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STAFF REPORT
INFORMATION ONLY

Audit Plan for the Year Ending December 31, 2024

Date: December 2, 2024

To: Toronto Public Library Board

From: City Librarian

SUMMARY

The purpose of this report is to provide the Audit Planning Report for the year ending December 31, 2024 from KPMG LLP, the external auditors, on the planning for their audit of the 2024 financial statements for the Toronto Public Library Board, for information.

FINANCIAL IMPACT

The proposed audit fee of $53,000, inclusive of expenses and exclusive of Harmonized Sales Tax, is an increase of $2,000 over the $51,000 of fees paid to KPMG for the 2023 audit, and this is provided for in the 2024 operating budget.

The Director, Finance & Treasurer has reviewed this financial impact statement and agrees with it.

ALIGNMENT WITH STRATEGIC PLAN

The audit of the annual financial statements by independent external auditors is a key control activity which supports the Financial Stewardship strategic objective within TPL's 2020-2024 Strategic Plan.

ISSUE BACKGROUND

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

The City issued a request for proposal for external audit services, including the Toronto Public Library Board, for 2020 to 2024, and KPMG was the successful proponent. This is the fifth and final year of a five-year audit contract that the City has negotiated. The contract with KPMG will end with the audit of the December 31, 2024 financial statements.

COMMENTS

As part of the annual audit, KPMG provides an Audit Planning Report to the Toronto Public Library Board. The Audit Planning Report for the year ending December 31, 2024 is appended as Attachment 1 and includes the audit and significant risks, audit materiality, audit trends and current developments.

On completion of the audit, KPMG will issue the audited financial statements and a year-end report to the Board that will provide significant audit, accounting and financial reporting matters, internal control recommendations and a confirmation of auditor independence.

The auditors will conduct their audit of the 2024 financial statements pursuant to this plan.

CONTACT

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

SIGNATURE

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Vickery Bowles
City Librarian

ATTACHMENTS

Attachment 1: Toronto Public Library Board – Audit Planning Report for the year ending December 31, 2024

Attachment 1

Toronto Public Library Board

Audit Planning Report for the year ending December 31, 2024

KPMG LLP

Licensed Public Accountants

Prepared as of October 28, 2024

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement

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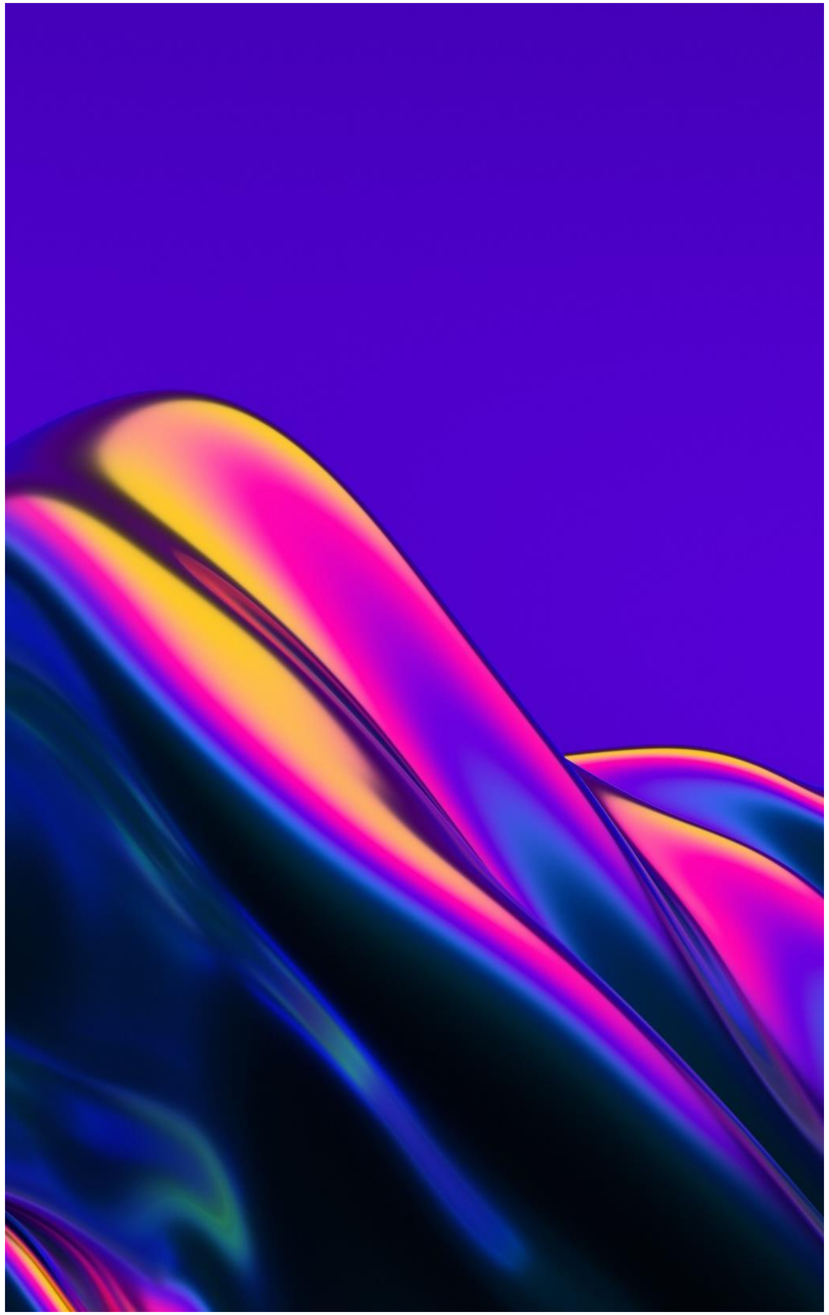

