



# **Toronto Public Library Board**

**Audit Planning – Year Ending December 31, 2009**

Report to the Toronto Public Library Board



**Ernst & Young LLP**  
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December 1, 2009

Members of the Toronto Public Library Board

We are pleased to present our audit approach for the Toronto Public Library Board (the "Library" or the "organization"). This report outlines the scope of our services, identifies the Ernst & Young team that will serve you and presents some key considerations that will affect the 2009 audit.

Our audit was designed to express an opinion on the December 31, 2009 financial statements of the Library. We are currently in the planning phase of the audit. We will consider the Library's current and emerging business risks, perform an assessment of those risks that could materially affect the financial statements, and align our audit procedures accordingly. The plan will be responsive to your needs and will maximize audit effectiveness so we can deliver the high quality audit you expect.

The Library selected Ernst & Young to perform its 2009 audit and we appreciate your confidence. Our commitment to quality will be reflected in every aspect of our work.

Very truly yours,

*Ernst & Young LLP*

**Chartered Accountants**  
**Licensed Public Accountants**

Gary Kaye, Partner / Bessy Hui, Senior Manager

## Terms of Our Engagement

Discussion	
Auditor's Responsibilities Under Generally Accepted Auditing Standards	<ul style="list-style-type: none"><li>• Management is responsible for the preparation of the financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting fraud and error.</li><li>• The auditor's responsibility is to express an opinion on the financial statements based on an audit thereof.</li><li>• An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion) even though the audit is properly planned and performed.</li><li>• The audit includes:<ul style="list-style-type: none"><li>– obtaining an understanding of the entity and its environment including internal control in order to plan the audit and to assess the risk that the financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;</li><li>– examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;</li><li>– assessing the accounting principles used and their application; and</li><li>– assessing the significant estimates made by management.</li></ul></li><li>• When the auditor's risk assessment includes an expectation of the operating effectiveness of controls, sufficient appropriate audit evidence will be obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal control will be insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls or to consider whether internal control is adequate for management's purposes.</li><li>• The auditor will express an opinion as to whether the financial statements present fairly in all material respects, in accordance with generally accepted accounting principles, the financial position, results of operations and cash flows of the Library.</li></ul>
Audit and Non-Audit Services Provided by the Auditor	<ul style="list-style-type: none"><li>• We have designed our audit to express an opinion on the 2009 financial statements of the Library in accordance with Canadian generally accepted auditing standards.</li><li>• During the upcoming months, we will also perform audit procedures over the Library's implementation of CICA Public Sector Handbook Section 3150: Tangible Capital Assets as this project progresses through its implementation phases.</li></ul>
Detailed Terms of Engagement	<ul style="list-style-type: none"><li>• The detailed terms of our engagement are outlined in our engagement letter, a copy of which is included in this plan. This engagement letter is in the process of being signed by the City's Clerk in accordance with the Council approved two-year extension for audit services for the City of Toronto covering the years 2008 and 2009.</li></ul>

# Audit Process

## Discussion

### Overview

- Professional standards require us to communicate certain matters to the Library Board that may assist the Board in overseeing management's financial reporting and disclosure process. This document, together with our year end report, will provide you with the information we believe you require.
- At the completion of the audit, we will report to the Library Board the results of our audit. The results package will address independence matters as well as other matters of significance to the Library Board. Such matters may include the following:
  - fraud and illegal acts involving senior management and fraud and illegal acts that cause an other than trivial misstatement of the financial statements;
  - material weaknesses in internal control;
  - related party transactions;
  - significant audit adjustments and unadjusted differences;
  - adoption of, or a change in, an accounting principle;
  - methods of accounting for significant unusual transactions and for controversial or emerging areas;
  - our judgments about the quality of the organization's accounting principles;
  - areas where management must make significant judgments or estimates;
  - our responsibility for other information in documents containing audited financial statements;
  - disagreements with management on financial accounting and reporting matters; and
  - serious difficulties encountered in dealing with management when performing the audit.

## Audit Process (continued)

	Discussion
Audit Process	<ul style="list-style-type: none"><li>• For purposes of our audit, our audit scope is developed after considering inherent and control risks and the effectiveness of the organization's internal controls. A variety of factors are considered when establishing the audit scope including size, specific risks, the volumes and types of transactions processed, changes in the business environment, and other factors.</li><li>• Our audit procedures are customized based on the organization's significant accounts, disclosures and classes of transactions, as well as our assessment of risk, including the risks of fraud. Our procedures include tests of controls over payroll, purchases and cash disbursements, analytical review and substantive tests of other significant account balances and transactions.</li><li>• Areas of audit emphasis for financial statements and disclosure include:<ul style="list-style-type: none"><li>○ System documentation over significant processes as it pertains to the financial statements, including financial statement close, payroll, purchases/cash disbursements, government grants and other income/cash receipts, budget, investments and debt;</li><li>○ Fraud considerations and the risk of management override (including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions);</li><li>○ Completeness of liabilities, contingent liabilities and contractual obligations; and</li><li>○ Completeness and measurement of expenditures.</li></ul></li><li>• We will provide an opinion on the Library's 2009 financial statements.</li></ul>

