

MUNICIPALITY OF CHATHAM-KENT

CORPORATE SERVICES

FINANCIAL SERVICES

TO: Mayor and Members of Council

FROM: Stuart Wood, CMA
Director, Financial Services/Treasurer

DATE: March 4, 2008

SUBJECT: Selection of External Auditor for Five Years (2008 – 2012)
For Chatham-Kent and C-K Energy Inc.

RECOMMENDATION

It is recommended that:

1. Deloitte & Touche LLP be appointed as external auditor for the Municipality of Chatham-Kent and C-K Energy Inc. for a period of five years beginning with the calendar year 2008.

BACKGROUND

Section 296(3) of the Municipal Act, 2001, states “An auditor of a municipality shall not be appointed for a term exceeding five years”. In October 2007, Council was notified that the second five year audit term since amalgamation was set to expire following completion of the 2007 audit.

The shareholder agreement relating to Chatham-Kent Energy Inc. (CKE), dated July 17, 2000, section 6.4, states “The Corporation’s consolidated and unconsolidated financial statements will be audited annually. The auditors of the Corporation will be appointed by the shareholder”.

Further, certain services including payroll, accounts payable, and software systems are shared between the Municipality and CKE.

For these reasons and to obtain cost savings through economies of scale, the Municipality and C-K Energy Inc. have always co-operated in the selection of a single auditor.

COMMENTS

The RFP for External Audit and Corporate Tax Service was due in January. Bids were received from KPMG and Deloitte Touche (DT). DT was the successful audit firm on the last two, five year audit terms and is recommended for a third term based on lower cost. DT has the added advantage of prior knowledge from having performed audits over the past ten years.

KPMG was previously the auditor for the City of Chatham. Like DT, KPMG is a large, diversified, highly qualified accounting/auditing firm.

In selecting an audit firm, administration employs a “two envelope” system. Submissions are first judged on technical qualifications. Only those with the proven skills and abilities have the second envelope, containing the fee quotation, opened. Generally, at this point, the firm with the lowest, overall quotation is recommended.

The quotation is broken down between 17 different engagements. The requirement for audit services changes annually so it is important to obtain an itemized list of services. If additional services are added, incremental fees are billed. As requirements change, the fee changes. As an illustration, the previous quotation included two Museum audits. The Province no longer requires these audits and so the fees were adjusted accordingly.

Both audit firms were found to be well qualified following a review of each proposal and an interview process. It therefore, comes down to price. DT is \$10,000 less expensive over five years (\$2,000 per annum). Maintaining the existing audit firm will also save some staff time.

CKE does have a preference for KPMG because its own audit and tax requirements would be \$55,700 less expensive.

In initiating the RFP process, it was understood that by choosing the lowest overall bid, both participants would benefit financially through an adjustment in the Service Level Agreement.

With the Municipal audits being less costly through DT, and the CKE audits being less costly with KPMG, the question of divisibility arises. Can CKE accept KPMG and the Municipality DT?

While the different services provided have been broken out and priced individually, the overall audit was quoted on the assumption that the whole engagement would go to a single audit firm. If split, there would be some duplication of audit, a need to co-ordinate activities between audit firms, and the lower volume of work would impact on hourly rates. In short, the cost savings through economies of scale available in bidding the engagement together would be lost.

In consulting with each firm on the matter, it was confirmed that bids were prepared with the expectation of obtaining all the work outlined in the RFP and splitting the bid would result in higher quotes.

COMMUNITY STRATEGIC PLAN

The recommendation in this report supports the following objective and strategic direction:

B: Economy – We are a prosperous community

B1: Promote and market Chatham-Kent

Desired Outcomes/Proposed Activities

- Chatham-Kent to be recognized as a municipal leader in responsible fiscal management through manageable tax rate changes and sustainable fiscal planning.

The recommendation will not adversely impact on the remainder of the Community Strategic Plan.

CONSULTATION

DT and KPMG participated in an interview process with the Audit Services Selection Committee. The Committee consisted of the Municipal Treasurer, the Chief Financial Officer of C-K Energy Inc., and the Supervisor of Accounting Operations. All participants have accounting designations.

FINANCIAL IMPLICATIONS

Only those activities currently requiring an audit are included as part of this quote. As legislative, regulatory, or program requirements change, the annual audit fee may increase or decline.

The RFP results are attached.

The DT municipal audit fee is within the 2008 approved budget.

Prepared by:

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Reviewed by:

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c.

