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# Municipal Act Procedures Manual

**PART: 6- FINANCIAL ADMINISTRATION**

**Subject: 2 - Municipal Audits - Appointment,  
Proposal and Evaluation**

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## **6.2 Municipal Audits — Appointment, Proposal and Evaluation of Audit Engagements and Reporting Requirements**

### **(1) Legal Requirements**

#### Municipal Auditor Appointments

Subsection 184(1) of The Municipal Act (the Act) requires council to appoint an auditor each year by August 31.

Subsection 184(3) of the Act requires the council to inform the Minister of the name of the auditor within 40 days after the appointment. A copy of Council's appointment resolution is to be submitted on Manitoba Municipalities Online (MMO) under Submit/View Municipal Report – Municipal Report and may be access at <https://www.gov.mb.ca/mao/mmo>.

#### Municipal Audits

Subsection 186(1) of the Act sets out the scope of the auditor's examination respecting the financial statements, financial information returns, records, books of account and other information relating to the financial affairs of the municipality including (but not limited to):

- any funds of the municipality held in trust for the municipality
- any board, committee or other body that is established or appointed by the council and that administers funds of the municipality.

Subsections 187 and 188 of the Act entitles the auditor for the purpose of the audit to access all records and other information as required.

#### Reporting Requirements

Subsection 183(1) of the Act requires the municipality to prepare annual financial statements for the preceding year according to generally accepted accounting principles as recommended from time to time by Chartered Professional Accountants of Canada (CPA Canada) and any modifications as approved by the minister.

Financial statements templates and worksheets have been developed and may be accessed on Manitoba Municipal Relations' webpage.

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Section 190 of the Act requires the auditor to report to the council no later than June 30 in the year following the year for which the audit is prepared, identifying the financial statements audited and providing an opinion on the financial position and results of operations for the fiscal year.

Subsection 190 (2) of the Act requires the auditor to also prepare a supplement report that is to include:

- statement of opinion related to the internal controls of the municipality
- statement of opinion on compliance with legislation, and
- statement of findings and recommendations on any irregularities in the performance of duties and record keeping of municipal financial affairs that came to the auditor's attention during the audit.

Subsections 191 and 192 of the Act enable the Minister to request further examination and submission of additional information or documents on the financial affairs of the municipality.

Subsection 193(1) of the Act requires the auditor to ensure that a copy of the audit report (audit opinion, audited financial statements and supplement report) is provided to the head of council and the minister.

Subsection 194 of the Act requires the municipality to give public notice of the audit report and municipality's financial statement are available for public review. The audited financial statement ensures accountability and transparency and provides citizens with the opportunity to see the actual year-end financial results.

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## (2) Appointing an Auditor - The Audit Proposal

In considering the appointment of an auditor, municipalities may wish to develop a Request for Proposal (RFP), to be responded to by potential auditors for audit services. A sample Audit Proposal is attached, as Appendix 1, which may be used as a checklist.

Municipalities may also wish to establish an audit committee to:

- define the scope of the audit
- consider the proposals received by potential auditors
- make recommendations to council about the auditor's appointment
- act as a liaison between the auditor and the municipality
- evaluate the performance of the auditors (pre- and post-appointment)
- follow-up on the auditor's recommendations

## (3) Audit Proposal Review

A sample Audit Proposal Review is attached, as Appendix 2, to assist municipalities in their evaluation of an audit proposal received from a potential auditor.

The sample Audit Proposal Review sets out one way of evaluating audit proposals, however, municipalities should attach appropriate allocation of merit to the specific areas they feel are most important.

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## Appendix 1 — Sample Audit Proposal

### I. Information Provided by the Municipality

#### a) Request for Proposals

- Firms are responsible to ensure that their proposals are received by registered mail or secured email by the date specified by the municipality.
- Inquiries related to this request for proposal should be directed to the designated person (chief administrative officer, chief financial officer, audit committee chairperson).

#### b) Nature of Services Required

The municipality should request proposals from Chartered Professional Accountants authorized to perform an attest audit of its financial statements with the purpose of expressing an opinion on the fair presentation of its consolidated financial statements in accordance with Canadian Public Sector Accounting Standards.

To search for registered audit firms, municipalities may access the CPA Manitoba website at: <https://cpamb.ca/find-a-cpa>.

The audit shall be performed in accordance with Canadian Auditing Standards and in accordance with Part 6, Division 5 of The Municipal Act.

The municipality should identify any additional services such as presentations that may be required.

#### c) Description of Municipality and Records to be Audited

- Location of municipality and municipal office
- Organizational chart
- Listing of number and categories of employees
- Description of accounting system including software
- Accounting policies and procedures
- Copy of most recent audited and internal financial statements
- Copy of most recent budget
- Any other information materially relevant to a potential auditor (trust funds, Municipal Employees Benefits Program (MEBP) information, debenture schedules, commitments, reserves, utilities, segment information, collective agreement(s), Local Urban District(s))

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**d) Description of Municipal Reporting Entities (MREs) and Government Partnerships (GPs) and Records to be Audited**

- Location of organizations
- Organizational chart
- Description of accounting system including software
- Accounting policies and procedure
- Copy of most recent audited and internal financial statements
- Copy of most recent budget
- Any other information materially relevant to a potential auditor

**e) Contracted Arrangement**

The audit engagement is for a defined number of years as approved by council.

**f) Report Presentation**

Prior to the issuance of the audit opinion, audited financial statements and supplementary report, the reports are to be presented to council for acceptance by resolution. The Consolidated Statement of Financial Position is to be signed by council representatives.

