

Municipality of Chatham-Kent

Finance, Budget, Information Technology & Transformation

Financial Services

To: Mayor and Members of Council

From: Matt Torrance, MBA, CPA, CGA
Director, Financial Services

Date: September 12, 2022

Subject: BIA Audits

Recommendations

It is recommended that:

1. BIA audits not be included in the Municipal RFP for external audit services and that BIA's be directed to engage their own auditor for financial reporting periods of December 31, 2021 and beyond.
2. BIA's include in their annual budget a provision for bookkeeping and audit services as required.
3. Administration consult with the BIA's to determine reasonable deadlines to submit outstanding audited financial statements.

Background

Section 207 of the Municipal Act (2001) states the following:

Annual report

207 (1) A board of management shall submit its annual report for the preceding year to council by the date and in the form required by the municipality and the report shall include audited financial statements. 2001, c. 25, s. 207 (1).

The seven local Business Improvement Areas which encompass Blenheim, Chatham, Dresden, Ridgeway, Tilbury, Wallaceburg and Wheatley are required, as per this legislation, to submit audited financial statements annually to Council.

BIA audits have historically been included in the Municipal RFP for audit services including the RFP in 2018 in which Deloitte was awarded the contract for external audit services for the financial reporting periods of 2018 to 2022. Recently, Deloitte has advised the Municipality that it is terminating the contract and their services will conclude with the 2021 municipal audit and 2020 BIA audits. The termination of the contract is being addressed through a separate Report to Council.

Comments

Administration is put in a difficult position as a third-party intermediary trying to manage the relationship between the individual BIA's and the municipal auditor. Over the last several years there have been instances where communication has broken down between the BIA's and the auditor, and in some cases there is a misunderstanding of the role of the external auditor, leading to significant delays in BIA audits.

The role of an external auditor is to express an opinion as to whether financial statements are presented fairly in accordance with applicable accounting standards of the entity. The auditor will assert whether the financial statements are free of material misstatement, either due to error or fraud.

Given this role of the external auditor, BIA's must be able to account for revenues and expenses in accordance with applicable accounting standards and produce financial statements for timely delivery to the auditor. If the BIA's do not retain this expertise within their board or a volunteer from within the community, they should include a provision in their budget for bookkeeping services.

In 2019, when not satisfied with the services of the Municipal auditor, the Tilbury BIA decided to engage their own auditor. Since this time the Tilbury BIA has been using a local audit firm and has been able to produce timely audited financial statements. To date, the Tilbury BIA is the only BIA to have completed their 2020 and 2021 audits.

Based on experiences over the last several years, administration is recommending that BIA's engage their own auditors for the financial reporting years of 2021 and beyond. Administration will facilitate discussions amongst the BIA's to determine best practices in terms of bookkeeping and audit engagements. The BIA's will be consulted to determine reasonable deadlines for outstanding audits.

Areas of Strategic Focus and Critical Success Factors

The recommendations in this report support the following areas of strategic focus:

- ☒ Economic Prosperity:
Chatham-Kent is an innovative and thriving community with a diversified economy
- ☐ A Healthy and Safe Community:
Chatham-Kent is a healthy and safe community with sustainable population growth
- ☐ People and Culture:
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community
- ☐ Environmental Sustainability:

Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendations in this report support the following critical success factors:

- ☒ Financial Sustainability:
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- ☒ Open, Transparent and Effective Governance:
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership
- ☐ Has the potential to support all areas of strategic focus & critical success factors
- ☐ Neutral issues (does not support negatively or positively)

Consultation

No other departments were consulted.

Financial Implications

The financial implications are not able to be determined at this time. Under the previous external auditor RFP issued in 2018, the Municipality was able to achieve favourable pricing for the BIA's. Given the nature of rising costs in the industry, BIA's are likely facing increased costs for audit services.

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Attachments: None