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Digital use information

This Audit Planning Report is also available as a "hyper-linked" PDF document.

If you are reading in electronic form (e.g. In "Adobe Reader" or "Board Books"), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

No matters to report

Matters to report – see link for details

Scope

Our audit of the financial statements ("financial statements") of Toronto Public Library Board (the "Board" or the "Library") as of and for the year ending December 31, 2024, will be performed in accordance with Canadian generally accepted auditing standards.

Audit strategy

Materiality $7,268,000

Involvement of others

Updates to our prior year audit plan

Risk assessment

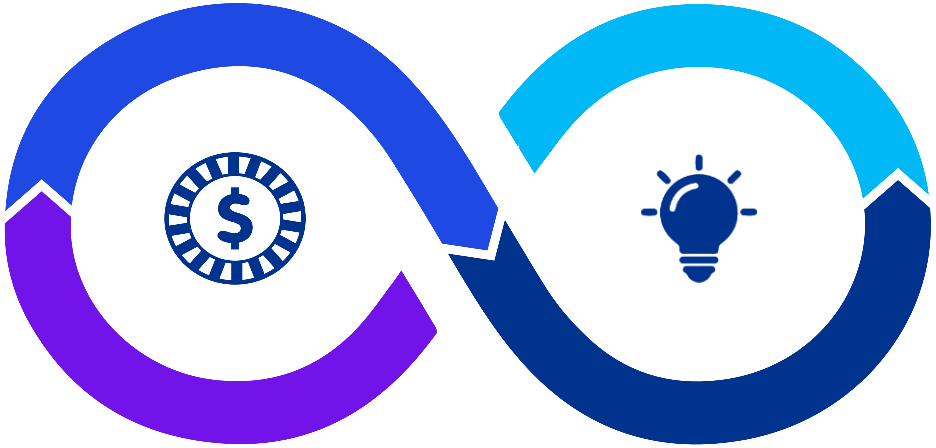
Risk of management override of controls

Other risks of material misstatement

Presumed risk of fraudulent revenue recognition

The purpose of this report is to assist you, as a member of the Board of Directors, in your review of the plan for our audit of the financial statements. This report is intended solely for the information and use of Management, and the Board of Directors and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this report to the Board of Directors has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement***, considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also ***use materiality*** to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