**II. Information Requested from the Auditor**

The following represents the format in which all proposals must be submitted:

**a) Title Page**

A page showing the request for proposal subject, the name of the auditor's firm, its local address, the name and number of a contact person, the date and the name of the municipality.

**b) Table of Contents**

The table of contents should clearly identify what is included in the proposal, by section and by page number.

**c) Letter of Introduction**

A letter of introduction containing the name, address and telephone number of the firm and the individual authorized to represent and bind the firm to all commitments made in the firm's proposal, and an understanding of the work to be performed.

The letter should include an affirmative statement indicating that the firm and all

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assigned key professional staff are properly registered to practise in Manitoba and meet the qualifications set out in subsection 184(5) of The Municipal Act. In addition, the audit firm is to provide background and experience in municipal audit.

**d) Profile of the Firm**

Give the number of partners, managers, supervisors, seniors and other professional staff employed.

Describe the range of activities performed such as audit, accounting, or management service and similar engagements with other public sector entities. Describe the firm's technological capacity.

Provide a disclosure of conflict of interest and independence.

**e) Audit Partner, Supervisory Staff Qualifications and Experience**

List the staff to be involved with the audit, specifying each individual's role and experience/qualifications. (Brief résumés for each senior person assigned to the audit should be included in an appendix).

**f) Audit Methodology**

Provide a description of the firm's approach to the performance of the attest audit, including planning, assessing risk, testing accounts and transactions, evaluating internal controls, reporting and providing an audit opinion and compliance to legislation. This description should also encompass the extent and timing of the audit plan that would include but not limited to:

- determining materiality
- sampling procedures
- perform analytical review
- use of municipal accounting software
- testing compliance audit
- time allocation for interim and year end audit field work

**g) Audit Fee**

Based on the value for money service approach and nature of engagement the audit firm will determine the estimated maximum fees and other out-of-pocket costs.

Fees may or may not include audit cost for municipal reporting entities (MREs) and government partnerships (GPs).

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## **h) Additional Data**

Provide any additional information considered essential to this proposal. If there is no additional information to present, state in this section, “There is no additional information we wish to present.”

## **III. Evaluation Procedure**

- a) The council or audit committee should evaluate the proposals received based on the criteria set out in the RFP and apply equitably to all proposals.
- b) The council has sole authority to make the appointment. Contract is awarded by resolution to the audit firm whose proposal is determined to be the most advantageous to the municipality based on the evaluation.

Note: The municipality is not required to award the RFP, for example if all the proposals are too high or if no one met the municipality’s procurement criteria.

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## Appendix 2 — Sample Audit Proposal Review

<u>Experience</u>	<u>Points</u>
Experience in Auditing:	
<ul style="list-style-type: none"> <li>• Like size municipalities for 10 years or more</li> <li>• Like size municipalities for 5 to 10 years</li> <li>• Gov't./non-profit for 10 years or more</li> <li>• Gov't./non-profit for 5 to 10 years</li> <li>• Large private sector for 5 to 10 years</li> <li>• Smaller municipalities for 5 to 10 years</li> <li>• Small audits for 5 to 10 years</li> </ul>	20 18 17 15 12 10 5
Engagement Partner 60% of x points and Audit Supervisor 40% of x points.	
<u>Qualifications</u>	
Depth of Resources:	
<ul style="list-style-type: none"> <li>• National accounting firm</li> <li>• Regional accounting firm</li> <li>• Large single office firm</li> <li>• Small single office firm</li> </ul>	5 4 3 2
Accounting designation:	
<ul style="list-style-type: none"> <li>• Engagement partner and audit supervisor</li> <li>• Engagement partner only</li> <li>• Audit supervisor only</li> </ul>	5 3 1
<u>Proposed Audit Methodology</u>	
Overall Presentation of Proposal:	
<ul style="list-style-type: none"> <li>• Proposal is clear and concise, well put together, includes schedules and provides all information requested in the RFP.</li> <li>• Proposal is well put together and provides information requested in the RFP but leaves items open to interpretation.</li> <li>• Proposal provides information requested in the RFP but leaves items open to interpretation.</li> </ul>	8 6 3
Technical Merit:	
<ul style="list-style-type: none"> <li>• Audit approach is very detailed and logical.</li> <li>• Audit approach is reasonably detailed and logical.</li> <li>• Audit approach is vague but logical.</li> <li>• Audit approach is vague and not logical.</li> </ul>	8 6 4 2
Technological Skills:	
<ul style="list-style-type: none"> <li>• Engagement partner and/or field supervisor have expertise in the municipal accounting software.</li> </ul>	2



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## Outstanding Issues:

- The proposal is firm and makes no reference to outstanding items that might affect the audit fee in future. 3

## Audit Fee:

- Most economical bid gets 50 points, with a maximum difference of 10 points [(spread to be  $50 \div (\# \text{ of bids } - 1)$ )]
- 

## SUMMARY OF POINTS

### Experience:

Engagement Partner 60%

\_\_\_\_\_

Audit Supervisor 40%

\_\_\_\_\_

### Qualifications:

Depth of Resources

\_\_\_\_\_

Accounting Designation

\_\_\_\_\_

### Proposed Audit Methodology:

Overall Presentation of Proposal

\_\_\_\_\_

Technical Merit

\_\_\_\_\_

Technological Skills

\_\_\_\_\_

Outstanding Issues

\_\_\_\_\_

**SUB-TOTAL:** \_\_\_\_\_

**AUDIT FEE:** \_\_\_\_\_

**TOTAL:** \_\_\_\_\_