## Audit Process (continued)

	Discussion
Materiality	<ul style="list-style-type: none"><li>• Our evaluation of areas of audit significance is made relative to “materiality”. An understanding of what is significant or material in relation to the overall results of your organization is critical to the performance of an effective and efficient audit. An item is considered material if its impact might reasonably be expected to affect the decisions of a reader of the financial statements.</li><li>• The level at which materiality is set affects the following audit planning decisions:<ul style="list-style-type: none"><li>- extent of evaluation of internal accounting controls</li><li>- extent and nature of audit evidence (i.e., extent of testing) to be examined</li></ul></li><li>• Our estimation of planning materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations. Based on budgeted results of the Library, materiality for the audit of the 2009 financial statements is estimated to be \$1.7 million (2008 - \$1.8 million) which represents approximately 1% of the total 2009 budgeted gross expenditures of \$176 million (2008 - \$203 million). This approach to calculating materiality corresponds with the recommendations in the CICA Handbook guideline which deals with materiality and audit risk.</li><li>• The preliminary materiality level will be reviewed on an ongoing basis throughout our audit. Should actual results vary significantly from the budget; the materiality level may be adjusted in order to recognize this change in circumstances.</li></ul>
Use of Specialists	<ul style="list-style-type: none"><li>• We rely on external actuaries to provide the actuarial estimates required to account for non-pension future employee benefit costs and accident claims, defined benefit pensions and insurance related liabilities;</li><li>• We rely on various specialists for the determination of the valuation of certain tangible capital assets included in the Library’s 2008 opening tangible capital asset balances.</li><li>• When we rely on others, we are required by our professional standards to perform certain audit procedures (i.e. evaluate their objectivity, professional qualifications and reputation, understand significant assumptions, perform tests over the data used and evaluate the specialists findings) and evaluate the results to determine if the specialist’s work can provide audit evidence. We incorporate these procedures into our audit plan wherever reliance on specialists exists.</li></ul>

## Audit Team and Fees

### Discussion

#### Audit Team

- Ernst & Young continues to serve you with a team of professionals who offer both industry experience and a working knowledge of your organization's business. We continue to focus on providing a committed and experienced team to your organization. The table below shows the key team members for the audit.

Engagement Member	Responsibility
Gary Kaye	Engagement Partner
Diana Brouwer	Independent Reviewer
Bessy Hui	Senior Manager

#### Fees

- A summary of our fees is included below for your reference.

	2009 \$	2008 \$
Annual audit fees	43,720	43,720

- The 2009 annual audit fee is exclusive of GST and inclusive of expenses. This is the second year of a two-year contract extension.
- We will provide a complete listing of fees for other services performed during the year as part of our year-end reporting package, including our fees for auditing capital assets.

## Timetable and Key Dates

Discussion			
	<ul style="list-style-type: none"> <li>The following time table highlights those major activities which are key elements of our audit plan:</li> </ul>		
Timetable	Establish Engagement Objectives	September - December	January - May
	– Meet with management regarding operating, accounting, and reporting matters	✓	
	– Conduct other audit planning events with management (e.g. fraud discussions/updates) and coordinate audit plan with management	✓	
	– Library Board review of planning/scope	✓	
	Understand the Business and Establish Audit Strategy		
	– Update our understanding of your systems and develop overall audit plan	✓	
	– Evaluate internal control at the entity level, including fraud controls	✓	✓
	– Perform combined (inherent and control) risk assessments and develop customized audit approach	✓	
	Perform Audit Procedures		
	– Perform interim procedures	✓	
	– Perform year-end procedures		✓
	Deliverables		
	– Complete review of final audited financial statements		✓
	– Discussion of audit results with senior management and Library Board		✓
	– Report to the Library Board on audit results		✓
Key Dates	<ul style="list-style-type: none"> <li>Interim work commenced October 28, 2009</li> <li>Year-end fieldwork to commence March 1, 2010</li> </ul>		

## New Developments in Accounting or Auditing Standards

Each year, we review changes in professional standards, legislation and stakeholder requirements that may have an impact on our audit, including the presentation or disclosure of items in the financial statements, our audit scope, and matters requiring communication.

Discussion	
<b>Government Reporting Model</b>	<ul style="list-style-type: none"> <li>• In November 2006, the Public Sector Accounting Board (“PSAB”) approved final revisions to Section PS 1000, <i>Financial Statement Concepts</i>, PS 1100, <i>Financial Statement Objectives</i>, and PS 1200, <i>Financial Statement Presentation</i>.</li> <li>• The revisions made to the above noted sections primarily focused on requiring local governments to apply the same reporting model currently adopted by senior governments. With the implementation of this new section by the local government community, all governments will be reporting on a full-accrual basis of accounting.</li> <li>• This section applies to local governments for fiscal years beginning on or after January 1, 2009.</li> <li>• <i>Together with the section on Tangible Capital Assets, this section requires significant changes in reporting for the Library. The changes include the addition of new statements to report the change in net debt as well as changes addressed through the reporting of tangible capital assets. These changes are required to be implemented for the December 31, 2009 financial statements.</i></li> </ul>
<b>Tangible Capital Assets</b>	<ul style="list-style-type: none"> <li>• In June 2006, PSAB approved the final Section PS 3150, <i>Tangible Capital Assets</i> as it relates to local governments.</li> <li>• The section establishes standards on how to account for and report tangible capital assets in government financial statements which is a significant change from the previous accounting of these as expenditures in the year incurred. This section applies to local governments for fiscal years beginning on or after January 1, 2009.</li> <li>• In preparing for the guidance noted above, PSAB approved a Public Sector Guideline, <i>Tangible Capital Assets of Local Governments</i>, in January 2006. The purpose of the guideline was to provide transitional guidance to local governments on presenting information related to tangible capital assets in notes or schedules to its summary financial statements and applied to fiscal years beginning on or after January 1, 2007.</li> <li>• In September 2008, PSAB approved a Statement of Recommended Practice (“SORP”) on the <i>Assessment of Tangible Capital Assets</i>. The SORP provides guidance to those that choose to prepare and present a report on the physical condition of their tangible capital assets, including leased tangible capital assets. SORP’s do not constitute generally accepted accounting principles and are intended to provide general guidance only.</li> <li>• <i>The Library is in the process of implementing PS 3150 and we are in the process of performing audit procedures on the 2008 opening tangible capital asset balances. In the upcoming months, we will complete audit procedures on the 2008 and 2009 capital asset transactions and closing balances included within the December 31, 2009 financial statements.</i></li> </ul>