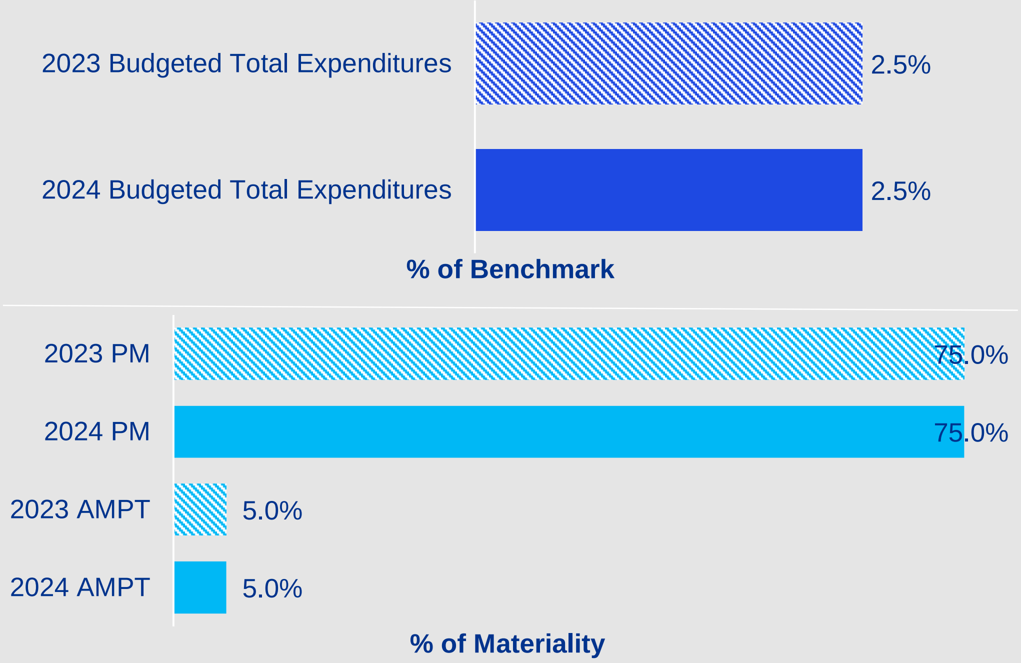
Initial materiality

Note that planning materiality was determined based on budgeted total expenditures for the year and will be recalculated at year-end using actual total expenditures. Any changes will be communicated to the Members of the Board through year-end reporting.

Materiality

$7,268,000

(2023: $7,000,000)



Budgeted Total Expenditures

$290,725,054

(2023: $281,000,000)

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Performance Materiality (PM)

$5,451,000

(2023: $5,950,000)

Audit Misstatement Posting Threshold (AMPT)

$363,400

(2023: $350,000)

Significant risks

Management Override of Controls (non-rebuttable significant risk of material misstatement)

RISK OF FRAUD

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Our planned response

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

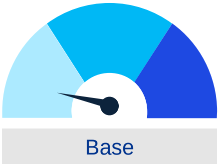
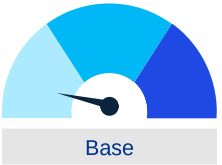
- testing of journal entries and other adjustments,
- performing a retrospective review of estimates
- evaluating the business rationale of significant unusual transactions.

Advanced technologies

Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

Click to learn more

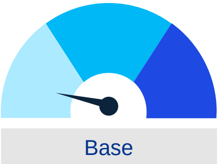
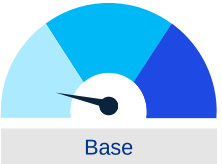
Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Cash and cash equivalents		• Obtain confirmations of the year-end cash and cash equivalents balances from third parties. • Review bank reconciliations and agree significant reconciliation items to supporting documentation. • Review financial statements disclosures.
Capital assets		• Substantively test capital additions and disposals to supporting documentation. • Review amortization policies and recalculations. • Review management's impairment assessment. • Perform analysis of triggering events and impairment of tangible capital assets. • For asset retirement obligations ("ARO"), inquire with management to understand any changes to management's assumptions about the timing and cost of future retirement activities. Evaluate any changes in estimates related to the ARO. • Assess external factors that may impact the ARO, such as changes in technology, environmental regulations, or market conditions that could affect the cost of retirement activities.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Revenue and accounts receivable	Base	• Assess revenue recognition considerations (deferred vs. recognized). • Perform a reconciliation of accounts receivable and review sub-ledger for credit balances. • Assess the reasonability of the Allowance for Doubtful Accounts balance in the current year. • Select samples from user charges, donations and other grants, and other revenue and agree to supporting documentation to ensure revenue recognition is appropriate.
Deferred revenue	Base	• Inquire of management on the nature of various deferral revenue. • Select samples of inflows for deferred revenues, agreed to supporting documentation and ensured appropriate deferrals were made. • Select samples of outflow for deferred revenues, agreed to supporting documentation and ensured appropriate revenue recognitions or refund reversals were made.
Due to/from the City, City of Toronto Revenue and Province of Ontario Revenue	Base	• Obtain an understanding over the revenue recognition policy and controls in place. • Obtain confirmation from City of Toronto to ensure existence, accuracy and completeness of the intercompany receivable/payable balance and revenue. • Obtain grant approval letter from Ontario Ministry of Heritage, Sport, Tourism and Culture Industries to ensure the existence, accuracy and completeness of Province of Ontario Revenue.

