

Toronto Public Library Board

Audit Plan for the year ending
December 31, 2010

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December 20, 2010

Members of the Board
Toronto Public Library Board

Dear Board Members:

We are pleased to present our audit plan for the audit of the financial statements of Toronto Public Library Board (the Library) for the year ending December 31, 2010.

This document summarizes our audit plan including our view on audit risks, the nature, extent and timing of our audit work as well as our proposed fees and the terms of our engagement.

We value your feedback and we hope that this document will provide insight into the risks we identified and our audit approach. We welcome any suggestions and observations you may have.

Yours very truly,

Terri McKinnon
Partner
Audit and Assurance Group

cc: Mr. Larry Hughsam, Director of Finance and Treasurer

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Appendix A: Engagement letter

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The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose.

1. Executive summary

We have prepared the attached document to provide you with the opportunity to review, comment on and approve our audit plan for the 2010 audit of the financial statements.

This audit plan includes the required communications between an auditor and the Board as required by Canadian Auditing Standards.

Below, we highlight key areas of our audit plan to facilitate your review.

	Discussion item	Summary	For further reference
a.	Client service team	<ul style="list-style-type: none"> Terri McKinnon is your engagement leader and Jonathan Chan is your engagement manager. 	Page 3
b.	Service deliverables	<ul style="list-style-type: none"> The following services will be provided for this engagement: <ul style="list-style-type: none"> Audit of the financial statements for the year ended December 31, 2010. 	Page 4
c.	Timing	<ul style="list-style-type: none"> Our audit will be performed at the following times: <ul style="list-style-type: none"> Interim visit – November 1 to 12, 2010 Year-end visit – February 28 to March 18, 2011. 	Page 5
d.	Audit approach	<ul style="list-style-type: none"> Our audit approach will consist of a mixture of key controls reliance and substantive detail testing. Consistent with Canadian Auditing Standards, we will also implement a level of unpredictability into our procedures each year. 	Page 6
e.	Materiality	<ul style="list-style-type: none"> We have calculated materiality (based on the current forecasted results) and have determined a preliminary materiality of \$1,928,000. Unadjusted and adjusted items over \$96,400 will be reported to the Board on completion of our audit. 	Page 8
f.	Risk analysis	<ul style="list-style-type: none"> The areas of significant audit focus for our audit are: <ul style="list-style-type: none"> Valuation of employee future benefits Overstatement of accruals and expenses Management override of controls 	Page 6

	Discussion item	Summary	For further reference
g.	Fraud risk	<ul style="list-style-type: none"> We are required to discuss fraud risk annually with the Board. In planning our audit, we have considered the risk of fraud, management's processes for mitigating the risk, and the Board's oversight processes. Our required discussions are covered on page 8. We will discuss this with the Board at year end. 	Page 8
h.	Canadian Auditing Standards	<ul style="list-style-type: none"> Canada is adopting International Standards on Auditing (referred to as Canadian Auditing Standards) effective December 14, 2010. We have included a summary of some of the key differences later in this report. Our audit plan and approach have been updated, as required, to ensure compliance with these new requirements. Canadian Auditing Standards also require us to report to the Board any internal control weaknesses that we believe are significant deficiencies (internal control weaknesses that we feel should be brought to your attention). Any significant deficiencies we identify will be discussed with management and reported to you at year-end. 	Page 11
i.	2010 audit fees	<ul style="list-style-type: none"> Our audit fee for 2010 is \$26,730, as agreed to by the City of Toronto. Our fees are inclusive of out-of-pocket expenses and exclusive of HST. Should we incur additional costs due to changes in the level of effort, or scope changes, we will advise management as soon as possible. 	Page 10

2. Your team

a. Your client service team

Your client service team comprises the following individuals:

Name	Role	Number of years on engagement	Phone number	Email address
Terri McKinnon	Engagement leader	1	416 228 1922	terri.mckinnon@ca.pwc.com
Jonathan Chan	Engagement manager	1	416 218 1489	jonathan.c.chan@ca.pwc.com
Tomas Romita	Senior associate	1	416 941 8383 ext. 25443	tomas.c.romita@ca.pwc.com

3. Scope of our services

a. Our audit objectives

As the Library's auditor, our primary responsibility is to form and express an opinion on the Library's financial statements for the year ending December 31, 2010. The financial statements are prepared by management with the oversight of those charged with governance (The Board). An audit of the financial statements does not relieve management or the Board of its responsibilities.

We conduct our audit in accordance with Canadian Auditing Standards, which are the same as International Standards on Auditing.

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In addition, we are committed to being a trusted advisor to management and to the Board. Where appropriate, we will discuss industry standards, provide management our views and insights and also advise management of other services we feel could be helpful—at all times staying within the realms of our independence rules.

b. Engagement terms

Our engagement letter (included in Appendix A), which has been signed by the City of Toronto, sets out the terms and conditions for our engagement as the independent auditor of the Library for the year ending December 31, 2010, through to 2014.

In addition, our engagement letter outlines our responsibilities as the auditor and the responsibilities of management.

c. Our service deliverables

Our audit and audit related service deliverables with respect to 2010 are:

	Audit and audit related services	Timing/status	The Board approval
Audit opinion	<ul style="list-style-type: none"> • Audit of financial statements for the Library 	<ul style="list-style-type: none"> • April 2011 	<ul style="list-style-type: none"> • To be approved at your meeting on May 9, 2011
Audit report	<ul style="list-style-type: none"> • Key findings (particularly regarding significant estimates, transactions, accounting policies and disclosures). • Any significant deficiencies identified in internal controls • Provide a confirmation of our independence 	<ul style="list-style-type: none"> • May 9, 2011 	<ul style="list-style-type: none"> • N/A

4. When will we do the audit?

a. Audit timeline

Working with management, we have developed the following project timeline, which is consistent with the Library's regulatory and filing requirements.

