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City of Toronto

2011 Year-end report to the Audit Committee

Prepared as of June 18, 2012

June 18, 2012

Members of the Audit Committee, Sub Committee of City Council
City of Toronto

Dear Members of the Audit Committee:

We have substantially completed our audit of the consolidated financial statements of the City of Toronto (the City) prepared in accordance with Canadian generally accepted principles (Public Sector GAAP) for the year ended December 31, 2011. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix A.

We have issued the accompanying report to assist you in your review of the consolidated financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

The matters raised in this report 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. This report has been prepared solely for the use of the Audit Committee, Council and management, and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it.

We propose to review the key elements of this report at the upcoming meeting and discuss with you our key findings.

We would like to express our sincere thanks to the management and the staff of the City who have assisted us in carrying out our work and we look forward to our meeting on July 3, 2012. Should you have any questions or concerns prior to the Audit Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Audit and Assurance Group

cc: Mr. J. Pennachetti, City Manager
Mr. C. Weldon, Deputy City Manager & Chief Financial Officer
Mr. J. Griffiths, Auditor General

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Index *Page*

Appendices

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2011 City of Toronto consolidated financial statements (the financial statements). Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and Audit Committee, as required by Canadian generally accepted auditing standards (Canadian GAAS).

Our audit has been performed substantially in accordance with the plan and timeline previously communicated to you.

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item as at June 18, 2012	
1.	Responses to our legal confirmation letters from external legal counsel (six outstanding)
2.	Receipt of certain supporting documentation in order to finalize our audit testing related to deferred revenue and obligatory reserve funds, tangible capital assets and consolidation
3.	Completion of audit procedures for International Financial Reporting Standards (IFRS) transition adjustments relating to Toronto Port Lands Company (TPLC)
4.	Receipt of final interoffice reporting from Toronto Community Housing Corporation (TCHC), expected to be received after the TCHC board meeting scheduled for June 22, 2012
5.	Completion of audit procedures related to the review of the note disclosures in the consolidated financial statements including obtaining supporting documentation/schedules for certain note disclosures
6.	Completion of subsequent events procedures to the date of our audit opinion
7.	Receipt of signed management representation letter
8.	Approval of the financial statements by City Council

b. Key issues for discussion

Discussion item	**Summary**	**For further reference**
Significant audit, accounting and financial reporting matters	• During our audit we discussed the following items with management: i) Revenue recognition; ii) Accounting for employee future benefit liabilities; iii) Contingent liabilities (provisions for property and personal liability claims); iv) Other significant accounting estimates; v) Accounting for government business enterprises; vi) Consolidation process; and vii) Management override of controls	Section 2

Discussion item	Summary	For further reference
Summary of unadjusted and adjusted misstatements	• During our audit of the consolidated financial statements, we accumulated individual misstatements in excess of $4.7 million, representing 5% of overall materiality (set at the planning stage of the audit). Unadjusted and adjusted misstatements greater than this threshold are itemized in Appendix B. • As detailed in Appendix B, net operating surplus is overstated by $28 million in the current year as compared to overall materiality of $94 million. • In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Section 3 and Appendix B
Independence	• We confirm that we are independent of the City as at June 18, 2012 and our independence letter can be found in Appendix D.	Appendix D
Internal control deficiencies	• While completing our audit procedures we identified certain internal control recommendations for management's consideration which are itemized in Appendix E.	Appendix E
Fraud	• No instances of fraud were noted as part of our audit procedures.	Section 4
Management representations	• Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the draft management representation letter is included in Appendix C.	Appendix C

2. Significant audit, accounting and financial reporting matters

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the City's reported results.

We are responsible for discussing with the Audit Committee our views about the significant qualitative aspects of the City's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures in accordance with the requirements of Public Sector GAAP.

Our comments and views included in this report should only be taken in the context of the consolidated financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate. We are sharing our views with you to facilitate an open dialogue of these matters.