Other risks of material misstatement

Areas	Level of risk due to error	Our planned response
Accounts payable and operating expenses		• Review supporting documentation for significant accruals. • Perform a search for unrecorded liabilities by extracting lists of subsequent payments and accounts payable details and selected samples for testing. • Select a sample of expense transactions and agree to original invoices to ensure the proper classification of expenses.
Employee future benefits		• Obtain confirmation of balances directly with third party actuaries. • As a significant estimate, we will evaluate the data, method and assumptions applied in the valuations and perform trend analysis on the liability. • We will evaluate the discount rate in comparison with rates issued by the Canadian Institute of Actuaries and KPMG LLP. • We will assess the qualifications, competence and objectivity of the actuaries as required by the Canadian auditing standards. • We will review financial statement note disclosures.

Required inquiries of Those Charged with Governance

Inquiries regarding risk assessment, including fraud risks

- What are the Board of Directors' views about fraud risks, including management override of controls, in the Company? And have you taken any actions to respond to any identified fraud risks?
- Is the Board of Directors aware of, or has the Board of Directors identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets?
  - If so, have the instances been appropriately addressed and how have they been addressed?
- How does the Board of Directors exercise oversight of the Company's fraud risks and the establishment of controls to address fraud risks?

Inquiries regarding company processes

- Is the Board of Directors aware of tips or complaints regarding the Company's financial reporting (including those received through the Board of Directors' internal whistleblower program, if such programs exist)? If so, the Board of Directors' responses to such tips and complaints?

Inquires regarding related parties and significant unusual transactions

- Is the Board of Directors aware of any instances where the Company entered into any significant unusual transactions?
- What is the Board of Directors' understanding of the Company's relationships and transactions with related parties that are significant to the Company?
- Is the Board of Directors concerned about those relationships or transactions with related parties? If so, the substance of those concerns?

Key milestones and deliverables

Oct – Nov 2024

Planning & Risk Assessment

- Debrief prior year with management
- Kick-off with management
- Planning and initial risk assessment procedures, including:
  - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Company and its environment

Oct - Nov 2024

Risk assessment & Interim work

- Evaluate the Entity's components of internal control, other than the control activities component
- Complete initial risk assessment
- Communicate audit plan
- Identify IT applications and environments
- Perform process walkthroughs for certain business processes
- Complete interim data extraction and processing activities
- Evaluate D&I of controls for certain business processes (control activity component)
- Perform interim substantive audit procedures
- Provide update on audit progress

Mar - May 2025

Final Fieldwork & Reporting

- Complete year-end data extraction and processing activities
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Closing meeting with management
- Present audit results to the Board and perform required communications
- Issue audit report on financial statements

How do we deliver audit quality?

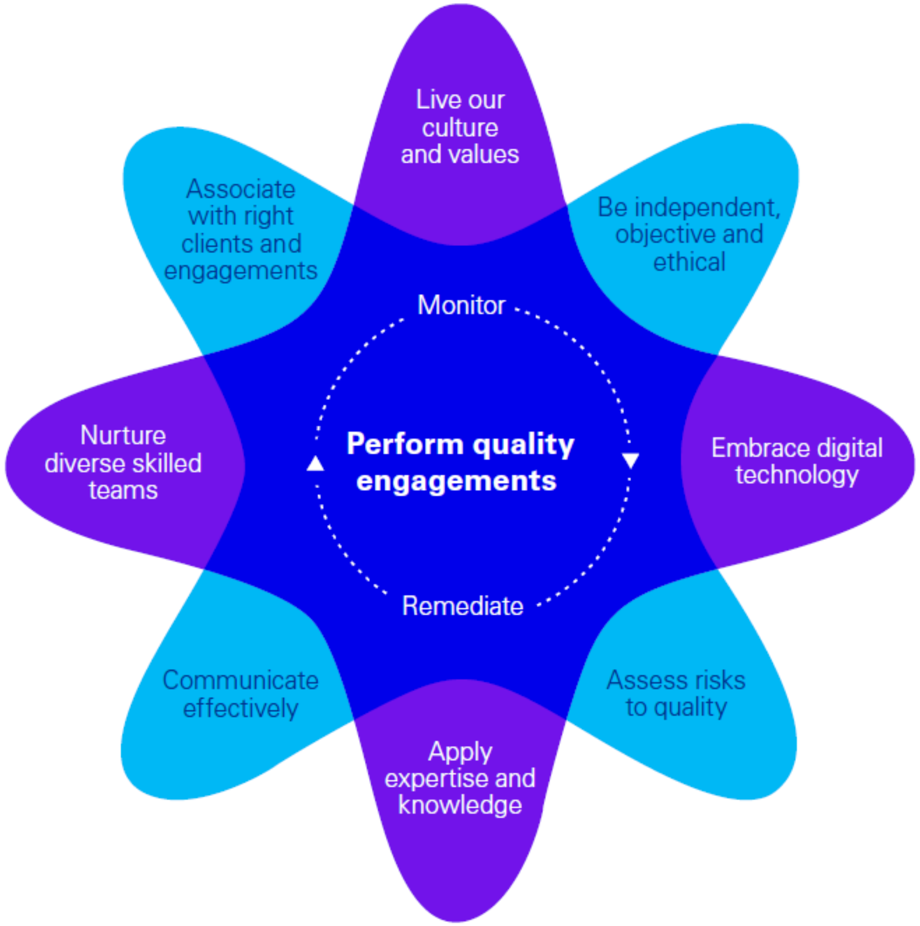
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements. Our Transparency Report includes our firm's Statement on the Effectiveness of our SoQM.