Audit planning	
Provide audit plan to the Board	December 20, 2010
Audit	
Interim audit visits	November 1 to 12, 2010
Year-end audit	February 28 to March 19, 2011
Clearance meeting with management and PwC	April 2011
Board meeting with presentation of audited financial statements	May 9, 2011

5. How will we do the audit?

a. Our audit approach

Our audit approach is designed to allow us to execute a quality and efficient audit. We do this by:

- i. Gaining an understanding of the Library - focusing on new developments and key business issues affecting the Library as well as management's monitoring of controls and business processes
- ii. Identifying significant audit risks and ensuring our audit is tailored to these risks
- iii. Using well-reasoned professional judgment, especially, in areas that are subjective or require estimates
- iv. Leveraging reliance where possible on the Library's internal controls and information technology and data systems. Our approach will, therefore, include a mixture of key controls reliance, substantive analytics and detailed testing.

Our understanding of the business also drives our assessment of materiality and the identification of audit risks.

Throughout the audit, we scale our work based on the size of an account balance, its complexity and its impact on the financial statements. As a result, you will always hear us talking to you about the key issues.

b. Risk analysis

Significant risks are those risks of material misstatement that, in our judgment, require special audit consideration. We have identified the following significant audit risks and other risks, including business risks with a potential audit impact, as part of our planning process.

These risks were identified based on discussions with management, our knowledge of the business and current developments in your industry and the economy.

They are the key risks from our perspective. We request your input on the following significant risks and whether there are any other areas of concern that the Board has identified.

Risk area (including key judgments and estimates)	Management's response	Our audit approach
Risk of management override of controls	All non-routine journal entries are reviewed and approved by the appropriate level of management.	<p>We will review manual journal entries focusing on large and unusual entries.</p> <p>We will review accounting estimates for biases that could result in material misstatement due to fraud.</p> <p>We will incorporate unpredictable procedures in the audit.</p>
Overstatement of accruals and expenses	<p>Accruals are looked at closely during period end to ensure proper cut off.</p> <p>Management prepares quarterly reports of actual-to-budget, with significant or unusual variances investigated and presented to the Board.</p>	We will review the nature of expenses/accruals to ensure they are accurate and properly exist, and included in the correct period.
Valuation of employee future benefits	The Library relies on a third party valuation expert, Buck Consultants, to value the employee future benefits.	<p>We will obtain confirmation of valuation from Buck Consultants.</p> <p>We will consult with our internal Actuarial group to ensure that the discount rates and assumptions used in the valuation are appropriate.</p>

c. Materiality

Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users, taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

We have set our preliminary materiality for the audit as follows:

	Basis	Amount
Overall materiality ¹ :	1% of total expenses	\$1,928,000
Unadjusted and adjusted items in excess of this amount will be reported to the Board	5% of overall materiality	\$96,400

d. Discussion on fraud risk

Canadian Auditing Standards require us to discuss fraud risk annually with the Board. We understand that part of your governance role is also to consider the fraud risks facing the Library and the responses to those risks. We will have this discussion as part of our year end meeting.

Question 1:

Required discussion:

- Through our planning process (and prior years' audits), we have developed an understanding of your oversight processes including:
 - Conflict of Interest Policy
 - Financial Control Policy
 - Other Financial Control Policies
 - Discussion at the Board meetings and auditor attendance at those meetings
 - Signing authority levels
 - Presentations by management, including business performance reviews
- Are there any new processes or changes to the above that we should be aware of?

¹ Our materiality calculation is based on current forecasted results; should there be a significant change, we will communicate changes to the Board at year-end.

Question 2

Required discussion:

- We are not aware of any fraud at the current time.
- We would like to ask whether you are aware of instances of actual, suspected or alleged fraud affecting the entity.

An auditor's responsibilities for detecting fraud

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During our audit, we will perform the following procedures in order to fulfill our responsibilities:

- inquiries of management, the Board and others related to any knowledge of fraud or suspected fraud;
- consider unusual or unexpected relationships identified in planning the audit;
- incorporate an element of unpredictability in the selection of the nature, timing and extent of our audit procedures;
- perform additional required procedures to address the risk of management's override of controls, including:
 - testing internal controls designed to prevent and detect fraud;
 - examine journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
 - review accounting estimates for biases that could result in material misstatement due to fraud; and
 - evaluate the business rationale of significant unusual transactions.

6. Our fees

Our estimated fees are based on the expected time required to complete the audit. Our fees are exclusive of taxes and inclusive of out-of-pocket costs, as outlined in our engagement letter.

Our fees for 2010 will be as follows:

Service description	Fees 2010 \$
Audit of the annual financial statements	26,730 (excluding HST)

Should we incur additional costs due to changes in the level of effort or scope changes, we will advise management as soon as possible.

7. What's new?

a. Canadian Auditing Standards

Canada is adopting International Standards on Auditing (ISA) as Canadian Auditing Standards for the audits of financial statements and other historical financial information. Canadian Auditing Standards will come into effect for fiscal periods ending on or after December 14, 2010.

Key changes include:

- There are approximately one third more requirements that apply to single entity audits and a number of new requirements that apply to group audits. About half of the new requirements result from clarification of the existing guidance and half relate to new requirements designed to improve audit quality (although many are conditional on the prevailing facts and circumstances).
- Additional procedures will be required in the areas of auditing estimates and related party transactions and, to a lesser extent in other areas, for example - group audits, and where auditor's experts are used.
- The structure and wording of this report will change. In addition, under current standards, it is very rare that an auditor's report contains an emphasis of matter or other matter paragraph. Under Canadian Auditing Standards, these additional paragraphs are required when there is a material uncertainty related to a going concern, another significant uncertainty or an unusual item, if there is a restatement of the prior period, or when there is a restriction on use of the financial statements. We have included an example of an auditor's report under Canadian Auditing Standards in Appendix B.
- There is increased emphasis on appropriate and timely communications with management and those charged with governance to help you understand and respond to our audit findings. There are new requirements, in particular, to communicate significant deficiencies in internal control (not just material weaknesses) and evaluate the adequacy of two-way communications. Our The Board report templates have been revised to address these matters.

