Examination of Construction Management Contract for the Government Conference Centre Rehabilitation Project

PCL Invoices for the period from March 6, 2014 to April 30, 2016 (Invoices #1 to 26)

June 29, 2017

To the Office of Audit and Evaluation, Public Services and Procurement Canada

Subject: Cost Audit of Construction Management Contract with PCL Constructors Canada Inc. for the Government Conference Centre Rehabilitation Project for the period from March 6, 2014 to April 30, 2016 (Invoices #1 to 26)

PricewaterhouseCoopers LLP (PwC) was engaged by Public Services and Procurement Canada, Office of Audit and Evaluation.

We recently completed a cost audit under Canadian Auditing Standards (CAS) 805 of the Construction Management (CM) Contract for the Government Conference Centre Rehabilitation Project between PCL Constructors Canada Inc. (PCL) and Public Services and Procurement Canada (PSPC) for the period from March 6, 2014 to April 30, 2016 (Invoices # 1 to 26).

We hereby enclose our audit report on the Summary of Invoiced and Audited Amounts.

Yours very truly,

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

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1. Background

The Long-Term Vision and Plan (LTVP) for the Parliamentary Precinct, which was approved in 2001 and amended in 2007, is a detailed framework that provides direction for the renewal of Canada's seat of government, the Parliamentary Precinct. This renewal and preservation program is expected to unfold over 25 years as a series of major projects (Major Crown Projects) implemented in five phases.

As part of the LTVP, the Government of Canada awarded construction management services contracts and commenced rehabilitation of the Parliament Buildings including the Government Conference Centre. The Government Conference Centre Rehabilitation involves a renovation of a Heritage Building in order to provide an interim home to the Canadian Senate to allow the Centre Block of Parliament to be vacated so that its renovations can proceed in 2018.

PCL Constructors Canada Inc. (PCL) was awarded the Construction Management Services Contract for the Government Conference Centre Rehabilitation Project. The construction contract was awarded on March 6, 2014, for an award value of $2.3 million (HST excluded) for the first phase (pre-construction services) of a two-phase contract where the second phase is for construction services. As of December 2016 the total budgeted award under the contract for Phases A and B sits at $135 million (HST excluded).

Following a competitive bid process PricewaterhouseCoopers LLP (PwC) was awarded a contract by the Office of Audit and Evaluation of Public Services and Procurement Canada (PSPC) to conduct various independent audits throughout the construction phases of the Major Crown Projects noted above.

PwC was engaged to audit that the amounts invoiced by PCL for the period from March 6, 2014 to April 30, 2016 were in accordance with Annex B of the contract between PCL and PSPC.

Upon the completion of our audit, PwC issued a clean auditor’s report in accordance with Canadian Auditing Standards (CAS) Section 805. Refer to Section 2 of this report.

2. Auditor's Report

PUBLIC SERVICES AND PROCUREMENT CANADA

Summary of Invoiced and Audited Amounts

PCL CONSTRUCTORS CANADA INC.

Construction Management Contract for the Government Conference Centre Rehabilitation Project

For the period from March 6, 2014 to April 30, 2016 (Invoices # 1 to 26)

June 29, 2017

Independent Auditor's Report

To the Office of Audit and Evaluation, Public Services and Procurement Canada (PSPC)

We have audited the accompanying Schedule 1 of amounts invoiced by PCL Constructors Canada Inc. (PCL) for the period from March 6, 2014 to April 30, 2016 (the Schedule). The Schedule has been prepared by the management of PCL in accordance with Annex B – Basis of Payment of the Construction Management Contract for the Government of Canada's Government Conference Centre Rehabilitation Project (CM Contract) dated March 6, 2014.

Management's responsibility for the Schedule

Management of PCL is responsible for preparation of the Schedule in accordance with the requirements of Annex B – Basis of Payment of the CM Contract, and for such internal control as management of PCL determines is necessary to enable the preparation of a Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to PCL's preparation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PCL's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by PCL management, as well as evaluating the overall presentation of the Schedule.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information in Schedule 1 of amounts invoiced by PCL Constructors Canada Inc. for the period from March 6, 2014 to April 30, 2016 (Invoices #1 to 26) is prepared, in all material respects, in accordance with the requirements of Annex B – Basis of Payment of the CM Contract.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Note A of the Schedule, which describes the basis of accounting. The Schedule is prepared to assist PSPC in meeting its fiduciary duties regarding the execution and management of Major Crown Projects such as the Government Conference Centre Rehabilitation Project, in accordance with specified Treasury Board standards and guidelines. As a result, the Schedule may not be suitable for another purpose. Our report is intended solely for PSPC and PCL and should not be used by parties other than PSPC and PCL.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Summary of Invoiced and Audited Amounts
Construction Management Contract for the Government Conference Centre Rehabilitation Project
Between PCL Constructors Canada Inc. (PCL) and
Public Services and Procurement Canada (PSPC)
For invoices #1 to 26, for the period from March 6, 2014 to April 30, 2016