Item 1	**Revenue recognition**
Background information and management's process	The City has significant revenue streams that require the exercise of judgment in determining the timing of revenue recognition. The areas of significant judgment mainly comprise revenue earned from funding transfers from other governments, which include the recognition of funds previously received and held in reserve funds until earned. The City has established revenue recognition accounting policies in accordance with the accounting standards for the Public Sector Accounting Board (PSAB). Revenue recognition policies refer to those policies management has put in place to ensure revenue is recorded in the consolidated financial statements accurately and completely and in the correct accounting period.
PricewaterhouseCoopers LLP's (PwC) views	Through our meetings with management, we gained an understanding of the processes and control in place surrounding revenue recognition and tested certain internal controls, where appropriate, to support our audit approach. As part of these meetings, we also reviewed and assessed the appropriateness of the accounting policies adopted by the City for recognizing revenue and ensured accounting policies are in accordance with Public Sector GAAP. We performed various audit procedures, including tests of control and substantive tests of detail over the transfers from obligatory reserve funds during the year. As noted in Section 1 of our report, we are in the process of finalizing our audit procedures. Based on our audit work completed to date, we have no matters to report with respect to revenue recognition. We will update the Audit Committee at your meeting on July 3, 2012.

Item 2	**Accounting for employee future benefit liabilities**
Background information and management's process	Employee benefit liabilities represent a significant liability of the City. The City engages actuarial specialists to assist in the determination of liabilities for pension and non-pension benefit plans, including sick leave gratuity, self-insured workplace safety insurance board (WSIB), dental, medical, long-term disability, City-sponsored pension plans and other pension plans for Toronto Police Services and certain of the City's agencies, boards and commissions (ABC's). The assets and liabilities associated with these employee benefit plans are calculated by the City's actuaries and involve the use of significant assumptions, including but not limited to, the discount rate, expected rate of return on plan assets (where applicable), salary growth, inflation and health care inflation for dental, drugs, medical, and long-term disability. In 2011, the City engaged one actuarial specialist to perform the valuation for the City's five legacy defined benefit pension plans resulting in the harmonization of significant actuarial assumptions across all legacy plans. At December 31, 2011, the liability for employee future benefits was $2,758 million.
PwC's views	As communicated in our audit plan, our audit approach involves the reliance on the work of the City's actuaries, and in accordance with GAAS we relied on the actuaries for their calculation of the employee benefit assets, liabilities and expenses for the year. In accordance with GAAS, our audit procedures mainly consist of reviewing the reasonableness of the data and assumptions used by the actuary and do not include a re-performance of the actuarial calculations. Accordingly, we performed the following audit procedures when relying on the work of specialists: • Tested the participant data provided to the actuary by comparing the data to source documents maintained by the City's payroll department; • Tested that the significant actuarial assumptions (i.e. discount rates, rate of return on plan assets, etc.) are within a reasonable range and consistent with the provisions in the City's plan; • Tested that the City is in compliance with the appropriate accounting principles for the calculation, presentation and disclosure of the pension balances within the consolidated financial statements of the City; and • Examine reconciliations of plan assets between the City and its custodians and actuaries. In addition, as part of our audit procedures over the legacy pension plans, we confirmed plan asset balances, sample tested the valuation of plan assets, and performed sample testing over contributions made and benefits paid during the year. As a result of completing these procedures, we noted a discrepancy of $18.3 million between the custodian confirmation and the asset value within the actuarial report, resulting in an overstatement of plan assets and a corresponding understatement in the pension expense for the year ended December 31, 2011. This has been adjusted within the consolidated financial statements. Consistent with the prior year, we noted that the liability for pensions and other post-employment benefits for TCHC has been understated by $9.6 million, with an impact on opening surplus of $14.1 million and on current year surplus of $4.5 million, as a

Item 2	**Accounting for employee future benefit liabilities**
	consequence of the City not adjusting these balances to conform with the applicable accounting guidelines under Public Sector GAAP. This adjustment is reported on our summary of uncorrected misstatements in Appendix B.

