

November 21, 2006

# Toronto Public Library Board

## Audit Planning – Year Ended December 31, 2006

Report to Board of Directors of the Toronto Public Library Board

 **ERNST & YOUNG**

*Quality In Everything We Do*

November 21, 2006

Members of the Toronto Public Library Board

We are pleased to present to you our audit approach for the Toronto Public Library Board (the “Library”). This report outlines the scope of the work, our team and what we see as the key considerations affecting the 2006 audit. Our meeting is a forum to validate our understanding of these issues, confirm your current year expectations, and make certain that our efforts are aligned with your expectations.

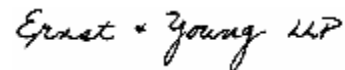
We are in the process of completing the planning phase of our audit of the financial statements of the Library. Our current year plan has been prepared based on our understanding of the Library’s business and industry. It is designed to be responsive to the unique needs of the Library, to maximize audit effectiveness, and to deliver the high quality you expect.

Our audit is designed to express an opinion on the 2006 financial statements. We will consider the Library’s current and emerging business risks, perform an assessment of risks that could materially affect the financial statements, and align our audit procedures accordingly. As always, our commitment to quality is and will continue to be reflected in every aspect of our work.

This report is intended solely for the information and use of the Library and management, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We appreciate this opportunity to present our plan to you and answer any questions you may have about these or any other audit-related matters.

Very truly yours,



Diana M. Brouwer / Gurdeep Lotey  
(416) 943-7177 / (905) 882-2990

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## Terms of Our Engagement

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### Discussion

#### Auditor's Responsibilities Under Generally Accepted Auditing Standards

- Management is responsible for the preparation of the financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting fraud and error.
- The auditor's responsibility is to express an opinion on the financial statements based on an audit thereof.
- An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion) even though the audit is properly planned and performed.
- The audit includes:
  - obtaining an understanding of the entity and its environment including internal control in order to plan the audit and to assess the risk that the financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;
  - examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
  - assessing the accounting principles used and their application; and
  - assessing the significant estimates made by management.
- When the auditor's risk assessment includes an expectation of the operating effectiveness of controls, sufficient appropriate audit evidence will be obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal control will be insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls or to consider whether internal control is adequate for management's purposes.
- The auditor will express an opinion as to whether the financial statements present fairly in all material respects, in accordance with generally accepted accounting principles, the financial position, results of operations and cash flows of the entity.

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#### Audit and Non-Audit Services Provided by the Auditor

- We have designed our audit to express an opinion on the December 31, 2006 financial statements of the Toronto Public Library Board (the Library) in accordance with Canadian generally accepted auditing standards.

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#### Detailed Terms of Engagement

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- The detailed terms of our engagement are outlined in our engagement letter included in this plan.
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## Required Communications

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### Discussion

#### Overview of Required Communications

- Professional standards require us to communicate certain matters to the Library Board that may assist the Board in overseeing management's financial reporting and disclosure process. This document, together with our year end report, will provide you with the information we believe you require.
  - At the completion of the audit, we will report to the Library Board the results of our audit. The results package will address independence matters as well as other matters of significance to the Library Board. Such matters could include the following:
    - fraud and illegal acts involving senior management and fraud and illegal acts that cause an other than trivial misstatement of the financial statements;
    - material weaknesses in internal control;
    - related party transactions;
    - significant audit adjustments and unadjusted differences;
    - adoption of, or a change in an accounting principle;
    - methods of accounting for significant unusual transactions and for controversial or emerging areas;
    - our judgments about the quality of the Library's accounting principles;
    - areas where management must make significant judgments or estimates;
    - our responsibility for other information in documents containing audited financial statements;
    - disagreements with management on financial accounting and reporting matters;
    - consultations with other accountants;
    - major issues discussed with management in connection with initial or recurring retention; and
    - serious difficulties encountered in dealing with management when performing the audit.
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## Audit Process

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### Discussion

#### Audit Process

- For purposes of our audit of the financial statements, our audit scope is developed after considering inherent and control risks and the effectiveness of the organization’s internal controls. A variety of factors are considered when establishing the audit scope including size, specific risks, the volumes and types of transactions processed, changes in the business environment, and other factors.
  - Our audit procedures are customized based on the Library’s significant accounts, disclosures and classes of transactions, as well as our assessment of risk, including the risks of fraud. Our procedures include tests of controls and tests of significant account balances and transactions.
  - Our principal areas of focus for the audit will be:
    - System documentation of significant processes including purchasing, payroll, budget, revenue and financial statement close and preparation, as well as testing of internal controls related to payroll and purchasing;
    - Completeness of municipal grant and user charges revenue;
    - Completeness of liabilities, contingent liabilities and contractual obligations (particularly employee benefit liabilities); and
    - Completeness and measurement of expenditures.
  - Our preliminary deliverable is our opinion on the Library’s financial statements.
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## Audit Process (continued)

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### Discussion

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#### Materiality

- At the conclusion of the audit, we formulate our opinion on the financial statements of the Library as to their fair presentation in all material respects in accordance with Canadian generally accepted accounting principles.
- Our estimation of planning materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations.
- Our evaluation of areas of audit significance is made relative to “materiality”. An understanding of what is significant or material in relation to the overall results of your organization is critical to the performance of an effective and efficient audit. An item is considered material if its impact might reasonably be expected to affect the decisions of a reader of the financial statements.
- The level at which materiality is set affects the following audit planning decisions:
  - ✦ extent of evaluation of internal accounting controls
  - ✦ extent and nature of audit evidence (i.e., extent of testing) to be examined
- Materiality for not-for-profit entities is generally measured in terms of a range between 1/2% and 2% of revenues/expenses. This approach to calculating materiality corresponds with the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.
- We have determined that an amount greater than \$1.585 million [2005 - \$1.5 million], which represents approximately 1% of budgeted expenditures, to be material. Of course, the final determination of items to be reported is also affected by the item’s sensitivity and whether the item is of a routine nature. The preliminary materiality level will be reviewed on an ongoing basis throughout our audit. Should actual results vary significantly from the plan; the materiality level will be adjusted in order to recognize this change in circumstances.

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#### Use of Specialists

- We rely on Mercer Human Resources Consulting to provide the actuarial estimates required to account for non-pension future employee benefit costs and costs associated with the defined benefit plan.