We have assessed the impact of these changes on our audit of the Library and they are reflected in our audit plan and estimated fees for the current year.

b. Public Sector Accounting (PSA) Standards

Projects in progress for PSAB are as follows:

- Amalgamation and government restructuring – A project was approved in March 2009 to issue an accounting standard that addresses the definition and classification of amalgamation and restructuring activities; the recognition criteria and accounting treatment of various elements of the amalgamation and restructuring transaction; the measurement basis of assets and liabilities involved; and the disclosure requirements unique to amalgamation and restructuring. An exposure draft is expected to be approved and issued in September 2011.
- Assets – Section PS 3200 addresses the basic concepts and key terms in the definition of liabilities with further guidance, examples and indicators. It also establishes the recognition and disclosure standards for liabilities. Similar standards on assets would be useful not only for financial statement preparers and auditors in application and interpretation of the definition of assets, but also for the development of future standards on specific assets. The objective of this project is to provide guidance relating to the key terms in the definition and essential characteristics of assets, define contingent assets and contractual rights, provide recognition and derecognition criteria for assets and contingent assets, provide guidance on the measurement of assets and contingent assets (including impairments) and provide guidance on the disclosure of assets, contingent assets and contractual rights. PSAB

approved the project proposal in June 2009 and a statement of principles is expected to be approved in June 2011.

- Related Party Transactions – PSAB approved a project proposal in September 2010 to issue a new accounting standard covering related party transactions. The objectives of the project is to define a related party in the context of government and government organizations; describe the disclosures required for related parties and related party transactions; and address recognition and disclosure appropriations. A statement of principles is expected to be approved in December 2010.

Appendix A: Engagement letter

November 1, 2010

Mr. Jeffrey Griffiths
Auditor General
City of Toronto, Metro Hall
55 John Street, 9th Floor
Toronto, Ontario, M5V 3C6

Dear Mr. Griffiths:

PricewaterhouseCoopers LLP (PricewaterhouseCoopers or we), a limited liability partnership organized under the laws of the Province of Ontario, is pleased to be appointed auditors of the City of Toronto and its major agencies, boards, commissions and other entities listed in the "Annual Financial Statement and Other Reports" section of this engagement letter (collectively, the City), for the years ending December 31, 2010, 2011, 2012, 2013 and 2014. The purpose of this engagement letter is to confirm our mutual understanding of the specific terms and conditions of our engagement, which terms and conditions are supplemented by our standard terms and conditions set out in the Appendix attached to this letter. Should there be any conflict between our standard terms and conditions and the specific terms and conditions set out in this letter, specific terms and conditions shall apply.

Audit Services and Related Reports

We will provide the following services (the Audit Services):

Annual Financial Statement and Other Reports We will audit the City's financial statements and issue other reports, as outlined in the request for proposal 9171-09-7137 for external audit services dated November 3, 2009 for the engagements listed below as at December 31, 2010, 2011, 2012, 2013 and 2014 and for the years then ending, prepared in accordance with Canadian generally accepted accounting principles.

For the pension fund audits other than the Toronto Transit Commission Pension Fund Society, we will audit the statement of net assets available for benefits and the related statement of changes in net assets available for benefits in accordance with the basis of accounting disclosed in the notes to the financial statements. These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of management and the administrator of the funds and the Financial Services Commission of Ontario for complying with Section 76 of Regulation 909 of the Pension Benefits Act of the Province of Ontario (the Act). These financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose. These financial statements have been prepared by management and/or the administrator.

1. Consolidated Financial Statements of the City of Toronto.
2. Consolidated Financial Statements of the City of Toronto Trust Funds.
3. City of Toronto Sinking Funds.
4. City of Toronto – Report on Compliance with Investment Policy.
5. City of Toronto – Report on Compliance with Agreement for the Transfer of Federal Gas Tax Revenue and Annual Expenditure Report.
6. City of Toronto – Report on Compliance with the Building Canada Fund Contribution Agreement for the Toronto-York Spadina Subway Extension and Report on accounts, records, claims and expenditures incurred under this Agreement.
7. Long-term Care Homes and Services – Residents' Interest Trust Fund.
8. Long-term Care Homes – Annual Reconciliation Reports (10 as listed below):

- (a) Bendal Acres;
- (b) Carefree Lodge;
- (c) Castleview Wychwood Towers;
- (d) Cummer Lodge;
- (e) Fudger House;
- (f) Kipling Acres;
- (g) Lakeshore Lodge;
- (h) Seven Oaks;
- (i) True Davidson Acres; and
- (j) Wesburn Manor.
- 9. The Toronto Track and Field Centre – Statement of Operating Costs.
- 10. Toronto Community Housing Corporation:
 - (a) Toronto Community Housing Corporation; and
 - (b) Housing Services Inc.
- 11. Toronto Economic Development Corporation
- 12. Toronto Parking Authority:
 - (a) Toronto Parking Authority; and
 - (b) Toronto Parking Authority Carpark No. 161 – St. Clair-Yonge Garage – Statement of Operations.
- 13. Toronto Police Services Board Special Fund – Section 9110 Report.
- 14. Toronto Public Health – Specified procedures in connection with various Settlements of Toronto Public Health programs (7 as listed below):
 - (a) Toronto Board of Health Cost Shared Programs;
 - (b) Settlement of AIDS Bureau Program and Statement of Revenue & Expenditures – Toronto Public Health – AIDS Bureau Program;
 - (c) Blind Low Vision;
 - (d) Healthy Babies Healthy Children Program;
 - (e) Infant Hearing Program;
 - (f) Preschool Speech and Language Program; and
 - (g) Smoke Free Ontario (if applicable).
- 15. Toronto Public Library Board.
- 16. Toronto Public Library Foundation.
- 17. Consolidated Financial Statements of the Board of Governors of Exhibition Place.
- 18. Canadian National Exhibition Association.
- 19. Canadian National Exhibition Foundation.
- 20. The Sony Centre for the Performing Arts.
- 21. St. Lawrence Centre for the Arts.
- 22. Toronto Centre for the Arts.
- 23. Board of Management of the Toronto Zoo.
- 24. Consolidated Financial Statements for the Toronto Transit Commission.
- 25. Toronto Coach Terminal Inc.
- 26. TTC Insurance Company Limited.
- 27. The Pension Fund of the Corporation of the City of York Employee Pension Plan.
- 28. The Fund of the Metropolitan Toronto Pension Plan.
- 29. The Fund of the Metropolitan Toronto Police Benefit Fund.
- 30. The Fund of the Toronto Civic Employees' Pension and Benefit Fund.
- 31. The Fund of the Toronto Fire Department Superannuation and Benefit Fund.
- 32. Toronto Transit Commission Pension Fund Society.
- 33. Toronto Transit Commission Sick Benefit Association.

