
Toronto Public Library Board

*2013 year-end report
to the Board*

*Prepared as of
May 16, 2014*





May 16, 2014

The Board Members
Toronto Public Library Board

Dear Board Members:

We have substantially completed our audit of the financial statements of the Toronto Public Library Board (the Board or the Library) prepared in accordance with Canadian public sector accounting standards (PSAS) for the year ended December 31, 2013. Our draft auditor's report is included as 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 and discuss our key findings with you at the upcoming meeting.

We would like to express our sincere thanks to the management and the staff of the company who have assisted us in carrying out our work and we look forward to our meeting on May 26, 2014. Should you have any questions or concerns prior to the Board meeting, please do not hesitate to contact me in advance.

Yours very truly,

A handwritten signature in black ink, appearing to read "T. McKinnon", followed by a period.

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 2014 financial statements (the 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 26, 2014:
i. Receipt of signed management representation letter	
ii. 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 Employee future benefits 	Section 2
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 is aware of any known, suspected or alleged incidents of fraud. 	Section 3
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 company's reported results.

We are responsible for discussing with the Board of Directors our views about the significant qualitative aspects of the company'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.

Reporting matters	Discussion
Management override of controls	<p>To address the risk of management override of controls, and as part of our fraud procedures, we reviewed a sample of manual journal entries to ensure they are appropriate, and that they have been approved. No matters arose that require your attention</p> <p>In addition to this and apart from the inherent unpredictable nature of our sample based procedures, we performed an unpredictable procedure of searching vendors included in the vendor listing to verify the existence of the vendor and that the services provided are related to the Library's operations. No exceptions were noted during this testing.</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>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> <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 relating to properties, is reconciled monthly, and is agreed to the lease agreements for the period in which it is earned.</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. There were no exceptions noted.</p>

Reporting matters	Discussion
Valuation of employee future benefits	<p>The Library relies on a third party actuary, Buck Consultants, to value the employee future benefits.</p> <p>We have consulted with our internal actuarial group to ensure that the discount rates and significant assumptions used in their valuation conclusions are reasonable.</p>

3. Other required communications

Canadian GAAS requires that the external auditor communicate certain matters to the Board of 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
Unadjusted or adjusted differences	<ul style="list-style-type: none"> We did not note any audit differences greater than the threshold of \$390,000 as a result of our work. In addition, there were no differences adjusted by management.
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 Board and are not aware of any additional relationships not disclosed in that letter.
Significant deficiencies in internal control	<ul style="list-style-type: none"> Canadian GAAS require us to communicate to the Board of Directors 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 of Directors. We did not note any significant deficiencies, but we did note some areas for improvement and they are included in Section 4.
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 requires the attention of the Board of Directors.
Fraud and illegal acts	<ul style="list-style-type: none"> No fraud involving senior management, employees with a significant role in internal control or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures.
Significant related party transactions	<ul style="list-style-type: none"> PwC reviewed related party transactions conducted in the normal course of operations related to the transfer of grants from the Foundation or the City of Toronto to the Board and the allocation of certain shared costs. No other non-routine transactions were noted.

4. 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 deficiencies and certain other control recommendations that we have discussed with management and wish to bring to your attention.

a. Control deficiencies – current year

Identified deficiency	Recommendation	Management’s response
<p>Documentation for review and approval of vacation carry-over was not consistently maintained.</p> <p>According to the 2012-2015 Collective Agreement (Article 23.02), a total of 105 hours can be banked and carried forward, and any amounts above 105 are to be assessed on a case by case basis by the Director or designate. No such request can be unreasonably denied.</p> <p>Vacation carry-over for non-union staff is a maximum of one year’s vacation entitlement.</p> <p>As of December 31, 2013, there were 200 employees with vacation carry-over hours greater than the 105 hour limit or one year’s vacation entitlement, and there was no evidence of a consistently applied written approval of these carry-over hours.</p>	<p>PwC recommends that on an annual basis banked vacation hours are reviewed and written approval is provided for each individual with hours banked above the 105 hour limit, or above the one year’s vacation entitlement.</p>	<p>Management agrees with the recommendation.</p> <p>In the third quarter of each year, the Human Resources Department generates reports of those unionized employees who have an outstanding vacation entitlement greater than 105 hours and of non-union employees with an outstanding balance greater than one year’s vacation entitlement, and forwards them to Directors for follow up and review. In 2014, required written approvals for vacation carried forward will be retained.</p>

b. Control deficiencies – prior year

Identified deficiency	Recommendation	Management's response
<p>Timely review of bank reconciliations</p> <p>Bank reconciliations are prepared by staff accountants and are reviewed by the Accounting Manager.</p> <p>During our testing of this control, we noted that this review was not performed for the last two months of the year.</p>	<p>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.</p>	<p>Management agrees with the recommendation.</p>
<p>2013 update: In the current year, Accounting Manager has signed the bank reconciliations as evidence of review.</p>		