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#### Co-ordination with Auditor General’s Office and Internal Audit

- We work closely with the Auditor General’s Office and the Internal Audit Division so that we take into consideration work they have completed in planning our approach.
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## Audit Team and Fees

### Discussion

#### Audit Team

- Ernst & Young continues to serve you with a team of professionals who offer both industry experience and a working knowledge of your organization's business. We continue to focus on providing a committed and experienced team to the Library. The table below shows the key team members for the audit.

Engagement Member	Responsibility
Martha Tory	Independent Review Partner
Diana Brouwer	Engagement Executive Director
Gurdeep Lotey	Manager

#### Fees

- We continue to work with management to provide cost-effective service. The following fees reflect our commitment to provide high value and excellent service at the prices quoted within our proposal to the City (RFP 9155-03-7140).

	2006	2005
	\$	\$
Annual audit fees – Library	\$25,000	\$25,000
– Trust Funds	—	\$2,500

The total annual audit fees are inclusive of expenses and GST. This is a five-year contract ending with the audit of the December 31, 2007 financial statements. As a result of the transfer of the Trust Funds to the Foundation in 2005, no further audit fees would be charged in relation to the Trust Funds.

# Audit Timetable

Discussion					
<b>Timetable</b>	<ul style="list-style-type: none"> <li>The following timetable highlights those major activities which are key elements of our audit plan:</li> </ul>				
	<b>Establish Engagement Objectives</b>	<table border="1"> <thead> <tr> <th></th> <th style="background-color: #d3d3d3;">September -December</th> <th style="background-color: #d3d3d3;">January -May</th> </tr> </thead> </table>		September -December	January -May
	September -December	January -May			
	<ul style="list-style-type: none"> <li>Meet with senior management regarding operating, accounting, and reporting matters (new developments, expectations etc.)</li> </ul>	√			
	<ul style="list-style-type: none"> <li>Conduct other audit planning events with management and Auditor General (e.g. fraud discussions/updates)</li> </ul>	√			
	<ul style="list-style-type: none"> <li>Management and Library Board review of planning/scope</li> </ul>	√			
	<b>Understand the Business and Establish Audit Strategy</b>				
	<ul style="list-style-type: none"> <li>Update our understanding of your systems and develop overall audit plan</li> </ul>	√			
	<ul style="list-style-type: none"> <li>Evaluate internal control at the entity level, including fraud controls</li> </ul>	√			
	<ul style="list-style-type: none"> <li>Perform combined (inherent and control) risk assessments and develop customized audit approach</li> </ul>	√			
	<b>Perform Audit Procedures</b>				
	<ul style="list-style-type: none"> <li>Perform tests of controls and other interim procedures</li> </ul>	√			
	<ul style="list-style-type: none"> <li>Update control testing and perform year-end procedures</li> </ul>	√			
	<b>Deliverables</b>				
	<ul style="list-style-type: none"> <li>Complete review of final audited financial statements</li> </ul>	√			
	<ul style="list-style-type: none"> <li>Discussion of audit results with senior management and the Library Board</li> </ul>	√			
	<ul style="list-style-type: none"> <li>Issue management letter</li> </ul>	√			

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## New Developments in Accounting or Auditing Standards

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Each year, we review changes in professional standards, legislation and stakeholder requirements that may have an impact on our audit, including the presentation or disclosure of items in the financial statements, our audit scope, and matters requiring communication.

	Discussion
<b>Tangible Capital Assets</b>	<ul style="list-style-type: none"><li>• In September 2006, PSAB approved final Section PS 3150, <i>Tangible Capital Assets</i> as it relates to local governments.</li><li>• The section establishes standards on how to account for and report tangible capital assets in government financial statements. The previous version of this standard applied to federal, provincial and territorial governments. Local governments would record an expenditure when tangible capital assets were acquired but with this revision local governments will account for their tangible capital assets in the same manner as the other levels of government.</li><li>• Tangible capital assets represent a significant investment for local governments. Financial information about the stock and use of those assets is now required to be provided in the financial statements of local governments. This information is vital for stewardship, accountability, costing and developing asset management plans including ongoing maintenance and replacement requirements.</li><li>• This section applies to local governments for fiscal years beginning on or after January 1, 2009.</li><li>• <i>This is a significant change in reporting for the Library. Careful consideration must be made now with respect to future reporting and resource requirements to be able to work through these changes efficiently.</i></li></ul>
<b>Government Reporting Entity</b>	<ul style="list-style-type: none"><li>• In August 2003, PSAB issued revisions to Section PS 1300, <i>Government Reporting Entity</i> that addressed the definition of the government reporting entity.</li><li>• In March 2004, PSAB approved final changes to Section PS 1300 that introduced transitional provisions. While all organizations that comprise the government reporting entity continue to be fully consolidated on a line-by-line basis, except for government business enterprises, the transitional provisions provide an exception to this for certain organizations for the transitional period.</li><li>• The transitional provisions allow that for periods from initial implementation until all fiscal years beginning on or after April 1, 2008, government organizations with all of the following characteristics may be included on a modified equity basis:<ul style="list-style-type: none"><li>• the government organization is a separate legal entity with the power to contract in its own name and that can sue and be sued;</li><li>• the government organization has the financial and operational authority to provide a government service within a defined service area;</li><li>• there is a governance framework of appointed or elected local board representatives from the defined service area; and</li><li>• there are significant restrictions on the government's ability to access assets.</li></ul></li><li>• <i>This section is not expected to have a significant impact on the Library's reporting</i></li></ul>

## New Developments in Accounting or Auditing Standards (continued)

### Discussion

#### Generally Accepted Accounting Principles

- This Section:
  - establishes standards for financial reporting in accordance with generally accepted accounting principles;
  - describes what constitutes generally accepted accounting principles, and their sources; and
  - provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, when a matter is not dealt with explicitly in the primary sources of generally accepted accounting principles.
- This Section applies to all governments. It also applies to those organizations that consider the CICA Public Sector Accounting Handbook (CICA PSA Handbook) to be the most appropriate to their objectives and circumstances. An entity applying this Section is referred to as a "public sector reporting entity".
- Section PS 1150 closely reflects CICA Handbook – Accounting Section 1100, *Generally Accepted Accounting Principles*. PSAB considered it counterproductive to deviate significantly from the principles and findings of the AcSB approach unless strong reasoning justified such a departure. The key requirements of PS 1150 are as follows:
  - Public sector reporting entities are to apply every primary source of GAAP. The primary sources of GAAP, in descending order of authority are:
    - CICA Public Sector Accounting (PSA) Handbook;
    - Public Sector Guidelines; and
    - Appendices and illustrative material of those pronouncements described.
  - In the absence of a primary source of GAAP, or if additional guidance is needed to apply a primary source to specific circumstances, public sector reporting entities must exercise professional judgment and adopt accounting policies and disclosures that are consistent with:
    - the primary sources of GAAP; and
    - the application of Section PS 1000, *Financial Statement Concepts – Federal, Provincial & Territorial Governments*, or Section PS 1700, *Objectives of Financial Statements – Local Governments*.
  - A public sector reporting entity required to prepare financial statements in accordance with regulatory, legislative or contractual requirements can describe the basis of accounting as in accordance with GAAP only when those requirements are within the range of acceptable choices allowed by the proposed Section.
  - Italicized Recommendations and non-italicized paragraphs in PSA Handbook Sections have equal authority.
- This Section applies to fiscal years beginning on or after April 1, 2005. For local governments that are currently required by legislation or regulation to prepare their financial statements in accordance with a basis of accounting other than GAAP, this Section applies to fiscal years beginning on or after April 1, 2006.
- *This section is not expected to have a significant impact on the Library's reporting*