Item 3	**Contingent liabilities (provisions for property and personal liability claims)**
Background information and management's process	In accordance with PS 3300 *Contingent Liabilities*, the City assesses the likelihood of losses occurring as a consequence of claims made against the City. The City recognizes a liability which is discounted as the eventual settlement for a number of claims will not occur until the future. For insurance-related claims, the City engages external actuarial specialists to assist with the assessment of the valuation of these liabilities at year end. The City provides the specialists with historical claim data, and provides a discount rate which is applied to the outstanding claims data to measure the liability at year end. For non-insurance related claims, the City assessed the likelihood of loss using the expertise of the City's internal Legal Services Department and external legal counsel, where applicable.
PwC's views	For insurance related claims, we relied on the work of the actuary for the calculation of the self-insurance claims liability. We tested the assumptions used by the actuary (i.e. claims growth, discount rates), and tested the claims data provided to the actuary for accuracy and completeness. As a result of our testing, we noted an incorrect discount rate was used by the actuary to measure the liability at year end. When adjusting for the discount rate, we noted that the liability was overstated by $23.6 million as at December 31, 2011. Management has corrected this misstatement within the consolidated financial statements. For non-insurance related claims, we obtained independent legal confirmation letters from external counsel relating to the status of claims and have discussed significant claims with internal legal counsel and management. As noted in Section 1 of our report, we have six legal confirmations that are outstanding at the time of writing. Based on the audit procedures completed to date we have no matters to report.

Item 4	**Other significant accounting estimates**
Background information and management's process	Provisions for assessment appeals on property taxes paid The provision for property tax appeals is based on management's estimates of losses relating to successful appeals by taxpayers, using historical arbitration experience with consideration given to the age and nature of unsettled appeals. As at December 31, 2011, the City maintains a provision for property tax appeals of $487.3 million. Landfill closure and post-closure liabilities The City has an obligation under the Ontario Environmental Protection Act for the closure and maintenance of landfill sites, and is required to account for such closure and maintenance in accordance with the requirements of PS 3270 *Solid Waste Landfill Closure and Post-Closure Liability*. Management, through the use of internal specialists within the City, determines the landfill liabilities by estimating the costs to be incurred during the closure and post-closure period and using assumptions for inflation and discount rates to calculate the liability at year end. At December 31, 2011, the City maintains a liability for closure/post-closure of $121.4 million.
PwC's views	Provision for assessment appeals on property taxes paid As part of our audit procedures, we held discussions with management responsible for establishing the provision in order to gain an understanding of the key assumptions in determining the estimate, and validating those judgments by reference to historical outcomes in respect of the rate of successful appeals. We also compared management's "at-risk" rate used to calculate the provision to the average adjustment rate over the past ten years, and found them to be comparable. Landfill closure and post-closure liabilities We tested the estimated closure and post closure costs for active and inactive sites, which included comparing management's estimated costs to actual historical experience over the past ten years and developed an independent expectation of the liability at year-end. There are significant estimates which require management judgment in calculating the liability at year-end. These include estimates of the future expenditures to be incurred for the continual maintenance of inactive landfill sites as well as inflation and discount rates. We tested the assumptions for inflation and discount rates as part of our audit procedures and found them to be within a range of reasonableness.

Item 5	**Accounting for government business enterprises**
Background information and management's process	Effective January 1, 2011, management determined that its wholly-owned corporation, Toronto Port Lands Company (TPLC), met the definition of a government business enterprise (GBE) on the basis that TPLC is now capable of maintaining its operations and meeting its liabilities from revenues received from sources outside of the City, a condition which was not previously evident. Effective for accounting periods beginning on or after January 1, 2011, PSAB mandated the adoption of IFRS for GBEs. This resulted in a transition for two of the City's GBEs in the current year – TPLC and Toronto Parking Authority (TPA). As Toronto Hydro Corporation is a rate-regulated entity, deferral of IFRS adoption is permitted until 2012, while Enwave Corporation will transition to IFRS effective from November 1, 2011 in line with their reporting calendar. In the current year, adjustments to the City's opening investment balance of TPLC and TPA were recorded as a result of their conversion to IFRS. This resulted in an adjustment to the opening investment balance at January 1, 2011 of $330 million and $1.3 million, respectively.
PwC's views	We concur with management's assessment that TPLC meets the definition of a GBE in the current year. As a result, TPLC has been accounted for on the modified equity basis as required under PS 3070 *Investments in Government Business Enterprises*. As part of our consolidation audit procedures, we tested the consolidation adjustments that management recorded to recognize the change in status for TPLC as required, and have no matters to report. We have not yet completed our audit procedures related to the TPLC IFRS adjustments, and will update the Audit Committee at your meeting on July 3, 2012.

