

**Subject:** Appointment of Auditors

**Report to:** Audit Committee

**Report date:** Monday, September 16, 2024

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## **Recommendations**

1. That KPMG **BE APPOINTED** as the Niagara Region's (the Region) external auditor for the five-year term starting with the financial reporting for the calendar year ending December 31, 2024, until the fiscal year ending March 31, 2029, with the option to renew with Audit Committee approval until the fiscal year ending March 31, 2032.

## **Key Facts**

- 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.
- The current contract with Deloitte expires with the fiscal year ending March 31, 2024.
- A competitive procurement process was undertaken for the Region's external audit services – a process that supports the recommendation in this report.
- The option to renew until the fiscal year ending March 31, 2032, would align the timing of appointment of auditors within the middle of a term of Audit Committee.

## **Financial Considerations**

The fee proposal put forward by KPMG is \$863,070 plus HST for the five-year term based on the known audits documented in the request for proposal. The 2024/2025 fee is within the 2024 approved budget.

Table 1: Audit Fee Summary for Initial Term

Actual 2023/24	Audit Fees Proposed by KPMG 2024/25	Audit Fees Proposed by KPMG 2025/26	Audit Fees Proposed by KPMG 2026/27	Audit Fees Proposed by KPMG 2027/28	Audit Fees Proposed by KPMG 2028/29	Total
\$198,000	\$168,400	\$168,400	\$171,880	\$175,400	\$178,990	\$863,070

The fee proposal put forward by KPMG is \$554,400 plus HST for the optional three-year term based on the known audits documented in the request for proposal.

Table 2: Audit Fee Summary for Optional Renewal Term

Audit Fees Proposed by KPMG 2029/30	Audit Fees Proposed by KPMG 2030/31	Audit Fees Proposed by KPMG 2031/32	Total
\$181,900	\$184,800	\$187,700	\$554,400

## Analysis

### Competitive Procurement Process

The following was the process and timeline for the external audit services Request for Proposal (RFP):

Table 3: External Auditor RFP Timeline

Task	Timeframe
RFP opened	June 12
RFP closed	July 15
RFP responses reviewed	July 16 - 30
Oral presentations	August 13
Recommendation to Audit Committee	September 16

In total, the Region received two proposal submissions, both of which met the benchmark set out in the evaluation criteria. The initial evaluation of the RFP was based on a technical proposal, where both firms exceeded the minimum threshold of 70% and moved onto the second stage of evaluation which was a presentation. Through the presentation, both firms demonstrated strong municipal expertise and experience, strong audit approaches, and proposed qualified audit management teams. Both are national firms with the ability to provide the Region with a range of services as needed. The final stage of the evaluation was to review the fee proposal which resulted in KPMG's contract amount being lower as seen in Table 4.

Table 4: Proponent Evaluation Summary

Proponent	Subtotal Contract Amount
KPMG	\$1,417,470
Deloitte	\$1,911,196

### Corporate Considerations

The evaluation of external audit submissions included members from corporate services finance as well as representation from internal audit, enterprise resource planning (ERP) and Emergency Medical Services (EMS). The external audit of Canada Summer Games (CSG) Consortium was included as a component of the RFP. CSG Consortium management are supportive of the outcome of the RFP and the recommendation that KPMG be appointed the external auditors.

The transition plan to move to KPMG as external auditors will require support from Region staff. The transition plan is expected to begin in late September 2024 and includes communication with the predecessor auditor, meetings for KPMG to gain an understanding of important topics at the Region, a risk assessment and preparation of an audit plan.

Included in this award are various financial and/or compliance audits where funding bodies as well as boards overseeing Niagara Regional Police Services and Niagara Regional Housing require an independent report and management letter if applicable.

By recommending an initial five-year contract, in line with the Municipal Act section 296, and if recommended in 2029, the optional extension of three-years, the end of KPMG's audit term would be fiscal March 31, 2032. This will allow the timing to appoint new auditors to coincide with mid council term of 2031 to 2034, when the committee is well established and versed in its mandate.

### **Public and/or service Users**

Independent financial and compliance audits are performed specifically for the purposes of providing assurance that financial statements/schedules present fairly in all material respects and that there is adherence to terms set out in agreements. As such, audits are key components of the Region's overall system of control over the reliability of financial reporting.

### **Alternatives Reviewed**

Competitive procurement process has been undertaken, therefore no alternatives to review.

### **Relationship to Council Strategic Priorities**

Council Strategic Priority: Effective Region

Objective 1.3 – Deliver fiscally-responsible and sustainable core services.

### **Other Pertinent Reports**

None.

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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.