KPMG Canada Transparency Report

We define 'audit quality' as being the outcome when:

- audits are **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality management;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**



Doing the right thing. Always.

Indicators of audit quality (AQIs)

The objective of these measures is to provide more in-depth information about factors that influence audit quality within an audit process. Below are the AQIs that we have agreed with management are relevant for the audit. We would like to obtain agreement of the Audit Committee that these are the relevant AQIs.

We will communicate the status of the below AQIs on an annual basis.

Team composition

Experience of the team

- Role – number of years experience in the industry, number of years on this engagement

Technology in the audit

Implementation of Technology in the Audit

- Increase in use of technology in the audit year over year

Timing of prepared by client (PBC) items

Timeliness of PBC items

- Number of timely and overdue items received by the audit team.

Appendices

A — Regulatory communications

B — New accounting standards

C — New auditing standards

D — Insights

E — Technology

Appendix A: Regulatory communications

CPAB communication protocol

The reports available through the following links were published by the Canadian Public Accountability Board to inform Audit Committees and other stakeholders about the results of quality inspections conducted over the past year:

- CPAB Audit Quality Insights Report: 2022 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2023 Interim Inspections Results
- CPAB Regulatory Oversight Report: 2023 Annual Inspections Results
- CPAB Audit Quality Insights Report: 2024 Interim Inspections Results

Appendix B: Newly Effective Accounting Standards

Standard	Summary and implications
Revenue	• The new standard PS 3400 *Revenue* is effective for fiscal years beginning on or after April 1, 2023 *(December 31, 2024 year-end).* • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. • The standard notes that unilateral revenue arises when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Purchased Intangibles	• The new Public Sector Guideline 8 *Purchased intangibles* is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted *(December 31, 2024 year-end).* • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000 *Financial statement concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201 *Financial statement presentation* to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.

Appendix B: Newly Effective Accounting Standards

Standard	Summary and implications
Public Private Partnerships	• The new standard PS 3160 *Public private partnerships* is effective for fiscal years beginning on or after April 1, 2023 *(December 31, 2024 year-end).* • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the public private partnership ends. • The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. • The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project. • The standard can be applied retroactively or prospectively.
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Appendix B: Newly Effective Accounting Standards

Standard	Summary and implications

Financial Statement Presentation	• The proposed section PS 1202 *Financial statement presentation* will replace the current section PS 1201 *Financial statement presentation*. PS 1202 *Financial statement presentation* will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained.
	  • Separating liabilities into financial liabilities and non-financial liabilities.
	  • Restructuring the statement of financial position to present total assets followed by total liabilities.
	  • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities).
	  • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called “accumulated other”.
	  • A new provision whereby an entity can use an amended budget in certain circumstances.
	  • Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix B: Newly Effective Accounting Standards

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is to use principles from International Public Sector Accounting Standard 39 *Employee benefits* as a starting point to develop the Canadian standard. • Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations. • The Public Sector Accounting Board is in the process of evaluating comments received from stakeholders on the exposure draft.

