

March 4, 2003

# Trust Funds of the Toronto Public Library Board

## Audit Results – Year Ended December 31, 2002

Report to Members of the Board of Directors

 **ERNST & YOUNG**

*Quality In Everything We Do*

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March 4, 2003

Members of the Board  
of the Toronto Public Library

Dear Members of the Board:

We are pleased to present the results of our audit of the financial statements of the Trust Funds of the Toronto Public Library Board [the "Trust Funds"].

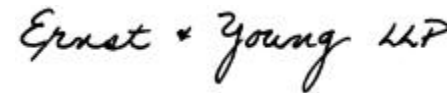
This report to the Members summarizes the issues of audit significance discussed with management of the Trust Funds and provides the communications required by our professional standards.

The completion of this year's audit was accomplished through the effective support and the assistance of the Trust Fund's finance and operating personnel.

As always, we strive to continually improve the quality of our audit services. This meeting is a forum for you to provide feedback on ways we can continue to meet and exceed your expectations.

This report is intended solely for the use of the Library and management of the Trust Funds, and should not be used for any other purpose.

Very truly yours,

A handwritten signature in black ink that reads "Ernst & Young LLP".

Diana Brouwer  
905-882-3037

cc: Josephine Bryant, City Librarian  
Larry Hughsam, Director, Finance and Treasurer

## Required Communications

Generally accepted auditing standards in Canada require the auditor to ensure that the committee of the Board having oversight responsibility to the financial reporting process receives additional information regarding the scope and results of the audit that may assist them in fulfilling their responsibilities.

Area	Comments
<p><b>Scope of Services and Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS)</b></p> <p>As set out in our planning document, we designed our audit to express an opinion on the financial statements of Trust Funds.</p> <p>The financial statements are the responsibility of management. Our audit was designed in accordance with GAAS which provides for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.</p> <p>As a part of our audit, we obtained a sufficient understanding of the internal control structure to plan our audit and to determine the nature, timing and extent of testing performed.</p>	<p>We anticipate issue an unqualified audit opinion dated February 28, 2003 upon approval of the financial statements of the Trust Funds by the Members of the Board.</p>
<p><b>Changes to Audit Approach Outlined in Planning Document</b></p> <p>In our planning document, we indicated that we would focus on understanding the significant accounting processes, we would walk through each process and then we would design substantive tests of the related account balances.</p>	<p>There were no changes to the audit approach outlined in the planning document.</p>
<p><b>Significant Accounting Policies</b></p> <p>Initial selection of and changes in significant accounting policies or their application and new accounting and reporting standards during the year must be reported.</p>	<p>None.</p>
<p><b>Auditors' Judgments About the Quality of Accounting Principles</b></p> <p>The preparation of financial statements may require management to select from more than one acceptable approach to accounting. We comment on the quality, not just the acceptability of accounting principles selected by management, the consistency of their application and the clarity and completeness of the Trust Fund's financial statements, including related disclosures.</p>	<p>We did not identify any areas where management's approach to accounting was significantly different from industry practice.</p>

## Required Communications (continued)

Area	Comments
<b>Management Judgments and Accounting Estimates</b> The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.	There are no material estimates where actual amounts are likely to be significantly different.
<b>Major Issues Discussed with Management Including Accounting for Significant Unusual Transactions</b>	None.
<b>Uncorrected Misstatements Determined by Management to be Immaterial</b> We inform the audit committee about unadjusted audit differences accumulated by us during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.	None.
<b>Significant Disclosures Not Made</b>	None identified.
<b>Disagreements with Management on Financial Accounting and Reporting Matters</b>	None.
<b>Serious Difficulties Encountered in Performing the Audit</b>	None. There were no restrictions placed on the approach to or extent of our work. We have received the full cooperation of the employees of the Library for the Trust Funds and were provided complete and timely access to all books and records, documents and other supporting data which we required.
<b>Material Weaknesses in Internal Controls</b>	No material weaknesses in internal control were discovered during the normal course of the audit that would inhibit our ability to express our opinion; however, we did identify one area for which we believe the Members of the Board should consider.  See "Letter of recommendations."
<b>Irregularities and Illegal Acts</b>	Testing of the financial records and enquiries made of the Library's personnel did not reveal any instances of irregularities or illegal acts.
<b>Consultation with Other Accountants</b>	None.
<b>Other Information in Documents Containing Audited Financial Statements</b>	None.



## Required Communications (continued)

Area	Comments
<p><b>Auditors' Independence</b></p> <p>Canadian generally accepted auditing standards (GAAS) require that we communicate at least annually with you regarding all relationships between the Trust Funds and Ernst &amp; Young that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the appropriate provincial institution /ordre and applicable legislation, covering such matters as:</p> <ul style="list-style-type: none"> <li>(a) holding a financial interest, either directly or indirectly in a client;</li> <li>(b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;</li> <li>(c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;</li> <li>(d) economic dependence on a client; and</li> <li>(e) provision of services in addition to the audit engagement.</li> </ul> <p>Further, GAAS requires that we must confirm our independence to the appropriate committee of the Board. However, since the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario deal with the concept of independence in the terms of objectivity, our confirmation is to be made in that context.</p>	<p>Accordingly, we hereby confirm that we are objective with respect to the Trust Funds within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of February 28, 2003.</p> <p>See "Independence Letter".</p>
<b>Other Audit and Non-Audit Services Provided to the Centre</b>	None.
<b>Fees</b>	<p>Audit \$4,720</p>

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## Letter of Recommendations

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February 28, 2003

Mr. Larry Hughsam  
Director, Finance and Treasurer  
Toronto Public Library  
789 Yonge Street  
Toronto, Ontario M4W 2G8