## New Developments in Accounting or Auditing Standards (continued)

### Discussion

#### Segment Disclosure

- In January 2006, PSAB approved final Section PS 2700, *Segment Disclosures*.
- This Section establishes standards on how to define and disclose segments in a government's summary financial statements.
- These standards apply to the summary financial statements of federal, provincial, territorial and local governments. Other government organizations that apply the standards of the CICA Public Sector Accounting Handbook (CICA PSA Handbook) are encouraged to provide the disclosures established in this Section when their operations are diverse enough to warrant such disclosures.
- Summary financial statements provide aggregated information about government and serve as a means by which a government demonstrates its accountability for the financial affairs and resources entrusted to it. Generally, however, the activities of a government are so broad and encompass so wide a range of different activities that it is valuable to disclose selected disaggregated financial information about particular segments of a government in the summary financial statements.
- The guidance in this Section is intended to start with the summary financial statements and separate out key financial information into segments in order to provide relevant information for accountability and decision-making purposes, while ensuring that the information is consistent with the summary statements.
- The objectives of disclosing information about segments are to:
  - help users of the financial statements identify the resources allocated to support the major activities of the government;
  - help users of the financial statements make more informed judgments about the government reporting entity and about its major activities;
  - help users of financial statements better understand the manner in which the organizations in government are organized and how the government discharges its accountability obligations;
  - enhance the transparency of financial reporting; and
  - help users of the financial statements better understand the performance of the segments and the government reporting entity.
- Users of financial statements have a variety of needs that segment disclosures may be useful in addressing. For example, segment disclosures may assist users in assessing future net cash flows of the government
- This new section applies to fiscal years beginning on or after April 1, 2007.
- *This section is not expected to have a significant impact on the Library's reporting*

## New Developments in Accounting or Auditing Standards (continued)

	Discussion
Including Results of Organizations and Partnerships Applying Fair Value Measurement	<ul style="list-style-type: none"><li>• The Introduction to Public Sector Accounting Standards requires government organizations that meet the definitions of government business enterprises, government business-type organizations, or not-for-profit organizations to base their accounting policies on the CICA Handbook – Accounting. Government partnerships and other government organizations may elect to apply the CICA Handbook – Accounting based on their objectives and circumstances.</li><li>• The purpose of this Guideline is to provide guidance on the reporting of government organizations and government partnerships in a government's summary financial statements that are in accordance with:<ul style="list-style-type: none"><li>• Comprehensive Income, CICA Handbook – Accounting Section 1530;</li><li>• Financial Instruments — Recognition And Measurement, CICA Handbook – Accounting Section 3855; and</li><li>• Hedges, CICA Handbook – Accounting Section 3865.</li></ul></li><li>• Other comprehensive income comprises revenues, expenses, gains and losses recognized in comprehensive income but excluded from net income. As a result of applying the CICA Handbook – Accounting, government business enterprises may report other comprehensive income amounts in their financial statements.</li><li>• Applying the principles set out in <i>Investments In Government Business Enterprises</i>, Section PS 3070, the carrying values of financial assets and financial liabilities reported by government business enterprises, which may include fair value adjustments, would be reflected in the government's summary financial statements as a component of the investment in a government business enterprise. However, any resulting other comprehensive income would not be reported as part of income from an investment in a government business enterprise, as these amounts do not form part of net income.</li><li>• For governments applying <i>Financial Statement Presentation — Federal, Provincial &amp; Territorial Governments</i>, Section PS 1200, any other comprehensive income amounts do not form part of revenues and expenses and are excluded from the determination of the difference between revenues and expenses on the statement of operations. Governments reporting other comprehensive income are required to do so in a statement reconciling the change in accumulated surplus / deficit, and on the statement of changes in net debt.</li><li>• Applying <i>General Standards Of Financial Statement Presentation — Local Governments</i>, Section PS 1800, any other comprehensive income would be reported separately on the statement of financial activities and following the reporting of the difference between revenues and expenditures.</li><li>• Governments may choose to report items comprising other comprehensive income in aggregate, disclosing details in notes to the financial statements.</li><li>• This new guideline applies to fiscal years beginning on or after April 1, 2006.</li><li>• <i>This section is not expected to have a significant impact on the Library's reporting</i></li></ul>

## New Developments in Accounting or Auditing Standards (continued)

### Discussion

- Public Performance Reporting**
- This Statement of Recommended Practice (SORP) provides recommended practices for the non-financial performance information of a public performance report, as well as the linkage of financial and non-financial performance information.
  - This guidance:
    - provides a common approach and language about information that needs to be communicated to users;
    - can contribute to an enhanced level of confidence in the information being reported; and
    - can help ensure that the information provided is reliable and valid, relevant, fair, comparable and consistent, and understandable.
  - This guidance was issued in September 2006.
  - *This section is not expected to have a significant impact on the Library's reporting.*

