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**REPORT TITLE:**      **Appointment of External Auditors – Fiscal Years 2021 to 2025**

**FROM:**                      Gary Kent, Chief Financial Officer and Commissioner of Corporate Services

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## **RECOMMENDATION**

**That Deloitte LLP be appointed as the external auditor for the Regional Municipality of Peel and Peel Housing Corporation for fiscal years 2021 to 2025.**

### **REPORT HIGHLIGHTS**

- Section 296 of the *Municipal Act, 2001* states that a municipality shall appoint an auditor licensed under the *Public Accounting Act, 2004*, and an auditor of a municipality shall not be appointed for a term exceeding five years.
- Under the Audit and Risk Committee Charter, Audit and Risk Committee is responsible for recommending for Council approval the appointment of the external auditor for the Region of Peel (Region) and Peel Housing Corporation (PHC) for a five-year term.
- In 2016, following a competitive procurement process, Deloitte was awarded a five-year external audit contract for fiscal years 2016 to 2020, with the option to extend the contract for an additional five 12-month periods based on satisfactory service, performance, and pricing.
- This report recommends that Deloitte LLP be appointed as the external auditor for the Region and PHC for an additional five years due to Deloitte's satisfactory performance, their ability to assist with the implementation of upcoming accounting standard changes and the future change in the Region's Enterprise Resource Planning system.

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## **DISCUSSION**

### **1. Background**

Section 296 of the *Municipal Act, 2001* states that a municipality shall appoint an auditor licensed under the *Public Accounting Act, 2004*, and an auditor of a municipality shall not be appointed for a term exceeding five years. The *Municipal Act, 2001* does not mandate that a Request for Proposal (RFP) process be undertaken when appointing an auditor.

Under the Region of Peel's (Region) Audit and Risk Committee Charter, Audit and Risk Committee is responsible for making recommendations to Council on the appointment of the external auditor for the Region and Peel Housing Corporation (PHC) for a five-year term, reviewing the terms of the engagement, audit fees and the approach of the annual external audit plan.

This report discusses staff's recommendation to appoint Deloitte as the Region and PHC's external auditor for an additional five years.

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### **2. Findings**

#### **a) Deloitte's Historical Performance**

Deloitte LLP was awarded the external audit contract in 2016 for the fiscal years 2016 to 2020, under the competitive bid process 2016-211P, with the authority to extend the contract for five additional 12-month periods based on satisfactory service, performance and pricing.

Deloitte has been the Region's external auditor since 2010 and staff have been satisfied with the performance and service provided by Deloitte as they fulfill their external audit obligations. Additionally, Deloitte worked with staff to successfully transition the 2020 interim and year-end external audits to a remote environment due to the COVID-19 pandemic.

#### **b) New Accounting Standards**

Several new complex accounting standards will be coming into effect starting in the 2023 fiscal year. This includes new standards related to the accounting and reporting of asset retirement obligations, financial instruments, portfolio investments, revenue and changes to the financial statement presentation. The implementation of these new standards will require a significant amount of staff effort across the organization both pre and post implementation, as well as support from our external auditors to ensure the Region meets the requirements of the new standards.

#### **c) New Enterprise Resource Planning System**

The Region will be undertaking a significant technology transformation with the implementation of the new Enterprise Resource Planning (ERP) system. A new ERP system will change the Region's financial processes significantly and will require a considerable amount of staff effort to ensure the transition to the new system has been done accurately. The transition will also require the support of the external auditors to ensure we are meeting all necessary audit requirements as we transition to the new ERP system.

### **3. Proposed Direction**

Staff recommend the appointment of Deloitte as the Region and Peel Housing Corporation's external auditor for fiscal years 2021 to 2025 due to Deloitte's satisfactory performance and their ability to assist with the implementation of upcoming accounting standard changes and the future change in the Region's ERP system. Staff have the appropriate procurement authority to proceed with extending the contract for the five-year period.

### **RISK CONSIDERATIONS**

Staff have the option of proceeding with a new RFP procurement process, which may result in the selection of a new external auditor. Onboarding a new auditor while working remotely during the pandemic can result in significant operational challenges both for staff and the new auditors. Also, the procurement process would need to be completed prior to September due to the

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interim audit work completed by the external auditors that normally takes place in the fall. This would provide staff with limited time to undertake a new RFP procurement process and provide Regional Council with the RFP results prior to September 2021.

### **FINANCIAL IMPLICATIONS**

The total cost of the five-year extension of the audit fee, including the proposed two per cent increase for inflation, is \$666,000, or \$133,200 per year. The existing operating budget contains sufficient funds for the proposed contract extension.

Additional audit fees may be incurred for the future work related to the implementation of the new accounting standards and the implementation of the new ERP. Any fees for additional audit work will be managed through the applicable procurement and budget processes at the time they are determined.

### **CONCLUSION**

The appointment of Deloitte as the Region and PHC's external auditors for a five-year period is recommended due to Deloitte's satisfactory performance, their ability to assist with the implementation of upcoming accounting standard changes and the future change in the Region's Enterprise Resource Planning system.

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*For further information regarding this report, please contact Stephanie Nagel, Director, Corporate Finance and Treasurer, Ext. 7105, [stephanie.nagel@peelregion.ca](mailto:stephanie.nagel@peelregion.ca).*

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### ***Reviewed and/or approved in workflow by:***

Department Commissioner, Division Director, Financial Support Unit, Legal Services and Procurement.