Reports

Upon completion of our annual audits, we will provide the City with our reports on the work referred to above. The form and content of our audit reports will be in accordance with Canadian Audit Standard (CAS) 700 / CICA 5400. For the pension fund audits other than the Toronto Transit Commission Pension Fund Society, the form and content of our reports will be in accordance with CAS 800/CICA5600. There may be circumstances where our reports may differ from the expected form and content and if, for any reasons caused by or relating to the affairs or management of the City, we are unable to complete our audits, we may decline to issue our reports.

Our Responsibilities

Annual Financial Statement Audit

The objective of a financial statement audit is the expression of an opinion on the financial statements. We will be responsible for performing the audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform the audit to attain reasonable assurance whether the financial statements are free of material misstatement. The audits will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Other Reporting Responsibilities

Our responsibility as auditors of the TTC Insurance Company Limited (TTC Insurance Co.) is also to report to the Financial Services Commission of Ontario (FSCO) whether certain statements and notes in the TTC Insurance Co.'s Annual Return P&C-1 to FSCO at December 31, 2010, 2011, 2012, 2013 and 2014 present fairly, in all material respects, the TTC Insurance Co.'s financial position, results of operations and changes in cash flows in accordance with Canadian generally accepted accounting principles.

Internal Control, Fraud and Error

We will obtain an understanding of the City's internal control over financial reporting solely for the purpose of identifying types of potential misstatements, considering factors that affect the risks of material misstatements and determining the nature, timing and extent of auditing procedures necessary for expressing our opinions on these financial statements. This understanding will not be sufficient to enable us to render our opinions on the effectiveness of internal control over financial reporting, or to consider whether internal control is adequate for management's purposes, nor to identify all significant weaknesses in the City's system of internal financial controls. However, we will inform the appropriate level of management, the Auditor General and the Audit Committee of any significant weaknesses in internal control that come to our attention. Such communications are derivative in nature, and we do not design procedures for the principal purpose of identifying such matters.

Because of the inherent limitations of internal control over financial reporting, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected.

We will design our audits to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on these financial statements as well as other illegal acts having a direct and material effect on these financial statement amounts. Our audits will not include a detailed audit of transactions, such as would be necessary to disclose errors or fraud that did not cause a material misstatement of the financial statements.

It is important to recognize that there are inherent limitations in the auditing process such as: (i) the use of selective testing of the data underlying these financial statements, which involves judgment regarding the areas to be tested and the nature, timing, extent and results of the tests to be performed; (ii) the inherent limitation of internal control; and (iii) the fact that most audit evidence is persuasive rather than conclusive. Audits are, therefore, subject to the limitation that material errors or fraud or other illegal acts having a direct and material financial statement impact, if any exist, may not be detected. Because of the characteristics of fraud, particularly those involving concealment through collusion, falsified documentation and management's ability to override controls, 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 errors, fraud or other illegal acts will occur and remain undetected, it does not eliminate that possibility. For these reasons, we cannot ensure that errors, fraud or other illegal acts, if present, will be detected. However, we will communicate to the Auditor General, Audit Committee and management of the City, as appropriate, any such matters identified during our audits.

Independence	We are required to be, and to remain, independent with respect to the City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.
Informing the Audit Committee and the Auditor General	We also are responsible for determining that the Audit Committee and the Auditor General are informed about certain other matters related to the conduct of our audits, including but not limited to: (i) any disagreements with management about matters that could be significant to the City's financial statements or our reports thereon; (ii) any serious difficulties encountered in performing the audits; (iii) information relating to our independence with respect to the City; and (iv) other matters related to the City's financial statements including its accounting policies and practices.
Reliance by Third Parties	The Audit Services will not be planned or conducted in contemplation of reliance by any specific third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

Management's Responsibilities

Responsible for Financial Statements and Internal Control	<p>The City's management is responsible for the preparation and fair presentation of these financial statements and information referred to above. Management is also responsible for establishing and maintaining an effective system of internal control over financial reporting to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error. In this regard, management is responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets, the proper recording of transactions in the accounting systems and records, and for reporting financial information in conformity with Canadian generally accepted accounting principles.</p> <p>If management engages us to translate these financial statements or other documents referred to above from one language to another, management is responsible for the translated documents.</p>
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Correction of Errors	Management is responsible for adjusting these financial statements to correct material misstatements and for affirming to us that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the year under audit are immaterial, both individually and in the aggregate, to these financial statements taken as a whole. In addition, we expect management will correct all known non-trivial errors.
Prevention and Detection of Fraud	Management also is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us: (i) of the risk that these financial statements may be materially misstated as a result of fraud; (ii) about all known or suspected fraud affecting the City involving (a) management, (b) employees who have significant roles in internal control over financial reporting and (c) others where the fraud could have a non-trivial effect on these financial statements; and (iii) of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, investors or others.
Laws and Regulations	Management is responsible for identifying and ensuring that the City complies with the laws and regulations applicable to its activities. Management will make available to us information relating to any illegal or possibly, illegal acts, and all facts related thereto and will provide information to us relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements.
Providing Information on a Timely Basis	Management is responsible for making available to us, on a timely basis, all of the City's original accounting records and related information and the City's personnel to whom we may direct inquiries.
Management Representation Letter	<p>We will make specific inquiries of management and others about the representations embodied in the annual financial statements.</p> <p>Management of the City will provide us with its written representations covering the annual financial statements from certain members of management on matters that are: (i) directly related to items that are material, either individually or in the aggregate, to these financial statements; (ii) not directly related to items that are material to these financial statements but are significant, either individually or in the aggregate, to the engagement; and (iii) relevant to management's judgments or estimates that are material, either individually or in the aggregate, to these financial statements. The results of our tests, the responses to our inquiries and the written representations obtained will comprise the evidential matter we intend to rely on in forming our audit opinions on these financial statements.</p>
Previous Auditors	To assist us in planning our audits, the City will authorize its previous auditors, Ernst & Young LLP, to allow us to review their working papers and to respond fully to our inquiries.