## New Developments in Accounting or Auditing Standards (continued)

### Discussion

#### Government Transfers

- The Public Sector Accounting Board proposes, subject to comments received following exposure, to issue revised *Government Transfers*, Section PS 3410. The Section would apply to all levels of government.
- The main features of this Exposure Draft are as follows:
- Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:
  - receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
  - expect to be repaid in the future, as would be expected in a loan; or
  - expect a direct financial return, as would be expected in an investment.
- Government transfers should be recognized as revenue or expenses when the transfer has been authorized and any eligibility criteria have been met.
- A determination that a transfer is authorized requires evidence at the financial statement date of:
  - the authority to enter into a transaction, which is conveyed through approved legislation, regulations or by-laws; and
  - the exercise of authority under legislation, regulations or by-laws in place at the financial statement date.
- A related consequential amendment is proposed to explicitly exclude government transfers from the scope of *Restricted Assets And Revenues*, Section PS 3100.
- A further consequential amendment is proposed for government business enterprises and government business-type organizations in *Government Assistance, Application of CICA Handbook – Accounting Section 3800*, Section PS 3800, to align the accounting for government capital transfers received or receivable by these government organizations with that of the government. The Exposure Draft proposes that government assistance received for the acquisition of, or in the form of, depreciable capital assets be recognized as revenue when received or receivable in accordance with the standards proposed in this Exposure Draft. Currently, Section PS 3800 allows capital transfers received to be deferred and amortized to income on the same basis as the related capital asset.
- The Exposure Draft's public comment period ended on September 30, 2006.
- Proposed revised Section PS 3410, and the related changes to Sections PS 3100 and PS 3800, are proposed to apply to all governments for fiscal years beginning on or after January 1, 2009. The proposed long transition period for revised Section PS 3410 is intended to allow time for governments to consider the impact of the new standards on their policies, legislation, regulations and by-laws.

## New Developments in Accounting or Auditing Standards (continued)

### Discussion

#### Subsequent Events

- In December 2005, the Assurance and Auditing Standards Board [“AASB”] issued amendments to CICA 6550, *Subsequent Events*. The principal change is the revision of CICA 6550.04 to add several matters to the list of procedures normally performed by the auditor when auditing subsequent events. The additions include:
  - Making enquiries to obtain an understanding of the procedures management has established to ensure that subsequent events are identified;
  - Expanding the list of specific matters that might require adjustment to and/or disclosure in the financial statements.
- The Section’s new provisions will be effective for financial statements and financial reports for periods beginning on or after January 1, 2006.
- This section is not expected to have a significant impact on the organization.
- *We will need to consider what additional audit steps are required to supplement our current procedures designed to identify significant subsequent events.*

#### Audit Risk

- In June 2005, the AASB approved the issuance and amendment of several *Handbook* sections in connection with its Audit Risk project. The new standards emphasize:
  - the need to understand the entity's business;
  - that risk assessment is an iterative process that continues throughout the audit;
  - that the auditor plans the nature, timing and extent of planned audit procedures to respond to assessed levels of risk that the financial statements may be materially misstated; and
  - that, where risk assessments are revised, the auditor makes appropriate revisions to the nature, timing and extent of planned audit procedures.
- These standards are effective for audits of financial statements for fiscal years beginning on or after January 1, 2006.
- *Our audit methodology has been revised to deal with this new standard.*

#### Terms of Engagement

- In July 2005, the AASB issued the final standard on Terms of the Engagement for audits of financial statements, CICA 5110, and final revisions to CICA 8200, Public Accountant’s Review of Financial Statements, to incorporate guidance on agreeing the terms of the engagement relating to the financial statements.
- These new standards are effective for periods beginning on or after August 1, 2005.
- Our engagement letters have been updated to incorporate these new standards.

## New Developments in Accounting or Auditing Standards (continued)

	Discussion
<b>Documentation</b>	<ul style="list-style-type: none"><li>• In December 2005, the AASB issued amendments to CICA 5145, <i>Documentation</i>, to establish the basic principles and essential procedures for all audit documentation for an audit of financial statements. The revised section includes requirements that set out minimum documentation requirements and deadlines for completion of the final audit file.</li><li>• This new section is effective for audits of financial statements for periods beginning on or after November 1, 2006.</li><li>• <i>Our procedures have been updated to reflect the changes in this section.</i></li></ul>
<b>Planning</b>	<ul style="list-style-type: none"><li>• In September 2005, the AASB approved the amendments to the current CICA 5150, <i>Planning and Supervision</i>. The revised section incorporates the new engagement risk model and includes requirements for the auditor to plan, perform and document various aspects of the audit strategy.</li><li>• The new section is effective for audits of financial statements for periods beginning on or after January 1, 2006.</li><li>• <i>Our procedures have been updated to reflect the changes in this section.</i></li></ul>
<b>Analysis</b>	<ul style="list-style-type: none"><li>• In August 2005, the AASB approved changes to the new audit risk standards in CICA 5301, <i>Analysis</i>. The principal changes to the section are increased emphasis on the use of analysis and analytical procedures as risk assessment procedures and additional guidance on when analytical procedures are used.</li><li>• The changes to this section are effective for audits of financial statements for periods beginning on or after January 1, 2006.</li><li>• <i>Our procedures have been updated to reflect the changes in this section.</i></li></ul>
<b>Management Representations</b>	<ul style="list-style-type: none"><li>• In July 2005, the AASB issued a final standard on Management Representations, CICA 5370, for audits of financial statements and final revisions to CICA 8200, <i>Public Accountant's Review of Financial Statements</i>, to incorporate guidance on management representations relating to the review of financial statements.</li><li>• These new standards are effective for periods beginning on our after August 1, 2005.</li><li>• <i>Our letters of representation have been updated to incorporate these new standards.</i></li></ul>
<b>Authority of Assurance Guidance (formerly GAAS hierarchy)</b>	<ul style="list-style-type: none"><li>• In August 2005, the AASB issued the new Section CICA 5021, <i>Authority of Auditing and Assurance Standards and Other Guidance</i>, to provide guidance on the authority of recommendations, explanatory material, interpretive publications and other auditing and assurance publications to which a practitioner may refer when performing an assurance engagement.</li><li>• The Section includes requirements for the practitioner to:<ul style="list-style-type: none"><li>○ Identify and comply with the recommendations of the CICA Handbook – Assurance;</li><li>○ Be aware of and consider interpretive publications;</li><li>○ When applying the auditing and assurance guidance included in an “other auditing and assurance publication,” be satisfied that the guidance is both relevant and appropriate.</li></ul></li><li>• The standards are effective for financial statement and financial reports for periods beginning on or after September 1, 2005.</li><li>• <i>This section is not expected to have a significant impact on the audit of the organization.</i></li></ul>

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## Current Year Developments

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Each year in preparing our audit planning, we review significant developments within your organization and the external environment in which you operate. This review enables us to better understand the issues you are facing and to ensure that our audit plan appropriately and effectively addresses all areas of concern. To date, we have noted and discussed with management the following areas which are of significance:

Accounting/Audit Issues	Discussion	Preliminary Evaluation
<b>Pension Actuarial Valuation</b>	<ul style="list-style-type: none"><li>The Library sponsors defined benefit plans providing pension and other retirement and post-employment benefits to employees. Actuarial valuations are conducted on a periodic basis, with the next actuarial review estimated to be completed as at December 31, 2005 for the Library's 2006 year-end.</li><li>Management is to work with the City of Toronto and Mercer Human Resources Consulting to ensure an updated valuation on employee future benefits within the Library records is provided.</li></ul>	<ul style="list-style-type: none"><li>We will rely on the work performed by Mercers in auditing the 2006 financial statements, with audit procedures being performed to support this reliance.</li></ul>

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## Engagement Letter

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August 22, 2006

Mr. Jeffrey Griffiths  
Auditor General  
City of Toronto  
Metro Hall  
55 John Street, 9<sup>th</sup> Floor  
Toronto, ON M5V 3C6

Dear Mr. Griffiths:

1. This will confirm our statutory engagement to audit and report on the consolidated financial statements of the City of Toronto (the “City”) for the year ending December 31, 2006. The services described in this paragraph may hereafter be referred to as either “Audit Service” or “Audit Services.”

### **Audit Responsibilities and Limitations**

2. The objective of our audit is to express an opinion on whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the City in conformity with Canadian generally accepted accounting principles.
3. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable rather than absolute assurance that the consolidated financial statements taken as a whole are free of material misstatement whether caused by error, fraud or illegal acts whose consequences have a material effect on the consolidated financial statements. As you are aware, there are inherent limitations in the audit process, including the use of judgment and selective testing of the data underlying the financial statements, the inherent limitations of internal controls, and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature. Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material fraud. Further, while effective internal control reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate the possibility. For these reasons, we cannot guarantee that fraud, error and illegal acts, if present, will be detected when conducting an audit in accordance with Canadian generally accepted auditing standards.

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## Engagement Letter (continued)

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Also, an audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements. In accordance with standards established by the Canadian Institute of Chartered Accountants, we will communicate certain matters related to the conduct and results of the audit to the Audit Committee. Such matters include, when applicable, disagreements with management, whether or not resolved; difficulties encountered in performing the audit; the auditor's level of responsibility under professional standards in Canada for the financial statements, for internal control, and for other information in documents containing the audited financial statements; unadjusted audit differences that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole; changes in the City's significant accounting policies and methods for accounting for significant unusual transactions or for controversial or emerging areas; our judgments about the quality of the City's accounting principles; our basis for conclusions regarding sensitive accounting estimates; management's consultations, if any, with other accountants; and major issues discussed with management prior to our retention.

4. As part of our audit, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the City's internal controls to prevent and detect potential misstatements. This consideration will not be sufficient to enable us to provide assurance on the effectiveness of internal controls over financial reporting or to identify all significant weaknesses. Canadian generally accepted auditing standards define a significant weakness in internal control as one in which, in the auditor's professional judgment, the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited.
5. If we determine that there is evidence that misstatements, resulting from error, other than trivial errors, or that fraud or illegal or possibly illegal acts may exist or have occurred (other than illegal acts that are considered inconsequential), we will bring such matters to the attention of an appropriate level of management. The type and significance of the matter to be communicated will determine the level of management to which the communication is directed and whether the communication is also made to the Auditor General and the Audit Committee. If we become aware of fraud involving senior management or fraud (whether caused by senior management or other employees) that causes a material misstatement of the consolidated financial statements, we will report this matter directly to the Auditor General and the Audit Committee. We will also determine that the Auditor General and the Audit Committee are adequately informed of misstatements, resulting from error, other than trivial errors and illegal or possibly illegal acts that come to our attention unless they are clearly inconsequential. We will not duplicate any reporting made by the Auditor General in his communications to the Audit Committee and we will work with the Auditor General in our understanding of the risks that may arise as a result of any reportable incidents to his group in the year. In addition, we will inform the Auditor General, the Audit Committee and appropriate members of management of significant audit adjustments and significant weaknesses in the design or implementation of internal controls to prevent or detect fraud or error noted during our audit procedures, as well as related party transactions identified by us that are not in the normal course of operations and that involve significant judgments made by management concerning measurement and disclosure.
6. We also may communicate to the appropriate levels of management other opportunities we observe for economies in or improved controls over the City's operations. The matters communicated will be those that we identify during the course of our audit. Audits do not usually identify all matters that may be of interest to management in discharging its responsibilities.

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## Engagement Letter (continued)

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7. In accordance with CICA Handbook Section 5751, *Communications with Those Having Oversight of the Financial Reporting Process*, we will communicate in writing to the Audit Committee any relationships between Ernst & Young LLP, its partners and professional employees and the City of Toronto (including related entities) that, in our professional judgment, may reasonably be thought to bear on our independence. Further, we will confirm our independence with respect to the City of Toronto (including related entities).

### **Management's Responsibilities and Representations**

8. The preparation and fair presentation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles are the responsibility of the management of the City. Management also is responsible for establishing and maintaining effective internal controls, for properly recording transactions in the accounting records, for safeguarding assets, and for identifying and ensuring that the City complies with the laws and regulations applicable to its activities.
9. The design and implementation of internal controls to prevent and detect fraud and error are the responsibility of the City's management, as is an assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud. Management is responsible for apprising us of all known instances of fraud, suspected fraud, illegal or possibly illegal acts and allegations involving financial improprieties received by management or the Audit Committee (regardless of the source or form and including, without limitation, allegations by "whistle-blowers," employees, former employees, analysts, regulators or others), and providing us full access to information and facts relating to these instances and allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading the auditors, or other allegations of illegal acts or fraud that could have a non-trivial effect on the financial statements or otherwise affect the financial reporting of the City. If the City limits the information otherwise available to us under this paragraph (based on the City's claims of solicitor/ client privilege, litigation privilege, or otherwise), the City will immediately inform us of the fact that certain information is being withheld from us. Any such withholding of information could be considered a restriction on the scope of our Audit Services and may alter the form of report we may issue on such financial statements; prevent us from consenting to the inclusion of previously issued auditor's reports in future City filings; or otherwise affect our ability to continue as the City's auditors. The City and we will disclose any such withholding of information to the Auditor General and the Audit Committee.
10. Management of the City is responsible for providing us with and making available complete financial records and related data and copies of all minutes of meetings of council and committees; information relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements; information relating to any illegal or possibly illegal acts, and all facts related thereto; and information regarding all related parties and related party transactions. Failure to provide this information on a timely basis may cause us to delay our report, modify our procedures or even terminate the engagement.

