

---

# *Toronto Public Library Board*

*Audit plan  
for the year ending  
December 31, 2014*





November 14, 2014

Members of the Board  
Toronto Public Library Board

Dear Members of the Board:

We are pleased to present our audit plan for the 2014 audit of the financial statements of Toronto Public Library Board (the Library) prepared in accordance with Canadian Public Sector Accounting Standards (GAAP) (hereafter referred to as the financial statements).

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.

We value your feedback and we hope that this document will facilitate two-way communication with you on the risks identified and our audit approach. We welcome any suggestions and observations you may have.

Yours very truly,

*PricewaterhouseCoopers LLP*

Terri McKinnon  
Partner  
Audit and Assurance Group

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

*PricewaterhouseCoopers LLP*  
North American Centre, 5700 Yonge Street, Suite 1900, North York, Ontario, Canada M2M 4K7  
T: +1 416 218 1500, F: +1 416 218 1499, [www.pwc.com/ca](http://www.pwc.com/ca)

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

## Contents

## Page

1. Executive summary	1
2. Your team	2
3. Scope of our services	3
4. When will we do the audit?	4
5. How will we do the audit?	5
6. Our fees	8

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 and comment on our audit plan for the 2014 audit of the financial statements.

This audit plan includes the required communications between an auditor and Board of Trustees as required by Canadian generally accepted auditing standards (Canadian GAAS).

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
Client service team	<ul style="list-style-type: none"> <li>Terri McKinnon is your engagement leader and Akanksha Arora is your engagement manager.</li> </ul>	Page 2
Service deliverables	<ul style="list-style-type: none"> <li>The scope of our services remains consistent with the prior year.</li> </ul>	Page 3
Timing	<ul style="list-style-type: none"> <li>Interim visit: October 2014</li> <li>Year-end visit: March 9 – 20, 2015</li> </ul>	Page 4
Audit approach	<ul style="list-style-type: none"> <li>Our audit approach will consist of a mixture of key controls reliance and substantive detail testing and has not significantly changed from prior year.</li> <li>Consistent with Canadian GAAS, we will also implement a level of unpredictability into our procedures each year.</li> </ul>	Page 5
Materiality	<ul style="list-style-type: none"> <li>We have calculated materiality (based on the current forecasted results) and have determined a preliminary materiality of \$4,800,000 for 2014.</li> <li>Unadjusted and adjusted items over \$480,000 will be reported to the Board on completion of our audit.</li> </ul>	Page 6
Risk analysis	<ul style="list-style-type: none"> <li>Management override of controls remains an area of audit focus.</li> </ul>	Page 5
Fraud risk	<ul style="list-style-type: none"> <li>We are required to discuss fraud risk annually with the Board.</li> <li>In planning our audit, we have considered the risk of fraud, management's processes for mitigating the risk, and the Board's oversight processes.</li> <li>Our required discussions are covered on page 7.</li> </ul>	Page 7
2014 audit fees	<ul style="list-style-type: none"> <li>Our proposed audit fee for 2014 is \$32,790, which is an increase of \$2,130 from prior year.</li> </ul>	Page 8

## 2. Your team

Your client service team comprises the following individuals:

Name	Role	Phone number	Email address
Cathy Russell	Engagement partner for the City of Toronto	416 815 5291	cathy.russell@ca.pwc.com
Terri McKinnon	Engagement partner	416 228 1922	terri.mckinnon@ca.pwc.com
Akanksha Arora	Engagement manager	416 218 1397	akanksha.arora@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, 2014 and for the year then ending in accordance with GAAP. 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 will conduct our audit in accordance with Canadian GAAS. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

## 4. When will we do the audit?

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

Audit	
Interim audit visit	October 2014
Year-end audit	March 9 - 20, 2015
Clearance meeting with management and PwC	April 30, 2015 (to be confirmed)
Approval of financial statements by the Board <sup>1</sup>	May 2015 (to be confirmed)

<sup>1</sup>At the Board meeting, we will provide to the Board 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.

In the current year, our planned work will include testing of key controls in the following areas:

- Purchases, payables and disbursements
- Payroll

All other areas will be subject to tests of detail.

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

### b. Risk analysis

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

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

They are the most important 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.

<b>Risk area (including key judgments and estimates)</b>	<b>Management's response</b>	<b>Our audit approach</b>
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"> <li>• We will review manual journal entries focusing on large and unusual entries.</li> <li>• We will review accounting estimates for biases that could result in material misstatement.</li> <li>• We will incorporate unpredictable procedures in the audit approach.</li> </ul>

## 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. A common measure for setting materiality for a not-for-profit Library is to use 1/2% to 3% of revenue or expenditures.

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

	<b>Basis</b>	<b>2014 Amount</b>
Overall materiality <sup>1</sup>	2.5% of expenses	\$4,800,000
Unadjusted and adjusted items in excess of this amount will be reported to the Board	10% of overall materiality	\$480,000

<sup>1</sup> 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 GAAS requires 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.

Question 1:

Required discussion	<ul style="list-style-type: none"> <li>• Through our planning process (and prior years' audits), we have developed an understanding of your oversight processes including:           <ul style="list-style-type: none"> <li>- Code of conduct</li> <li>- Board meetings and our attendance at those meetings, or reviewing minutes of meetings</li> <li>- Presentations by management, including business performance reviews</li> <li>- Signing authorities</li> </ul> </li> </ul>
Response	

Question 2:

Required discussion	<p>We are not aware of any fraud at the current time.</p> <p>We would like to ask: Are you aware of instances of actual, suspected or alleged fraud affecting the entity?</p>
Response	

### 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;
- perform disaggregated analytical procedures, primarily over revenue and 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:
  - evaluating 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, (including a retrospective review of significant prior years' estimates); 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 exclude taxes and out-of-pocket costs, as outlined in our engagement letter.

We estimate our fees for 2014 will be as follows:

Service description	Estimated fees 2014 \$	Actual fees 2013 \$
Audit of the financial statements	32,790	30,660

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

Conditions that could result in additional costs include, but are not limited to, the following:

1. Changes to the timing of the engagement at your request may result in the services being performed by staff at a higher rate than initially planned, or difficulty in reassigning individuals to other engagements, either of which may result in our incurring significant unanticipated costs.
2. All schedules are not (a) provided by you on the date requested, (b) completed in a format acceptable to us, (c) mathematically correct or (d) in agreement with your accounting records (e.g. general ledger accounts).
3. Your personnel are not readily available or there is a significant delay in providing adequate responses to our requests for information, such as reconciling variances or providing requested supporting documentation (e.g. invoices, contracts and other documents).
4. Significant number of adjustments posted by you after we start our work that result in our having to update previously completed work.
5. The financial statements are received late or there are a significant number of drafts or a significant number of changes identified as a result of our review.

