



Report to: General Committee

Meeting Date: June 17, 2025

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| SUBJECT: | External Audit Contract Extension |
| PREPARED BY: | Alex Moore, Senior Manager Procurement & Accounts Payable Ext. 4711 Kishor Soneji, Manager, Financial Reporting Ext. 2681 |

RECOMMENDATION:

- 1) That the report entitled “External Audit Contract Extension” be received;
- 2) That the contract for the five-year fiscal period commencing with the 2025 audit and ending with the 2029 audit be awarded to KPMG LLP Chartered Accountants in annual amount of \$198,000 (before HST impact) with an increase of CPI plus 0.20% in years 2–5 (2026 – 2029);
- 3) That the contract includes an audit of financial statements for the following entities:
 - i. The Corporation of the City of Markham, The Corporation of the City of Markham Trust Fund, City of Markham Public Library Board, Old Markham Village Business Improvement Area (MBIA), and Unionville Business Improvement Area (UBIA), Varley Art Gallery in accordance with Canadian accounting standards for the public sector;
 - ii. Varley-McKay Art Foundation, The Friends of Markham Museum Foundation, The Markham Foundation for Performing Arts, and Destination Markham Corporation, in accordance with Canadian accounting standards for not-for-profit organizations (“ASNPO”);
 - iii. Markham District Energy Inc. (MDEI) and Markham Enterprises Corporation (MEC), in accordance with International Financial Reporting Standards (“IFRS”).
- 4) That the contract include the preparation of income tax returns for MDEI and MEC;
- 5) That the tendering process be waived in accordance with Purchasing By-Law 2017-8, Part II, Section 11.1, (c) which states “when the extension of an existing contract would prove more cost-effective or beneficial” & (h) where it is necessary or in the best interests of the City to acquire Professional Services from a supplier who has a proven track record with the City in terms of pricing, quality and service;
- 6) That the award for the audit for fiscal years 2025 to 2029 be funded from the respective annual operating budget as identified under financial considerations; and
- 7) That Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of this report is to obtain Council approval to extend the External Audit Services contract for an additional five (5) years.

BACKGROUND:

Under the **Municipal Act, 2001**, the City of Markham (“the City”) is required to appoint a licensed auditor that will conduct an annual audit, and render an opinion on, financial statements the City (and its associated/related entities) prepare. The term of the appointment for such an auditor (the “financial auditor”) cannot exceed five years.

KPMG, a leading assurance and advisory firm particularly in the municipal sector, has been the City’s financial auditor for many years. KPMG audits the City’s financial statements, as well as those of City-affiliated entities (i.e., local board, committees, and organizations).

With the expiry of its current contract with the City, KPMG has recently submitted a fee proposal for a five-year contract extension for both the City and its affiliates.

OPTIONS/ DISCUSSION:

The options available to the City are to enter into a competitive bidding process for external audit services or to evaluate the current fee proposal and performance of KPMG and extend the renewal contract for a period not to exceed 5 years.

In assessing KPMG’s proposal, Staff reviewed comparators for audit services and analyzed potential contributing factors, including inflationary pressures and the impact of increased transactional volumes and changes to accounting and audit standards.

Over the past ten years, cumulative inflation has risen to 41.4%, while the City’s contract with KPMG has only increased by 14.9% (a variance of 26.5 percentage points). During this time, 22 new accounting and auditing standards have been introduced and implemented, requiring additional effort from both City staff and the auditors. KPMG noted an increase of nearly 75% in auditor hours over this period.

In assessing options and preparing for next steps given the expiry of KPMG’s current contract, Staff’s approach has been to incorporate these considerations, with a view to achieving a balanced contract arrangement while ensuring continued prudence and value for money.

Through negotiations between Staff and KPMG leadership, a recommended consensus arrangement has been achieved that gives some recognition to inflationary pressures and the realities of successfully conducting audits in evolving, more complex environments. The proposed contract includes a one-time increase to true-up the audit fees in the first year of the renewed contract, followed by more stable annual increases of CPI plus 0.2% for years 2 to 5. Staff are of the view that these proposed terms are reasonable and cost-effective.

From a performance perspective, KPMG’s engagement as the City financial auditor has been satisfactory. City staff have benefited from the technical expertise and professional support the firm has exhibited and provided as part of the annual audit process. They have consistently provided valuable services and have been readily available whenever their expertise is required. In spite of a number of significant and complex changes to the public sector accounting and auditing landscape over the years, City and affiliate staff have been able to successfully manage the audit process, with guidance provided by KPMG. The

firms' experience and understanding of the City and affiliate structures, systems and processes—without compromising the auditor's independence—have been positive factors in helping facilitate efficient and effective audits.

While a change in audit service provider is an option, switching financial auditors carries challenges and risks, and will require significant effort and resourcing on the part of the City and affiliate staff to onboard and acclimate a new firm. As public sector accounting continues to evolve and become more complex, reliable expertise and collaborative professional relationships will be critical to ensuring audit continuity.

FINANCIAL CONSIDERATIONS:

The table below provides the breakdown of the total proposed audit fee and the allocation of cost across audit entities. The cost of the audit will be incorporated into operating budgets, which will be reviewed and confirmed as part of annual budget processes.

| <u>Entity</u> | <u>2025</u> |
|--|---------------------------|
| | \$ |
| Corporation of the City of Markham | 99,300 |
| Markham Public Library | 12,100 |
| Varley Art Gallery | 2,200 |
| Trust Fund | 2,200 |
| Old Markham Village BIA | 2,200 |
| Unionville BIA | 2,200 |
| Destination Markham | 6,200 |
| Varley McKay Art Foundation | 2,200 |
| The Friends of Markham Museum Foundation | 2,200 |
| The Markham Foundation for Performing Arts | 2,200 |
| Markham District Energy | 28,000 |
| Makham Enterprises Corporation | 37,000 |
| Total | <u>198,000</u> |
| 2024 Audit fee | <u>156,921</u> |
| Overall percentage increase over 2024 | 26.2% |

HUMAN RESOURCES CONSIDERATIONS:

Not applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

The audit process conducted by the financial auditor is an essential element of financial management at the City of Markham and is critical to the City's goal of "Stewardship of Money & Resources."

BUSINESS UNITS CONSULTED AND AFFECTED:

Finance staff were involved in the process and concur with the recommendation. Staff at City affiliates were also informed of the proposed renewal.

RECOMMENDED BY:

Joseph Silva
Treasurer

Trinela Cane
Commissioner, Corporate Services