## New Developments in Accounting or Auditing Standards (continued)

### Discussion

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- |                              |   |
|------------------------------|---|
| <b>Government Transfers</b>  | <ul style="list-style-type: none"><li>• Government Transfers is a project that was started to develop amendments to Section PS 3410, <i>Government Transfers</i>, to address application and interpretation issues raised by the government community. The major issues in the project include:<ul style="list-style-type: none"><li>• Resolving the debate over the appropriate accounting for multi-year funding provided by governments;</li><li>• Clarifying the nature and extent of the authorization required to be in place for a transfer to be recognized;</li><li>• Clarifying the degree to which stipulations imposed by a transferring government should impact the timing of recognition of the transfer by both the transferor and recipient governments; and</li><li>• Addressing the appropriate accounting for capital transfers.</li></ul></li><li>• Comments from the latest re-exposure draft have been received and it is likely another re-exposure draft will be issued in 2010 for comment.</li><li>• <i>This standard will not have an impact on the Library for 2009 and likely not for 2010. The most significant impact to the Library once the standard is approved, will likely be around grants received for tangible capital assets and the reporting thereof. There will likely be little opportunity to defer government transfers received and not spent unless they meet the definition of a liability.</i></li></ul> |
| <b>Financial Instruments</b> | <ul style="list-style-type: none"><li>• Financial Instruments - presently guidance in the Public Sector Accounting Handbook in respect of accounting for derivative financial instruments is limited to their application in hedging foreign currency items. However, derivative financial instruments are increasingly being used by governments to manage other financial exposures such as interest rate risk. The objective of this project is to develop a standard that addresses recognition and de-recognition criteria, measurement bases for financial instruments reported in the financial statements, and presentation issues and disclosure requirements unique to financial instruments. In June 2009, PSAB issued an Exposure Draft, the highlights of which are: Fair value measurement requirements for certain derivatives and portfolio investments; choice to report non-derivative assets and/or financial liabilities on a fair value basis; and separate presentation of gains and losses resulting specifically from these items. The final Public Sector Accounting Handbook Section is expected to be approved in March 2010 and will be effective for fiscal years beginning on or after April 1, 2012.<ul style="list-style-type: none"><li>• <i>The Library will need to monitor this project for future impact on its financial reporting.</i></li></ul></li></ul>   |
| <b>Other project</b>         | <ul style="list-style-type: none"><li>• 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 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 de-recognition criteria for assets and contingent assets 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 March 2010.<ul style="list-style-type: none"><li>• <i>The Library will need to monitor this project for future impact on its financial reporting.</i></li></ul></li></ul>  |
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## New Developments in Accounting or Auditing Standards (continued)

### Discussion

#### Introduction to Public Sector Accounting Standards

- The objective of this project was to revise the Introduction to Public Sector Accounting Standards to clarify which generally accepted accounting principles (“GAAP”) government organizations should apply when preparing their own financial statements.

#### *Government Business Enterprises and Government Business Type Organizations*

- PSAB approved an amendment to the Introduction to Public Sector Accounting Standards in September 2009, the highlights of which are as follows:
  - Government business enterprises will adhere to standards for publicly accountable profit-oriented enterprises, meaning the adoption of IFRS, for fiscal periods beginning on or after January 1, 2011.
  - The Government business-type organizations (“GBTOs”) classification in the Public Sector Accounting Handbook would be eliminated and government organizations currently classified as GBTOs may be categorized as other government organizations (“OGOs”) or government not-for-profit organizations (“GNFPOs”). OGOs would generally base their financial reporting on the Public Sector Accounting Handbook; however, where IFRS is more applicable for certain organizations, these organizations would adopt IFRS.
  - PSAB approved developing a section equivalent to IFRS 1 in the Public Sector Accounting Handbook to guide the transition to IFRS.
  - The exposure draft for the amendment is expected to be approved in November 2009, with the final Public Sector Accounting Handbook Section expected to be approved in March 2010.

#### *Government Not for Profit Organizations*

- In September 2008, PSAB, in conjunction with the Accounting Standards Board’s efforts, agreed to work toward the issuance of a collaborative Invitation to Comment (“ITC”) that sought views on the sources of generally accepted accounting principles that could be applied by various types of not-for-profit organizations in both the private and public sectors.
- PSAB reviewed responses to the ITC and, in September 2009, concluded that there was sufficient support to develop a reporting option that incorporated the CICA Handbook – Accounting standards for not-for-profit organizations (4400 series) into the Public Sector Accounting Handbook for PSAB’s consideration. PSAB expects to issue and approve an exposure draft by March 2010 and approve the amendment to the Introduction to Public Sector Accounting Standards in September 2010.