Attachment(s) – 2008 Audit RFP results

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2008 Audit RFP Results

Deloitte & Touche					
2012	2011	2010	2009	2008	Total
\$ 59,100	\$ 59,125	\$ 59,150	\$ 57,150	\$ 57,150	\$ 291,675
\$ 2,800	\$ 2,800	\$ 2,800	\$ 2,500	\$ 2,500	\$ 13,400
\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,000	\$ 2,000	\$ 10,600
\$ 3,800	\$ 3,800	\$ 3,800	\$ 3,500	\$ 3,500	\$ 18,400
\$ 5,300	\$ 5,300	\$ 5,300	\$ 5,000	\$ 5,000	\$ 25,900
\$ 900	\$ 875	\$ 850	\$ 850	\$ 850	\$ 4,325
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 74,100	\$ 74,100	\$ 74,100	\$ 71,000	\$ 71,000	\$ 364,300
\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,500	\$ 1,500	\$ 7,800
\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,000	\$ 2,000	\$ 10,600
\$ 3,800	\$ 3,800	\$ 3,800	\$ 3,500	\$ 3,500	\$ 18,400
\$ 77,900	\$ 77,900	\$ 77,900	\$ 74,500	\$ 74,500	\$ 382,700
\$ 29,000	\$ 29,000	\$ 29,000	\$ 28,000	\$ 28,000	\$ 143,000
\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,100	\$ 3,100	\$ 16,100
\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,000	\$ 2,000	\$ 10,600
\$ 2,800	\$ 2,800	\$ 2,800	\$ 2,600	\$ 2,600	\$ 13,600
\$ 13,000	\$ 13,000	\$ 13,000	\$ 12,000	\$ 12,000	\$ 63,000
\$ 3,300	\$ 3,300	\$ 3,300	\$ 3,100	\$ 3,100	\$ 16,100
\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,000	\$ 3,000	\$ 16,500
\$ 2,800	\$ 2,800	\$ 2,800	\$ 2,600	\$ 2,600	\$ 13,600
\$ 59,900	\$ 59,900	\$ 59,900	\$ 56,400	\$ 56,400	\$ 292,500
\$ 137,800	\$ 137,800	\$ 137,800	\$ 130,900	\$ 130,900	\$ 675,200
					\$ 135,040

KPMG					
Total	2008	2009	2010	2011	2012
\$ 338,400	\$ 65,000	\$ 66,300	\$ 67,700	\$ 69,000	\$ 70,400
\$ 9,400	\$ 1,800	\$ 1,800	\$ 1,900	\$ 1,900	\$ 2,000
\$ 4,300	\$ 800	\$ 800	\$ 900	\$ 900	\$ 900
\$ 14,100	\$ 2,700	\$ 2,800	\$ 2,800	\$ 2,900	\$ 2,900
\$ 41,900	\$ 8,000	\$ 8,200	\$ 8,400	\$ 8,600	\$ 8,700
\$ 4,300	\$ 800	\$ 800	\$ 900	\$ 900	\$ 900
\$ 12,500	\$ -	\$ 5,000	\$ 2,500	\$ 2,500	\$ 2,500
\$ 424,900	\$ 79,100	\$ 85,700	\$ 85,100	\$ 86,700	\$ 88,300
\$ 9,400	\$ 1,800	\$ 1,800	\$ 1,900	\$ 1,900	\$ 2,000
\$ 14,100	\$ 2,700	\$ 2,800	\$ 2,800	\$ 2,900	\$ 2,900
\$ 23,500	\$ 4,500	\$ 4,600	\$ 4,700	\$ 4,800	\$ 4,900
\$ 448,400	\$ 83,600	\$ 90,300	\$ 89,800	\$ 91,500	\$ 93,200
\$ 108,400	\$ 20,800	\$ 21,300	\$ 21,700	\$ 22,100	\$ 22,500
\$ 15,600	\$ 3,000	\$ 3,100	\$ 3,100	\$ 3,200	\$ 3,200
\$ 28,000	\$ 5,400	\$ 5,500	\$ 5,600	\$ 5,700	\$ 5,800
\$ 9,400	\$ 1,800	\$ 1,800	\$ 1,900	\$ 1,900	\$ 2,000
\$ 54,200	\$ 10,400	\$ 10,600	\$ 10,800	\$ 11,100	\$ 11,300
\$ 9,400	\$ 1,800	\$ 1,800	\$ 1,900	\$ 1,900	\$ 2,000
\$ 6,900	\$ 1,300	\$ 1,300	\$ 1,400	\$ 1,400	\$ 1,500
\$ 4,900	\$ 900	\$ 900	\$ 1,000	\$ 1,000	\$ 1,100
\$ 236,800	\$ 45,400	\$ 46,300	\$ 47,400	\$ 48,300	\$ 49,400
\$ 685,200	\$ 129,000	\$ 136,600	\$ 137,200	\$ 139,800	\$ 142,600
\$ 137,040					

*(1) The audit cost for PSAB 3150 compliance is estimated at \$10,000 in 2009. KPMG is absorbing the 1st \$5,000 in cost. DT has incorporated all its PSAB fees in with its base audit quote