Appendix C: Newly effective and upcoming changes to auditing standards

For more information on newly effective and upcoming changes to auditing standards - see Current Developments

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Effective for periods beginning on or after December 15, 2024

ISA 260/CAS 260

Communications with those charged with governance

ISA 700/CAS 700

Forming an opinion and reporting on the financial statements

Appendix D: Audit and assurance insights

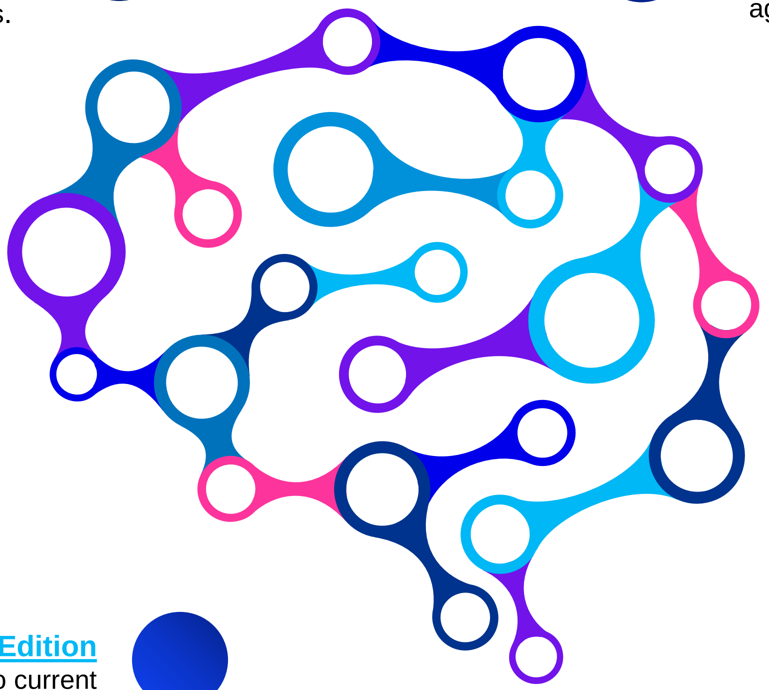
Our latest thinking on the issues that matter most to Audit Committees, board of directors and management.

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

Board Leadership Centre
Leading insights to help board members maximize boardroom opportunities

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Assurance & Related Services, Canadian Securities Matters, and US Outlook reports.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping audit committee effectiveness in Canada.



Accelerate 2024
The key issues driving the audit committee agenda in 2024.

Sustainability Reporting
Resource centre on implementing the new Canadian reporting standards

Appendix E: Our technology story

Streamlined client experience

And deeper insights into your business, translating to a better audit experience.

Secure

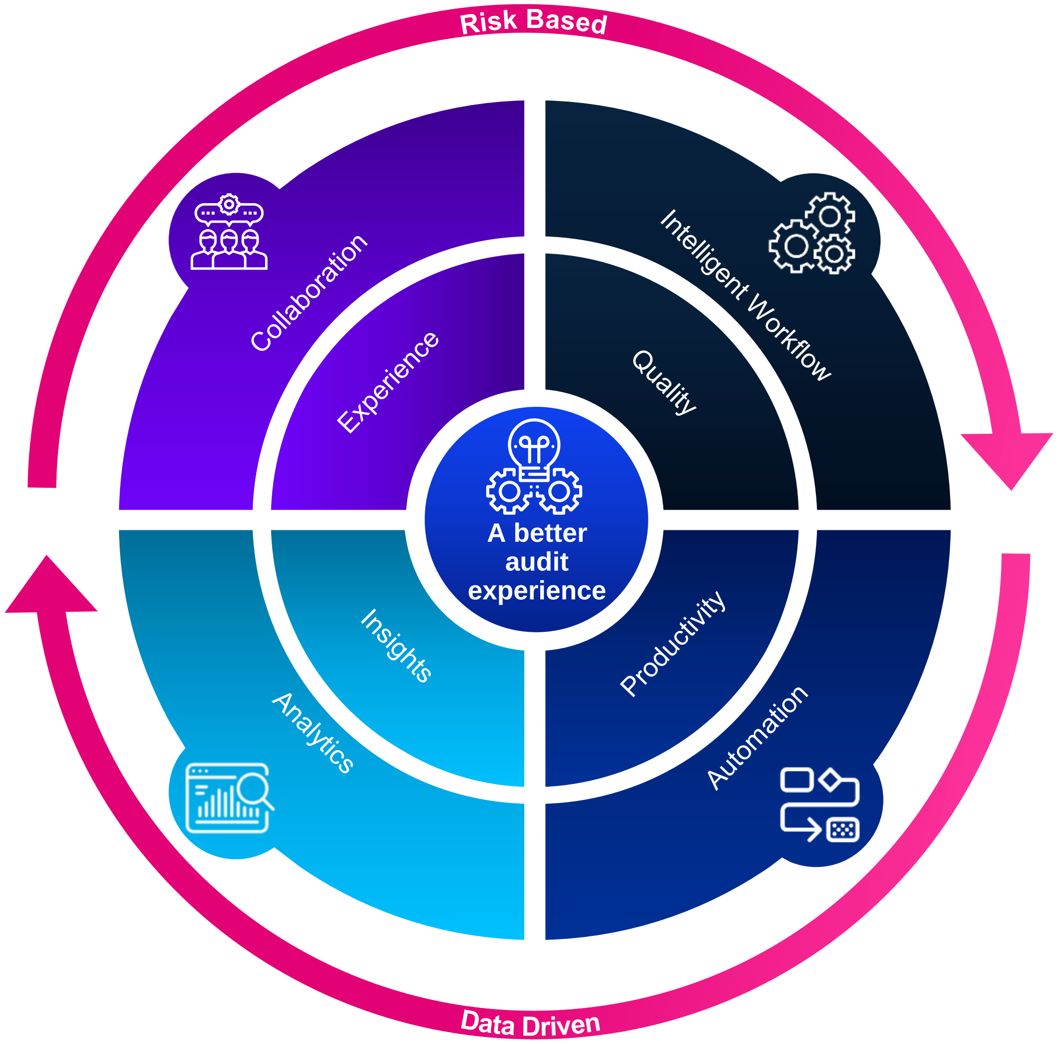
A secure client portal provides centralized, efficient coordination with your audit team.

