



Report to: General Committee

Date Report Authored: May 27, 2013

SUBJECT: Contract Extension 051-R-07 External Audit Services
PREPARED BY: Judy Rigby, Senior Manager, Financial Planning & Reporting

RECOMMENDATION:

- 1) THAT the report entitled “Contract Extension 051-R-07 External Audit Services” (“the Contract”) be received;
- 2) AND THAT the Contract be extended for a further five years with an option to renew after three years, for a period of an additional 2 years;
- 3) AND THAT the Contract for the three year fiscal period commencing with the 2013 audit and ending with the 2015 audit, be awarded for an annual amount of \$137,376, inclusive of HST, with no increase in each of the three years;
- 4) AND THAT the Contract include examination and review of the records and conduct an 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, the Old Markham Village Business Improvement Area (“MBIA”), and Unionville Business Improvement Area (“UBIA”);
- 5) AND THAT the Contract include the examination and review of the records and conduct an audit of the financial statements prepared in accordance with Canadian accounting standards for not-for-profit organizations (“ASNPO”) of the York Regional Innovation Centre (“VentureLab”), the Varley-McKay Art Foundation of Markham (“Varley”), and Museum Foundation (“Museum”);
- 6) AND THAT the Contract include examination and review of the records and financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) of Markham District Energy (“MDE”) and Markham Enterprises Corporation (“MEC”);
- 7) AND THAT the Contract include a compliance audit opinion related to the transfer of the Federal Gas Tax grant;
- 8) AND THAT the Contract include the preparation of income tax returns for MDE and MEC;
- 9) AND THAT the Treasurer and Senior Manager of Purchasing and Accounts Payable be authorized to extend the renewal for the audit of fiscal years 2016 and 2017 where the annual increase is limited to the lesser of 2% percent or the annual increase in CPI;

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- 10) AND THAT the tendering process be waived in accordance with Purchasing By-Law 2004-341, Part II, Section 7 (1) (C) when the extension of an existing contract would prove more cost-effective or beneficial;
 - 11) AND THAT the award for the audit for fiscal years 2013 to 2015 be funded from the respective annual operating budget; and,
 - 12) And 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 approval from Council to extend contract 051-R-07 “External Audit Services” for an additional five (5) years with an option to renew after three (3) years.

BACKGROUND:

Since 2002 the City of Markham (“the City”) has contracted KPMG as the external auditor, with Kevin Travers as senior manager and lead audit engagement partner for the majority of that time. The contract includes 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 the affiliate and associate corporations, MBIA, UBIA, VentureLab, Varley, Museum, MDE, MEC, and a compliance audit of the Gas Tax grant.

The initial contract for external audit services was awarded in 2002 to KPMG, as the successful bidder of an RFP, for one year with an option to renew for a further three (3) years. The base audit fee was \$67,000 for the City and \$30,900 for the Affiliates, totaling \$97,900 (excluding taxes).

KPMG maintained a fixed fee for services rendered until 2006, when Council approved an overall audit fee increase of 18.4% or \$18,000 (27.3% increase for the City and a 1.0% decrease for the Affiliates) to account for inflation, increase in scope of audit sampling transactions (due to increase in size, complexity of financial records and volume of transactions), and an increase in audit requirements prompted by enhanced “Audit Risk Standards”.

In 2007 the City awarded a three (3) year contract for external audit services, through an RFP, to KPMG as highest ranked and second lowest price proponent, after Staff negotiated an overall fee reduction of 13.3% from the original quotation in year 1, an increase in years 2 and 3 up to a maximum of 2.0%, and an additional \$50k to \$78k in value added services, specifically consulting and audit relating to the recording of Tangible Capital Assets (TCA) in conformance to PSAB legislation in 2007 at no additional cost. Council approved an overall audit fee increase of 10.3% or \$11,900 (2.3% increase for the City and a 32.4% increase for the Affiliates) with the addition of the Gas Tax Fund and Innovation Synergy Centre audit requirement.

Staff recommended that a contract extension be awarded in 2010 based on KPMG's delivery of: exceptional and valuable consulting services relating to PSAB conformance and various tax issues (implementation of HST); audited financial statements within 90 days of year end despite significant TCA audit requirements; and value added services in 2009 (165 hours or \$12k of free consulting) at no additional cost. Council approved a contract extension for three (3) additional years, 2010 to 2012 at the itemized pricing for 2009 with no increase for inflation.

The costs associated with the examination and review of records and financial statements is included in the respective budgets.

OPTIONS/ DISCUSSION:

The City has engaged KPMG for ten years to provide external audit services for the City and its Affiliates, twice through a competitive tendering process, the last one being in 2007. The current contract for external audit services with KPMG has expired with the 2012 audit of The Corporation of the City of Markham, The Corporation of the City of Markham Trust Fund, and the affiliate and associate corporations, MBIA, UBIA, VentureLab, Varley, Museum, MDE, MEC, and a compliance audit of the Gas Tax grant.

The options available to the City are to enter into a competitive bidding process for external audit services or to evaluate the current contract 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 not be appointed for a term exceeding five years".

On September 18, 2012 the City received a fee quotation for a five year contract extension for external audit services from KPMG. KPMG's initial fee quotation for a five year extension from 2013 to 2017, with 2013 quoted at \$145,500 (excluding taxes), \$93,500 for the City and \$52,000 for the Affiliates. This is a 13.2% or \$16,978 total increase over the 2010 – 2012 approved contract, 7.2% or \$6,283 for the City and a 25.9% or \$10,695 for the Affiliates. In addition KPMG proposed a further increase for inflation in 2014 to 2017 at the lesser of 2% or the annual increase in CPI and any savings KPMG would experience if less time is required to perform the audit, through City efficiencies, would be passed back to the City as a fee reduction.

