



Report to: General Committee

Meeting Date: June 1, 2020

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

RECOMMENDATION:

- 1) That the report entitled “External Audit Services Contract Extension” be received; and,
- 2) That the contract for the five year fiscal period commencing with the 2020 audit and ending with the 2024 audit be awarded to KPMG LLP Chartered Accountants in annual amount of \$91,737.00 inclusive of HST with a 1% increase in years 2–5 (2021 – 2024); and,
- 3) That the contract include examination and review of the records and conduct audit of the financial statements prepared in accordance with Canadian accounting standards for the public sector of 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); and,
- 4) That the contract include examination and review of the records and conduct audit of the financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations (“ASNPO”) Varley-McKay Art Foundation, The Friends of Markham Museum Foundation, and The Markham Foundation for Performing Arts and Destination Markham Corporation; and,
- 5) That the contract include examination and review of the records and conduct audit of the financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) of Markham District Energy Inc. (MDEI) and Markham Enterprises Corporation (MEC); and,
- 6) That the contract include the preparation of income tax returns for MDEI and MEC; and,
- 7) 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; and,
- 8) That the award for the audit for fiscal years 2020 to 2024 be funded from the respective annual operating budget as identified under financial considerations; and further,
- 9) 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:

The City of Markham (“the City”) has contracted with KPMG as the external auditor, with Kevin Travers, Partner and lead engagement partner for many years.

The 2019 contract included the examination and review of the records and to conduct an audit of the financial statements of The Corporation of the City of Markham, The Corporation of the City of Markham Trust Fund, and City of Markham Public Library Board.

In addition to the above, the 2019 contract included the examination and review of the records and financial statements on behalf of MBIA, UBIA, Varley, Museum, MDEI, and MEC. Commencing in 2020 the Markham Foundation for Performing Arts and Destination Markham Corporation have been added to the audit scope. The contract, budget and payment for services rendered for the above noted affiliates is the sole responsibility of each business entity.

OPTIONS/ DISCUSSION:

Recently the City received a fee proposal from KPMG for a one-year and five-year contract extension for both the City and the affiliates (local board, committees, and organizations).

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.

The Municipal Act (“the Act”), in Section 296 (3) states that an “An auditor of a municipality shall appoint an auditor who is licensed under the Public Accounting Act, 2004 who is responsible for annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit. The term of such auditor shall not be appointed for a term exceeding five years.

Staff completed a cost comparison for the provision of external audit services to the City and affiliates between 2019 and the fees proposed by KPMG for the 2020 financial audit period and future years.

The one-year option for 2020 reflects an increase of 4.95% for the City’s portion and an increase to the affiliates in the range of 4.55% to 5.66%. The five-year contract for 2020 reflects an increase of 1.52% for the City’s portion and an increase to the affiliates in the range of 1.44% to 1.50%.

KPMG has agreed to a firm increase of 1% annually for years 2-5 (2021-2024) and as such, the overall average for the five-year period for the City is 1.13% and 1.11% to 1.12% for the affiliates. KPMG has also agreed to conduct the audit of the financial statements for The Markham Foundation for Performing Arts at no charge for 2020 and 2021.

KPMG has consistently provided valuable audit and consulting services relating to Public Sector Accounting Board (PSAB) conformance and methodologies and recording of financial activities in the financial statements. At no additional charge, KPMG readily avails themselves to the City and its associates throughout the year, whenever their expertise is required. KPMG was instrumental in providing advice and guidance throughout the series of hydro corporation merger with Guelph Hydro Electric Systems Inc. (Guelph Hydro) and Alectra Utilities Corporation.

Over the past several years, there have been many changes to public sector accounting standards. Some recent examples include accounting for contaminated sites, related party disclosures and inter-entity transactions and most recently restructuring transactions relating to assets and liabilities. As public sector accounting is ever-changing, moving closer to private sector standards, it is critical that business relationships and audit continuity be maintained if not, several months of extra time and effort would be required to introduce a new audit firm to the City's policies and procedures and in many instances the work that has already been done would have to be repeated.