*We do not anticipate any changes to the Library’s reporting as a result of the changes to this standard. The Library is considered an OGO and has followed PSAB reporting in the past. We would expect the Library to continue with PSAB reporting under the revised standards as well.*

## Current Year Developments and Areas of Audit Emphasis

Each year in preparing our audit planning, we review significant developments within your organization and the external environment in which you operate. This review enables us to better understand the issues you are facing and to ensure that our audit plan appropriately and effectively addresses all areas of concern. To date, we have noted and discussed with management the following areas which are of significance:

Account/Audit Issues	Discussion	Preliminary Evaluation
New Government Reporting Model	<ul style="list-style-type: none"> <li>• Within the <i>New Developments in Accounting and Auditing Standards</i> section of this package, we have discussed the new government financial reporting model that will be adopted by the Library in the preparation of the December 31, 2009 financial statements.</li> <li>• The new reporting model will significantly impact the reporting of the 2009 financial statements. In addition to a new statement 'Changes in Net Debt', the new reporting model includes the introduction of an accumulated surplus(deficit) balance, recording of tangible capital assets on the statement of financial position, inclusion of non-cash expenditures such as amortization, gains/losses or write-offs on disposals of capital assets and exclusion of the schedule of capital operations.</li> </ul>	<ul style="list-style-type: none"> <li>• We will perform audit procedures to test that the Library has appropriately adjusted its accounts to conform to the new government reporting model, including the restatement of the 2008 comparative period.</li> <li>• We will perform audit procedures with respect to the required disclosures for the 2009 financial statements.</li> </ul>
Tangible Capital Assets Reporting	<ul style="list-style-type: none"> <li>• Within the <i>New Developments in Accounting and Auditing Standards</i> section of this package, we have discussed the new accounting standard that will require the Library to record its tangible capital assets on the statement of financial position, which is a significant change from the recording of these as expenditures in the year incurred.</li> <li>• The Library is currently in the process of implementing the new standard.</li> </ul>	<ul style="list-style-type: none"> <li>• We are in the process of performing audit procedures on the 2008 opening tangible capital asset balances. In the upcoming months, we will perform audit procedures on the 2008 and 2009 capital asset transactions and closing balances included in the December 31, 2009 financial statements.</li> <li>• We will perform audit procedures to test that the Library has appropriately implemented the new standard, including the restatement of the 2008 comparative period.</li> <li>• We will perform audit procedures with respect to the required disclosures for the financial statements.</li> </ul>

## Current Year Developments and Areas of Audit Emphasis (continued)

Account/Audit Issues	Discussion	Preliminary Evaluation
<b>Employee Benefit Liabilities</b>	<ul style="list-style-type: none"> <li>The Library sponsors defined benefit plans providing pension and other retirement and post-employment benefits to employees.</li> <li>Actuarial valuations for these plans are conducted on a periodic basis.</li> <li>The last actuarial valuation for pension and other retirement and post-employment benefits was completed as at December 2006. This valuation also included projection for 2008 and 2009.</li> <li>The results of the valuation and related projections will be used in the recording of employee benefit liabilities in the December 31, 2009 financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>We rely on the work performed by the Library's contracted consultants in auditing the pension and other retirement and post-employment benefits.</li> <li>When we rely on third party specialists, we are required by our professional standards to perform certain audit procedures (i.e. evaluate their objectivity, professional qualifications and reputation, understand significant assumptions, perform tests over the data used) and evaluate the results to determine if the specialist's work provides appropriate audit evidence.</li> <li>We will also assess that any plan changes as a result of new collective bargaining agreements and agreements with non-union employees have been appropriately considered in the new valuations.</li> </ul>
<b>Significant Estimates</b>	<ul style="list-style-type: none"> <li>The preparation of the Library's financial statements requires the use of accounting estimates.</li> <li>Management has processes in place for formulating these estimates.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit procedures test management's calculations, supporting data and assumptions used in those calculations.</li> <li>At the conclusion of our audit, we will communicate to the Board of Directors management's process for formulating particularly sensitive accounting estimates and the basis for our conclusions regarding the reasonableness of those estimates. We will also communicate our conclusion on the adequacy of the disclosures presented within the financial statements.</li> </ul>

# Engagement Letter

Mr. Jeffrey Griffiths, Auditor General  
City of Toronto  
Metro Hall  
55 John Street, 9<sup>th</sup> Floor  
Toronto, ON M5V 3C6

October 30, 2009

Dear Mr. Griffiths:

1. This engagement letter, including any additional terms that are attached, (collectively, the "Agreement") confirms the terms upon which Ernst & Young LLP ("we" or "EY") has been engaged to perform a statutory audit and report on the consolidated financial statements of the City of Toronto (the "City") for the year ending December 31, 2009. The services described in this paragraph may hereafter be referred to as either "Audit Service" or "Audit Services".

## **Audit Responsibilities and Limitations**

2. The objective of our audit is to express an opinion on whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the City in conformity with Canadian generally accepted accounting principle.
3. We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable rather than absolute assurance that the consolidated financial statements taken as a whole are free of material misstatement whether caused by error, fraud or illegal acts whose consequences have a material effect on the consolidated financial statements. There are inherent limitations in the audit process, including, for example, the use of judgment and selective testing of the data underlying the financial statements, the inherent limitations of internal controls, and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature. Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material fraud. Further, while effective internal control reduces the likelihood that misstatements will occur and remain undetected, it does not eliminate the possibility. For these reasons, we cannot guarantee that fraud, error and illegal acts, if present, will be detected when conducting an audit in accordance with Canadian generally accepted auditing standards. Also, an audit is not designed to detect error or fraud that is immaterial to the consolidated financial statements.
4. In accordance with standards established by the Canadian Institute of Chartered Accountants, we will communicate certain matters related to the conduct and results of the audit to the Audit Committee. Such matters include, when applicable, disagreements with management, whether or not resolved; difficulties encountered in performing the audit; our level of responsibility under professional standards in Canada for the financial statements, for internal control, and for other information in documents containing the audited financial statements; unrecorded audit differences that were determined by management to be immaterial, both individually and in the aggregate, to the financial

statements as a whole; changes in the City's significant accounting policies and methods for accounting for significant unusual transactions or for controversial or emerging areas; our judgments about the quality of the City's accounting principles; our basis for conclusions regarding sensitive accounting estimates; management's consultations, if any, with other accountants; and major issues discussed with management prior to our retention.