Item 6	**Consolidation process**
Background information and management's process	The City's consolidated financial statements are prepared in accordance with Public Sector GAAP. The consolidation process involves the accumulation of information from the City's accounting system, including obtaining relevant supporting information from various departments within the City as well as the consolidation of the financial statements of the City's ABCs that form part of the consolidated financial statements. The City's ABCs have stand-alone accounting systems that differ from the City, and the accounts of the ABCs are reported based on generally accepted accounting principles applicable to their organizations, which for many ABCs is not consistent with the accounting principles applied by the City. The City is therefore required to record consolidation adjustments to conform the accounting policies of the ABCs to the City when preparing the consolidated financial statements. In addition, there are transactions and balances between the City and the ABCs that are eliminated when preparing the consolidated accounts of the City. As a result, the consolidation of the City's financial statements at year-end is a lengthy, complex and manual process.
PwC's views	Our audit procedures were designed to test that all entities are appropriately accounted for within the consolidated financial statements of the City, which includes the testing of significant adjusting journal entries and comparing the consolidation information for the significant ABCs to their local accounting records. As a result of completing these procedures, we identified the audit difference in respect of accounting for employee benefits at TCHC due to differences in the accounting frameworks between the City and the ABCs, as noted at item 2 above. This adjustment has been reflected in our summary of unadjusted misstatements at year end. Our audit procedures also include reviewing the audit results of the significant entities included in the City's consolidation to identify any amounts greater than our posting threshold of $4.7 million not adjusted in the standalone financial statements of the ABCs. These have also been identified on the summary of unadjusted misstatements for the City (Appendix B). In addition, consistent with prior year, we have also raised an internal control recommendation relating to the financial statement close process for management's consideration, which has been included in our internal control letter provided in Appendix E of this report.

<table>
<tr><th>Item 7</th><th>Management override of controls</th></tr>
<tr><td>Background information and management's process</td><td>Canadian GAAS require auditors to plan and perform the audit to obtain reasonable assurance that the consolidated 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.

We note that the City has developed policies and procedures to ensure appropriate segregation of duties to mitigate the risk of fraud and management override of controls.

In addition, the City has policies in place to prevent and detect fraud, including maintaining a code of conduct, reviewing whistleblower hotline reports, internal audit and Auditor General Office (AGO) departments, processes relating to the review and approval of manual journal entries, and management reviews of the divisional operating results of the City.</td></tr>
<tr><td>PwC's views</td><td>During our audit, we performed the following procedures in order to fulfill our responsibilities in respect of fraud:

• Inquired of management, the AGO and others regarding any knowledge of fraud or suspected fraud;

• Performed disaggregated analytical procedures, primarily over revenue, including consideration of unusual or unexpected relationships;

• Incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and

• Performed additional required procedures to address the risk of management's override of controls, including:

o Examination of journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;

o Review of significant accounting estimates for biases that could result in material misstatement due to fraud (including a retrospective review of significant estimates in the prior year); and

o Evaluation of the business rationale of significant unusual transactions.

As a result of completing these procedures, we did not encounter any instances of fraud.</td></tr>
</table>

3. Summary of unadjusted and adjusted misstatements

Our responsibility is to issue an opinion as to whether the consolidated financial statements are free of material misstatement.

Under Canadian GAAS, we are required to communicate to you the unadjusted misstatements and the effect that they may have on our opinion and to request that they be corrected. As a result of our audit, we identified certain items and have discussed these with management, and management adjusted the financial statements to reflect certain of these items. Management has concluded that the remaining unadjusted misstatements which are described in Appendix B are immaterial individually and in the aggregate.

We are also required to communicate the effects of any unadjusted misstatements that relate to prior periods. These are also listed in Appendix B.

Adjustments made by the City as part of the audit process are also included in Appendix B.

We have concluded that the consolidated financial statements taken as a whole are free of material misstatement and (pending the completion, to our satisfaction, of the outstanding matters identified in section 1), we are prepared to issue an unqualified opinion on the consolidated financial statements.

