



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: July 10, 2007
Author: Esther Lee
Phone No.: 604.873.7080
RTS No.: 06912
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TO: Vancouver City Council
FROM: General Manager of Corporate Services/ Director of Finance
SUBJECT: Appointment of External Auditor

RECOMMENDATION

THAT the appointment of KPMG LLP as the City's External Auditors be extended for a period of three years to cover fiscal years 2008 to 2010, with the same terms and conditions as the existing Form of Agreement.

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS the foregoing.

COUNCIL POLICY

Section 230 of the Vancouver Charter requires that Council annually appoint a firm of chartered accountants or certified general accountants to audit the accounts and transactions of the City and of every other related administrative body.

It is Council policy to consider re-tendering the audit services engagement after five years.

PURPOSE

The purpose of this report is to seek Council approval to extend the appointment of KPMG LLP (KPMG) as the City's External Auditor for an additional term of three years (2008 - 2010), subject to the annual confirmation of the appointment in accordance with Section 230 of the Vancouver Charter.

BACKGROUND

On December 10, 2002, Council approved the appointment of KPMG as the City's External Auditors for a period of five years covering the audits of the 2003 to 2007 fiscal years. The agreement provided for fees to be increased annually by the Vancouver Consumer Price Index and adjustments for audit scope changes.

DISCUSSION

Financial reporting standards for local governments continue to evolve, with significant changes announced in 2006 by the Canadian Institute of Chartered Accountant's Public Sector Accounting Board (PSAB) for the reporting and accounting for Tangible Capital Assets (TCA). The PSAB requirements are effective for the 2009 fiscal year with comparative figures for 2008.

The PSAB recommendations on TCA will not only require major changes to City's financial statements but is also a major component in the implementation of the Infrastructure Management System (IMS). Council approved the IMS in October 2006 which involves the implementation of two sub-systems to support comprehensive asset and work management functionality (Autodesk/Hansen) and financial budgeting and reporting functionality (SAP Project Systems/Investment Management PS/IM). The implementation of these two key sub-systems will affect departments City-wide and is anticipated to take 18 to 24 months.

Given the magnitude of the changes and a fairly tight deadline, staff resources are dedicated to the critical timelines of these systems projects. New policies and procedures will be developed as part of this implementation that will support the PSAB requirements for financial reporting. System integration, interfaces and internal controls will also be critical components of the new system.

Changing auditors during implementation of system projects presents an increased level of risk. With the pending implementation of these new systems and new financial reporting standards, it would be more effective and efficient to have KPMG continue in their role as the City's External Auditor until the changes are implemented for fiscal 2009. KPMG's experience and knowledge of the City's existing systems and processes would be beneficial at this time as they would be able to provide timely advice without a steep learning curve.

The 2009 audit will be completed in the spring of 2010 and therefore, it is recommended that a Request for Proposal (RFP) be issued in mid 2010 for fiscal years commencing 2011.

Another factor in recommending an extension is the timing and resources required for an RFP process. The audit RFP process would normally commence at this time with evaluations and negotiations completed in the fall for Council approval before end of the year. Many of the key business unit stakeholders in the audit engagement process are currently involved in

major City projects (including 311 and VOIP). There is a risk that resources are not available in order to complete a comprehensive review and evaluation of proposals by the fall of this year.

FINANCIAL IMPLICATIONS

There are no adverse financial implications to the City. KPMG has agreed with the same terms and conditions as the original agreement allowing for annual fee increase indexed to the Vancouver CPI and subject to scope changes. Given KPMG's familiarity with City processes, there would be inherent cost avoidance for the review of the newly implemented systems.

CONCLUSION

The RFP process for the audit engagement will require significant time and resources from both the City as well as the audit firms. To ensure that the most qualified audit firm be selected, the RFP process must be thorough and comprehensive. It is best undertaken when system implementations have stabilized, providing for a more representative audit environment for proposal submissions and facilitating more informed evaluations.

The pending PSAB changes will be significant for the City and at the same time, major systems are being implemented. Staff recommend during this time of major change, to extend the appointment of KPMG for a 3 year period to benefit from their understanding and knowledge of the City's current systems and process. An RFP for audit services would be issued in 2010.

In accordance with Section 230 Vancouver Charter, a report will be submitted to Council by the first meeting in 2008 to approve the annual appointment and fee for the External Auditor.

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