Fees for Audit Services

Fee Estimate	Our fees for the Audit Services as outlined in 3.0, Scope of Work, and in 5.3 Section 7, Cost of Service, of the City's request for proposal No. 9171-09-7137(RFP) will be \$750,000 in 2010, \$750,000 in 2011, \$805,000 in 2012, \$860,000 in 2013 and \$920,000 in 2014. These are fixed fees inclusive of all costs and expenses, but exclusive of applicable taxes. Fees are allocated to the City engagements as outlined in Appendix D of the RFP.
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Other Matters

City Preparation	Our time and fee estimates take into account the agreed upon level of preparation and assistance from the City's personnel. We will advise you on a timely basis when and if for any reason management does not provide such schedules, information and assistance as outlined in this letter and in the City's Responsibility section of the Appendix. In addition, should these or any other issues arise that will require an extra effort to resolve, we will communicate with management, the Auditor General and the Audit Committee in order to revise the fee estimate to reflect additional services, if any, required of us to complete our work.
Term – Agreement Continues in Force	In the event PricewaterhouseCoopers or the City does not exercise its respective rights to terminate the Agreement provided for herein, the Agreement shall continue in full force and effect for the year ending December 31, 2015 until such time as the Agreement is superseded or replaced by another agreement executed between PricewaterhouseCoopers and the City. It is understood by PricewaterhouseCoopers and the City that a specific agreement will be entered into with respect to audit and related services PricewaterhouseCoopers is to provide in each year, including an update to the agreed upon fees and billing schedule.
Termination by PricewaterhouseCoopers	Upon the completion of the services described in this letter for the year ending December 31, 2014, PricewaterhouseCoopers shall have the right to terminate the Agreement upon providing the City with ten (10) days' prior written notice and the City shall pay all fees for services provided by PricewaterhouseCoopers to the satisfaction of the City and in accordance with the Terms and Conditions of the Agreement up to the date of termination.
Termination by the City	The City shall have the right to terminate the Agreement upon providing PricewaterhouseCoopers with ten (10) days' prior written notice. In the event of termination by the City in accordance with this provision, the City shall pay PricewaterhouseCoopers for all fees for services provided to the satisfaction of the City prior to receipt of notice of termination.
Terms and Conditions	The Appendix sets forth additional terms and conditions, including rights and responsibilities of the parties with respect to this engagement.
Other relevant documents	<p>The terms and conditions contained in the RFP No. 9171-09-7137 and the Proposal by PricewaterhouseCoopers in response to RFP No. 9171-09-7137 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:</p> <ol style="list-style-type: none"> 1. The Engagement letter; 2. The Terms and Conditions to the engagement letter; 3. Request for Proposal No. 9171-09-7137; and 4. The Proposal by PricewaterhouseCoopers referred to above.

As part of PricewaterhouseCoopers' process of assessing the quality of its services, the City may receive questionnaires from PricewaterhouseCoopers and visits from senior partners not directly involved in providing services to the City. PricewaterhouseCoopers appreciates the attention given to these questionnaires and visits and values the City's commentary.

If the services outlined herein are in accordance with your requirements and if the above terms are acceptable, please have one copy of this letter executed in the spaces provided below and return it to us.



Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants

cc: Ms. Ulli S. Watkiss, City Clerk
Mr. Cam Weldon, Deputy City Manager and Chief Financial Officer



The services and terms as set forth in this letter, including the provisions of the Appendix, are agreed to.

City of Toronto

Marilyn M. Toft
for Ulli S. Watkiss
City Clerk

Ulli S. Watkiss, City Clerk

Authorized by item AU15.3. of the Audit
Committee adopted by the Council of the
City of Toronto on the 22nd and 23rd day of
February, 2010.

Marilyn M. Toft for City Clerk

Date

G. CARBONE FOR
Cam Weldon, Deputy City Manager and
Chief Financial Officer

Date

PRICEWATERHOUSECOOPERS LLP

Name: Cathy Russell
Title: Partner

Nov 3, 2010
Date

I have authority to bind the partnership

APPROVED AS TO FORM

For Anna Kinastowski
City Solicitor

APPENDIX

TERMS AND CONDITIONS

The engagement letter and any amendments thereto (collectively, the Engagement Letter), together with the Appendix (the Appendix), (collectively, the Agreement), shall, once the Engagement Letter is executed by both parties, constitute the entire agreement between the City of Toronto (City) to which such Engagement Letter is addressed (the City) and PricewaterhouseCoopers LLP (PricewaterhouseCoopers), a limited liability partnership organized under the laws of the Province of Ontario, regarding the services described in the Agreement (the Services). Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Engagement Letter.

Timely Performance

- 1 In consultation with the City, PricewaterhouseCoopers will, acting reasonably, establish the timing of the performance of the Services. PricewaterhouseCoopers will use all reasonable efforts to complete the Services within any agreed upon time frame. However, PricewaterhouseCoopers shall not be liable for failures or delays in performance that arise from causes beyond its control, including the untimely performance by the City of its obligations, as set out in the City's Responsibility section below.

