

Date: 2023-08-23

Subject: **Audit Appointment Contract Extension**

Contact: Maja Kuzmanov, Senior Manager Accounting Services and Deputy Treasurer, Finance

Report Number: Corporate Support Services-2023-759

Recommendations:

1. That the report from Maja Kuzmanov, Senior Manager of Accounting Services and Deputy Treasurer to the Committee of Council meeting of September 20, 2023 re: **Audit Appointment Contract Extension**, be received; and,
2. That the appointment of KPMG_{LLP} Chartered Accounts (KPMG_{LLP}) be extended for two year commencing November 20, 2022, subject to the Treasurer finalizing an agreement with KPMG_{LLP} for the provision of external audit services; and,
3. That a By-law be passed to confirm the extension of the appointment of KPMG_{LLP} for two years commencing November 20, 2022.

Overview:

- **Section 296 of the *Municipal Act* states that a municipality shall appoint an auditor licensed under the *Public Accounting Act, 2004*, and an auditor of a municipality shall not be appointed for a term not exceeding five years.**
- **As a result of a competitive procurement, KPMG_{LLP} were appointed as the City's Auditor for a three-year term commencing November 20, 2020 and ending on November 19, 2022.**
- **The current contract states that it may be renewed, at the sole discretion of the City, for two (2) additional one (1) year period(s).**

- **This report recommends:**
 - **Extending the appointment of KPMG_{LLP} for two additional years commencing November 20, 2022 with a 7% fee increase which is well below inflation;**
 - **Passing a By-law to confirm the extension of appointment of KPMG_{LLP} for a term of two year commencing November 20, 2022.**

- **Authorizing the Treasurer to finalize an agreement with KPMG_{LLP} for the provision of external audit services.**

Background:

Section 296 of *the Municipal Act, 2001* states

- (1) **Auditor** - A municipality shall appoint an auditor who is licensed under the *Public Accounting Act, 2004* who is responsible for annually auditing the accounts and transaction of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit; and

- (2) **Term** - An auditor of a municipality shall not be appointed for a term exceeding five years.

In August of 2020, the City issued an RFP for External Audit Services for the City of Brampton for a Three (3) Year Period.

Under section 2.4 of City's Purchasing By-law (Schedule D), professional services conducted by accountants are exempt from a competitive procurement process. Notwithstanding the By-law exemption and that the City has been satisfied with the audit services provided by KPMG LLP, competitive procurement process to "test the market" was conducted to ensure the City of Brampton was obtaining the best value for the taxpayers' dollar.

The RFP process was conducted in accordance with the requirements of the RFP Document and the City's Purchasing By-law. Staff have completed the evaluation process and recommends the procurement be awarded to KPMG LLP in the total amount of \$366,000 (excluding taxes) for the three year period.

Furthermore, the signed contract states that it may be renewed, at the sole discretion of the City, for two (2) additional one (1) year period(s). The Contract extension renewal is subject to the satisfactory performance by KPMG, pricing, successful negotiations of both parties and budget approval for each and every subsequent year.

As part of KPMG's proposal submission, audit fee information for other comparable Municipal clients of KPMG was also included and it continued to demonstrate that they have provided competitive pricing for the City of Brampton audit.

Current Situation:

The City of Brampton must appoint External Auditors in order to comply with the requirements of section 296 of the *Municipal Act, 2001*. The 3-year term of the appointment of KPMG_{LLP} ended on November 20, 2022.

The goal of extending the external audit appointment for two years is to ensure continuity during Regional dissolution process.

Cost of Service

KPMG_{LLP} have provided competitive pricing for the City of Brampton audit. In June 2023, Finance conducted benchmarking analysis to assess audit cost of the services provided to the City by KPMG_{LLP} in comparison to the basic audit costs paid by several other GTA lower tier municipalities.

The average 2022 basic audit fee as a percentage of 2021 consolidated expenditures for the surveyed municipalities was 0.026%, while the City of Brampton's fees were 0.017%. The City's percentage includes the proposed 7% increase to the current fees. The benchmarking showed that KPMG's audit fees are competitive and lower than the average as compared to some of the other GTA municipalities.

Credentials and Experience

KPMG_{LLP} have significant credentials associated with providing municipal audit services.

KPMG has assigned a new partner to City of Brampton's file effective for the 2021 year-end audit. KPMG has implemented a policy to strengthen their internal governance processes that require a partner that has been on a file for 10 years or greater be rotated. As such, long-time Engagement Partner Kevin Travers was replaced by Maria Khoushnood.

Maria is a Partner in KPMG Enterprise practice, based in Toronto. She provides audit and advisory services related to public sector entities specializing in municipalities. She has over 15 years of experience providing audit and advisory services.

Representative Municipal Clients:

- City of Markham
- City of Mississauga

- City of Toronto
- City of Vaughan
- Region of York

Corporate Implications:

There are no corporate implications resulting from this report.

Financial Implications:

Funding for audit fees is included in the base operating budget. The recommendations in this report will result in incremental fees of \$18,276 over a two-year period with the increase to be absorbed in the 2024 and 2025 budget submissions, pending Council approval. Staff will ensure that sufficient funding is available for the duration of the contract with KPMG.

Strategic Focus Area:

This report fulfils *Government & Leadership* Strategic Focus Area through strict adherence to effective financial management policies and ensuring transparent and accountable financial operations.

Conclusion:

City staff are recommending the appointment of KPMG_{LLP} be extended for two years commencing November 20, 2022 for the provision of external audit services. The goal of extending the external audit appointment is to ensure continuity during Regional dissolution process.

KPMG_{LLP} have demonstrated that they have:

- Experienced and dedicated staff to conduct the audit of the City of Brampton.
- Access to highly qualified resources within KPMG_{LLP} to provide specialized accounting and financial reporting standards support.
- Experience with other Ontario municipalities with similar audit requirements.
- Competitively priced services

City staff has been pleased with the level and quality of audit services provided by KPMG_{LLP} and their proactive and cooperative approach to ensuring the City maintains a high standard of adherence to the accounting and financial reporting requirements for Ontario municipalities. This was particularly evidenced through their professional assistance and guidance in helping the City of Brampton to meet the financial reporting requirements necessary to receive the Canadian Award for Financial Reporting Achievement from the Government Finance Officers Association (GFOA) of the United States and Canada for the last 21 years.

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