The proposed fee for the Affiliates included the income tax preparation and filing for MDE and MEC, which were not a part of previous award. In 2011 KPMG invoiced approximately \$8,000 for income tax preparation and filing for MDE and MEC separately. Without the tax component the proposed fee audit fee of \$137,500 (excluding taxes) was an increase of 7.0% or \$8,978, to account for inflation and increased audit requirements for IFRS.

The City's Commissioner of Corporate Services and Senior Manager, Financial Planning and Reporting met with KPMG's Engagement Partner on March 7, 2013 to negotiate the terms of the contract. Staff proposed a three (3) year contract extension with an option to

renew for an additional two (2) years and a total fee for audit services only for the City and the Affiliates of \$130,000 (excluding taxes) with an increase for inflation in years 2 and 3 to a maximum of 1%. In addition any savings KPMG has if less time is required to perform the audit, through City efficiencies, can be kept by KPMG. Staff would continue to look for efficiencies in completing audit work.

KPMG submitted a revised proposal on March 11, 2013 with a total fee quotation of \$135,000 (excluding taxes) to include external audit services for the City and income tax preparation for MDE and MEC for three (3) years, which is 7.2% or \$10,500 lower than the original fee quotation. The City has an option to extend the renewal for an additional 2 years where the annual increase would be limited to the lesser of 2.0% or the annual increase in CPI (2012 annual average index is 1.5%). The revised proposal for the external audit service component has a 0.1% or \$120 increase for the City (for the increase in funding for the Gas Tax fund) and a 4.0% decrease or \$1,642 decrease for the Affiliates over the previous contract, or a total decrease of 1.2% or \$1,522 for audit services only (refer to Financial Considerations section of the report).

The proposed audit fee including income tax preparation for the fiscal years commencing with the 2013 audit to the 2015 audit for the City is \$87,337 (excluding taxes) and for the Affiliates is \$47,663 (excluding taxes). The proposed fees can be funded from the existing 2013 operating budgets.

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. Although the Ontario CPI average increase for the last three years was 2.4% and increased disclosures for IFRS require a commensurate increase in audit effort, KPMG has reduced the total fee for external audit services for the City and the Affiliates by 1.2% or \$1,522 from the previous contract.

Staff recommend that the extension of the 2010-2102 contract for external audit services be awarded to KPMG for three (3) years, commencing with the 2013 audit, at an annual fixed amount of \$137,376, including HST and income tax preparation for MDE and MEC, with an option for the City to extend the renewal for an additional two (2) years at an annual increase in fees limited to the lesser of 2% or the annual increase in CPI.

FINANCIAL CONSIDERATIONS AND TEMPLATE:

<u>Entity</u>	<u>Contract 051-R-07</u>	<u>2013 Budget</u>	<u>2013 KPMG Proposal Mar 11/13</u>		
	<u>2010-2012</u>	<u>Tax</u>	<u>Audit Fees</u>	<u>Tax</u>	<u>Total</u>
<u>Paid by the City</u>					
City of Markham (including Trust Funds)	74,467	-	74,467	-	74,467
City of Markham Public Library Board	8,670	-	8,670	-	8,670
Gas Tax Fund	4,080	-	4,200	-	4,200
A - Total paid by City	87,217	-	87,337	-	87,337
<i>\$ increase over previous contract</i>			120		120
<i>% increase over previous contract</i>			0.1%		0.1%
<u>Paid by Affiliates (local boards / committees)</u>					
Old Markham Village BIA	1,835	-	1,850	-	1,850
Unionville BIA	1,835	-	1,850	-	1,850
Innovation Synergy Centre in Markham (ISCM)	1,835	-	-	-	-
Varley Art Foundation	1,835	-	1,850	-	1,850
Friends of Markham Museum	1,835	-	1,850	-	1,850
York Regional Innovation Centre (VentureLab)		-	3,500	-	3,500
B - Total paid by other local boards / committees	9,175	-	10,900	-	10,900
<i>\$ increase over previous contract</i>			1,725		1,725
<i>% increase over previous contract</i>			18.8%		18.8%
Total City & local boards / committees (A + B)	96,392	-	98,237	-	98,237
<u>Paid by Affiliates (organizations)</u>					
Markham District Energy (MDE)	12,750	4,000	11,500	4,000	15,500
Markham Enterprises Corporation (MEC)	19,380	4,000	17,263	4,000	21,263
C - Total paid by other organizations	32,130	8,000	28,763	8,000	36,763
<i>\$ increase over previous contract</i>			(3,367)		4,633
<i>% increase over previous contract</i>			-10.5%		
Total paid by Affiliates (B + C)	41,305	8,000	39,663	8,000	47,663
			(1,642)		
			-4.0%		
Total Audit Fees (A + B + C)	128,522	8,000	127,000	8,000	135,000
<i>\$ increase over previous contract</i>			(1,522)		(1,592)
<i>% increase over previous contract</i>			-1.2%		-1.1%
Total Audit Fees (A + B + C) including 1.76% HST	130,784	8,141	129,235	8,141	137,376

HUMAN RESOURCES CONSIDERATIONS

Not applicable

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable

RECOMMENDED BY:

23/05/2013

21/05/2013

X 

Joel Lustig
Treasurer

X 

Trinela Cane
Commissioner Corporate Services

ATTACHMENTS:

[Appendix A – KPMG External Audit Services Quotation for 2013 to 2017](#)