Dear Mr. Hughsam:

**Re: Letter of Recommendations for the year ended December 31, 2002**

Our audit of the financial statements for the Trust Funds of the Toronto Public Library Board (the “Trust Funds”) for the year ended December 31, 2002 has been completed. We conduct our audit in accordance with Canadian generally accepting auditing standards and as such, we perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. We obtain this assurance by testing balances and transactions, and by examining evidence supporting the amounts and disclosures in the financial statements, assessing significant estimates made by management, and assessing the accounting principles and their application. The extent of our testing depends on the extent to which we decide to rely on controls. Our decision to rely on controls is based on a review of your internal control environment, gaining an understanding of the flow of each significant transaction type through the accounting system, and identifying controls that have been established to prevent and detect errors in the accounting records and the financial statements. As a result of the above procedures, we have evaluated and tested only those controls on which we intend to rely in performing our audit. Accordingly, our audit will not necessarily disclose all conditions requiring attention.

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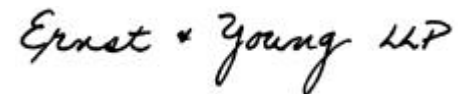
## Letter of Recommendations (cont'd)

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The comments outlined in the memorandum represent opportunities for improvement in processes and control and are not intended to reflect in any way upon the integrity or abilities of the employees of the Library. We would like to thank you and your staff for their assistance during the audit.

Should you wish to discuss the memorandum with us, we would be pleased to do so at your convenience.

Yours sincerely,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Diana Brouwer  
905-882-3037

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## Letter of Recommendations (cont'd)

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### Oversight and maintaining of the Trust Funds

#### **Observation:**

Our review of the majority of the funds within the Trust Fund financial statements would appear to indicate that they are not “trusts” under the definition of the word, but rather funds that have been advanced to the Library from bequests and other contributions on a similar basis as to what a typical Foundation would receive.

The definition of a trust that is found within the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants, Section 1700 is as follows:

#### **Trusts under administration**

- .73 Trusts are defined as property which has been conveyed or assigned to a trustee to be administered as directed by ***agreement or statute***. In a trust relationship, the trustee holds title to property for the benefit of, and stands in a fiduciary relationship to, the beneficiary.
- .74 A local government acts as a trustee when it administers trusts on behalf of the beneficiaries specified in the agreement or statute. As trustee, the local government is accountable to third parties for the use and disposition of trust assets and for the funds derived from those trust activities. ***Also, trust assets are not owned by the local government.*** For those reasons, trusts should be excluded from the reporting entity.

From our review it would appear that the majority of the funds currently included within the Trust Fund financial statements are amounts that have been granted/contributed to the Library for their use as directed by the donor and are now considered to be an asset of the Trust Funds.

Currently, the Library is maintaining a set of records for the Trust Funds and a separate set of records for the Foundation. All of this takes time and commitment of staff to ensure that there is timely and accurate reporting.

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## **Letter of Recommendations (cont'd)**

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### **Recommendation:**

We suggest that management take a thorough review of the funds currently being accounted for within the Trust Fund financial statements and review the possibility of having these funds transferred to the Foundation for future administration. In doing this, the Foundation would be able to have a greater investing power for the excess cash thereby creating a better return to the Library in the long run. In addition, the Library could gain efficiencies in its accounting and administration by having these funds all under one umbrella.

Management should consult with a solicitor on any legal issues that may surround such a transfer, keeping in mind that this is only a transfer for the oversight role and not the ultimate use of the funds.

### **Management's response:**

Management agrees that it would be more efficient and economical to administer the Trust Funds within the Toronto Public Library Foundation. All funds included in the Trust Funds are currently being reviewed by staff and legal counsel with a view to transferring the funds to the Foundation for administration. The transfer, expected by mid 2003, will require approval by the Toronto Public Library Board.

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## Independence Letter

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February 28, 2003

Mr. Larry Hughsam  
Director, Finance and Treasurer  
Toronto Public Library  
789 Yonge Street  
Toronto, Ontario M4W 2G8

Dear Mr. Hughsam:

We have been engaged to audit the financial statements of the Trust Funds of the Toronto Public Library Board [the "Trust Funds"] for the year ended December 31, 2002.

Assurance and Related Services Guideline AuG-11, Communications with audit/finance committees (the "Guideline"), requires that we communicate at least annually with you regarding all relationships between the Trust Funds and ourselves that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Guideline requires us to consider relevant rules and related interpretations prescribed by the appropriate provincial institute /order and applicable legislation, covering such matters as:

- a) holding a financial interest, either directly or indirectly, in a client;
- b) holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- d) economic dependence on a client; and
- e) provision of services in addition to the audit engagement, such as the preparation of tax returns.

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## **Independence Letter (cont'd)**

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We are not aware of any relationships between the Trust Funds and ourselves that, in our professional judgment, may reasonably be thought to bear on our independence.

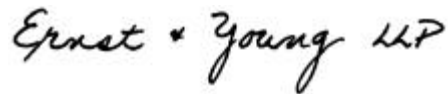
Since the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario deal with the concept of independence in terms of objectivity, our confirmation is to be made in that context. Accordingly, we hereby confirm that we are objective with respect to the Centre within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario from March 11, 2002 through to February 28, 2003 (the date of our audit report).

This report is intended solely for the use of the Directors, management, and others involved with the Trust Funds and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Yours very truly,

**ERNST & YOUNG LLP**  
Chartered Accountants

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

cc: Josephine Bryant, City Librarian

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