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**Subject:** Appointment of Auditors

**Report to:** Audit Committee

**Report date:** Monday, May 10, 2021

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## **Recommendations**

1. That Deloitte **BE APPOINTED** as the Niagara Region's (the Region) external auditor for an additional two-year term starting with the calendar year ending December 31, 2021 until the fiscal year ending March 31, 2023.

## **Key Facts**

- The purpose of this report is to seek Audit Committee and Council's approval to extend the external audit services contract with Deloitte for an additional two-year term.
- With the ongoing pandemic resulting in significant impacts to the financial results of the Region and to staff availability to potentially transition auditors, staff believe there is value in retaining Deloitte as the audit firm familiar with our current business and processes.
- Per the audit committee terms of reference, it is the responsibility of the committee to approve the replacement, reappointment and/or appointment of the external auditors to Corporate Services Committee and Council.
- The current five-year contract with Deloitte, which was competitively procured via RFP in 2016, expires with the fiscal year ending March 31, 2021.
- Of the proposals evaluated in 2016 that met the benchmark set out in the evaluation criteria, Deloitte had the lowest five-year cost with only inflationary increases in years three to five.
- The requirement for an annual audit of the Region's consolidated financial statements is established in section 294 of the Municipal Act. The Municipal Act Section 296 requires a municipality to appoint an auditor for a term not exceeding five years; however, this does not impact the ability to reappoint the same auditors for a subsequent period of up to five years.

## **Financial Considerations**

The Region has signed a master services agreement with Deloitte that can be leveraged to cover the extended term and external audit service costs included in the

approved Council budget. Deloitte have agreed to maintain their audit fees with a 2% inflationary increase over their 2020/2021 fees for the two-year extension term. Actual fees and proposed fees for the extension term, based on known audits required, are in the table below.

*Table 1: Audit fee summary (excluding HST) Actual Audit fees*

| 2016 /<br>2017 | 2017 /<br>2018 | 2018 /<br>2019 | 2019 /<br>2020 | 2020 /<br>2021 | <b>Total</b> | Proposed<br>Audit<br>Fees<br>(inclusive<br>of 2%<br>increase)<br>2021/2022 | Proposed<br>Audit<br>Fees<br>(inclusive<br>of 2%<br>increase)<br>2022/2023 | <b>Total</b> |
|----------------|----------------|----------------|----------------|----------------|--------------|--|--|--------------|
| 173,900        | 153,100        | 146,450        | 152,950        | 155,600*       | \$782,000    | 154,000  | 154,000  | \$308,000    |

\* Includes \$5,000 one-time audit of a capital project not required in 2021 thru 2023.

In 2020/2021, the Region engaged Deloitte to provide 24 audits of various programs and projects (see Appendix 1). Audit services provided by Deloitte and included in the fees above include the financial statement audits for Court Services and Niagara Regional Housing. The NRPS does not currently have a financial statement audit but has engaged Deloitte to perform specified procedures on their police special bank account in the past. In 2021 and beyond, NRPS would hire an auditor separate from this contract to perform any audit work required.

## Analysis

The Region is currently focusing efforts on supporting the COVID-19 pandemic, including significant supports required from the financial management and planning (FMP) division. In addition to playing an active role in supporting the Region's emergency response through the emergency operations centres, FMP staff are supporting various new reporting requirements associated with numerous new funding agreements. These requirements are expected to continue into 2022, as many of them will require final reporting once the 2021 year is complete.

As a result of the new funding available from the COVID-19 pandemic and the Region adjusting service levels to address the needs of the community, the financial results in

2021 are expected to vary from a normal operating year. This may lead to additional variance reporting to fully understand the impacts to our lines of business.

Staff believe the Region would be well served by allowing FMP staff to continue to focus efforts on supporting the pandemic instead of prioritizing planning and evaluating an RFP and potentially transitioning to a new audit services provider, which requires a significant investment of staff time. Additionally, new accounting standards for asset retirement obligations, financial instruments and revenue recognition are coming into effect in 2021 and 2022, which will require staff time.

Deloitte has strong leadership presence in the municipal/public sector. Deloitte's municipal expertise in conjunction with the Region-specific knowledge obtained over the past five years give FMP staff confidence that Deloitte is best suited to most efficiently and effectively navigate any financial variances as a result of the Region's pandemic response. Additionally, with COVID-19 restrictions in 2020 and 2021, the Region and Deloitte have already established an efficient process allowing all audit work to be done remotely.

The two-year contract extension would be considered a negotiation under the Region's procurement by-law section 19 (a) (vi) & (x) outlined below.

19. (a) Notwithstanding that Negotiation may be a component of another procurement process, Negotiation may be used for Purchases of Goods and/or Services when any of the following criteria apply:

- (vi) the extension of an existing Contract would be more effective;
- (x) there is Council authorization to do so.

## **Alternatives Reviewed**

Audit committee could direct staff to complete a competitive procurement process to select an auditor; however, this is not recommended for the reasons described in the report.

Audit committee could recommend only a one-year extension and request staff complete a competitive procurement process in 2022 to select an auditor. This could alleviate some of the current resource concerns; however, given the uncertainty of the duration of the pandemic, this is not recommended.

## **Relationship to Council Strategic Priorities**

Ensuring audited financial statements are provided to Council and the public supports the Council Strategic Priority of Sustainable and Engaging Environment.

## **Other Pertinent Reports**

AC-C 16-2016      Appointment of Auditors (September 19, 2016)

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### **Recommended by:**

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### **Submitted by:**

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*This report was prepared in consultation with Jeffrey Mulligan, Procurement Manager and reviewed by Helen Chamberlain, Director, Financial Management and Planning/Deputy Treasurer.*

## **Appendices**

Appendix 1      2020-2021 Audit Report List

**2020/2021 AUDIT REPORT LIST**

Consolidated Regional Municipality of Niagara  
Sinking Funds  
Trust Funds  
Court Services  
Niagara Regional Housing  
Ambulance Dispatch  
General Health Programs (Schedule of Revenues and Expenses)  
General Health Programs (Annual Reconciliation Return)  
Healthy Babies  
Infant and Child Development Program  
Mental Health (Schedule of Revenues and Expenses)  
Mental Health (Annual Reconciliation Return)  
Children's Services (Schedule of Revenues and Expenses)  
Community Support Services (Annual Reconciliation Return)  
Long-Term Care Facilities (8 separate homes – Annual Reconciliation Returns)  
Homeless Partnership Strategy Program  
NOTL Water/Wastewater Treatment Plant Capital Project