

Toronto Public Library Board

*2012 year-end report
to the Board*

*Prepared as of
May 16, 2013*





May 16, 2013

The Board Members
Toronto Public Library Board

Dear Board Members:

We have substantially completed our audit of the financial statements (the financial statements) of Toronto Public Library Board (the Library) prepared in accordance with Canadian generally accepted accounting principles (GAAP) for the year ended December 31, 2012. We propose to issue an unqualified report on the financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix A.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

We propose to review the key elements of this report at the upcoming meeting and discuss with you our key findings.

We would like to express our sincere thanks to the management and the staff of the organization who have assisted us in carrying out our work and we look forward to our meeting on May 27, 2013. Should you have any questions or concerns prior to the Board meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Terri McKinnon
Partner
Audit and Assurance Group

c.c.: Ms. Jane Pyper, City Librarian
Mr. Larry Hughsam, Director of Finance and Treasurer

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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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. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express an opinion on any individual item or accounting estimate.

1. *Executive summary*

a. Status of the audit

We have substantially completed our audit of the 2012 financial statements. Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and Board of Directors, as required by Canadian generally accepted auditing standards (Canadian GAAS).

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you.

The following items will need to be completed /received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Status as at May 27, 2013
i. Buck Consultants Valuation report and our testing thereof	
ii. Receipt of signed management representation letter	
iii. Approval of the financial statements by the Board of Directors	

b. Key issues for discussion

Discussion item	Summary	For further reference
Items discussed with Management	<ul style="list-style-type: none"> During the course of our work we discussed the following items with management: <ul style="list-style-type: none"> Management override of controls Revenue recognition Overstatement of accruals and expenses Valuation of employee future benefits 	Section 2
Summary of unadjusted and adjusted items	<ul style="list-style-type: none"> As a result of our audit, we did not identify any audit adjustments In our opinion, the financial statements, taken as a whole, are free of material misstatement. 	Section 3
Fraud	<ul style="list-style-type: none"> No instances of fraud were noted as part of our audit procedures We wish to confirm whether the Board of Directors are aware of any known, suspected or alleged incidents of fraud. 	Section 4
Management representations	<ul style="list-style-type: none"> Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B. 	Appendix B

2. Significant audit, accounting and financial reporting matters

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the Library's reported results.

We are responsible for discussing with the Board of Directors our views about the significant qualitative aspects of the Library's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures.

Our comments and views included in this report should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

Risk Identified	Discussion
Management override of controls	<p>To address the risk of management override of controls, and as part of our fraud procedures, we review a sample of manual journal entries to ensure they are appropriate, and that they have been approved.</p> <p>In addition to this, we performed the unpredictable procedure of reviewing a sample of expense reports for the appropriate supporting documents and authorization.</p> <p>The exceptions noted are discussed in the internal control recommendations section (Section 5) of this report.</p>
Revenue recognition	<p>The risk related to revenue recognition is the risk that revenues may be recognized in the wrong period and donation revenues may be incomplete.</p> <p>We noted that government grants are supported by approved documents, which specify the period the funding relates to. The risk of incompleteness of donation revenues is minimal as the entire amount of donation revenue is from the Toronto Public Library Foundation.</p> <p>Other income consists primarily of rental revenue over properties rented out, is reconciled monthly, and is agreed to the lease agreements for the period in which it is earned.</p> <p>PwC tested certain revenue cycle controls and did not note any issues. In addition, we performed substantive analytical procedures, and vouched significant grants to confirmations, and vouched a sample of other revenues such as user charges. There are no items to bring to your attention.</p>
Overstatement of accruals and expenses	<p>There is an inherent risk of an overstatement of accruals and expenses as there is an incentive to expend the budgeted funds received from the City of Toronto and minimize the amount of unspent funds payable back to the City.</p> <p>We have performed a combination of controls and substantive testing over the appropriateness of expenses and accruals to ensure they are appropriate, they exist, have been included in the proper period, and have been properly approved.</p>

Risk Identified	Discussion
Valuation of employee future benefits	<p>The Library relies on a third party valuation expert, Buck Consultants, to value the employee future benefits.</p> <p>Once we have obtained Buck Consultant's valuation report as of December 31, 2012, we will consult with our internal actuarial group to ensure that the discount rates and significant assumptions used in their valuation conclusions are appropriate.</p>

3. Summary of unadjusted and adjusted items

We have concluded that the financial statements taken as a whole are free of material misstatement and, pending the completion, to our satisfaction, of the outstanding matters identified in section 1, we are prepared to issue an unqualified opinion on the financial statements.