5. As part of our audit, we will consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the City's internal controls over financial reporting. This consideration will not be sufficient to enable us to provide assurance on the effectiveness of internal controls over financial reporting or to identify all significant weaknesses. Canadian generally accepted auditing standards define a significant weakness in internal control as one in which, in the auditor's professional judgment, the deficiency is such that a material misstatement is not likely to be prevented or detected in the financial statements being audited.
6. If we determine that there is evidence that misstatements, resulting from error, other than trivial errors, or that fraud or illegal or possibly illegal acts may exist or have occurred (other than illegal acts that are considered inconsequential), we will bring such matters to the attention of an appropriate level of management. The type and significance of the matter to be communicated will determine the level of management to which the communication is directed and whether the communication is also made to the Auditor General and the Audit Committee. If we become aware of fraud involving senior management or fraud (whether caused by senior management or other employees) that causes a material misstatement of the consolidated financial statements, we will report this matter directly to the Auditor General and the Audit Committee. We will also determine that the Auditor General and the Audit Committee is adequately informed of misstatements, resulting from error, other than trivial errors and illegal or possibly illegal acts that come to our attention unless they are clearly inconsequential. We will not duplicate any reporting made by the Auditor General in his communications to the Audit Committee and we will work with the Auditor General in our understanding of the risks that may arise as a result of any reportable incidents to his group in the year. In addition, we will inform the Auditor General, the Audit Committee and appropriate members of management of significant audit adjustments and significant weaknesses in the design or implementation of internal controls to prevent or detect fraud or error noted during our audit procedures, as well as related party transactions identified by us that are not in the normal course of operations and that involve significant judgments made by management concerning measurement and disclosure.
7. We also may communicate to the appropriate levels of management other opportunities we observe for economies in or improved controls over the City's operations. The matters communicated will be those that we identify during the course of our audit. Audits do not usually identify all matters that may be of interest to management in discharging its responsibilities.
8. In accordance with CICA Handbook Section 5751, *Communications with Those Having Oversight of the Financial Reporting Process*, we will communicate in writing to the Audit Committee any relationships between Ernst & Young LLP, its partners and professional employees and the City of Toronto (including related entities) that, in our professional judgment, may reasonably be thought to bear on our independence. Further, we will confirm our independence with respect to the City of Toronto.  
The preparation and fair presentation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles are the responsibility of the management of the City. Management also is responsible for establishing and maintaining effective internal controls, for properly recording transactions in the accounting records, for safeguarding assets, and for identifying and ensuring that the City complies with the laws and regulations applicable to its activities.
10. The design and implementation of internal controls to prevent and detect fraud and error are the responsibility of the City's management, as is an assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud. Management of the City is responsible for apprising us of all known instances of fraud, suspected fraud, illegal or possibly illegal acts and allegations involving financial improprieties received by management or the Audit Committee (regardless of the source or form and including, without limitation, allegations by "whistle-blowers," employees, former employees, analysts, regulators or others), and for providing us full access to information and facts relating to these instances and allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate

influence on related party transactions by related parties, intentionally misleading EY, or other allegations of illegal acts or fraud that could have a non-trivial effect on the financial statements or otherwise affect the financial reporting of the City. If the City limits the information otherwise available to us under this paragraph (based on the City's claims of solicitor/ client privilege, litigation privilege, or otherwise), the City will immediately inform us of the fact that certain information is being withheld from us. Any such withholding of information could be considered a restriction on the scope of our Audit Services and may alter the form of report we may issue on the City's financial statements; prevent us from consenting to the inclusion of previously issued auditor's reports in future City filings; or otherwise affect our ability to continue as the City's auditors. The City and we will disclose any such withholding of information to the Audit Committee.

11. Management is responsible for providing us with and making available complete financial records and related data and copies of all minutes of meetings of Council and committees; information relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements; information relating to any illegal or possibly illegal acts, and all facts related thereto; and information regarding all related parties and related party transactions. Failure to provide this information on a timely basis may cause us to delay our report, modify our procedures or even terminate the engagement.
12. Management is responsible for adjusting the consolidated financial statements to correct material misstatements and for affirming to us in its representation letter that the effects of any unrecorded audit differences accumulated by us during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

As required by Canadian generally accepted auditing standards, we will make specific inquiries of management about the representations contained in the consolidated financial statements. Management is responsible for affirming to us in its representation letter and providing us with information regarding the recognition, measurement and disclosure of specific items, including but not limited to the following:

- its assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the consolidated financial statements or used to support amounts in the consolidated financial statements;
- any plans or intentions that may affect the carrying value or classification of assets and liabilities;
- information relating to the measurement and disclosure of transactions with related parties;
- an assessment of all areas of measurement uncertainty known to management that are required to be disclosed in accordance with CICA Handbook Section 1508, *Measurement Uncertainty*;
- information relating to claims and possible claims, whether or not they have been discussed with the City's legal counsel;
- information relating to other liabilities and contingent gains or losses, including those associated with guarantees, whether written or oral, under which the City is contingently liable;
- information on whether the City has satisfactory title to assets, whether liens or encumbrances on assets exist, or whether assets are pledged as collateral;
- information relating to compliance with aspects of contractual agreements that may affect the consolidated financial statements; and
- information concerning subsequent events.

