

Audit Plan for the Year Ending December 31, 2018

Date:	November 19, 2018
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

The attached report from PricewaterhouseCoopers, the external auditors, summarizes the planning for their audit of the 2018 financial statements for the Toronto Public Library Board.

FINANCIAL IMPACT

The proposed audit fee of \$25,000, inclusive of expenses and exclusive of Harmonized Sales Tax (2017 – \$25,000) is included in the 2018 operating budget. It is important to note that the audit fee does not include extra audit work that may be required due to scope changes, and PricewaterhouseCoopers will advise management as soon as possible if this were to happen.

This is the fourth year of a five-year audit contract that the City has negotiated. The fee will remain unchanged for the duration of the contract.

ISSUE BACKGROUND

Under Section 139 of the *City of Toronto Act, 2006*, the City is required to appoint an auditor licensed under the *Public Accounting Act, 2004*, who is responsible for annually auditing the accounts and transactions of the City and its local boards, and expressing an opinion on the financial statements of these entities based on the audit.

Council, at its March 2015 meeting, approved the recommendation of the Audit Committee to appoint PricewaterhouseCoopers as the external auditor for the City and Library. The contract with PricewaterhouseCoopers is for five years, ending with the audit of the December 31, 2019 financial statements.

As part of the annual audit, PricewaterhouseCoopers provides an Audit Plan report to the Toronto Public Library Board. The auditors will conduct their audit of the 2018 financial statements pursuant to this plan.

COMMENTS

Attached is PricewaterhouseCoopers' Audit Plan for the Library, which summarizes their view on audit risks, the nature, extent and timing of the audit work and the terms of engagement.

On completion of the audit, PricewaterhouseCoopers will issue the Audited Financial Statements and a Year-End Report to the Board that will provide: key matters for discussion; significant audit, accounting and financial reporting matters; summary of unadjusted and adjusted items; other required communications; internal control recommendations; and a confirmation of auditor independence.

As noted on page 4 and Appendix A of the attachment, enhanced Canadian auditor's reporting standards will be effective for the 2018 year-end audit. Changes to the auditor's report include: a different format, audit opinion will be presented first; enhanced descriptions for responsibilities of the auditor, management and those charged with governance; and enhanced requirements relating to going concern.

Work on the interim audit was completed in November 2018, and the year-end audit is expected to be completed by April 2019.

CONTACT

Larry Hughsam; Director, Finance & Treasurer; Tel: 416-397-5946;
Email: lhughsam@torontopubliclibrary.ca

SIGNATURE

Vickery Bowles
City Librarian

ATTACHMENTS

Attachment 1: Toronto Public Library Board – Audit Plan for the year ending December 31, 2018

www.pwc.com/ca

Toronto Public Library Board

*Audit plan for the year
ending
December 31, 2018*





November 5, 2018

The Board Members
Toronto Public Library Board

Dear Members of the Board:

We are pleased to present an overview of our audit plan for the 2018 audit of the financial statements of Toronto Public Library Board (the Library) prepared in accordance with Canadian public sector accounting standards (PSAS) (referred to as the "financial statements" from now on).

This overview includes 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 remain committed to ongoing dialogue with you, enabling us to deliver the highest level of service and audit quality, as well as provide an independent point of view.

We value your feedback and if you have any questions about the identified risks and our audit approach, please do not hesitate to contact the undersigned at 416 228 1922.

Yours very truly,

PricewaterhouseCoopers LLP

Terri McKinnon
Partner
Assurance

c.c.: Mr. Larry Hughsam, Director, Finance and Treasurer

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: 416 863 1133, F: 416 365 8215, www.pwc.com/ca

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

Communications to the Board

<i>Key matters for discussion</i>	<i>Comments</i>
Client service team	Terri McKinnon is your engagement leader and Julianne Cooke is your engagement manager.
Service deliverables	<p>We will audit the company's financial statements as of December 31, 2018 and for the year then ending prepared in accordance with PSAS.</p> <p>Our engagement letter, which has been signed by the City of Toronto sets out the terms and conditions for the audit and outlines the responsibilities of the auditors, management and those charged with governance.</p> <p>As the auditor, we are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
Audit timeline	<p>We worked with management to develop this project timeline:</p> <ul style="list-style-type: none"> • Interim visit: October 29 - November 2, 2018. • Year-end visit: March 18 - 29, 2019. • Clearance meeting with management: To be confirmed. • Year-end Board meeting: To be confirmed. • Delivery of audited financial statements: To be confirmed.
Audit approach	<p>Our audit approach is a mixture of tests of internal controls and substantive testing.</p> <p>Significant risks are risks of material misstatement that we think need special audit consideration. We identified significant audit risks and plan to address them as follows. Please let us know if you agree that these are the most significant risks from your point of view and if you have any other areas of concern.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
Significant risks to discuss	<i>Management's response and our audit approach</i>
Fraud risk – management override of controls	<p>There is an inherent risk of fraud in all entities as a result of potential senior management override of controls over financial reporting. This is a required significant risk under auditing standards.</p> <p><i>Management's response</i></p> <ul style="list-style-type: none"> • Communication of code of conduct and strong tone at the top. • Approval of all manual journal entries. <p><i>Our audit approach</i></p> <ul style="list-style-type: none"> • Understand management's assessment of the risk and the overall control environment in place. This includes understanding the tone of the business and controls in place. • Obtain a list of journal entries and confirm its completeness. A selection of journal entries will be tested, focusing on riskier journals and periods. • Perform unpredictable testing of certain balances; for example, those that are immaterial or would not normally be included in our testing. • Focus detailed audit work on areas where fraud could be committed and where there is less segregation of duties.
Fraud risk in revenue recognition	<p>Auditing standards assume a rebuttable presumption that there is a significant risk of fraud in revenue recognition in all businesses.</p> <p><i>Management's response</i></p> <ul style="list-style-type: none"> • Strong tone at the top. • Controls over revenue recognition. • Reconciliations between the system and general ledger. <p><i>Our audit approach</i></p> <ul style="list-style-type: none"> • Understand the potential risks of fraud and error related to revenue recognition. • Understand and evaluate the internal controls over revenue recognition. • Obtain confirmation from the City of Toronto for subsidies received during the year. • Perform testing of other significant revenue streams through a sample of transactions to supporting documents. • Perform testing of journal entries related to revenue recognition.

