

July 3, 2012

**To:** Audit Committee  
**From:** Jeff Griffiths, Auditor General  
**Re:** **Board of Directors of the Hummingbird Centre for the Performing Arts  
Financial Statements**

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Agenda item AU8.2a of the July 4, 2012 meeting of the Audit Committee includes correspondence from the Board of Directors of the Hummingbird Centre for the Performing Arts (Sony Centre). That correspondence expresses a concern as follows:

*"The Board of Directors of the Hummingbird (Sony) Centre for the Performing Arts, at its meeting on May 3, 2012, expressed concern about the substantial expense incurred by the Sony Centre resulting from the transition from Canadian generally accepted accounting principles to applying the public sector accounting standards ("PSAS") that apply only to government not-for-profit organizations, and further questioned why the cost of PSAS compliance was not negotiated by the City to be part of the overall contract with the outside auditor."*

To summarize the details below, the requirement to perform the external audit in compliance with PSAS was incorporated into the request for proposal. What was not included in the proposal was the need for any accounting assistance that individual entities might have required as a result of a lack of sufficient appropriate accounting expertise. Such accounting assistance is not included in the request for proposal as these needs are not the responsibility of the auditor, will be very specific to each entity and are largely a judgement call on the part of each entity. Rather, where assistance is required, it was the responsibility of each entity to arrange for the scope and extent of such assistance. Further, at the time of issuance of the request for proposal, staff of the Sony Centre did not express an interest in obtaining quotes for such accounting assistance.

#### **Details related to request for proposal for external audit services**

The Auditor General's Office is responsible for issuing the request for proposal for the external audit of the City and its major agencies and corporations, including the Sony Centre. The existing contract with the external auditor, covering 2010 – 2014, was entered into following a request for proposal. That request for proposal was issued in November 2009.

In preparing the request for proposal, my office contacted each City entity included in the proposal and requested information related to any specific requirements that should be included in the request for proposal. In response the Sony Centre advised that:

*"Very difficult to know what we might need in 2010-2014, as our operation will be significantly different. We should probably alert them to this, so the proposals take that into account, if it is important in the greater scheme of things."*

At the time of issuing the request for proposal, the financial reporting requirements for PSAS were not known. They were subsequently released by the Canadian Institute of Chartered Accountants in December 2010. As we were aware of the potential for PSAS changes we included the following in the request for proposal (bold and underlining added):

*"The Public Sector Accounting Board approved an amendment to the scope of public sector accounting standards in September 2009. The amendment confirms the direction previously provided in the exposure draft entitled Financial Reporting by Certain Government Organizations issued on July 3, 2009. **Depending on the final form of these standards, there could be an impact on any or all of the entities listed above.** In particular, it is likely that the Toronto Transit Commission will be required to adopt different accounting standards (PSA or IFRS). **The Vendor will be required to audit any comparative results under the new standards** as well as the reconciliation of the closing equity under GAAP to the opening equity under the new standards."*

Prior to the close of the request for proposal, an addendum was issued in response to questions related to the transition to PSAS as follows, (bold and underline added):

*"Q3: Section 3.1 of the RFP references the likely impact of changes in accounting standards on entities currently directed by PSAB to follow Canadian GAAP as issued by the CICA Accounting Standards Board (AcSB). As noted, this will impact the Toronto Transit Commission and its related entities and will also impact any entities currently following CICA Handbook Section 4400 – Not-for-Profit Organizations. Pension Funds/Plans could also be impacted by new accounting standards.*

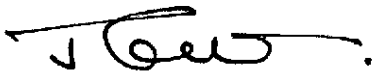
**Can you clarify that fee quotes should include the audit work related to any changes in accounting standards and that such work will be limited to audit procedures as opposed to assistance in accounting for these changes and assistance with related disclosures?**

A3: *The Proposal should include a firm quotation for the fees to be charged for each of the five years. **Fee quotes should include all audit work related to any changes in auditing or accounting standards.***

*Each entity will be responsible for preparing draft financial statements. The responsibilities of the Vendor generally will be limited to the*

*expression of an opinion on each of the financial statements. **The work will not include accounting, physical preparation of financial statements or schedules, or any other non-audit tasks.** (Refer to Section 3.2 Report Preparation)”*

It is our understanding based on our discussions that the additional charges to the Sony Centre from PricewaterhouseCoopers relate to a separate agreement entered into with the Sony Centre to provide accounting assistance in relation to the transition to PSAS. The extent of such accounting assistance will vary by organization being audited with some having the capability to perform the conversion while others require some level of assistance. Given this variability, the need for any specific accounting assistance was not included in the request for proposal for audit services. Further, at no time did the Sony Centre advise us that such assistance would be required.

A handwritten signature in black ink, appearing to be 'J. G. W.', with a horizontal line extending to the right.

- c: Councillor Paula Fletcher
- Councillor James Pasternak
- Councillor David Shiner
- Ronald Forbes, Chair, Board of Directors – Hummingbird (Sony) Centre for the Performing Arts
- Dan Brambilla, CEO, Sony Centre