14. At the conclusion of the audit, we obtain representation letters from certain members of management to confirm significant representations on matters that are directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements; matters that are not directly related to items that are material to the consolidated financial statements but are significant, either individually or in the aggregate to the engagement; and those that are relevant to your judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements. The responses to the inquiries of management, the written representations from management and the results of our audit tests comprise the evidential matter we will rely upon in forming an opinion on the consolidated financial statements.

## **Fees and Billings**

15. Our fees are based on our two-year contract extension for external audit services for fiscal years 2008 and 2009 in accordance with the price proposal form approved by City council. Our fees also include the audit of the Toronto Public Library Foundation and the Toronto Zoo Foundation which are not listed in paragraph 18 as their terms and conditions are covered in a separate engagement letter. We will submit our invoices as work progresses and payment of them will be due upon receipt.
16. Our estimated fees and schedule of performance are based upon, among other things, our preliminary review of the City's records and the representations City personnel have made to us and are dependent upon the City's personnel providing a reasonable level of assistance. Should our assumptions with respect to these matters be incorrect or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fee referred to above and may be the subject of other written agreements supplemental to those in this letter.

## **Other Matters**

17. You will provide to us copies of the printer's proofs of your annual report prior to publication for our review. Management of the City bears the primary responsibility to ensure the annual report contains no misrepresentations. We will review the report for consistency between the annual consolidated financial statements and other information contained in the report, and to determine if the consolidated financial statements and our report thereon have been accurately reproduced. If we identify any errors or inconsistencies which may impact on the consolidated financial statements, we will advise management and the Audit Committee as appropriate.
18. In addition to reporting on the consolidated financial statements of the City, we will also audit and report on the undernoted financial statements. The fee for these services is included in the Council approval as described in part 15 of this letter. Our comments noted above setting out the terms of our engagement as auditors of the City of Toronto also apply to the entities/work listed below:
  - Toronto Economic Development Corporation
  - Toronto Community Housing Corporation
  - Housing Services Inc.
  - Toronto Parking Authority (including Carpark #161)
  - Police Services Board Special Funds
  - City of Toronto Sinking Funds
  - Investment Policy Compliance
  - City of Toronto Trust Funds
  - Homes for the Aged Interest Trust Fund
  - Toronto Board of Health
  - Various Subsidy Claims:
    - Toronto Public Health
      - Preschool Speech and Language Program

- Healthy Babies Healthy Children Program
- AIDS Bureau Program
- Infant Hearing Program
- 10 Homes for the Aged
  - Bendale Acres
  - Carefree Lodge
  - Castleview Wychwood Towers
  - Cummer Lodge
  - Fudger House
  - Kipling Acres
  - Lakeshore Lodge
  - Seven Oaks
  - True Davidson Acres
  - Wesburn Manor
- Community and Neighbourhood Services - "Supportive Housing and Community Support"
  - Toronto Coach Terminal, Inc.
  - Toronto Transit Commission
  - TTC Insurance Company Limited
  - Metropolitan Toronto Pension Fund
  - Toronto Fire Department Superannuation and Benefit Funds
  - Toronto Pension Fund
  - Toronto Police Benefit Fund
  - TTC Pension Fund Society
  - TTC Sick Benefit Association
  - York Employees Pension and Benefit Funds
  - Sony Centre for the Performing Arts
  - Toronto Zoo
  - Board of Governors of Exhibition Place
  - Canadian National Exhibition Association
  - Canadian National Exhibition Foundation
  - St. Lawrence Centre for the Arts
  - North York Performing Arts Centre Corporation
  - Toronto Public Library Board
  - Toronto Track and Field Centre

19. By your signature below, you confirm that the City, through City of Toronto Council, has expressly authorized you to enter into this Agreement with us on the City's behalf, and to bind the City.
20. The attached additional Terms and Conditions form an integral part of this engagement letter and govern our respective rights and obligations arising therefrom.

EY appreciates the opportunity to be of assistance to the City. If this Agreement accurately reflects the terms on which the City has agreed to engage EY, please sign below on behalf of the City and return it to Mark Barrett, Ernst & Young LLP, 175 Commerce Valley Drive, Suite 600, Thornhill, ON, L3T 7P6.

Yours very truly,

*Ernst & Young LLP*

**Chartered Accountants**  
**Licensed Public Accountants**

Acknowledged and agreed:

By: \_\_\_\_\_

Jeffrey Griffiths, Auditor General

\_\_\_\_\_

Date

## Terms and conditions

Except as otherwise specifically provided in the engagement letter or contract to which these terms and conditions are attached (collectively, the "Agreement") the following additional terms and conditions shall apply. As used herein "EY" refers to the Canadian firm of Ernst & Young LLP. "EY Entities" means EY, all members of the global Ernst & Young network, Ernst & Young Global Limited, and any of their respective affiliates (and "EY Entity" means any one of them).

