



Report to: General Committee

Date of Meeting: June 19, 2006

SUBJECT: Appointment of External Auditors – 2006 Year End
PREPARED BY: Barb Cribbett, Treasurer

RECOMMENDATION:

THAT the tendering process be waived in accordance with Purchasing By-Law 2004-341, Part II, Section 7 (1) which states “when the extension of an existing contract would prove more cost-effective or beneficial”;

THAT KPMG LLP be appointed as the external auditors for the Town of Markham’s December 31, 2006 Year End Audit;

THAT Council request that Markham Enterprises Corporation and Markham District Energy Inc. award their 2006 audit services to KPMG;

THAT Council request the Varley-McKay Art Foundation of Markham award their 2006 audit services to KPMG;

THAT the increase in audit fees be included in the Town of Markham 2007 Operating Budget;

AND THAT staff be directed to initiate an RFP process in 2007 to award a five year contract for audit services.

PURPOSE:

To obtain Council’s approval of a one year extension to KPMG for the Town’s 2006 audit.

BACKGROUND:

The Municipal Act, in Section 296 (3) indicates that “An auditor of a municipality shall not be appointed for a term exceeding five years”. On October 23, 2001, Council awarded KPMG a one year contract for external audit services, with an option to renew for a further 4 years. KPMG has performed the Town of Markham audits, including Markham Enterprises Corporation, Markham District Energy Inc., Markham Public Library board, The Varley-McKay Art Foundation of Markham and the Old Markham Village and Unionville B.I.A.’s for the 2001 to 2005 fiscal year ends.

OPTIONS/ DISCUSSION:

On June 2, 2006 KPMG submitted a quote to the Town for 2006 audit services. The increase to the Town’s audit fee is 25% (\$15,000) since 2001. Overall, the increase from a total of \$97,900 (for all individual audits) to \$115,900 is \$18,000, or 18.4%. The price increase is influenced by 3 factors:

- Inflation of 11.7% (Canada-all items CPI) over the last 5 years
- Increase in scope – The Town of Markham continues to grow and the number of financial transactions/records is reflective of this growth. For example, the

number of invoices processed over the last 5 years has increased by 31%, the number of cheques issued has increased by 21%, assessment growth has increased by 20.1%, and number of property tax accounts has increased by 33%. These statistics result in increase audit sampling of transactions and are reflective of the increasing size and complexity of the Town's financial records

- Increase in audit requirements - As a result of events over the last number of years, confidence in the quality of audits has been undermined. As a result, audit requirements have be expanded. The Town's audit will be affected, for example, by enhanced "Audit Risk Standards", which includes requirements for auditors to:
 - ✓ Obtain an expanded understanding of the entity and its environment and its business risks
 - ✓ Obtain an understanding of the role of management and those charged with governance in the entity's overall internal control system
 - ✓ Obtain an understanding of information systems relevant to financial reporting
 - ✓ Obtain an understanding of significant risks, as well as evaluate the design of controls over significant risks
 - ✓ Understand the design and implementation of internal controls

FINANCIAL CONSIDERATIONS:

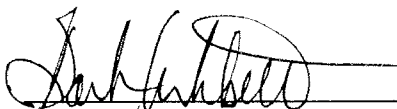
Recent awards of audit services are comparable to the pricing proposal received by the Town of Markham. The Region of York issued an RFP for audit services starting with the 2005 year end audit in late summer 2005, and awarded a five year contract to KPMG, who was the incumbent. KPMG quoted a 27% increase from 2004 for the Region's contract, and was still the lowest of three proposals.

Staff are recommending that the contract with KPMG be extended for one year to ensure consistency in audit approach into the first year of the new Council. Benchmarking against the Region of York's recent award, the pricing provided by KPMG for the Town of Markham's 2006 audit is reasonable. Staff would then recommend that an RFP process take place in 2007 for a further 5 year audit service contract.

The proposed price increase will be absorbed within the 2006 operating budget. The 2007 Operating Budget will be adjusted to reflect the increased cost for audit services, plus an inflationary factor.

RECOMMENDED

BY:


Barb Cribbett, Treasurer


Andy Taylor, Commissioner
of Corporate Services

ATTACHMENTS:

Letter of offer from KPMG