset Accounting project that must be completed by the end of 2009 to meet the Public Sector Accounting Board's (PSAB) new reporting requirements for capital assets.

COMMENTS

Office of the Treasurer Workload

The Office of the Treasurer is made up of four Divisions:

- Accounting Services
- Pension, Payroll & Employee Benefits
- Purchasing & Materials Management
- Revenue Services

These Divisions are responsible for the City's major financial systems and are the main points of contact for the external auditors as they conduct their annual financial statement audit. During the 2008 and 2009 time period, the Treasurer's Divisions are working to complete the following major projects:

- Capital Asset Accounting System
- Document Management System for Accounts Payable and Revenue Services (document scanning, imaging, electronic workflow and storage)
- Cost centre and account restructuring to support the new Financial Planning, Analysis and Reporting System
- Implementation of new taxes, the solid waste user fee and new property classifications
- Automated (wireless) Meter Reading project

Although additional resources have been secured in the Capital Budget to carry out these projects, there will be a significant temporary burden on existing staff if the auditors change. Each Division within the Treasurer's Office will be required to "train" the new auditors on the City's major financial systems. The new auditors will need to understand how each of these systems work and their internal controls so that they can determine if the systems can be relied upon for audit purposes. This will require significant staff time to work with the new auditors.

The City's banking contract also expires in 2008. A change in bankers will have a lesser but still significant impact on the Treasurer's office and a separate report seeking authority to extend the existing banking contract has been submitted to the General Management Committee.

Capital Asset Accounting Project

As the Committee is aware, PSAB has instituted new financial reporting rules for Canadian municipalities that require the valuation and reporting of the City's capital (fixed) assets starting with the 2009 financial statements. This significant project, led by the Accounting Services Division, involves:

- Setting accounting policies and procedures over the capitalization and amortization of capital assets
- In conjunction with asset owning Divisions, conducting inventories of the City's capital assets
- Determining or estimating the original capital cost of these assets and their accumulated depreciation
- Designing and installing a capital asset accounting system to track capital asset additions, disposals and amortization

The initial audit of the capital asset balances will also be a significant undertaking. It is therefore very important that staff get input from the external auditors on the project plan and execution to ensure that the auditors will have the quality of information and audit evidence that will allow them to express an unqualified opinion on the 2009 financial statements.

Accounting Services have completed asset profiles for all of the major asset owning Divisions and is in the process of setting the initial capital asset accounting policies and designing detailed plans for the inventory and valuation of each Division. Input from the external auditors is required immediately. It is desirable that the advice given on the project come from the same auditors that will have to audit the results from it.

Negotiation Process with Ernst & Young

Staff is seeking authority to negotiate an extension to Ernst & Young's contract for two additional years. Ernst & Young will likely seek a fee increase as salaries for Chartered Accountants have increased over the term of the contract and they will be seeking additional fees for the added audit work that will be required for the capital assets that will be reported in the City's 2009 financial statements.

The proposed terms and conditions negotiated with Ernst & Young will be brought to the first Audit Committee in 2008 for consideration and recommendation to Council. If the proposed terms are not acceptable, staff will proceed with the RFP.

CONTACT

Cam Weldon, Treasurer

Tel: 416-392-8427, Fax: 416-392-8003, E-mail: cweldon@toronto.ca

SIGNATURE

Cam Weldon
Treasurer