

July 8, 2022

SENT VIA E-MAIL

Deputy Mayor Stephen Holyday
Chair, Audit Committee
City of Toronto
City Hall
100 Queen Street West
Toronto ON M5H 2N2

To Deputy Mayor Stephen Holyday:

Re: 2019 Audit of Leaside Memorial Community Gardens

The following letter is in response to your request as Chair, City of Toronto (City) Audit Committee (Committee), for a status update on the 2019 audit of the Board of Management for Leaside Memorial Community Gardens Arena (Leaside / Board). At the time of writing of this letter, the 2019 financial statements and associated audit have not been completed, impacting the completion of subsequent financial statements and audits.

Welch LLP (Welch) is the auditor appointed by City Council (Council) responsible for completing the audit of the Leaside financial statements. Welch's contract expires with the completion of the 2022 financial statement audit.

Leaside, which is a board of management run arena, is unique in its transactional relationship with the City. Unlike the seven other board of management run arenas in the City, Leaside Gardens has a loan with the City / Infrastructure Ontario for previous capital expenses related to arena expansion on the facility that is owned by the City. This loan requires quarterly loan payments. The current arrangement also provides reimbursement of some of Leaside's staff salaries and pool expenses from the City's Parks, Forestry and Recreation (PFR) division. The loan facility allows additional repayments from Leaside operating surpluses, while annual deficits increase the loan payable to the City. An important audit procedure performed in the execution of their role requires that Welch confirm the intercompany balances between Leaside and the City.

During the 2019 audit, analysis of the confirmation from the City of balances to/from Leaside presented significant discrepancies in the balances between the two entities. In other words, the balances recorded by Leaside in their book of accounts were significantly different than the balances recorded by the City. The magnitude of the difference did not present a material audit issue for the City, however, was material for Leaside's statements, presenting significant audit risk. The Board was advised that these differences had grown to material amounts over a number of years. Although attempts to resolve these discrepancies had been made in prior years, no resolution had been reached to date. With the passage of time and institutional knowledge, the chances of resolving these differences is increasing diminished?

Discussions between Welch, the City and Leaside management indicated that the discrepancies were the result of accounting practices that netted amounts owing between the two parties, making it difficult to reconcile the balances. Those practices have since been corrected, however, the material legacy discrepancy between the two accounts remains. The Board understands that a resolution must be reached as soon as possible, recognizing the risk of a qualified (not clean) audit opinion from materially misstated financial statements. In addition, the Board understands that these discrepancies do not allow an accurate picture of operating cash flows. The Board acknowledges awareness of these discrepancies, which were identified in the 2018 management letter from Welch.

In a letter to Treasurer Chris Forbell, dated November 26, 2021, Welch provided the Board with a number of recommendations that would allow us to move forward with completion of the 2019 financial statement audit. Up until this time, the Board has been in the process of assessing the impact of each recommendation on Leaside's financial position, the financial statement audit opinion and other factors, such as the loan outstanding from the City. The pandemic as well the loss of a number of long serving front office staff (and their institutional memory) as well as a number of board members (including those on the Finance Committee) has also impacted Leaside's ability to respond to each recommendation on Leaside's financial position and the financial statement audit opinion.

Our actions have included an assessment of the intercompany balances by a third party. We have spoken with several companies and have most recently been speaking with Deloitte.

The Board is now expected to approve a final option decision by later today July 08, 2022. Once that has occurred and corrective action taken, we will reschedule the audit completion with Welch, ensuring that management is fully prepared to perform their function and that we, the Board, are available to make required decisions as they arise. It is our top priority to complete the 2019 audit and approve the 2019 financial statements for submission to Audit Committee.

As a Board, we will continue to work with the City Manager's Office and the Accounting Services Division to ensure that we meet our reporting requirements to Committee and Council. I look forward to completing the 2019 audit and commit to working with Welch to prioritize completion of the 2020 and 2021 financial statements and associated audit.

I thank you for your continued support of Leaside.

Sincerely,

A handwritten signature in black ink, appearing to read "K.T. Mackenzie". The signature is written in a cursive, flowing style.

Kathleen Mackenzie
Chair
Board of Management for Leaside Memorial Community Gardens