Intelligent workflow

An intelligent workflow guides audit teams through the audit.

Increased precision

Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.



Appendix E: Expanding the use of audit technology

Appendix E: Expanding the use of audit technology

Analytics

- AI Transaction Scoring
- Audit Routine Catalogue
- Data Visualization
- Group Scoping Tool
- Matching Routines
- Process Mining Analytics
- KPMG Forecast Analytics Suite

Automation

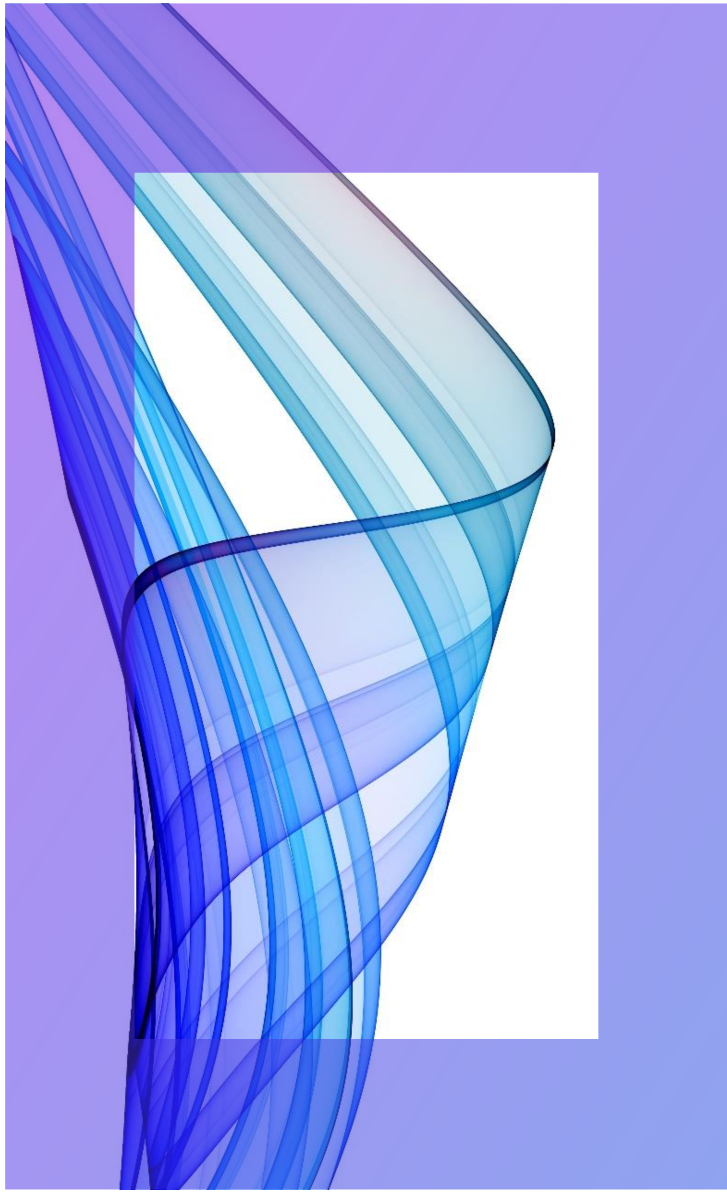
- Automated Industry Routines
- Confirmation
- Data Extraction Scripts
- DataShare
- DataSnipper
- Inventory Counter App
- iRadar and iNav
- Offset Remover