<p>Inconsistent review of manual journal entries</p> <p>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.</p>	<p>PwC recommends that all manual journal entries posted by the Accounting Officers should be reviewed by the Accounting Manager.</p> <p>In addition, the number of accounting staff that are able to post journal entries should be limited.</p>	<p>Management agrees with our recommendation and will ensure that all manual journal entries are reviewed by the appropriate level of authority going forward.</p>
<p>2013 update: In the current year, Accounting Manager has reviewed and signed journal entries posted by the Accounting Officers.</p>		

Appendix A: Draft financial statements

See Board Report No. 10

Appendix B: Management representation letter

May 26, 2014

PricewaterhouseCoopers LLP
North American Centre, 5700 Yonge Street, Suite 1900,
North York, Ontario, Canada M2M 4K7

We are providing this letter in connection with your audit of the financial statements of Toronto Public Library Board (the Board) as at December 31, 2013 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, results of operations, and 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 letter 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 an effective system of internal control over financial reporting to enable the preparation and fair presentation of the 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 ensure financial statements are prepared 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 ensure 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 the 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 that we are aware.

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 shareholders, management, directors and committees of directors. The most recent meeting was the Board meeting on April 20, 2014.
- Additional information that you have requested from the Board 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 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 the 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 CPA Canada Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty, have been appropriately disclosed.

Related parties

We confirm that we have disclosed to you the identity of the Board's related parties as defined by Canadian Auditing Standard 550, Related Parties, and all the related party relationships and transactions.

The identity, 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.

Trade receivables and loan receivables recorded in the financial statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet 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 in accordance with the CPA Canada Public Sector Accounting Handbook Section PS 3300, Contingent Liabilities, 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 balance sheet 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 are included in the financial statements as at December 31, 2013.

Accounts receivable

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

Amounts receivable amounted to \$18,021,388 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.

The Board has disclosed to us all transfers of receivables (including securitizations) that have occurred during the period ended December 31, 2013.

Tangible capital assets

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

All contributed tangible capital assets have been recorded at fair value at the date of the contribution.

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 depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering assets leased by or from the Board have been disclosed to you and classified as leased tangible capital assets or operating leases.

Leased tangible capital assets are being amortized on a systematic basis over the period of expected use.

There have been no events, conditions or changes in circumstances that indicate that a tangible capital asset no longer contributes to the Board's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. We believe that the carrying amount of the Board's long-lived tangible capital assets is fully recoverable in accordance with CPA Canada Public Sector Accounting Handbook PS 3150.

Long-term debt

All borrowings and financial obligations of the Board's of which we are aware are included in the financial statements as at December 31, 2013 as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

Deferred revenue

All material amounts of deferred revenue meet the definition of a liability and were appropriately recorded in the books and records.

Retirement benefits, post-employment benefits, compensated absences and termination benefits

All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for pension and other post-retirement benefits are appropriate in the circumstances.

The Board does not plan to make frequent amendments to the pension or other post-retirement benefit plans.

The employee future benefit costs, assets and obligations have been determined, accounted for and

disclosed in accordance with CPA CANADA Public Sector Accounting Handbook PS 3250, Retirement Benefits. In particular:

The significant accounting policies that the Board has adopted in applying CPA CANADA Public Sector Accounting Handbook Section PS 3250 and CPA CANADA Public Sector Accounting Handbook Section PS 3255 are accurately and completely disclosed in the notes to the financial statements.

Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.

The discount rate used to determine the accrued benefit obligation was determined by reference to the City's borrowing rate rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.

The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.

Statements of operations, changes in net assets

All transactions entered into by the Board have been recorded in the books and records presented to you.

All amounts have been appropriately classified within the statements of operations and net debt (or statement of net financial assets).

The accounting principles and policies followed throughout the year were consistent with prior period practices (except as disclosed in the financial statements).

Budgetary data

We have included budgetary data in our financial statements, which is relevant to the users of financial statements and consistent with that originally planned and approved. Planned results were presented for the same scope of activities and on a basis consistent with that used for actual results.

Yours truly,

Toronto Public Library Board

Wayne Lam, Manager of Accounting

Larry Hughsam, Director of Finance and Treasurer

Jane Pyper, City Librarian

Appendix 1 – Related Parties

City of Toronto
Toronto Public Library Foundation