1. **Services** - EY shall exercise due professional care and competence in the performance of the services provided pursuant to this Agreement (the "Services").
2. **Unexpected events** - If changes to the scope or timing of any Services are required because of a change in applicable law or professional standards or events beyond a party's reasonable control, but not involving its fault or negligence (any of which, a "Change"), the parties agree to adjust the fees for, and/or timing of, the Services appropriately and, if necessary, Client will obtain Audit Committee approval of such adjustments. Each party shall be excused from default or delay in the performance of its obligations (other than payment obligations) under this Agreement to the extent caused by a Change.
3. **Client data and information** - Client will provide, or cause to be provided, to EY in a timely manner complete and accurate data and information ("Client Data") and access to resources as may be reasonably required by EY to perform the Services. EY may disclose Client Data, including personal information, to other EY Entities for the purposes of (i) rendering the Services, (ii) fulfilling EY Entities' professional obligations to manage conflicts of interest and to maintain auditor independence and (iii) implementing standardized performance recording and documentation systems within the global Ernst & Young network. EY Entities or their service providers may process and store Client Data, which may include personal information, outside of Canada.
4. **Confidentiality** - Subject to the other terms of this Agreement, both Client and EY agree that they will take reasonable steps to maintain the confidentiality of any proprietary or confidential information of the other.
5. **Privacy** - Client confirms to EY that it has obtained any consents that may be required under applicable privacy legislation for any collection, use or disclosure of personal information that is necessary in order for EY to provide the Services. EY shall adhere to applicable privacy legislation when dealing with personal information that was obtained from Client. Personal information is collected, used and disclosed by EY in accordance with EY's privacy policy, which is available at <http://www.ey.com/ca>.
6. **Auditor oversight** - Client hereby acknowledges that EY may from time to time receive requests or orders from the Canadian Public Accountability Board or from professional, securities or other regulatory or governmental authorities that fulfill similar functions (both in Canada and abroad) to provide them with information and copies of documents in EY's files including EY's working papers, and other work-product relating to Client's affairs. Client consents to EY providing or producing, as applicable, these documents and information without further reference to, or authority from, Client. Except where prohibited by law, if a request or order is directly related to an inspection or investigation of EY's audit of Client, EY will advise Client of the request or order.

When a regulatory authority requests access to EY's working papers and other work-product relating to Client's affairs, EY will, on a reasonable efforts basis, refuse access to any document over which Client has expressly informed EY that Client asserts privilege, except where disclosure of documents is required by law or requested by a provincial Institute/Order of Chartered Accountants pursuant to its statutory authority. Client must mark any document

over which it asserts privilege as privileged and inform EY of the grounds for Client's assertion of privilege (such as whether it claims solicitor-Client privilege or litigation privilege).

EY will also be required to provide information relating to the fees that EY collects from Client for the provision of audit services, other accounting services and non-audit services.

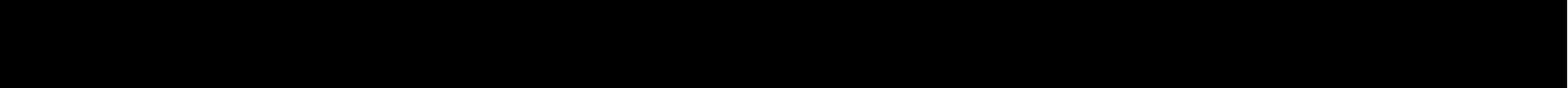
7. **Internet communications** - Unless otherwise agreed with Client, EY and other EY Entities may correspond by means of the Internet or other electronic media or provide information to Client in electronic form. There are inherent risks associated with the electronic transmission of information on the Internet or otherwise. EY cannot guarantee the security and integrity of any electronic communications sent or received in relation to this engagement and cannot guarantee that transmissions or other electronic information will be free from infection by viruses or other forms of malicious software.
8. **Right to terminate services** - Subject to any applicable professional standards and legislation, either party may terminate this Agreement, with or without cause, by providing written notice to the other party. In the event of early termination, for whatever reason, Client will be invoiced for time and expenses incurred up to the end of the notice period together with reasonable time and expenses incurred to bring the engagement to a close in a prompt and orderly manner. EY shall also have the right, upon 7 days prior notice, to suspend performance of the Services in the event Client fails to pay any amount required to be paid under this Agreement.
9. **Billing and taxes** - Bills including expenses will be rendered on a regular basis as the assignment progresses. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice. The fees, expenses and other charges payable pursuant to this Agreement do not include taxes or duties. All applicable taxes or duties, whether presently in force or imposed in the future, shall be assumed and paid by Client without deduction from the fees, expenses and charges hereunder.
10. **Governing law** - This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein, without regard to principles of conflicts of law. The parties hereby irrevocably and unconditionally submit and attorn to the exclusive jurisdiction of the courts of the Province of Ontario in connection with any dispute, claim or other matter arising out of or relating to this Agreement or the Services.
11. **EY reports** - EY retains all copyright and other intellectual property rights in everything created by EY before or during the course of an engagement, including all EY reports, advice or other EY communications of any kind ("EY Reports") and all methodologies, tools, systems, software and working papers created by EY. Any EY Reports are intended solely for the purpose described in the engagement letter or contract to which these terms and conditions are attached. Except as otherwise specifically agreed in such engagement letter or contract Client shall not refer to EY or reproduce, quote or refer to any EY Report (or any portion, summary or abstract thereof) in any document filed or distributed in connection with (i) a purchase or sale of securities or (ii) continuous disclosure obligations under applicable securities laws. EY assumes no duty, obligation or responsibility whatsoever to any third parties that obtain access to an EY Report (i.e. parties other than those to whom an EY Report is addressed). Any services or procedures performed for Client will not be planned or conducted (i) in contemplation of reliance by third parties (ii) with respect to any specific transactions contemplated by third parties or (iii) with respect to the interests or requirements of third parties. Client may not rely on any draft EY Report.
12. **Limitation of liability** - To the fullest extent permitted by law and regardless of whether such liability is based on breach of contract, tort (including negligence), breach of statute, strict liability, failure of essential purpose or otherwise,