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## Engagement Letter (continued)

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11. Management is responsible for adjusting the consolidated financial statements to correct material misstatements and for affirming to us in its representation letter that the effects of any unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.
12. As required by Canadian professional standards, we will make specific inquiries of management about the representations contained in the consolidated financial statements. Management is responsible for providing us with information regarding the recognition, measurement and disclosure of specific items, including but not limited to the following:
  - its assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the consolidated financial statements or used to support amounts in the consolidated financial statements;
  - any plans or intentions that may affect the carrying value or classification of assets and liabilities;
  - information relating to the measurement and disclosure of transactions with related parties;
  - an assessment of all areas of measurement uncertainty known to management that are required to be disclosed;
  - information relating to claims and possible claims, whether or not they have been discussed with the City's legal counsel;
  - information relating to other liabilities and contingent gains or losses, including those associated with guarantees, whether written or oral, under which the City is contingently liable;
  - information relating to compliance with aspects of contractual agreements that may affect the consolidated financial statements; and
  - information concerning subsequent events.
13. At the conclusion of the audit, we obtain representation letters from certain members of management to confirm significant representations on matters that are directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements; matters that are not directly related to items that are material to the consolidated financial statements but are significant, either individually or in the aggregate to the engagement; and those that are relevant to your judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements. The responses to the inquiries of management, the written representations from management and the results of our audit tests comprise the evidential matter we will rely upon in forming an opinion on the consolidated financial statements.

### **Fees and Billings**

14. Our fees, which we will bill as work progresses, are based on our original response to your request for proposal, which stated a fee for 2006 of \$757,000 inclusive of expenses and GST. The stated fee also includes the audit of the Toronto Public Library Foundation and the Toronto Zoo Foundation which are not listed in paragraph 17 as their terms and conditions are covered in a separate engagement letter.

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## Engagement Letter (continued)

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15. Our estimated fees and schedule of performance are based upon, among other things, our preliminary review of the City's records and the representations City personnel have made to us and are dependent upon the City's personnel providing a reasonable level of assistance. Should our assumptions with respect to these matters be incorrect or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. In addition, fees for any special audit-related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the audit fee referred to above and may be the subject of written arrangements supplemental to those in this letter.

### Other Matters

16. You will provide to us copies of the printer's proofs of your annual report prior to publication for our review. Management of the City bears the primary responsibility to ensure the annual report contains no misrepresentations. We will review the report for consistency between the annual financial statements and other information contained in the report, and to determine if the financial statements and our report thereon have been accurately reproduced. If we identify any errors or inconsistencies which may impact on the financial statements, we will advise management and the Audit Committee as appropriate.

17. In addition to reporting on the consolidated financial statements of the City, we will also audit and report on the undernoted financial statements. The fee for these services is included in the \$757,000 mentioned in part 15 of this letter. Our comments noted above setting out the terms of our engagement as auditors of the City of Toronto also apply to the entities/work listed below.

Toronto Economic Development Corporation  
Toronto Community Housing Corporation  
Toronto Parking Authority (including Carpark #161)  
Police Museum Reserve Fund  
Police Services Board Special Funds  
Police Services Board Trust Funds  
City of Toronto Sinking Funds  
Investment Policy Compliance  
City of Toronto Trust Funds  
Homes for the Aged Interest Trust Fund  
Toronto Board of Health  
Various Subsidy Claims  
Toronto Public Health  
Preschool Speech and Language Program

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## Engagement Letter (continued)

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Healthy Babies Healthy Children Program  
AIDS Bureau Program  
Infant Hearing Program  
10 Homes for the Aged  
Albion Lodge  
Bendale Acres  
Carefree Lodge  
Castleview Wychwood Towers  
Cummer Lodge  
Fudger House  
Kipling Acres  
Lakeshore Lodge  
Seven Oaks  
True Davidson Acres  
Community and Neighbourhood Services – “Supportive Housing and Community Support”  
Toronto Coach Terminal, Inc.  
Toronto Transit Commission  
TTC Insurance Company Limited  
Metropolitan Toronto Pension Fund  
Police Supplemental Pension Benefits Trust Funds  
Toronto Fire Department Superannuation and Benefit Fund  
Toronto Pension Fund  
Toronto Police Benefit Fund  
TTC Pension Fund Society  
TTC Sick Benefit Association  
York Employees Pension and Benefit Fund  
Hummingbird Centre  
Toronto Zoo  
Board of Governors of Exhibition Place  
Canadian National Exhibition Association  
Canadian National Exhibition Foundation  
St. Lawrence Centre for the Arts  
North York Performing Arts Centre Corporation  
Toronto Public Library Board

Engagement Letter (continued)

Toronto Public Library Trust Fund  
Toronto Track and Field Centre

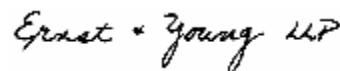
18. By your signature below, you confirm that the City, through City of Toronto Council, has expressly authorized you to enter into this agreement with us on the City’s behalf.

19. The attached Terms and Conditions form an integral part of this agreement.

To confirm these arrangements are acceptable, please sign one copy of this letter and return it to us.

We very much appreciate the opportunity to serve as the City of Toronto’s auditors and would be pleased to furnish any additional information you may request concerning our responsibilities and functions.

Yours very truly,



Ernst & Young LLP

Acknowledged and Agreed:

City of Toronto

*Acknowledged and agreed by Marilyn M. Toft & Ulli S. Watkiss*

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## Engagement Letter (continued)

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### Terms and Conditions

Except as otherwise specifically provided in the engagement letter or contract into which these terms and conditions are incorporated (collectively the "Agreement"), these terms and conditions shall apply to the engagement carried out by Ernst & Young LLP ("EY").

