




CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services and Taxation Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	December 1, 2022
SUBJECT/REPORT NO:	2022 External Audit Services 1 Year Contract Extension (FCS22068(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Nikki Freeman (905) 546-2424 Ext. 3020
SUBMITTED BY:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION

That Council approve the single source procurement, pursuant to Procurement Policy #11 – Non-competitive Procurements, for a one-year contract extension to Contract C12-12-11 for External Audit Services for fiscal year end 2022 for the City of Hamilton (City) and its Consolidated Entities, and that the General Manager, Finance and Corporate Services Department be authorized to execute an amendment(s) to the City's existing agreement and any ancillary documents required to give effect thereto with KPMG LLP, in a form satisfactory to the City Solicitor.

EXECUTIVE SUMMARY

Section 296 of the Municipal Act states that a Municipality shall appoint an auditor licensed under the Public Accounting Act who will be responsible for the annual auditing of accounts and transactions of the Municipality and its local boards.

Due to staffing vacancies in Accounting Services, there was not enough staffing or resources to conduct an open and competitive Request for Proposal (RFP) for external audit services covering fiscal year ends 2022-2026 in time for Council approval by the Fall of 2022. As per the City of Hamilton's Procurement Policy and associated By-Law 20-205 as amended, staff is required to seek Council direction on the type of procurement process to be followed for the acquisition of the Good and/or Service where there is an incumbent vendor on a City Corporate contract which is of a highly sensitive nature, due to the risk associated with financial loss, confidentiality or the

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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handling of sensitive information. This direction comes from Procurement Policy #4 – “Determining the Procurement Policy, Section 4.5(5)”.

Historically, the City of Hamilton has utilized 5-year contract terms for its external audit services. KPMG LLP (“KPMG”) has provided the City of Hamilton with external audit services for fiscal year ends 2012-2016 and 2017-2021. KPMG’s current contract for external audit services expires after the completion of the 2021 scheduled audits. Staff is seeking approval to enter a one-year contract extension with KPMG for fiscal year end 2022.

Alternatives for Consideration

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FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: One-year contract extension fees for External Audit Services for fiscal year end 2022 were negotiated with KPMG at \$288,400 (before applicable taxes). This fee takes into consideration the significant increase in public accounting labour costs since 2017, as well as adjustments to budgeted hours reflective of historical time spent on the annual audit engagements. Furthermore, the fee is impacted by change in audit engagements and the implementation of the new auditing standards including CAS 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment. Accounting Services obtained a signed Procurement Policy 11 – Non-competitive Procurement form in the amount of \$62,500 to commence the interim audit work in November 2022. The interim audit work is expected to be completed in December 2022.

Staffing: NA

Legal: Legal Services will be requested to assist with the development of the one-year contract extension with KPMG.

HISTORICAL BACKGROUND

The Municipal Act, 2001 c.25, 296(3) indicates that “An auditor of a Municipality should not be appointed for a term exceeding five years.” The intent of this section is to ensure that the external audit relationship is reviewed every five years. This allows for the Municipality to negotiate with a current vendor for reappointment or to go to market with an RFP for services, either to seek better pricing or to revise for services and/or needs of the organization that may have changed over time.

Early in 2011, a similar one-year external audit contract extension was requested and awarded to the audit firm Grant Thornton under contract C6-10-06 to provide external audit services for the 2011 fiscal year end at a cost of \$285,000. The intent of this extension was to provide staff with the necessary time to proceed with an RFP process.

In November 2011 the City of Hamilton issued RFP C12-12-11, "Professional Consultant Required for External Audit Services" which closed January 2012. KPMG was the successful proponent of this RFP process which covered fiscal year ends 2012-2016. In December 2016, KPMG had approached senior management with a proposed contract renewal for the next five years. Financial Services staff brought Report FCS17048 to the Audit, Finance and Administration Committee on May 08, 2017, to seek authority to negotiate with KPMG and to bring back the results of such efforts to a future Committee meeting. Report FCS17073 was presented to the Audit, Finance and Administration Committee on August 16, 2017, and provided the necessary follow-up and recommendations. Council at its meeting of September 11, 2017, approved the Audit, Finance and Administration recommendation and Report FCS17073 "Appointment of External Auditor for Fiscal Years 2017 to 2021" wherein KPMG was selected as the City's external auditor. Under this appointment KPMG's annual audit fees for the five-year period of 2017-2021 were \$215,000 per year.

On August 11, 2022, the General Manager of Finance and Corporate Services, or their designate was authorized to enter negotiations with KPMG LLP to provide external audit services for the City of Hamilton, and its Consolidated Entities, for fiscal year end 2022 and the results of those negotiations are now brought forward to the Audit, Finance and Administration Committee for Council approval.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

As per the City of Hamilton's Procurement Policy and associated By-Law 20-205 as amended, Procurement Policy #4 – "Determining the Procurement Policy, Section 4.5(5) staff is required to seek Council direction on the type of procurement process to be followed for the acquisition of the Good and/or Service where there is an incumbent vendor on a City Corporate contract which is of a highly sensitive nature, due to the risk associated with financial loss, confidentiality or the handling of sensitive information. Furthermore, Accounting Services obtained a signed Procurement Policy 11 – Non-competitive Procurement form in the amount of \$62,500 to commence the interim audit work in November 2022.

The Consolidated Financial Statements of the City of Hamilton are prepared by Management in accordance with the Canadian generally accepted accounting principles for local governments, as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA).

RELEVANT CONSULTATION

Consultations with relevant City Legal and Procurement staff.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

The City of Hamilton requires external audit services specific to Municipalities and in a complex and large-scale manner. In seeking an external audit firm, the size and needs of the City would limit potential respondents to large firms with specific large Municipal audit background. The single tier structure and multiple entities and programs make the need for an experienced audit team with relevant Municipal experience paramount to success.

KPMG has a long-standing history in Hamilton and the surrounding communities and has one of the largest audit, advisory and tax practises in the area. City staff have been satisfied with the services that KPMG has provided over the past ten years. KPMG is familiar with the City of Hamilton's many entities, audit requirements and they are familiar with our existing controls, processes and policies.

Council is advised that Accounting Services will proceed with issuing and awarding a new RFP for external audit services covering fiscal year ends 2023-2027 starting in the Fall of 2022.

ALTERNATIVES FOR CONSIDERATION

Council could direct staff to negotiate a 5-year contract extension to Contract C12-12-11 with KPMG for external audit services for fiscal year ends 2022-2026. Although this alternative may save staffing resources in Accounting Services and Procurement, eliminating a competitive RFP process could potentially result in audit fees not in line with the current market.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

Community Engagement & Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

APPENDICES AND SCHEDULES ATTACHED

NA