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Under Canadian GAAS, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected. As a result of our audit, we did not identify any items requiring adjustment to the financial statements.

We are also required to communicate the effects of any unadjusted items that relate to prior periods. These are also listed below.

a. Unadjusted items

The materiality levels (as previously communicated to you) for 2012 were \$3,100,000. Based on actual expenses as of December 31, 2012, this amount was recalculated to \$2,800,000.

If all of the items (including differences in estimates) were adjusted, the effect on the Library's financial statements would be as follows:

	Excess of revenue over expense	Statement of financial position		
Description	Overstated (understated) \$	Assets (overstated) understated \$	Liabilities overstated (understated) \$	Net assets overstated (understated) \$
<i>To adjust the 2011 overaccrual of vacation pay included in the 2011 Voluntary Separation Plan accrual, which was paid out in 2012.</i>				
DR Staff costs			195,000	
CR Opening net debt				(195,000)
Total unadjusted differences	-	-	195,000	(195,000)

b. Adjusted items

There were no adjustments made by the Library as part of the audit process.

4. *Other required communications*

Canadian GAAS requires that the external auditor communicate certain matters to the Board Directors that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	<ul style="list-style-type: none"> Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B.
Independence	<ul style="list-style-type: none"> We reaffirm our independence with respect to the company and are not aware of any additional relationships not disclosed in that letter.
Significant deficiencies in internal control	<ul style="list-style-type: none"> Recent changes to Canadian GAAS require us to communicate to the Board internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Board Members. We did not note any significant deficiencies, but we did note some areas for improvement and they are included in Section 5.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> No difficulties or disagreements occurred while performing our audit that require the attention of the Board of Directors.
Fraud and illegal acts	<ul style="list-style-type: none"> No fraud came to our attention as a result of our audit procedures

5. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation 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 internal control.

During our audit, we identified the following internal control recommendations that we have discussed with management and wish to bring to your attention.

Control deficiencies – current year

Identified deficiency	Recommendation	Management's response
Inconsistent review of bank reconciliations Bank reconciliations are prepared by staff accountants and are reviewed by the Accounting Manager. During our testing of this control, we noted that this review was not performed for the last two months of the year.	PwC recommends that all bank reconciliations are reviewed on a timely basis, and that the Accounting Manager signs the reconciliation as evidence of his review.	Management agrees with our recommendation and will be more diligent of this going forward.
Inconsistent review of manual journal entries Manual journal entries can be posted by a number of accounting staff. Entries posted by anyone other than the Accounting Officers are reviewed by the Accounting Officers, but entries posted by the Accounting Officers are not always reviewed by the Accounting Manager.	PwC recommends that all manual journal entries posted by the Accounting Officers should be reviewed by the Accounting Manager. In addition, the number of accounting staff that are able to post journal entries should be limited.	Management agrees with our recommendation and will ensure that all manual journal entries are reviewed by the appropriate level of authority going forward.

Control deficiencies – prior year

Identified deficiency	Recommendation	Management's response
Inconsistent review of payroll reports A manual review is performed between inputs to the service organization (Ceridian) and source documents to verify the completeness and accuracy of data provided. Differences and/or unusual items are investigated and resolved on a timely basis. Specifically for the Library, new hires/terminations/changes in	PwC recommended that each exception report should be approved for accuracy and reasonableness.	Management agreed with our recommendation and this is no longer an issue.

Identified deficiency	Recommendation	Management's response
<p>salary/wage rates, are reviewed and approved.</p> <p>In the prior year, we noted that the review and approval was missed on 2 of the samples we selected for inspection.</p> <p>Current year update PwC noted that in the current year, the Accounting Manager ensured all exception reports were approved, and we did not note any exceptions in the sample selected.</p>		
<p>No approval for new vendors</p> <p>PwC noted that there is no formal approval process for the set up of new vendors.</p> <p>When a vendor needs to be set up in the system, there are two ways that accounting is notified:</p> <ol style="list-style-type: none"> 1) If a PO was required, purchasing will send accounting a copy of the PO with the purchaser's approval. Accounting will then set up the vendor into the system. 2) When a PO is not required, Accounting is notified (e.g. through a copy of the approved invoice) and the vendor is set up. There is no review of the vendor information before the vendor is paid, which can enable employees to misappropriate assets by paying fictitious vendors. <p>Current year update In the current year, it was noted that the process for approving new vendors has been restricted to only the purchasing manager.</p>	<p>The Library should create a formal process for approving new vendors whereby departmental managers must complete a form which outlines all the necessary contact information, and reasons for setting up the new vendor, and sign the form as evidence of their approval. An accounts payable clerk should then verify the validity of the vendor prior to entering into the system</p>	<p>Management agreed with our recommendation and implemented an authorization policy whereby new vendors must be logged on a form, which is reviewed and approved by the Purchasing Manager.</p>

