

Request for Retroactive Authorization to Appoint Kwok & Associate for External Audit Services for North Toronto Memorial Arena

Date: November 17, 2023

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

The purpose of this report is to provide the Audit Committee and City Council with a status update regarding the financial statement audits of North Toronto Memorial Arena for the years 2021 and 2022. Considering the challenges faced by North Toronto Memorial Arena and Welch LLP in achieving effective cooperation, this report requests retroactive authorization of the appointment of Kwok & Associate through a non-competitive procurement process, completed by the Board of the North Toronto Memorial Arena, for the purpose of conducting financial statement audits for those two years. Starting with the 2023 year-end, North Toronto Memorial Arena will use Grant Thornton LLP, the external auditors authorized by City Council, for the external audit services of Arenas.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council grant authority retroactively to the Auditor General to appoint Kwok & Associate to perform the financial statement audits for North Toronto Memorial Arena for the years ending December 31, 2021 and December 31, 2022, through a non-competitive procurement process.

FINANCIAL IMPACT

The recommendation in this report has no financial impact.

DECISION HISTORY

At its regular meeting on March 26, 2018, City Council authorized a five-year contract with Welch LLP to conduct external audit services for City arenas, community centres and other entities. The contract expires with the completion of the financial statement audits for the year ended December 31, 2022.

<https://secure.toronto.ca/council/agenda-item.do?item=2018.AU11.5>

At its regular meeting on July 19, 2023, City Council authorized a five-year contract with Grant Thornton LLP to conduct external audit services for City arenas, community centres and other entities. Given the significant increase in audit fees, the Auditor General also included a second recommendation in the report:

"City Council direct the City Manager, in consultation with the Chief Financial Officer and Treasurer, the Controller, the City Solicitor, and Board Chairs of the City's arenas, community centres, and other entities, to assess the ability for these Boards to select and have a direct engagement with their own auditors and perform a cost-benefit analysis to consider that approach under their governance frameworks."

<https://secure.toronto.ca/council/agenda-item.do?item=2023.AU2.11>

COMMENTS

Under Section 139 of the *City of Toronto Act, 2006*, the City is required to appoint an auditor licensed under the *Public Accounting Act, 2004*, who is responsible for annually auditing the accounts and transactions of the City and its local boards and expressing an opinion on the financial statements of these bodies based on the audit. In addition, the Act requires that the auditor shall not be a City employee or an employee of a local board of the City. In creating the Auditor General's Office, City Council assigned the Auditor General the responsibility for managing the external audit contracts.

Welch LLP was recommended by the Auditor General for appointment as a result of a competitive procurement process, and authorized by City Council, as the external auditor to complete the annual financial statement audits for the fiscal years 2018 to 2022, inclusive for City arenas, community centres and other entities (Toronto Atmospheric Fund, Yonge-Dundas Square, Heritage Toronto). There have been significant challenges impeding effective cooperation between North Toronto Memorial Arena and Welch LLP, hindering the progress of completing the financial statement audits for the outstanding years 2021 and 2022. The Request for Proposal (RFP) terms and conditions with Welch LLP include a termination provision, allowing the City to terminate services partially with Welch LLP without affecting the remaining services.

Considering the time constraints, the Auditor General in collaboration with the City Manager's Office, Legal Services, and the Board of North Toronto Memorial Arena, evaluated different options and concluded that a viable solution was to engage a separate audit firm through a non-competitive procurement process.

The Board of North Toronto Memorial Arena provided the Auditor General with information regarding Kwok & Associate's qualifications. After completing a review, the Auditor General confirmed that the firm is licensed under the *Public Accounting Act, 2004* and possesses the competence required to serve as the auditor for North Toronto Memorial Arena for the years 2021 and 2022.

In her report to the Audit Committee and City Council (July 19, 2023) at the time of recommending the award of the Request for Proposal Doc3872102334 for external audit services for the fiscal years 2023 to 2027, the Auditor General included a second recommendation that the City's Chief Financial Officer and Treasurer, the Controller, the City Solicitor, and Board Chairs of the City's arenas, community centres, and other entities, assess the ability for these Boards to select and have a direct engagement with their own auditors and perform a cost-benefit analysis to consider that approach under their governance frameworks. The City has begun discussions to consider and address this recommendation, as well as other potential options, and plans to consult with the Board Chairs in the near future regarding this matter.

CONTACT

Gawah Mark, Auditor Director, Auditor General's Office
Tel: (416) 392-8439, E-mail: Gawah.Mark@toronto.ca

SIGNATURE

Tara Anderson
Auditor General