Right to Terminate Services

- 2 In addition to the termination rights contemplated under the Engagement Letter, should the City not fulfill its responsibilities to PricewaterhouseCoopers under the Agreement and, in the event that the City fails to remedy such default within thirty (30) days, or such extended period of time as the parties may agree to, following receipt of a notice from PricewaterhouseCoopers to this effect, PricewaterhouseCoopers may, without prejudice to its other rights and recourses, and without any further notice, cease providing the Services and consider the Agreement terminated. In such case, PricewaterhouseCoopers will not be responsible for any action, claim, liability, loss, damage, cost or expenses arising out of, in connection with or resulting from such termination.
- 3 In addition to the termination rights contemplated under the Engagement Letter, should PricewaterhouseCoopers not fulfill its responsibilities to the City under the Agreement and, in the event that PricewaterhouseCoopers fails to remedy such default within thirty (30) days, or such extended period of time as the parties may agree to, following receipt of a notice from the City to this effect, the City may, without prejudice to its other rights and recourses, and without any further notice, terminate the Agreement. Despite such termination the City shall provide payment for fees involved by PricewaterhouseCoopers for services performed to the satisfaction of the City prior to the date of termination. In such case, PricewaterhouseCoopers will not be responsible for any action, claim, liability, loss, damage, cost of expense arising out of, in connection with or resulting from such termination.

City's Responsibility

- 4 The City will provide and make available complete information and such other assistance as PricewaterhouseCoopers may require to enable PricewaterhouseCoopers to provide the Services. Such information will include, but not be limited to:
 - a) financial records and related data;
 - b) copies of all minutes of meetings of City council and other committees;
 - c) a schedule of all entities that are controlled by the City, those entities over which the City has significant influence and those entities that are under common control with the City (the Schedule of Group Structure);
 - d) a schedule of all other related parties as defined in The Canadian Institute of Chartered Accountants' Handbook Section 3840, "Related Party Transactions" (the Other Schedule), which will include, but not be limited to, directors, officers, senior members of management, immediate family members of such individuals and entities over which these individuals or entities are able to exert significant influence;
 - e) a schedule of all the transactions among the City, the entities referred to in the Schedule of Group Structure and the entities or individuals referred to in the Other Schedule during the reporting period; and
 - f) information relating to the recognition, measurement and disclosure of specific items, including, but not limited to:
 - i) an assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the financial statements;
 - ii) any plans or intentions that may affect the carrying value or classification of assets or liabilities;
 - iii) measurement and disclosure of transactions with related parties;
 - iv) an assessment of all areas of measurement uncertainty known to management
 - v) claims and possible claims, whether or not they have been discussed with the City's legal counsel;
 - vi) 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;
 - vii) information on whether the City has satisfactory title to assets;
 - viii) information on whether any liens or encumbrances on assets exist;
 - ix) information on whether any assets are pledged as collateral;
 - x) information relating to compliance with aspects of contractual agreements that may affect these financial statements; and
 - xi) information concerning subsequent events.

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TERMS AND CONDITIONS

- 5 The City will ensure that its staff and senior management are available to provide such information, materials and assistance, and that such City personnel will be qualified and have the appropriate skills and experience. If any of the City's personnel fail to perform as required, the City will make suitable additional or alternative personnel available.
- 6 The City will ensure timely communication to PricewaterhouseCoopers of all significant accounting, financial and internal control reporting matters.
- 7 The City will provide the Schedule of Group Structure to PricewaterhouseCoopers at the time of signing the Agreement and will notify PricewaterhouseCoopers of changes thereto within seven (7) days of such events occurring.
- 8 The City agrees that all information disclosed or to be disclosed to PricewaterhouseCoopers is or will, to the best of the City's knowledge, be true, accurate and not misleading in any material respect.
- 9 The City will maintain the existing quality of the City's accounting records during the engagement.
- 10 The City will provide PricewaterhouseCoopers and its staff with all office and other accommodation or workspace and facilities that PricewaterhouseCoopers may reasonably require to perform the Services.
- 11 The City will provide all schedules on the dates established by PricewaterhouseCoopers, acting reasonably and in consultation with the City. Schedules will be completed in an acceptable format, mathematically correct and in agreement with appropriate City records (e.g., general ledger accounts).
- 12 The City's personnel will provide all necessary assistance in obtaining timely responses to third party confirmation requests.
- 13 The City's personnel will prepare a trial balance in financial statement format, which will reference to supporting detailed working papers (by general ledger account number). All entries will be posted to this trial balance prior to PricewaterhouseCoopers' receiving it. Any post-closing entries will be minimal and posted to a final trial balance by the City's personnel. In addition, the City's personnel will prepare draft financial statements that agree with the trial balance and are internally referenced to supporting documentation (for cash flow statements and notes to the financial statements).
- 14 PricewaterhouseCoopers' performance of the Services is dependent on the City carrying out its responsibilities, as set out in this Agreement. PricewaterhouseCoopers shall not be responsible for any delay or any other consequences resulting from the City's failure to perform any of its obligations under this Agreement.
- 15 It is the City's responsibility to ensure that these financial statements, the auditors' report and other information in public documents that contain or incorporate by reference either full or summarized financial statements that we audited are accurately reproduced from the original.
- 16 The City agrees not to offer and not to permit its related parties to offer employment to or hire the lead engagement partner, the quality review partner (if such partner is involved in the provision of the Services) or any other PricewaterhouseCoopers person who provided more than ten (10) hours of audit, review or attest service, without first consulting with the lead engagement partner on any proposed offer of employment.

Electronic Mail (email) Communications

- 17 During the engagement, we may from time to time communicate electronically with each other. However, as the City is aware, the electronic transmission of information cannot be guaranteed to be secure or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We shall not have any liability to each other arising from or in connection with the electronic communication of information to or from the City during or as a result of its electronic transmission outside of our electronic environments. If the communication relates to a matter of significance and there are concerns about possible effects of electronic transmission, such information should be restricted to hard copy transmission.
- 18 An electronic communication shall be of no legal effect until received and shall be deemed sent by the sender and received by the addressee when accessible at the email address provided to the sender by the addressee. The electronic signature of a party affixed to, associated with or contained in any electronic communication transmitted by the party shall constitute a valid reliable electronic signature and shall be sufficient to verify that such party signed the electronic communication and its content and had the authority to electronically sign and send the electronic communication and its content. This Agreement and any Schedule may be executed in counterparts, by fax or electronic communication, each of which is deemed to be an original and all of which together are deemed to be one and the same instrument.
- 19 The City approves that PricewaterhouseCoopers' staff may connect their PricewaterhouseCoopers' notebooks to the City's network to access the Internet and use PricewaterhouseCoopers' secure VPN utility to communicate directly with the PricewaterhouseCoopers network.