4.Other required communications

Canadian GAAS requires that the external auditor communicate certain matters to the Audit Committee that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	• Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the draft management representation letter is included in Appendix C.
Significant deficiencies in internal control	• Recent changes to Canadian GAAS require us to communicate to the Audit Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Audit Committee. • See Appendix E of this report for our internal control recommendations that we would like to bring to the Audit Committee's attention.
Significant difficulties or disagreements that occurred during the audit	• No difficulties or disagreements occurred while performing our audit that requires the attention of the Audit Committee.
Fraud and illegal acts	• No fraud involving senior management, employees with a significant role in internal control, or that would cause a material misstatement in the consolidated financial statements, came to our attention as a result of our audit procedures.
Changes to initial risk assessment	• In our audit plan, presented to the Audit Committee on November 23, 2011, we had identified revenue recognition as a potential significant audit risk. After considering the lack of complexity associated with the majority of revenue streams in respect of revenue recognition, we have concluded that audit risk in this area is only significant for those revenue streams where a significant degree of management judgment needs to be exercised (e.g. funding transfers from other governments), and not for other streams that we had previously communicated in our audit plan (i.e., property taxation, taxation from other governments, user charges, development charges, rents and concessions, investment income, government business enterprise earnings and other revenues.

5. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the consolidated financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

During our audit, we identified certain internal control recommendations that we have discussed with management that are designed to help the City improve its system of internal control and achieve operational efficiencies, and wish to bring these to your attention. These recommendations are outlined in a separate report to management, attached as Appendix E.

6.2011 audit fees

Our fees are in accordance with our response to the City's Request for Proposal No. 9171-09-7137 dated December 1, 2009 covering the five year contract period for the years ended December 31, 2010 through to December 31, 2014. We have also agreed an additional amount of $20,000 with management for audit and accounting services with respect to the change in the classification of Toronto Port Land's Company to a Government Business Enterprise in the current year as well as for additional time incurred in the performance of our audit procedures related to cash, deferred revenue and obligatory reserve funds, tangible capital assets and certain liability accounts.

Appendix A: Draft auditor's report

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_____, 2012

Independent Auditor's Report

To the Members of Council, Inhabitants and Ratepayers of the City of Toronto

We have audited the accompanying consolidated financial statements of the City of Toronto, which comprise the consolidated statements of financial position as at December 31, 2011 and the consolidated statements of operations and accumulated surplus, change in net debt, and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Toronto as at December 31, 2011 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants, Licensed Public Accountants

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Appendix B: Summary of unadjusted and adjusted misstatements

a. Unadjusted misstatements

All amounts in $ million	**Annual surplus**	**Statement of financial position**		
Description	**Over (under) stated $**	**Assets (over) under stated $**	**Liabilities over (under) stated $**	**Opening Accumulated Surplus over (under) stated $**
<u>Current year unadjusted differences</u>				
1. Understatement of TCHC employee benefit liability, current year surplus and an overstatement of opening surplus arising from differences in the accounting frameworks between the City and TCHC.	(4.5)		(9.6)	14.1
2. Overstatement of current year surplus to account for City Council approval of the transfer of surplus from the Sinking Fund to the City that was not recognized in prior years.	12.9			(12.9)
3. Overstatement of prior year environmental liability corrected in the current year relating to the TPLC. Current year operating surplus overstated and opening accumulated surplus understated.	20			(20)
4. Reclassification of a credit balance from prepaids to deferred revenue.		47	(47)	
5. Overstatement of investment in GBE and understatement of accounts receivable to account for the declaration of a dividend from Enwave.		6 (6)		
Total unadjusted differences	**28.4**	***47***	**(56.6)**	**(18.8)**

As a result of our audit, we conclude that the above unadjusted misstatements are individually and in the aggregate immaterial to the financial statements taken as a whole.

Adjusted misstatements

As a result of our audit, we noted the following misstatements that management has adjusted within the consolidated financial statements:

All amounts in $ million	**Annual surplus**	**Statement of financial position**		
Description	**Over (under) stated $**	**Assets (over) under stated $**	**Liabilities over (under) stated $**	**Opening Accumulated Surplus over (under) stated $**
<u>Current year adjusted differences</u>				
1. Overstatement of provision for accident claims resulting from an incorrect discount rate applied to the outstanding claim liability at year end.	(24.6)		24.6	
2. Reclassification of amounts from other liabilities to deferred revenue.			(7.0) 7.0	
3. Reclassification of amounts from investments to cash.		(66.0) 66.0		
4. Understatement of employee benefit liabilities arising from differences in asset values between the custodian statements and actuarial values used in the valuation reports for the City's five defined benefit pension plans at year end.	18.3		(18.3)	
5. Adjustments arising from the audit of the Toronto Transit Commission (TTC.)	(5.8)		5.8	
Total adjusted misstatements	**(12.1)**	**-**	**12.1**	**-**