1. **Timely Performance** - EY will exercise due professional care and competence in the performance of the services provided pursuant to this Agreement (the "Services") to the reasonable satisfaction of the client's Auditor General and Deputy City Manager and Chief Financial Officer and EY will use all reasonable efforts to complete the performance of the Services within any stipulated time-frames. EY shall not be liable for failures or delays in the performance of Services that arise from causes beyond its control, including the untimely performance by client, its representatives, advisors or agents.
2. **Client Responsibilities** - Client will provide to EY in a timely manner complete and accurate information and access to such management personnel, staff, premises, computer systems and applications as are reasonably required by EY to complete the performance of the Services.
3. **Confidentiality** – EY shall comply with the Privacy, Security and Confidentiality Terms and Conditions attached as Appendix B to the Request for Proposals No. 9155-03-7140, except that, unless specifically requested by client, (i) EY shall not be encrypting e-mail communications which may contain personal information, and (ii) any personal information in EY's possession shall not be segregated from the rest of its audit working papers. EY shall not at any time before, during or after the completion of the engagement divulge any confidential information communicated to or acquired by EY or disclosed by any of the entities being audited in the course of carrying out the engagement, except as required by law. No such information shall be used by EY on any other project without prior written approval of the client. The client shall take all reasonable steps to maintain the confidentiality of any of EY's proprietary or confidential information.
4. **Privacy** - Client confirms to EY that it has obtained any consents that may be required under applicable privacy legislation for any collection, use or disclosure of personal information that is necessary in order for EY to provide the Services. EY shall adhere to applicable privacy legislation when dealing with personal information that was obtained from client.
5. **Auditor Oversight** - Client hereby acknowledges that EY may from time to time receive requests or orders from the Canadian Public Accountability Board or from professional, securities or other regulatory or governmental authorities that fulfill similar functions (both in Canada and abroad) to provide them with information, documents and copies of our working papers, and other work-product relating to client's affairs. Client consents to EY providing or producing, as applicable, this information without further reference to, or authority from, client. EY may also be required to provide information relating to the fees that EY collects from client for the provision of audit services, other accounting services and non-audit services.
6. **Internet Communications** - Unless otherwise agreed with client, EY and its agents may correspond by means of the Internet or other electronic media. Because of the inherent risks associated with the electronic transmission of information on the Internet or otherwise, EY cannot guarantee the security and integrity of any electronic communications sent or received in relation to this engagement. While it is EY's policy to check its e-mail correspondence with anti-virus software, EY cannot guarantee that transmissions will be free from infection and accepts no responsibility or liability for any damages as a result of communicating by means of the Internet or other electronic media.

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## Engagement Letter (continued)

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7. **Right to Terminate Services** - Either party may terminate this Agreement, with or without cause, by providing 30 days written notice to the other party. In the event of EY's failure to comply with the terms of this Agreement, client has the right to terminate this Agreement if the failure has not been rectified 15 days after written notice was provided to EY of the failure. In the event of early termination, for whatever reason, client will be invoiced for time and expenses incurred up to the end of the notice period together with reasonable time and expenses incurred to bring the engagement to a close in a prompt and orderly manner. EY shall also have the right, upon 7 days prior notice, to suspend performance of the Services in the event client fails to pay any amount required to be paid under this Agreement.
8. **Fees** - Any fee estimates by EY take into account the agreed-upon level of preparation and assistance from client personnel. EY undertakes to advise client management on a timely basis should this preparation and assistance not be provided or should any other circumstances arise which cause actual time to exceed estimated time.
9. **Expenses** - EY will bill for all reasonable expenses. Expenses such as long-distance telephone and telecommunications charges, photocopying, delivery, postage, clerical assistance and micro-computer technology costs are based on a percentage (included within our fixed fee) of our fees for professional services. Other major direct costs such as travel, meals, accommodation and other significant expenses will be charged as incurred.
10. **Billing** - Bills including expenses will be rendered on a regular basis as the assignment progresses. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice.
11. **Taxes** - The fees, expenses and other charges payable pursuant to this Agreement do not include taxes or duties. All applicable taxes or duties, whether presently in force or imposed in the future, shall be assumed and paid by client without deduction from the fees, expenses and charges hereunder. *[Note that our agreement includes the taxes as noted in the letter – however, for billing purposes the fee will be broken out accordingly.]*
12. **Governing Law** - This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein without regard to principles of conflicts of law. The parties hereby irrevocably and unconditionally submit and attorn to the exclusive jurisdiction of the courts of the Province of Ontario in connection with any dispute, claim or other matter arising out of or relating to this Agreement or the Services.
13. **Working Papers/Reports** - EY retains all copyright and other intellectual property rights in everything developed by EY either before or during the course of an engagement including working papers, systems, methodologies, software and know-how. EY also retains all copyright and other intellectual property rights in all reports, written advice or other materials (the "Reports") provided by EY to client although client will have the full right to use these materials for their intended purpose, i.e. audit reports are provided to client in accordance with the provisions of the *Municipal Act, 2001* and in particular with section 295 and 296 thereof and are not prepared for use by third parties, although EY specifically acknowledges and agrees that the audit reports shall be part of the public record which may be inspected by any person. Any audit procedures were not planned or conducted (i) in contemplation of reliance by particular third parties (ii) with respect to any specific transaction contemplated by a third party or (iii) with respect to the interests or requirements of particular third parties. EY does not assume any duties or obligations to third parties who may obtain access to any Reports. Any use which a third party makes of the Reports, or any reliance on or decisions to be made based on them are the responsibility of such third parties. All working papers and reports will be retained by EY, at its expense, for ten (10) years, unless notified by the Client in writing of the need to extend the retention period.

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## Engagement Letter (continued)

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14. Subject to the limitations contained in section 15 ("*Limitation of Liability*"), EY shall defend, save harmless and indemnify client and its Mayor, Councillors, officers, employees, agents, representatives, successors and assigns against all losses, costs, damages and other liabilities arising from the EY's performance of the Services where caused by or to the extent contributed by the negligent acts or omissions of EY and those for whom it is in law responsible. Subject to the limitations contained in section 15 ("*Limitation of Liability*"), EY shall defend, indemnify and save harmless client, its Mayor, Councillors, officers, employees, agents, representatives, successors and assigns, against all claims, actions, suits and proceedings, including all costs incurred in connection with any patent, copyright, moral right, trademark or industrial design or the use or misuse in connection EY's performance of the Services.
15. **Limitation of Liability** – To the fullest extent permitted by law and regardless of whether such liability is based on breach of contract, tort (including negligence), strict liability, failure of essential purpose or otherwise,
- a) EY's liability shall be several and not joint and several and EY shall only be liable for its proportionate share of any total liability based on degree of fault having regard to the contribution to any loss or damage in question of any other persons responsible and /or liable for such loss and damage;
  - b) in no event shall EY be liable for any consequential, incidental, indirect, punitive or special damages (including loss of profits, data, business or goodwill) in connection with the performance of the Services or otherwise under this Agreement, and even if EY has been advised of the likelihood of such damages; and
  - c) in any case the total aggregate liability of EY arising out of or relating to this Agreement or the Services shall be limited to \$2,000,000. This paragraph shall not limit EY's liability for death, personal injury or property damage caused by the negligent acts or omissions of EY and its partners and staff, or for loss or damage caused by their fraud or wilful misconduct.