Schedule 1

	Amounts Invoiced to PSPC $ (Note 1)	Total Adjustments $ (Note 2)	Total Audited $ (Note 3)
Direct Costs (Note 4)	28,799,756	-	28,799,756
Indirect Costs (Note 5)	6,925,993	-	6,925,993
TOTAL INVOICED	**35,725,749**	**-**	**35,725,749**

A. SUPPLEMENTARY NOTES

The Government Conference Centre Rehabilitation Project involves an extensive renovation of a Classified Heritage Building in order to provide an interim home to the Canadian Senate to allow the Centre Block of Parliament to be vacated so that its renovations can proceed in 2018. The renovated Government Conference Centre will provide interim accommodations for the Canadian Senate Legislative Officials and related support functions. The total approved costs earmarked for the Government Conference Centre Renovation Project is $219 million (this includes construction costs, design fees, information technology systems, project management fees and contingencies). A Construction Management services contract was awarded to PCL, in March 2014. As of December 2016, the total contract awards under Phases A and B of the Project is $135 million.

1. Amounts Invoiced to PSPC

The amounts invoiced in the above table represent the eligible costs invoiced by PCL during the period from March 6, 2014 to April 30, 2016 (Invoices #1 to 26) to PSPC in relation to the Government of Canada's Government Conference Centre Project. The amounts invoiced in Schedule 1 above were reconciled to the total amounts claimed on Invoices #1 to 26.

2. Total Adjustments

As noted in Schedule 1 above, no exceptions arose from audited amounts and therefore no adjustments of Amounts Invoiced to PSPC as per Schedule 1 above were required.

3. Total Audited

These amounts represent the amounts invoiced to PSPC, net of any adjustments. Total amounts audited relate to invoices #1 to 26 for the period from March 2014 to April 30, 2016 prepared in accordance with Annex B – Basis of Payment of the CM contract and does not include an audit of the CM contract as a whole.

The notes below describe the types of costs invoiced by PCL during the period.

4. Direct Costs

Direct costs include construction costs which are incurred by all subcontractors who invoice PCL. PCL then charges these costs back to PSPC.

5. Indirect Costs

Indirect costs include Construction Manager Services, disbursements for permits, insurances and bonding, and construction general expenses which are incurred by PCL.

3. Recommendation

In connection with this audit we considered the internal control over amounts invoiced as a basis for designing our auditing procedures for the purpose of expressing our opinion on the first 26 PCL invoices of the CM Contract, but not for the purpose of expressing an opinion on PCL's or PSPC's internal controls. Accordingly, we do not express an opinion on PCL's or PSPC's internal controls.

Our consideration of internal controls over amounts invoiced was for the limited purpose described above and was not designed to identify all deficiencies or opportunities for improvement in internal control and therefore, there can be no assurance that all internal control matters have been identified.

We are providing you with our observation and recommendation on a potential opportunity for improvement noted in conjunction with the cost audit.

#1 – Potential for misinterpretation of contract language

Observation

During our audit we noted a potential for misinterpretation of contract language in contract Ep 760-140543/001/FG for Construction Management Services in the area of supporting documentation required for additional personnel. We understand the parties involved (namely the Government of Canada and PCL) have agreed on an approval process and the level of supporting documentation required for the current CM Contract.

Recommendation

We recommend any future contracts of this nature contain consistent clauses around any requirement for supporting documentation.

PSPC Response

PSPC agrees with the recommendation and will ensure consistency in language for future contracts. The Parliamentary Precinct Branch is working closely with Acquisitions Branch to ensure a coordinated effort.

4. Scope, Limitations in Scope and Restrictions

A financial statement audit is generally performed with the objective of providing reasonable assurance that financial statements as a whole are free from material error. An audit of a schedule of amounts invoiced (cost audit) is generally performed with the objective of highlighting differences between amounts invoiced and the underlying documents supporting the amounts invoiced in order to provide reasonable assurance that amounts invoiced are in accordance with the terms of a specific agreement.

PwC was not engaged to and did not perform a financial statement audit for the purpose of expressing an opinion on historical financial statements in accordance with standards established by the Chartered Professional Accountants of Canada (CPA Canada). Accordingly, PwC does not express such an opinion or any form of assurance on the financial statements of PSPC or of PCL as a whole.

PwC was engaged to perform a cost audit on the amounts invoiced by PCL to PSPC. The procedures undertaken were consistent with Canadian Auditing Standards 805, "Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement". As a result, we have expressed an opinion solely on whether the amounts invoiced by PCL to PSPC in in Invoices #1 to 26 for the period from March 6, 2014 to April 30, 2016 are in accordance with the terms of the CM Contract.

We reserve the right, but will be under no obligation, to review this report, and if we consider it necessary, to revise our report in light of any information, which becomes known to us after the date of this report.