<i>Key matters for discussion</i>	<i>Comments</i>
Materiality	<p>Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.</p> <p>We have set a preliminary materiality of \$6.6 million and we'll report unadjusted and adjusted items over \$660,000 to the Board on completion of the audit.</p>
Fraud risk	<p>We discuss fraud risk annually with the Board. Through our planning process (and prior years' audits), we developed an understanding of your oversight processes including:</p> <ul style="list-style-type: none"> • code of conduct; • discussion at Board meetings and our attendance at those meetings, or reviewing minutes of meetings; • presentations by management, including business performance reviews; and • consideration of tone at the top. <p>Are there any new processes or changes to the items above that we should be aware of?</p> <p>We are not aware of any fraud. Are you aware of instances of any actual, suspected or alleged fraud affecting the Board?</p>
Independence	<p>As auditors, we are required to comply with the fundamental principles of objectivity, integrity, audit quality and professional behaviour, including independence. Our global independence systems continue to provide real-time identification of independence issues.</p>
Enhanced auditor reporting standards effective for years ending on or after December 15, 2018	<p>Revised Canadian auditor's reporting standards will be effective for the 2018 year-end audit, and will include the following changes:</p> <ul style="list-style-type: none"> • different format, opinion will be presented first; • enhanced descriptions for responsibilities of the auditor, management and those charged with governance; • new requirements and reporting related to other information; and • enhanced requirements relating to going concern. <p>An illustrative auditor's report is included in Appendix A.</p>
2018 audit fees	<p>The audit fee for 2018 is \$25,000. We'll advise management if we incur more costs due to changes in the level of audit effort or scope changes.</p>

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. Comments and conclusions should only be taken in the context of the financial statements as a whole, as we do not mean to express an opinion on any individual item or accounting estimate. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

Appendix A: Illustrative auditor's report



Key audit matter

How our audit addressed the Key audit matter

Recognition of deferred tax assets and uncertain tax positions

The Company has recognized deferred tax assets in the amount of \$400 million on the balance sheet.

We focused on the recognition of deferred tax assets because the recognition of these assets involves judgment by management as to the likelihood of realization of the deferred tax assets, which is based on a number of factors including whether there will be sufficient taxable profits in future periods.

The Company has recognized provisions against uncertain tax positions. We focused on this area because the assessment and estimate of provisions for uncertain tax positions involves significant judgment.

Refer to Note 10 of the consolidated financial statements.

We evaluated management's assessment as to whether there will be sufficient taxable profits in future periods to support the recognition of deferred tax assets by comparing management's forecasts of future profits to historical results, and evaluating the assumptions used in those forecasts.

We discussed with management the known uncertain tax positions and read communications from taxation authorities to identify uncertain tax positions. We considered the status of current and recent tax audits, judgmental positions taken in tax returns, and developments in the tax environment. We assessed the adequacy of management's key assumptions and methods to recognize provisions for uncertain tax positions.

Other information

Enhanced reporting with respect to Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis which we obtained prior to the date of this auditor's report, and the information, other than the consolidated financial statements and our auditor's report thereon, included in the Company's annual report which is expected to be made available to us after the date of this auditor's report.

For listed entities, identification of other information not yet received

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the Company's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Auditor's responsibility for listed entities for other information not yet received



Independent auditor's report
To the shareholders of Illustrative Company

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Illustrative Company and its subsidiaries (the Company) as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Opinion section is now first

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2017 and 2016;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance these requirements.

Statement of auditor's independence

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KAMs - voluntary for all entities

PricewaterhouseCoopers LLP
Office Street Address, Toronto, Canada, Canada Postal Code
T: +1 xxx xxx xxxx, F: +1 xxx xxx xxxxx
© 2017 PricewaterhouseCoopers LLP, an Ontario limited liability partnership



Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Enhanced description of management's responsibilities

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Enhanced description of auditor's responsibilities

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are



responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For listed entities only

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Auditor responsibility when communicating KAMs

The engagement partner on the audit resulting in this independent auditor's report is Jane Doe.

For listed entities, disclosure of engagement partner's name

(signed) PricewaterhouseCoopers

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

February 8, 2018