
Toronto Public Library Board

*Audit Plan for the
year ending
December 31, 2011*



December 5, 2011

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, 2011.

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.

If you have any questions, please do not hesitate to contact the undersigned.

Yours very truly,

PricewaterhouseCoopers LLP

Terri McKinnon
Partner
Audit and Assurance Group

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

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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 2011 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 for discussion, including new matters or changes from the prior year's audit plan to facilitate your review. We would be pleased to answer any questions you might have at our upcoming meeting.

	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 again this year. 	Page 2
b.	Audit approach	<ul style="list-style-type: none"> Our audit approach will consist of a mixture of key controls reliance and substantive detail testing and is consistent with the prior year. Consistent with Canadian Auditing Standards, we will also implement a level of unpredictability into our procedures. 	Page 5
c.	Risk analysis	<ul style="list-style-type: none"> The areas of significant audit focus are consistent with the prior year: <ul style="list-style-type: none"> Revenue recognition Management override of controls Overstatement of accruals and expenses Valuation of employee future benefits 	Page 5
d.	Materiality	<ul style="list-style-type: none"> We have calculated materiality (based on the current forecasted results) and have determined a preliminary materiality of \$2,432,800 (2010 - \$1,928,000). Unadjusted and adjusted items over \$121,600 (2010 - \$96,400) will be reported to the Board on completion of our audit. 	Page 6

2. Your team

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	2	416 228 1922	terri.mckinnon@ca.pwc.com
Jonathan Chan	Engagement manager	2	416 218 1489	jonathan.c.chan@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 as at December 31, 2011 and for the year then ending. 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 sector 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, 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 as provided in the prior year.

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 2011 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"> May/June 2012 	<ul style="list-style-type: none"> To be approved at your meeting in June 2012.
Audit report findings	<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/June 2012 	<ul style="list-style-type: none"> N/A

4. When will we do the audit?

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	
Presentation of audit plan to the Board by management	December 12, 2011
Audit	
Interim audit visit	October 31 to November 4, 2011
Year-end audit	April 16 to 27, 2012
Clearance meeting with management and PwC	May 2012
Board meeting with presentation of audited financial statements	June 2012

At the year-end Board meeting we will provide our draft audit opinion, key findings (particularly, regarding significant estimates, transactions, accounting policies and disclosures), any significant deficiencies identified in internal controls and also provide a confirmation of our independence.

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 business by 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, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;
- iii. Using well-reasoned professional judgment, especially, in areas that are subjective or require estimates; and
- 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 Library 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 sector 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.	<ul style="list-style-type: none"> • We will review manual journal entries focusing on large and unusual entries. • We will review accounting estimates for biases that could result in material misstatement due to fraud. • We will incorporate unpredictable procedures in the audit.

Risk area (including key judgments and estimates)	Management's response	Our audit approach
Revenue recognition	<p>Government grants are supported by approved documents, which specify the period revenue relates to.</p> <p>User charges relate to fines and late fees levied by library branches. Transaction tapes for these charges are reconciled to cash deposited on a daily basis.</p> <p>Donations are primarily from the Library Foundation and agree to the Foundation's financial statements.</p> <p>Other income consisting primarily of rental revenue over properties rented out, are reconciled monthly and agreed to the lease agreements and period earned.</p>	<ul style="list-style-type: none"> Assess the design and validate the operating effectiveness of certain revenue cycle controls. Perform substantive analytical and tests of detail procedures, including grant revenue confirmations.
Overstatement of accruals and expenses	<p>Accruals are reviewed 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>	<ul style="list-style-type: none"> 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	<p>The Library relies on a third party valuation expert, Buck Consultants, to value the employee future benefits.</p>	<ul style="list-style-type: none"> We will obtain confirmation of valuation from Buck Consultants. We will consult with our internal Actuarial group to ensure that the discount rates and assumptions used in the valuation are appropriate.

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	Prior year's amount
Overall materiality ¹ :	1.25% of total expenses (2010 - 1%)	\$2,432,800	\$1,928,000
Unadjusted and adjusted items in excess of this amount will be reported to the Board	5% of overall materiality	\$121,600	\$96,400

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.

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.

Required discussion: Fraud related processes	<ul style="list-style-type: none"> • Through our planning process (and prior years' audit), we have developed an understanding of your oversight processes including: <ul style="list-style-type: none"> ◦ Code of conduct ◦ 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?
Notes	
Required discussion: Fraud	<p>We are not aware of any fraud at the current time.</p> <p>We would like to ask whether you are aware of instances of actual, suspected or alleged fraud affecting the Library.</p>
Notes	

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.

We would be pleased to discuss any other procedures or suggestions the Board may have.

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.

We estimate our fees for 2011 will be as follows:

Service description	Estimated fees 2011 \$
Audit of the financial statements	26,730

Should we incur additional costs due to changes in the level of effort or scope changes, we will advise management and seek the Board's approval.

7. *New accounting standards*

a. Financial instruments and financial statement presentation

In March 2011 PSAB approved section PS 3450, Financial Instruments, and will be effective for periods beginning on or after April 1, 2012 for government organizations and April 15, 2015 for governments. The new section provides guidance on the recognition, measurement, presentation and disclosure of financial instruments. Financial assets and/or financial liabilities are to be recognized when the entity becomes a party to a financial instrument contract. Derivatives and portfolio investments that are equity instruments quoted in an active market are to be measured at fair value. The entity may report non-derivative financial assets and/or financial liabilities on a fair value basis if it manages and reports performance of these items on a fair value basis. The change in fair value of the items is recognized in the statement of remeasurement gains and losses until settlement.

In March 2011 PSAB approved section PS 1201 which replaces section PS 1200, Financial Statement Presentation, and will be effective for periods beginning on or after April 1, 2012 for government organizations and April 15, 2015 for governments. The new Section includes a statement of remeasurement gains and losses which will report; unrealized gains and losses with the change in fair value of financial instruments; exchange gains and losses associated with monetary assets and monetary liabilities denominated in foreign currency that have not been settled; amounts reclassified to the statement of operations upon derecognition or settlement; and other comprehensive income reported when an entity includes the results of its government business enterprises and government business partnerships in the summary financial statements.

We have assessed the impact of these changes on the financial statements of the Library. The impact is not expected to be significant.

b. Other projects

Other previously communicated projects are in progress for PSAB:

- 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. A statement of principles is expected to be approved in December 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 December 2011.
- Related Party Transactions and Appropriations - PSAB approved a project proposal in September 2010 to issue a new accounting standard covering related party transactions. The objectives of the project are to define related parties in the context of government and government organizations; describe the disclosures required; and address recognition and disclosure appropriations. Our audit national public sector leader is the chair of this PSAB task force.

The Library will need to monitor these projects for future impact on their own financial reporting.