Appendix C: Draft management representation letter

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[Date]

Ms. Cathy Russell, Partner
PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto, Ontario
M5J 0B2

Dear Ms. Russell:

We are providing this letter in connection with your audit of the consolidated financial statements of the City of Toronto (the City) as of December 31, 2011 and for the year then ended for the purpose of expressing an opinion as to whether such consolidated financial statements present fairly, in all material respects, the financial position, the results of operations and the cash flows of the City in accordance with Canadian public sector accounting standards.

1. **Management's responsibilities**
   We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated November 1, 2010. In particular, we confirm to you that:

   - We are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards;
   - We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian public sector accounting standards;
   - We have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
   - All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

We confirm the following representations:

2. **Preparation of consolidated financial statements**
   The consolidated financial statements include all disclosures necessary for fair presentation in accordance with Canadian public sector accounting standards and disclosures otherwise required to be included therein by the laws and regulations to which the City is subject.

   We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the consolidated financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the consolidated financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an operations account and vice versa. All consolidating entries have been properly recorded. All inter-governmental unit accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.

3. **Accounting policies**
We confirm that we have reviewed the City's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the consolidated financial statements is appropriate in the City's particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with Canadian public sector accounting standards.

4. **Internal controls over financial reporting**
We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the City, including its consolidated subsidiaries, is made known to us by others within those entities.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian public sector accounting standards.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as of December 31, 2011.

5. **Disclosure of information**
We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the consolidated financial statements, such as records, documentation and other matters including:
    - Contracts and related data;
    - Information regarding significant transactions and arrangements that are outside of the normal course of business;
    - Minutes of the meetings of the Executive and Audit Committees. The most recent meetings held were: Executive Committee on June 12, 2012 and Audit Committee on February 29, 2012;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

6. **Completeness of transactions**
All contractual arrangements entered into by the City with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the consolidated financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance.

7. **Fraud**
We have disclosed to you:

- The results of our assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting the City involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the consolidated financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the City's consolidated financial statements, communicated by employees, former employees, regulators or others.

8. Compliance with laws and regulations
We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the consolidated financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing consolidated financial statements.

We are not aware of any illegal or possibly illegal acts committed by the City's employees acting on the City's behalf.

9. Accounting estimates and fair value measurements
Significant assumptions used by the City in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the consolidated financial statements that incorporate fair value measurements, we confirm that:

- The measurement methods are appropriate and consistently applied;
- The significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the consolidated financial statements; and
- The significant assumptions used in determining fair value measurements are consistent with the City's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with The Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty have been appropriately disclosed.

10. Related parties
We confirm the completeness of information provided to you regarding the identification of related parties as defined by Canadian Auditing Standards 550 - Related Parties. We also confirm the completeness of information provided to you regarding the nature of the City's relationships with and transactions involving those entities.

The list of related parties attached to this letter as Appendix A accurately and completely describes the City's related parties and the relationships with such parties.

11. Going concern
We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the consolidated financial statements (e.g. to dispose of the entity or to cease operations).

12. Assets and liabilities
We have satisfactory title or control over all assets. There are no liens or encumbrances on the City's assets and no assets are pledged as collateral.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

13. Litigation and claims
All known actual or possible litigation and claims, which existed at the statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

14. **Misstatements detected during the audit**
Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the consolidated financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the consolidated financial statements, as summarized in Appendix B of your audit committee report, are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix B.

The adjusted misstatements identified during your audit and summarized in Appendix B of your audit committee report have been approved by us and adjusted in the consolidated financial statements.

15. **Cash and banks**
The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the City.

All cash balances are under the control of the City, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts which are not the property of the City.

All cash and bank accounts and all other properties and assets of the City of which we are aware are included in the consolidated financial statements at December 31, 2011.

16. **Restricted assets and revenues**
All assets and revenues subject to restrictions are disclosed in the consolidated financial statements.

All externally restricted inflows have been recognized as revenue in the period in which the resources were used for the purposes specified. All externally restricted inflows received before this criterion has been met have been reported as liabilities until the resources are used for the purposes specified.