Appendix A: Draft financial statements

See Board Report No. 13

Appendix B: Management representation letter

[Client Letterhead]

Date

PricewaterhouseCoopers LLP
5700 Yonge Street, Suite 1900
Toronto ON M2M 4K7

Dear Sirs;

We are providing this letter in connection with your audit of the financial statements of Toronto Public Library Board (the Board) as of December 31, 2012 and for the year then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows of the Board in accordance with Canadian public sector accounting standards.

Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 1, 2010. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are 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 and for reporting financial information in accordance with Canadian public sector accounting standards;
- We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

Preparation of financial statements

The financial statements include all disclosures necessary for fair presentation in accordance with Canadian public sector accounting standards and disclosures otherwise required to be included therein by the laws and regulations to which the Board is subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an operations account and vice versa. All inter-governmental unit accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

Accounting policies

We confirm that we have reviewed the Board's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the financial statements is appropriate in the Board's particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian public sector accounting standards.

Internal controls over financial reporting

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Board is made known to us by others.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian public sector accounting standards.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting identified as part of our assessment as of December 31, 2012.

Disclosure of information

We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters including:
 - Contracts and related data;
 - Information regarding significant transactions and arrangements that are outside of the normal course of business;
 - Minutes of the meetings of management, directors and committees of directors. The most recent meetings held was the Board meeting on March 27, 2013;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

All contractual arrangements entered into by the Board with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the Board involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the Board's financial statements, communicated by employees, former employees, analysts, regulators or others.

Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by the Board's directors, officers or employees acting on the Board's behalf.

Accounting estimates and fair value measurements

Significant assumptions used by the Board in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the financial statements that incorporate fair value measurements, we confirm that:

- the measurement methods are appropriate and consistently applied;
- the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements; and
- the significant assumptions used in determining fair value measurements are consistent with the Board's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook Section PS 2130, *Measurement Uncertainty* have been appropriately disclosed.

Related parties

We confirm the completeness of information provided to you regarding the identification of related parties as defined by CAS 550 – Related Parties. We also confirm the completeness of information provided to you regarding the nature of the Board's relationships with and transactions involving those entities.

The identity and relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian public sector accounting standards.

The list of related parties attached to this letter as Appendix A accurately and completely describes the Board's related parties and the relationships with such parties.

Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements (e.g. to dispose of the business or to cease operations).

Assets and liabilities

We have satisfactory title or control over all assets. All liens or encumbrances on the Board's assets and assets pledged as collateral, to the extent material, have been disclosed in the notes to the financial statements.

Receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Board is contingently liable have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims

All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the financial statements are free of material misstatements, including omissions.

Events after balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Cash and banks

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the Board.

All cash balances are under the control of the Board, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts which are not the property of the Board.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the Board of which we are aware are included in the financial statements at December 31, 2012.

Accounts receivable

All amounts receivable by the Board were recorded in the books and records.

Amounts receivables amounted to \$9,315,633 and are considered to be fully collectible.

All receivables were free from hypothecation or assignment as security for advances to the Board, except as hereunder stated.

Tangible capital assets

All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets.

No significant tangible capital asset additions were charged to repairs and maintenance or other expense accounts.

Book values of tangible capital assets sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Tangible capital assets owned by the Board are being amortized on a systematic basis over their estimated useful lives and the provision for amortization was calculated on a basis consistent with that of the previous date.

Unearned revenue and deferred credits

All material amounts of unearned revenue and deferred credits were appropriately recorded in the books and records.

Yours truly

Toronto Public Library Board

Wayne Lam, Manager of Accounting

Larry Hughsam, Director of Finance and Treasurer

Jane Pyper, City Librarian

Appendix A – List of related parties

City of Toronto

Toronto Public Library Foundation