
Toronto Public Library Board

*Audit plan for the year
ending
December 31, 2013*





November 8, 2013

Members of the Board
Toronto Public Library Board

Dear Board Members:

We are pleased to present our audit plan for the 2013 audit of the financial statements of Toronto Public Library Board (the Library) prepared in accordance with Canadian generally accepted accounting principles (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

c.c.: 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

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

<i>Contents</i>	<i>Page</i>
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 commitment to audit quality	8
7. Our fees	9
8. Accounting standard changes for public sector organizations	10

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 2013 audit of the financial statements.

This audit plan includes the required communications between an auditor and the Board 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.

Discussion item	Summary	For further reference
Client service team	<ul style="list-style-type: none"> Terri McKinnon is your engagement leader and Ryan Grey is your engagement manager. 	Page 2
Service deliverables	<ul style="list-style-type: none"> The scope of our services remains consistent with the prior year. 	Page 3
Timing	<ul style="list-style-type: none"> Interim audit: October 2013 Year-end audit: March 10 - 21, 2014 	Page 4
Audit approach	<ul style="list-style-type: none"> Our audit approach will consist of a mixture of key controls reliance and substantive testing. Consistent with Canadian GAAS, we will also implement a level of unpredictability into our procedures each year. 	Page 5
Materiality	<ul style="list-style-type: none"> We have calculated materiality (based on the current forecasted results) and have determined a preliminary materiality of \$3,820,000 for 2013. Unadjusted and adjusted items over \$382,000 will be reported to the Board on completion of our audit. 	Page 6
Risk analysis	<ul style="list-style-type: none"> Management override of controls remains an area of audit focus. 	Page 5
Fraud risk	<ul style="list-style-type: none"> We are required to discuss fraud risk annually with the Board. In planning our audit, we have considered the risk of fraud, management's processes for mitigating the risk, and the Board's oversight processes. 	Page 6
Our commitment to audit quality	<ul style="list-style-type: none"> Our core values ensure we achieve audit quality and quality service: <ul style="list-style-type: none"> - Investing in relationships - Sharing and collaborating - Putting ourselves in others' shoes - Enhancing value Our audit work will stand up to the scrutiny of different stakeholders. 	Page 8
2013 audit fees	<ul style="list-style-type: none"> Our proposed audit fee for 2013 is \$30,660, which is an increase of \$1,970 from prior year. 	Page 9

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
Ryan Grey	Engagement manager	416 687 8601	ryan.grey@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, 2013 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.

c. **Our service deliverables**

Our audit and audit related service deliverables with respect to 2013 are:

	Audit and audit related services	Timing/status	Board approval
Audit opinion	Audit of financial statements for the Library	April 28, 2014 (To be confirmed)	April 28, 2014 (To be confirmed)
Audit report on findings	<ul style="list-style-type: none"> • Key findings (particularly regarding significant estimates, transactions, accounting policies and disclosures) • Any significant deficiencies identified in internal controls • Provide a confirmation of our independence 	April 28, 2014 (To be confirmed)	N/A

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	October 2013
Year-end audit	March 10 - 21, 2014
Clearance meeting with management and PwC	April 24, 2014
Year-end Board meeting ¹	April 28, 2014 (To be confirmed)
Approval of financial statements by Board of Directors	April 28, 2014 (To be confirmed)

¹At the year-end Board meeting, we will provide our draft audit opinion, key findings (particularly, regarding significant estimates, transactions, accounting policies and disclosures) and any significant deficiencies identified in internal controls.

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 and substantive analytical testing.

Our approach will therefore, include a mixture of key controls reliance, substantive analytics and detailed testing. Our understanding of the Library also drives our assessment of materiality and the identification of audit risks.

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

b. Risk analysis

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

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

Risk area (including key judgments and estimates)	Management's response	Our audit approach
Risk of management override of controls	All non-routine journal entries are reviewed and approved by the appropriate level of management.	<ul style="list-style-type: none"> • We will review manual journal entries focusing on large and unusual entries. • We will review accounting estimates for biases that could result in material misstatement due to fraud. • We will incorporate unpredictable procedures in the audit approach.

Our professional standards require us to communicate the qualitative aspects of new accounting policies selected and our views on alternative policies.

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 organization is to use 1/2% to 2% of revenue or expenditures.

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

	Basis	Amount \$
Overall materiality ¹	2% of expenses	3,820,000
Unadjusted and adjusted items in excess of this amount will be reported to the Board	10% of overall materiality	382,000

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"> • Through our planning process (and prior years' audits), we have developed an understanding of your oversight processes including: <ul style="list-style-type: none"> - Code of conduct - Discussion at Board meetings and our attendance at those meetings - Presentations by management, including business performance reviews - Signing authorities • Are there any new processes or changes to the above that we should be aware of?
Response	

¹ Our materiality calculation is based on prior year actual results; should there be a significant change, we will communicate changes to the Board at year-end.