For the purposes of this section ("*Limitation of Liability*"), the term EY includes EY and any subcontractors and/or agents and their respective partners, directors, officers and employees.

16. EY agrees that it shall, at its own expense during the performance of the Services, cause to be maintained a Comprehensive General Liability policy of insurance containing a \$2,000,000.00 per occurrence and in the aggregate limit of coverage, and a Professional Liability and Errors and Omissions policy of insurance containing a \$5,000,000.00 per occurrence and in the aggregate limit of coverage.

In respect of the **Comprehensive General Liability** coverage, such coverage shall include:

- 1) the client as an additional insured only with respect to liability arising out of the actions of EY;
- 2) a cross liability/severability of interest clause
- 3) personal injury liability;
- 4) broad form contractual liability;
- 5) contingent employer's liability;
- 6) employer's liability; and
- 7) non-owned automobile liability.

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## Engagement Letter (continued)

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In respect of Professional Liability and Errors and Omissions coverage, such coverage shall include coverage of each person made available for the performance of Services by EY. EY agrees that it shall, at its own expense, maintain the levels of coverage described above for Two (2) Years subsequent to the completion or other termination of the Services.

If requested by the client to do so, EY will from time to time provide certificates of insurance to the client evidencing such levels of coverage.

EY acknowledges that its insurance policies are subject to deductible amounts, which deductible amounts shall be borne by EY.

17. **Global Resources** - From time to time EY may use the services of partners or staff from other member firms of Ernst & Young Global Limited ("EYG") or Ernst & Young International, Ltd. ("EYI") to assist it in providing Services. When the services of such partners or staff are used in connection with Services provided pursuant to this Agreement they are deemed to be acting as EY's agents and not the partners, servants or agents of any other person (including any other member of EYG or EYI or EYG or EYI themselves) and EY shall assume liability for their activities as if they were in all respects the partners or staff of EY. Neither EYI nor EYG nor any other member firm of EYG or EYI assumes any responsibility to client in connection with this Agreement. Client agrees that any claim of any kind whatsoever, whether in contract, tort or otherwise, arising out of or in connection with this Agreement shall be brought only against EY and that no claims shall be brought personally against any persons involved in performance of the Services pursuant to this Agreement, whether actual or deemed servants or agents of EY or not. Client agrees not to bring any proceedings of any kind whatsoever arising out of or in connection with this Agreement in any jurisdiction against EYG, EYI or any other member firm of EYG or EYI or any partner or personnel thereof. . EYG, EYI, each member firm of EYG and EYI and each partner or employee thereof and each of EY's partners and employees shall have the express benefit of this section and shall have the right to rely on and enforce any of its terms.
18. **No Application** – The preceding two sections entitled *Limitation of Liability* and *Global Resources*, or any portion of them, shall have no application to any liability for which exclusion or restriction is prohibited by applicable law or regulation.
19. **Solicitation & Hiring of EY Personnel** - EY's independence could be compromised if client were to hire certain EY personnel. Without the prior written consent of EY, client shall not solicit for employment or for a position on its Board of Directors, nor hire, any current or former partner or professional employee of any of EY, any affiliate thereof or any other EY entity, if such partner or professional employee has been involved in the performance of any audit, review, attest or assurance service for or relating to client at any time since the date of filing of client's most recent financial statements with the relevant securities regulator(s) or stock exchange(s) (or, if client has not previously filed such financial statements, since the beginning of the most recent fiscal year to be covered by client's first such financial statements), or in the 12 months preceding that date.
20. **Severability** - If any of the provisions of these terms and conditions are determined to be invalid, illegal or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.
21. **Proceeds of Crime (Money Laundering) and Terrorist Financing Act** - Pursuant to this Canadian legislation, accountants and certain other professionals are required to report any "suspicious transactions" to FINTRAC, a government agency. Suspicious transactions are transactions which are reasonably suspected to be related to the commission of a money laundering or terrorist financing offence. The Act specifically prohibits EY from informing a client that a suspicious transaction report has been made.

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## Engagement Letter (continued)

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22. **Legal Proceedings** - In the event EY is requested or authorized by client or is required by government regulation, subpoena, or other legal process to produce documents or personnel as witnesses with respect to the engagement for client, and provided that EY is not a party to the legal proceedings, client shall reimburse EY for reasonable professional time and expenses, as well as the reasonable fees and expenses of counsel, incurred in responding to such requests provided that such requests do not fall within the scope of this engagement.
23. **LLP Status** - EY is a registered limited liability partnership ("LLP") continued under the laws of the province of Ontario and is registered as an extra-provincial LLP in Quebec and other Canadian provinces. Generally, a partner of an LLP has a degree of limited liability protection in that he or she is not personally liable for any debts, obligations or liabilities of the LLP that arise from the negligence of another partner or any person under that partner's direct supervision or control. As an LLP, EY is required to maintain certain insurance. EY's insurance exceeds the mandatory professional liability insurance requirements established by the various Institute/Orders of Chartered Accountants across Canada.
24. **Miscellaneous** - EY shall provide all Services as an independent contractor and nothing shall be construed to create a partnership, joint venture or other relationship between EY and client. Neither party shall have the right, power or authority to obligate or bind the other in any manner. This Agreement shall not be modified except by written agreement signed by the parties. This agreement may not be assigned in whole or in part by client without EY's prior written consent, not to be unreasonably withheld. This Agreement constitutes the entire agreement between the parties relating to its subject matter and except as described below, supersedes all prior representations, negotiations and understandings. Any terms and provisions of this Agreement that by their nature operate beyond the term or expiry of this Agreement shall survive the termination or expiry of this Agreement, including without limitation those provisions headed *Confidentiality*, *Auditor Oversight*, *Limitation of Liability*, *Solicitation & Hiring of EY Personnel* and *Legal Proceedings*. The provisions of this Agreement shall operate for the benefit of, and may be enforced by, any subcontractor, agent, partner or employee that is providing any of the Services.
25. **Other Relevant Documents** – The terms and conditions contained in the Request for Proposals No. 9155-03-7140 and the Proposal by EY in response to R.F.P. No. 9155-03-7140 are incorporated into and form a part of this agreement. In the event of any inconsistency between the terms of the documents which make up this agreement, the following shall be the order of priority of the documents to the extent of any inconsistency:
- 1) The Engagement Letter;
  - 2) The Standard Terms and Conditions
  - 3) The Proposal by EY referred to above;
  - 4) Request for Proposals No. 9155-03-7140



ERNST & YOUNG LLP

[www.ey.com/ca](http://www.ey.com/ca)