Personal Information Protection

- 20 The City hereby acknowledges and agrees that: (1) the City shall only provide PwC with access to, and PwC will otherwise collect, use and disclose, personal information (as defined in the applicable law) about the City and/or individuals in respect to whom the City collects, uses, holds or discloses personal information, as required to provide the services and deliverables hereunder (the Purposes); (2) the City has obtained all required consents, if any, for such activities, and shall otherwise disclose, transfer or grant access to such personal information only in compliance with applicable legislation regarding the protection of personal information; and (3) in addition to any other liability for breach of these Standard Terms and Conditions, the City shall indemnify and hold PwC, its partners, employees, authorized representatives and associated entities, harmless for any claim, demand, debt,

APPENDIX

TERMS AND CONDITIONS

action, or liability to any third party, including legal costs and disbursements, arising out of or in respect of any breach of the City's obligations under this paragraph. Subject to (2) above, PwC agrees that it will receive, collect, use, hold and disclose such personal information in compliance with all applicable legislation regarding the protection of personal information. Further, PricewaterhouseCoopers shall, upon demand, indemnify the City and its employees for any damages finally awarded as a result of any claim, demand, debt, action or liability to City or any City employee arising out of or in respect of any breach by PricewaterhouseCoopers of this Section with respect to personal information of the City's employees in connection with the Purposes, other than to the extent resulting from a breach by the City of this Section. The City further recognizes that PwC may send personal information outside of the country for the Purposes, including for process and storage by service providers, and that to the extent that any personal information is out of the country, it is subject to access by the regulatory authorities in, and to the laws of, those other jurisdictions

Fees and Payment

- 21 Fees quoted by PricewaterhouseCoopers are based on the assumption that there are:
- a) no significant new accounting issues that require a significant additional amount of time to resolve, other than as contemplated in the original fee estimate and outlined in 3.0, Scope of Work, of the RFP;
 - b) no significant changes in accounting policies or practices from those used in prior years, that could significantly impact the audit scope other than as contemplated in the original fee estimate and outlined in 3.0, Scope of Work, of the RFP ;
 - c) no significant changes or transactions that will occur prior to issuance of our report and that could significantly impact the audit scope assumed in the original fee estimate and outlined in 3.0, Scope of Work, of the RFP; and
 - d) no material delays in providing PricewaterhouseCoopers with the information, assistance or resources required under this Agreement.
- 22 PricewaterhouseCoopers will render invoices as the work progresses. All invoices will be due for payment upon receipt.
- 23 In addition to its fees payable pursuant to this Agreement, PricewaterhouseCoopers will bill the City for all applicable taxes, whether presently in force or imposed in the future.

Indemnification for Misrepresentation by Management

- 24 The City hereby agrees to release and indemnify PricewaterhouseCoopers and its agents, partners and employees, and hold them harmless from all claims, liabilities, losses and costs arising in circumstances where there has been a misrepresentation by a member of the City's management, regardless of whether such person was acting in the City's interest. This release and indemnification and holding harmless will not operate where PricewaterhouseCoopers ought to have uncovered such misrepresentation but failed to, due to the negligence, wilful misconduct or dishonesty of PricewaterhouseCoopers, its partners and/or employees.

Working Papers

- 25 All working papers and files, methodologies, software, other materials, reports and work created, developed or performed by or for PricewaterhouseCoopers either before or during the course of performance of the Services, are the property of PricewaterhouseCoopers.

Reproduction of Financial Statements

- 26 With the exception of the publication requirements outlined in Sections 232,233,234, and 235 of the City of Toronto Act 2006, if the City intends to publish or reproduce, in printed form or electronically (e.g. on an internet web site), our Audit Reports together with these financial statements or otherwise make reference to PricewaterhouseCoopers in a document that contains other information, the City agrees to (a) provide us with a draft of such document to read, and (b) obtain our approval for inclusion of our Audit Reports, before the document is finalized and distributed. Where our Audit Reports are reproduced in any medium, the complete financial statements, including notes, must also be presented.

Confidential Information

- 27 PricewaterhouseCoopers agrees that all information received from the City, or otherwise learned by PricewaterhouseCoopers, during the course of the engagement is confidential information (Confidential Information). PricewaterhouseCoopers shall use the City's Confidential Information only for the purposes contemplated under the Agreement and shall not disclose such Confidential Information to any party without the City's prior written consent, provided that PricewaterhouseCoopers may disclose the City's Confidential Information to its partners, authorized representatives, subcontractors and employees (collectively, the PwC Authorized Personnel) on a need-to-know basis in connection with this Agreement as well as to those referred to in paragraphs 34, 35 and 37 of the Terms and Conditions of this Agreement. PricewaterhouseCoopers agrees to take measures to protect the confidentiality of the City's Confidential Information that, in the aggregate, are no less protective than those measures it uses to protect the confidentiality of its own confidential information. PricewaterhouseCoopers agrees to keep the City's Confidential Information in a reasonably secure location.

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- 28 Notwithstanding anything to the contrary contained in this Agreement, PricewaterhouseCoopers shall not be obligated to treat as confidential, or otherwise be subject to the restrictions on use, disclosure or treatment contained in this Agreement, any information disclosed by the City which:
- a) is rightfully known to PricewaterhouseCoopers on a non-confidential basis prior to its disclosure by the City;
 - b) is independently developed by PricewaterhouseCoopers without any reference to, use of, or reliance on, Confidential Information;
 - c) is or later becomes publicly available without violation of this Agreement; or
 - d) is lawfully obtained by PricewaterhouseCoopers from another party.