Question 2:

Required discussion	We are not aware of any fraud at the current time. We would like to ask: Are you aware of instances of actual, suspected or alleged fraud affecting the entity?
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 fulfil 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 commitment to audit quality*

We are proud of PwC's long history of delivering high quality and recognize that quality in everything we do is paramount. We know that you expect our people to be competent, objective and embody the right level of professional scepticism, while at all times maintaining an open dialogue with your management team. We believe our core values described below ensure that we achieve audit quality and quality service at the same time.

Core value	How it helps us execute a high quality audit
Investing in relationships	<ul style="list-style-type: none"> We believe that the professional relationships we foster with management and the Board allow us to have open and candid dialogue over issues including, when necessary, asking those difficult questions. Relationships also allow us to provide timely advice and enable us to better understand the company's business.
Sharing and collaborating	<ul style="list-style-type: none"> Tackling today's complex business issues requires the collaboration of different team members from various areas of our firm, such as tax or valuation experts. Our experts will work with members of your team to help solve complex issues and bring forward best practices.
Putting ourselves in others' shoes	<ul style="list-style-type: none"> Listening to and understanding others' perspectives allow for enhanced dialogue and allow us to think about issues from various points of view. We consider issues from multiple perspectives, starting with the standards, and including the views of management and the Board as well as our assessment of what financial statement users expect. While we will express our views or preferences, we do not impose them on you unless we believe that there are no other alternatives within the standards.
Enhancing value	<ul style="list-style-type: none"> Our understanding of the business and execution of a quality audit allow us to identify issues that are important to the Board and management. Within the realm of our independence rules, there are opportunities to provide recommendations and insight on improvements in controls, operations and other areas of business that can enhance shareholder value.

These core values govern how we operate, the audit work and documentation of procedures in our files are also always of the same high standard. Our people are subject to continuous training to ensure that they are equipped with the right tools and best practices to achieve quality and a focus on continuous improvement.

Although our audits are planned to focus on the key risks, our professional audit standards and regulators require us to ensure that we have sufficient evidence in all areas of our files. While we strive to achieve high quality in a cost-effective manner, the reality is that we are being required to do more to comply with existing standards and to meet our regulator's interpretations of what audit quality is. This means that you will see us performing procedures in areas that you might consider lower risk.

As always we welcome your feedback on our performance and your views on how we achieve quality. You have our commitment that audit quality is paramount and you can have the confidence that the audit work performed by PwC will stand up to the scrutiny of contributors and other stakeholders.

7. *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 2013 will be as follows:

Service description	Estimated fees 2013 \$	Actual fees 2012 \$
Audit of the financial statements*	30,660	28,690

* Includes tie out of budget numbers in the financial statements to the approved budget.

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.

8. Accounting standard changes for public sector organizations

As part of our commitment to quality service, we now draw your attention to new and emerging accounting, auditing and regulatory developments.

The following are significant projects that are in progress by the Public Sector Accounting Board:

- *Related Parties* – In September 2012, PSAB issued an exposure draft proposing a new PSA Handbook Section for Related Party Transactions. The exposure draft included guidance on the identification of related parties as well as the recognition and measurement of related party transactions. The Board has considered responses to the exposure draft and will be issuing a re-exposure draft with revised guidance to address concerns over key management personnel and measurement of related party transactions. The re-exposure draft is expected in June 2013 with a view to a final standard by the end of 2013. Our audit national public sector leader is the chair of the PSAB task force on this project.
- *Restructurings* – Restructurings may take many forms including amalgamations, transfers and reorganizations. This project aims to create a standard to define restructuring transactions and provide guidance on the recognition and measurement of assets and liabilities subject to restructuring as well as accounting for restructuring costs. A statement of principles was issued in February 2013, which proposes that restructurings involve the transfer of an integrated set of assets, liabilities and related responsibilities without the exchange of significant consideration based on the fair values of assets and liabilities transferred. Restructuring transactions are to be measured based on carrying values with limited adjustments. An exposure draft for a new standard is expected in early 2014.
- *Assets* – The objective of this project is to provide a standard that addresses the basic concepts and definition of assets, similar to the standard that already exists for liabilities (Section PS 3200). The first step in this project is a statement of principles that will define the essential characteristics of assets, contingent assets and contractual rights, provide recognition and derecognition criteria for assets and contingent assets, provide guidance on the measurement of assets and contingent assets (including impairments) and consider disclosure requirements. A draft statement of principles is expected in 2013.
- *Revenues* – This project is to develop additional principles for revenue recognition principles that apply to sources of revenue other than government transfers and tax revenue. It is a wide-reaching project seeking to address recognition, measurement and presentation of revenues that are common in the public sector. PSAB is currently working on a statement of principles, expected to be issued before the end of 2013.
- *Asset Retirement Obligations* – This project will introduce guidance on accounting for asset retirement obligations into the PSA Handbook. The project is in early stages with a statement of principles expected before the end of 2013. A partner from our National Office sits on the PSAB task force for this project.

The Toronto Public Library Board will need to monitor these projects for future impact on its own financial reporting.