- (a) EY's liability shall be several and not joint and several, solidary or in solidum and EY shall only be liable for its proportionate share of any total liability based on degree of fault having regard to the contribution to any loss or damage in question of any other persons responsible and/or liable for such loss and damage;
- (b) in no event shall either party be liable to the other for any consequential, incidental, indirect, punitive or special damages (including loss of profits, data, business or goodwill) in connection with the performance of the Services or otherwise under this Agreement, even if the relevant party has been advised of the likelihood of such damages; and
- (c) in any case the total aggregate liability of EY arising out of or relating to this Agreement or the Services shall be limited to the greater of (i) the total fees paid to EY for the Services and (ii) \$1,000,000. This paragraph (c) shall not limit liability for death, bodily injury, physical damage to tangible property, fraud or wilful misconduct.

For the purposes of this section ("Limitation of Liability"), the term EY includes all other EY Entities and any subcontractors, members, shareholders, directors, officers, managers, partners or employees of EY or any other EY Entity.

- 13. **Global resources** - EY may use the services of personnel from other EY Entities to assist it in providing the Services. EY shall be solely responsible for the performance of the Services and all of the other liabilities and obligations of EY under this Agreement whether or not performed, in whole or part, by EY, any other EY Entity, or any subcontractor or personnel of any EY Entity. Client and its affiliates or other persons or entities for or in respect of which any of the Services are provided shall have no recourse, and shall bring no claim (whether in contract, tort, or otherwise) against any EY Entity other than EY, or against any subcontractors, members, shareholders, directors, officers, managers, partners or employees of EY or any other EY Entity, or any of their respective assets, in connection with the performance of the Services or otherwise under the Agreement. Other EY Entities and any subcontractors, members, shareholders, directors, officers, managers, partners or employees of EY or any other EY Entity shall have the express benefit of this section and shall have the right to rely on and enforce any of its terms.
- 14. **No application** - The preceding two sections (Limitation of Liability, Global Resources) shall not apply to the extent prohibited by applicable law or regulation (including for these purposes applicable rules and interpretations of the US Securities and Exchange Commission relating to auditor independence and any applicable rules or guidance from a provincial Institute/Order of Chartered Accountants having jurisdiction).
- 15. **Solicitation and hiring of EY personnel** - EY's independence could be compromised if Client were to hire certain EY personnel. Without the prior written consent of EY, Client shall not solicit for employment or for a position on its Board of Directors, nor hire, any current or former partner or professional employee of any of EY, any affiliate thereof or any other EY Entity, if such partner or professional employee has been involved in the performance of any audit, review, attest or assurance service for or relating to Client at any time since the date of filing of Client's most recent financial statements with the relevant securities regulator(s) or stock exchange(s) (or, if Client has not previously filed such financial statements, since the beginning of the most recent fiscal year to be covered by Client's first such financial statements), or in the 12 months preceding that date.
- 16. **Severability** - In the event any provision of this Agreement is determined to be invalid, illegal or unenforceable, in whole or in part, such provision shall be deemed severed from this Agreement to the extent required and the remainder of this Agreement shall remain in full force and effect.
- 17. **Legal proceedings** - In the event EY is requested by Client or is required by government regulation, subpoena, or other legal process to produce documents or personnel as witnesses with respect to the engagement for Client, and provided that EY is not a party to the legal proceedings, Client shall reimburse EY for professional time and expenses, as well as the fees and expenses of counsel, incurred in responding to such requests.

18. **LLP status** - EY is a registered limited liability partnership ("LLP") continued under the laws of the province of Ontario and is registered as an extra-provincial LLP in Quebec and other Canadian provinces. Generally, a partner of an LLP has a degree of limited liability protection in that he or she is not personally liable for any debts, obligations or liabilities of the LLP that arise from the negligence of another partner or any person under that partner's direct supervision or control. As an LLP, EY is required to maintain certain insurance. EY's insurance exceeds the mandatory professional liability insurance requirements established by any provincial Institute/Order of Chartered Accountants.
19. **Miscellaneous** - EY shall provide all Services as an independent contractor and nothing shall be construed to create a partnership, joint venture or other relationship between EY and Client. Neither party shall have the right, power or authority to obligate or bind the other in any manner. This Agreement shall not be modified except by written agreement signed by the parties. This Agreement may not be assigned in whole or in part by Client without EY's prior written consent, not to be unreasonably withheld. Any terms and provisions of this Agreement that by their nature operate beyond the term or expiry of this Agreement shall survive the termination or expiry of this Agreement, including without limitation those provisions headed Client Data & Information, Confidentiality, Auditor Oversight, Limitation of Liability, Global Resources, Solicitation & Hiring of EY Personnel, and Legal Proceedings. This Agreement shall enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns. The provisions of this Agreement shall operate for the benefit of, and may be enforced by, other EY Entities and any subcontractors, members, shareholders, directors, officers, managers, partners or employees of EY or any other EY Entity. This Agreement constitutes the entire agreement between the parties relating to its subject matter and supersedes all prior representations, negotiations and understandings



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