On behalf of the City's affiliates, the impact of a change to a new audit firm would be challenging, particularly for MEC and MDEI, where audit requirements have become increasingly more complex and the number of financial transactions flowing through each continues to increase.

Overall, the City has been very satisfied with the external auditing services as well as taxation and other advisory services provided by KPMG, and specifically by Kevin Travers, the lead engagement partner. KPMG provides regular updates of new accounting and financial reporting developments for Ontario Municipalities. KPMG has stood by their fee commitments over the years and has absorbed additional hours provided on advisory and audit matters. KPMG have provided a cost-effective proposal with a nominal increase.

KPMG's offer to extend the contract for external audit services includes a five-year average increase of 1.13% per year. This is below the Ontario CPI (all-items) average increase for the last three years (2017-2019) at 1.97%.

Therefore, Staff are recommending a five-year contract extension with KPMG.

FINANCIAL CONSIDERATIONS

<u>Entity</u>	<u>2019</u>	<u>2020</u>	<u>Var \$</u>	<u>Five- years average % Incr.</u>
	A	B	C=B-A	D
<u>Paid by the City of Markham (including 1.76% HST impact)</u>				
City of Markham (including Trust Funds)	\$80,899	\$82,120	\$1,221	
City of Markham Public Library Board	<u>\$9,464</u>	<u>\$9,616</u>	<u>\$152</u>	
<i>A - City Total, Including HST Impact</i>	\$90,363	\$91,737	\$1,374	
<i>Percentage increase over previous contract</i>			1.52%	1.13%
<u>Paid by Affiliates (local boards/committees)</u>				
Old Markham Village Business Improvement Area	\$2,000	\$2,030	\$30	
Unionville Business Improvement Area	\$2,000	\$2,030	\$30	
Varley-McKay Art Foundation	\$2,000	\$2,030	\$30	
The Friends of Markham Museum Foundation	<u>\$2,000</u>	<u>\$2,030</u>	<u>\$30</u>	
<i>Sub-total</i>	\$8,000	\$8,120	\$120	
<i>Percentage increase over previous contract</i>			1.50%	1.12%
<u>New in 2020</u>				
Destination Markham Corporation	\$0	\$3,200	\$3,200	
The Markham Foundation for Performing Arts	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	
<i>B - Affiliates (local boards/committees) Total, excluding HST</i>	\$8,000	\$11,320	\$3,320	
<u>Paid by Affiliates (organizations)</u>				
Markham Enterprises Corporation	\$26,500	\$26,900	\$400	
Markham District Energy Inc.	<u>\$22,000</u>	<u>\$22,300</u>	<u>\$300</u>	
<i>C - Affiliates (organizations) Total, excluding HST</i>	\$48,500	\$49,200	\$700	
<i>Percentage increase over previous contract</i>			1.44%	1.11%
Total Audit Fees (B+C)	\$56,500	\$60,520	\$4,020	

BUDGET

Account #	Description	Budget Available	Budget Allocated for this Award	Cost of Award	Budget Remaining
410-4445610	External Audit Fees - Finance	\$70,690.00	\$ 70,690.00	\$ 65,378.50	\$ 5,311.50
760-9985610	External Audit Fees - Waterworks	\$16,500.00	\$ 16,500.00	\$ 16,750.91	\$ (250.91)
998-1005610	External Audit Fees - Library	\$ 9,000.00	\$ 9,000.00	\$ 9,607.59	\$ (607.59)
	Total	\$96,190.00	\$ 96,190.00	\$ 91,737.00	\$ 4,453.00

The remaining budget in the amount of \$4,453.00 will be maintained in the account to address future year external audits.

LEGAL CONSIDERATIONS

The City is subject to the following trade agreements, which apply to the public sector procurement above a certain dollar threshold: the Canadian-European Union Comprehensive Economic and Trade Agreement (CETA), effective September 21, 2017; and the Canadian Free Trade Agreement (CFTA), effective July 1, 2017.

The recommended contract extension to KPMG LLP complies with the CETA and CFTA trade agreements.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Finance staff was involved in the process and concurs with the recommendation.

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner, Corporate Services