

ENGAGEMENT OF EXTERNAL AUDITOR DELOITTE LLP FOR PUBLIC PRIVATE PARTNERSHIP (P3) CONSULTING WORK

EXECUTIVE SUMMARY

This report is provided to update the Audit Committee regarding the selection of The City's external auditor as the successful proponent under the RFP #12-1798 for two P3 projects:

- 1) Financial advisory services for the procurement of the P3 proponent for the Organics Composting facility ("Organics Facility"); and
- 2) Financial advisory services for the procurement of the P3 proponent for the Stoney Compressed Natural Gas Bus Storage and Maintenance Facility ("Bus Maintenance Facility").

This is provided in accordance with the 2013 June 20 AC2013-0520 report.

ADMINISTRATION RECOMMENDATION(S)

That the Audit Committee receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2013 June 20, Administration provided the Audit Committee with report AC2013-0520 updating the status of the P3 contract work with Deloitte LLP and The City. The Audit Committee was informed that Administration had selected the three (3) highest ranked proponents out of seven respondents to the RFP #12-1798 issued on February 15, 2013. The City's external auditor Deloitte was among one of the three selected proponents along with KPMG and PriceWaterhouseCoopers.

The Audit Committee adopted the recommendation that the Administration Recommendation contained in Report AC2013-0520 be approved, as follows:

"That the Audit Committee authorize the selection of Deloitte LLP (Deloitte) for P3 contract work for the duration of new RFP #12-1798, agreeing that this award will not adversely affect the independence of Deloitte."

BACKGROUND

Toward the end of term of RFP #09-9916 (issued in 2009), Administration issued RFP #12-1798 on 2013 February 15 to select a pool of three (3) financial advisory proponents for Corporate and Innovative Financing projects. The scope of work in the RFP has three schedules: Public-Private Partnerships; Requests for Loans and Loan Guarantees; and Other Advisory Services. The City's external auditor, Deloitte LLP responded to the P3 schedule only. The RFP has a five year term with an option to renew for an additional year.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Statement of Requirement (SOR) # 12-1798-A-01 for procurement of the financial advisor for the Organics Facility was issued in August 2013 to Deloitte LLP, KPMG LLP and PricewaterhouseCoopers LLP. An evaluation committee consisting of three members from the Chief Financial Officer's Department and Waste and Recycling Services evaluated the proposals. Deloitte LLP was the highest rated proponent and was awarded the assignment under the SOR.

The Statement of Requirement (SOR) # 12-1798-A-02 for procurement of the financial advisor for the Bus Maintenance Facility was issued on 2014 June 23 to Deloitte LLP, KPMG LLP and PriceWaterhouseCoopers LLP. An evaluation committee consisting of three members from Finance evaluated the proposals. Deloitte LLP was the highest rated proponent and was awarded the assignment under the SOR.

Information has been provided to the Audit Committee at various times regarding the P3 work performed by Deloitte LLP, to assist the Audit Committee in assessing and ensuring that this work does not compromise the independence of the external auditor. Additionally Deloitte provides the Audit Committee with summary details of all work performed for The City, including fees, as part of its annual audit report.

This report has been brought forward by the Administration to ensure that the Audit Committee is receiving the information it requires regarding services of the external auditor to ensure their independence and to fully meet the intent of the Audit Committee's Terms of Reference, consistent with best practices.

It was concluded in the 2013 June 20 under AC2013-0520 that independence of Deloitte was not in question if awarded P3 consulting work under the RFP, since none of the following activities will be undertaken during P3 consulting work:

- Cash handling on behalf of the client.
- Providing bookkeeping services.
- Undertaking a management role.
- Being compensated on a contingent fee basis.
- Providing a valuation of an asset or liability.
- The direct or indirect, design, implementation, or operation of a financial information system.
- Providing internal audit services.
- Advocacy of the client's position.
- Providing service connected with recruitment, evaluation, or training of client personnel or services that determine the compensation or retention of client personnel.
- Acting as a broker dealer, investment advisor, or investment banker.
- Providing actuarial services that could result in establishing values recorded in the client's financial statements.
- Rendering a fairness opinion.

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Since none of the above factors applied to the services that Deloitte LLP will be providing to The City, Administration does not believe that there is any issue related to Deloitte's independence.

So far Deloitte LLP's work valued at \$725,016 has been completed for both the projects under RFP#09-9916 and RFP# 12-1798.

Project	RFP #09-9916	RFP #12-1798	Total
Organics Facility	\$152,662	\$338,476	\$491,138
Bus Maintenance Facility	\$233,878		\$233,878
Total	\$386,540	\$338,476	\$725,016

The work under RFP #09-9916 covered Strategic Assessment and Value-for-Money analysis for both the projects and additionally the PPP Canada Business Case analysis for the Bus Maintenance Facility project.

The work under RFP #12-1798 covers financial advisory services for procurement of the Organics Facility project. This work is continuing and Administration estimates an additional \$161,000 in fees by the time financial close is achieved.

The RFP #12-1798 will also include financial advisory work to be performed by Deloitte LLP for the procurement of the P3 proponent for the Bus Maintenance Facility and will include refreshing the Value-for-Money analysis, Request for Qualification, Request for Proposals stages, as well as development of the Project Agreement. The estimated value of this work until procurement of P3 proponent is valued at approximately \$730,000.

Stakeholder Engagement, Research and Communication

None

Strategic Alignment

Utilizing the services of an industry expert in P3 assessments is anticipated to result in effective procurement approaches by The City, maximizing potential value for money.

Social, Environmental, Economic (External)

This report has been reviewed for alignment with The City of Calgary's Triple Bottom Line (TBL) Policy Framework. No implications are identified

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Financial Capacity

Current and Future Operating Budget:

Approved funds for the releases of work to Deloitte are available within the budgets of the respective business units, as per Council approved P3 Policy (CFO011).

Current and Future Capital Budget:

The cost of financial advisory services for successful P3's is capitalized to the respective project.

Risk Assessment

Failure to realize the potential benefits of procuring large capital projects under a P3 model may result in increased overall cost and risk to The City when compared to traditional procurement methods. Deloitte has been selected as one of the three shortlisted P3 financial consultants. The selection of three proponents is to provide flexibility in the event one of the firms is in conflict and it is the intention of Administration to utilize the services of all shortlisted proponents over the term of the RFP.

REASON(S) FOR RECOMMENDATION(S):

The Audit Committee will be updated periodically with respect to engagements to Deloitte over the term of RFP #12-1798. In Administration's view, this award will not adversely affect the independence of Deloitte LLP.

ATTACHMENT(S)

None