Collaboration

- DocuSign™
- KPMG Clara for Clients

Workflow

- KPMG Clara Workflow
- Account Analysis
- Journal Entry Analysis
- Planning Analytics



Appendix E: Continuous evolution

Our investment: $5B

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

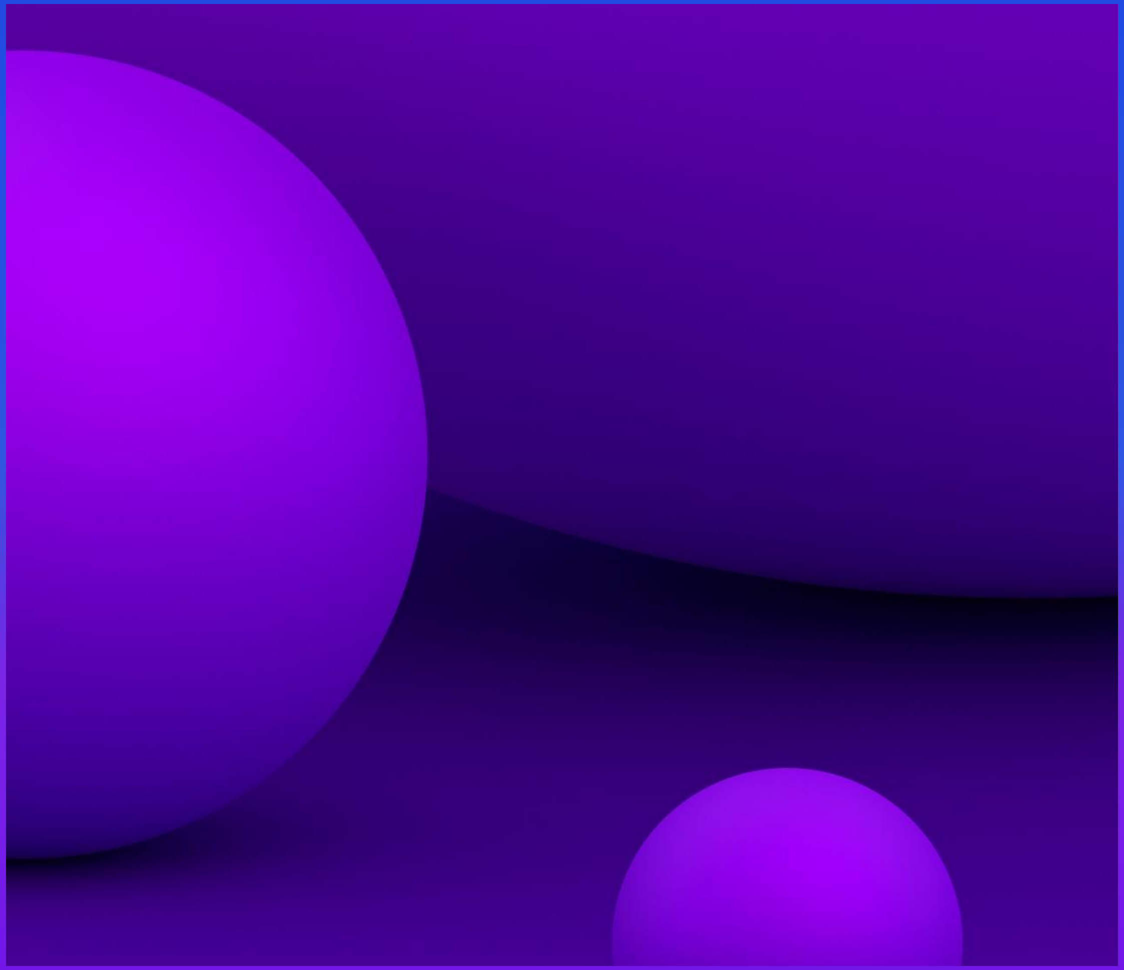
Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.

KPMG



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