



CITY OF RICHMOND

REPORT TO COMMITTEE

TO: General Purposes Committee

FROM: Danley J. Yip, C.A.
Director of Finance

RE: Appointment of Auditor for 2001 - 2005

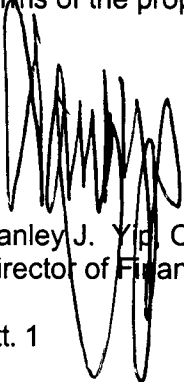
To General Purposes - Mar. 19/01

DATE: March 8, 2001

FILE: 0950-01

STAFF RECOMMENDATION

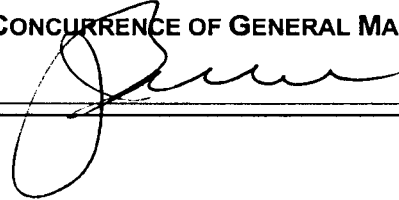
It is recommended that Council authorize the Mayor and City Clerk on behalf of the City to enter into an agreement and appoint KPMG, LLP as the City's auditor and to provide audit services for the years 2001 – 2005. The annual fees for such services will be in accordance with the terms of the proposal submitted by KPMG, LLP.


Danley J. Yip, C.A.
Director of Finance

Att. 1

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CONCURRENCE OF GENERAL MANAGER



STAFF REPORT

ORIGIN

In 1990, the City entered into a five-year contract with KPMG, LLP (hereafter "KPMG") to provide the City with audit services for the years 1991 – 1995. In 1996 the City extended the appointment of KPMG as the City's auditor for the years 1996 - 2000. Now it is time again to review the terms of engagement with KPMG for audit services for the next 5 years (2001 – 2005).

ANALYSIS

Sections 328 and 329 of the Local Government Act, requires that the City conduct an annual audit of its financial statements. These audited financial statements must be submitted to the Ministry of Municipal Affairs and presented at a Council or public meeting as part of the City's annual reporting of municipal finances. Furthermore, section 331 of the Local Government Act specifically states that the City must formally appoint an auditor for the municipality as part of the audit process.

The work performed to date by KPMG has been of the highest quality and they have fulfilled all of their contractual obligations to the City's satisfaction. Their work performance and staff relations have been exemplary and many of their audit suggestions detailed in their annual management letter have been incorporated into the City's financial operations. These changes have increased operational efficiencies, strengthened internal controls and allowed the City to maintain the highest financial integrity required to ensure the finances of the City are in good standing.

KPMG has approached the City with a proposal to consider, which will extend the audit service relationship for another five years (2001 - 2005). The proposal has laid out financial terms for the performance of the audit service and the City finds these terms to be quite acceptable.

FINANCIAL IMPACT

When the last audit services contract with KPMG was negotiated in 1996 the audit fee was established at \$42,500 and the annual costs were to be escalated only to the extent that the change in the consumer price index exceeded 3.0% in any year. However, for the years 1997 – 2000 the consumer price index did not exceed 3% in any year and the fixed fee of \$42,500 was maintained and inflationary costs were absorbed by KPMG.

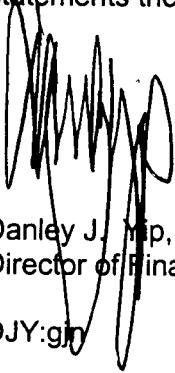
For the year 2001 audit, KPMG proposes an audit fee of \$48,500, which represents an increase of 14.1% from the negotiated audit fee set 5 years ago. The fee reflects adjustments for the consumer price index during the past 5 years, which were not passed on to the City during that period of time. However, it does not reflect the impact of City growth and the resulting increase in financial amounts and transactions, which KPMG must manage with as part of their audit engagement. This fee will remain fixed for the period of 2001 to 2005 and will only be adjusted in any given year to the extent that the change in the consumer price index exceeds 3.0% for

that year. This condition in the contract is consistent with the one that was established back in 1996.

CONCLUSION

The City and KPMG have worked effectively together over the last 10 years in reviewing the financial integrity of the City and providing recommendations for the improvement of the City's operations. During that time, KPMG has provided clean audit opinions in their auditors' report on the City's financial statements. So, through year-end audits performed, KPMG has become very familiar with the City's operations and the price structure offered reflects fairly the continuity, knowledge and expertise gained over the past 10 years.

Based on a review of the audit services that KPMG has performed for the City and the reasonableness of the audit fee being charged to perform the annual audit of the City's financial statements the KPMG proposal should be accepted and approved by the City.



Danley J. Trip, C.A.
Director of Finance

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