

# Bylaw 18317

## Amendments to Bylaw 16097 - Audit Committee Bylaw

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### Purpose

To amend Bylaw 16097, Audit Committee Bylaw, by increasing the threshold for external auditor non-audit service requests requiring Audit Committee approval from \$10,000 to \$100,000.

### Readings

Bylaw 18317 is ready for three readings.

### Position of Administration

Administration supports this Bylaw.

### Previous Council/Committee Action

At the January 22, 2018, Audit Committee meeting, the following motion was passed:

That Administration prepare amendments to Bylaw 16097, Audit Committee Bylaw, to implement Option 1, as outlined in the November 20, 2017, Financial and Corporate Services report CR\_5300, with the Non-Audit Service Requests threshold being increased to \$100,000, and return to the February 13, 2018, City Council meeting.

### Report Summary

Bylaw 16097, Audit Committee Bylaw, requires Audit Committee to approve non-audit services provided by the external auditor for the City if the services are valued at more than \$10,000. This process requires frequent special Audit Committee meetings in order to review non-audit services requests in excess of \$10,000 in a timely manner and often requires an extension to the procurement process to allow time for the pre-approvals to come forward to Audit Committee. Administration presented options to Audit Committee on January 22, 2018, to amend Bylaw 16097 in order to balance Audit Committee's oversight of audit independence with the administrative requirement for timely pre-approvals. At that meeting, Audit Committee passed a motion to amend Bylaw 16097 by increasing the value of non-audit services where Audit Committee approval is required to \$100,000, and return to the February 13, 2018, City Council meeting for approval of the amendment.

## Report

It is critical that the City's external auditor maintain professional standards of audit independence, in both fact and appearance, as public confidence in external audit reports depends on the auditor's unimpaired professional judgement and objectivity. Audit independence is seen as an important element for the auditor to be objective in their evaluation of an entity's financial statements and to allow the auditor to approach the audit with an appropriate degree of professional skepticism.

The City and the external auditor have a joint responsibility to ensure that audit independence is not jeopardized. Professional independence standards are set out by the Chartered Professional Accountants of Alberta within the *Rules of Professional Conduct*. Best practice would suggest that an Audit Committee's role includes the review and approval of requests for external auditors to perform non-audit services. While Audit firms are expected to have processes in place to evaluate and document audit independence from their perspective, a review of audit independence is also done from the City's perspective.

## Current Process

Under the current process, Administration prepares an assessment, with recommendation, for Audit Committee's review and approval on all non-audit services requests over \$10,000. Included in each assessment is a summary of the non-audit services the external auditor is requesting to submit a proposal on, including expected fees for the engagement and any known or potential related engagements. The external audit partner prepares a summary assessment of audit independence and conflict of interest for each request. A review of this assessment is performed as part of Administration's analysis of audit independence. Administration puts forward a recommendation in the report to Audit Committee. Summary information on the number of contracts and total fees paid to the external auditor and other professional service providers, for audit and non-audit services, is also provided to Audit Committee as information.

For non-audit service requests equal to or less than \$10,000, the same process is followed except that approval is determined by the City Manager. In accordance with Bylaw 16097, Audit Committee Bylaw, Administration presents an annual report to the Committee which includes information on the costs and nature of non-audit services provided by the external auditor and non-audit service requests declined by the City Manager throughout the year.

Due to the time-sensitive nature of these non-audit services requests and infrequency of Audit Committee meetings, special Audit Committee meetings are often required to

address these requests. It is often difficult to schedule a special Audit Committee meeting, with short notice, and reach quorum. Procurement deadlines often require extensions to allow non-audit service requests to be brought forward to Audit Committee meetings for consideration. Request for proposal deadlines can sometimes, but not always, be extended, as extending proposal deadlines for Audit Committee could delay the City's projects. Where proposal deadlines cannot be extended, the external auditor's ability to submit a response to the request for proposal is limited, therefore not allowing for all eligible consultants to bid on the project.

### **Proposed Process**

The recommendation is that non-audit services requests over \$100,000 be approved by Audit Committee and requests under this threshold be approved by the City Manager.

This amendment would maintain the current process, but would increase the threshold for bringing non-audit service requests to Audit Committee. Administration would continue to prepare an assessment with respect to any request for non-audit services. For services greater than \$100,000, a report would go forward, along with a recommendation to Audit Committee. For services equal to or less than \$100,000, a memorandum would go forward, along with a recommendation to the City Manager for approval. Non-audit service requests under the threshold that have an impact on the Financial and Corporate Services department and/or City's financial information, will be declined by the City Manager. The perceived independence risk is higher for engagement of this nature regardless of the threshold. This option balances the need for Audit Committee oversight over external audit independence with the need for an effective and timely pre-approval process. To ensure a degree of oversight by Audit Committee of all non-audit service requests, Administration will provide quarterly updates to the Committee on engagements under the proposed \$100,000 threshold that were approved or declined by the City Manager. This would be in addition to the annual reporting requirement to Committee in accordance with the bylaw, where information on the engagements under the threshold approved or declined by the City Manager are provided to Audit Committee.

Bylaw 18317 amends the Audit Committee Bylaw to increase the threshold from \$10,000 to \$100,000 for Non-Audit Services that may be approved by the City Manager. The annual reporting requirements related to non-audit service requests have also been clarified in the amending bylaw. In addition, a number of housekeeping amendments are included to align the Audit Committee Bylaw with the new Council Committees Bylaw and Council Procedures Bylaw, which came into force since the last amendments to the Audit Committee Bylaw.

**Corporate Outcomes and Performance Management**

<b>Corporate Outcome(s): The City of Edmonton has a resilient financial position</b>			
<b>Outcome(s)</b>	<b>Measure(s)</b>	<b>Result(s)</b>	<b>Target(s)</b>
The City of Edmonton has a resilient financial position.	An assessment is completed for each non-audit services request made by the external auditor.	Assessment is completed and a decision is made whether to approve or reject the external auditor's request to participate in a request for proposal.	Auditor independence is maintained in both fact and appearance

**Risk Assessment**

A risk assessment has been completed and is included as Attachment 2 to this report.

**Justification of Recommendation:**  
 An amendment to Bylaw 16097 would be required to implement the recommendation in this report. Bylaw 18317 must be given three readings in order to amend Bylaw 16097.

**Attachments**

1. Bylaw 18317
2. Risk Assessment