Assisting Firms

- 29 PricewaterhouseCoopers is member of a worldwide network of individual partnerships and companies, each of which is a separate legal entity. This Agreement is between the City and PricewaterhouseCoopers only. In the course of providing our Services we may, at our discretion, draw on the resources of another entity (whether or not incorporated) which carries on business under a name which includes all or part of the PricewaterhouseCoopers name or is otherwise within (or associated or connected with an entity within) or is a correspondent firm of the worldwide network of PricewaterhouseCoopers firms (together, including such entities' partners, members and employees, "PwC Affiliates").
- 30 Unless a PwC Affiliate is contracted by you or a group entity to provide any of the Services which are subject to this Agreement, provision of the Services remains the responsibility of PricewaterhouseCoopers alone and you will not bring any claim, whether in contract, tort (including negligence) or otherwise against any PwC Affiliate in respect of this Agreement or the Services. In these circumstances any PwC Affiliate who deals with you in the course of providing the Services does so on behalf of PricewaterhouseCoopers alone. The provisions of this clause have been stipulated by PricewaterhouseCoopers expressly for the benefit of PwC Affiliates. PwC Affiliates will have the right to rely on this clause as if they were parties to this Agreement and will have the right (subject to the discretion of the courts) to a stay in proceedings if you bring any claim against any PwC Affiliate in breach of this clause.

Consent to Production

- 31 PricewaterhouseCoopers, like other auditing and accounting firms, must, in conducting audits, meet professional standards and, as such, is regulated or overseen by various professional bodies, including various provincial Institutes of Chartered Accountants and the Ordre des comptables agréés du Québec. In addition, other regulatory or professional authorities (both in Canada and abroad), including the Office of the Superintendent of Financial Institutions and the Investment Industry Regulatory Organization of Canada, among others, have the right to inspect our files, including working papers and other work product relating to the Services (the Documents), to determine if professional standards have been met. The City hereby acknowledges that PricewaterhouseCoopers may from time to time, and in connection with such inspections of PricewaterhouseCoopers, receive requests or orders from such bodies to provide them with information and copies of such Documents. The City hereby consents to PricewaterhouseCoopers providing these Documents without further reference to, or authority from, the City.
- 32 These bodies, among others, may also have the right to conduct investigations of the City, including the Services provided. To the extent practicable, PricewaterhouseCoopers will advise management, the Auditor General and the Audit Committee of the City of any such investigation request or order prior to production of the Documents, except where prohibited by law from doing so. The City will reimburse PricewaterhouseCoopers for its professional time and expenses, as well as the fees and expenses of its counsel, incurred in responding to such an investigation relating to the City.
- 33 Except where production of the Documents is required by the laws of any jurisdiction that govern over the City or PricewaterhouseCoopers, PricewaterhouseCoopers will use all reasonable efforts to refuse access to any document over which the City has expressly informed PricewaterhouseCoopers that the City asserts privilege. The City must mark any document over which the City asserts privilege as "PRIVILEGED". Any legal or other out-of-pocket expense incurred by PricewaterhouseCoopers in asserting privilege on the City's behalf will be charged to the City.
- 34 In the event PricewaterhouseCoopers is requested or authorized by the City or required by government regulation, subpoena or other legal process to produce its Documents or its personnel as witnesses with respect to the Services for the City, the City will, so long as PricewaterhouseCoopers is not a party to the proceeding in which the Documents are sought, reimburse PricewaterhouseCoopers for its professional time and expenses, as well as the fees and expenses of its counsel, incurred in responding to such a request.

Governing Law

- 35 The Agreement shall be governed and construed in accordance with the laws of the Province of Ontario and shall be deemed in all respects to be an Ontario contract. The parties hereby agree to the jurisdiction of the courts of the Province of Ontario with respect to all matters arising under or by virtue of this Agreement.

Severability

- 36 If any of the provisions of this Agreement are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

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TERMS AND CONDITIONS

Other Matters

- 37 The failure of either party to insist on strict performance of the Agreement, or to exercise any option herein, shall not act as a waiver of any right, promise or option, but the same shall continue to be in full force and effect. No waiver of any term or provision or of any breach or default shall be valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any other term or provision or any subsequent breach or default of the same or similar nature.
- 38 The Agreement constitutes the entire agreement of the City and PricewaterhouseCoopers with respect to its subject matter and supersedes and replaces all other prior agreements and understandings, whether written or oral, between the City and PricewaterhouseCoopers, relating to the subject matter. On the termination of this Agreement for any reason including normal expiration, the provisions of this Agreement relating to indemnification shall survive the expiration and termination of this Agreement in addition to any other provision that survives by operation of law or which by its nature is intended to survive. This Agreement may not be modified, amended or superseded except by the City and PricewaterhouseCoopers in writing.
- 39 The City agrees that each engagement with PricewaterhouseCoopers for additional services will be subject to a separate engagement letter and the approval of the City's Audit Committee and City Council.

Appendix B: Draft auditor's report under Canadian Auditing Standards

Independent Auditor's Report (DRAFT)

To the Shareholders of ABC Inc.

We have audited the accompanying financial statements of [ABC Inc.], which comprise the balance sheet[s] as at December 31, 2010 [and 2009] and the statements of income, comprehensive income, retained earnings and cash flows for the year[s] then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit[s]. We conducted our audit[s] in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained [in our audits] is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of [ABC Inc.] as at December 31, 2010 [and 2009] and its results of operations and cash flows for the year[s] then ended in accordance with Canadian generally accepted accounting principles.

[Emphasis of matter or other matter]²

Chartered Accountants³

[Date]

Address⁴

² An emphasis of matter paragraph or other matter paragraph is included where required. Refer to CAS 706 for details. Examples are provided below:

Emphasis of matter:

- Significant uncertainty or unusual item in the financial statements, such as going concern uncertainty
- Early application of an accounting standard that has a pervasive effect on the financial statements
- Restatement of financial statements
- Financial statements prepared in accordance with specified basis of accounting

Other matters:

- Restriction on distribution or use of auditor's report
- Reissuance of financial statements
- Prior periods financial statements audited by a predecessor auditor or not audited

³ For Ontario only, add Licensed Public Accountants

⁴ Include if not on letterhead

www.pwc.com/ca

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