17. **Accounts receivable**
All amounts receivable by the City were recorded in the books and records.

Amounts receivable is considered to be fully collectible. All receivables were free from hypothecation or assignment as security for advances to the City, except as hereunder stated.

Receivables recorded in the consolidated financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts that are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

18. Loans receivable

Loans receivable are not to be repaid through future appropriations, nor do they contain forgivable conditions and so have been accounted for as financial assets, in accordance with PS 3050, Loans Receivable.

We have reviewed loans receivable for collectability, risk of loss and expected forgiveness, and made appropriate valuation allowances or write-offs thereon if necessary, in accordance with PS 3050, Loans Receivable.

19. Inventory

Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.

20. Financial assets (other than loans and receivables)

All securities which were owned by the City were recorded in the accounts.

All income earned on the financial assets has been recorded in the accounts, and any interest income has been accrued using the effective interest rate method.

We are not aware of any objective evidence of impairment that would result in the recognition of an impairment loss on any financial asset.

You have been informed of the acquisition of or the formation of all government units, business enterprises, partnerships, joint ventures or other participations during the period.

All transactions with governmental units, business enterprises, partnerships or joint ventures have been recorded in the accounts presented to you. All investments in and advances to governmental units, business enterprises, partnerships, joint ventures or other participations are appropriately recorded, and there is no evidence of impairment in value below the resulting balances shown in the consolidated financial statements.

There has been no activity in any dormant or inactive government units, business enterprises, partnerships, joint ventures or other participations, except as disclosed to you.

Enwave Energy Corporation (Enwave), Toronto Hydro Corporation, Toronto Ports Land Corporation (TPLC) (formerly TEDCO) and Toronto Parking Authority meet the definition of a government business enterprise (GBE) in accordance with PS 3070, *Investments in Government Business Enterprises*. Specifically, we have determined that TPLC is a GBE effective January 1, 2011 as it met the criteria to be classified as a GBE on that date.

The modified equity method is used to account for the City's investment in these government business enterprises.

21. Tangible capital assets

All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets.

All contributed tangible capital assets have been recorded at fair value at the date of the contribution.

No significant tangible capital asset additions were charged to repairs and maintenance or other expense accounts.

Book values of tangible capital assets sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

There are no indicators of impairment to tangible capital assets at December 31, 2011. As such, we did not perform testing to ensure recoverability of tangible capital assets and no impairment exists.

Tangible capital assets owned by the City are being depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering assets leased by or from the City have been disclosed to you and classified as leased tangible capital assets or operating leases.

Leased tangible capital assets are being amortized on a systematic basis over the period of expected use. There have been no events, conditions or changes in circumstances that indicate that a tangible capital asset no longer contributes to the City's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. We believe that the carrying amount of the City's long-lived tangible capital assets is fully recoverable in accordance with PS 3150.

22. Long-term debt

All borrowings and financial obligations of the City of which we are aware are included in the consolidated financial statements as at December 31, 2011, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

23. Deferred revenue

All material amounts of deferred revenue meet the definition of a liability and were appropriately recorded in the books and records.

24. Retirement benefits, post-employment benefits, compensated absences and termination benefits

All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

The details of all pension plan amendments since December 31, 2011, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation dated December 31, 2011 incorporates management's best estimates, detailed as follows:

a) The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for pension and other post-retirement benefits are appropriate in the circumstances.

b) The City does not plan to make frequent amendments to the pension or other post-retirement benefit plans.

All changes to the plan and the employee group and the fund's performance since the last actuarial valuation have been reviewed and considered in determining the pension plan expense and the estimated actuarial present value of accrued pension benefits and value of pension fund assets where latest actuarial valuation for accounting purposes is not at the balance sheet date.

The City's actuaries have been provided with all information required to complete their valuation as at December 31, 2011 and where applicable, their extrapolation to December 31, 2011.

We confirm that the extrapolations are accurate and include the proper reflection of the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with PS 3250 - Retirement Benefits and PS 3255 - Post-employment Benefits, Compensated Absences and Termination Benefits. In particular:

a) The significant accounting policies that the City has adopted in applying PS 3250 and PS 3255 are accurately and completely disclosed in the notes to the consolidated financial statements.

b) Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

c) The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.

d) The discount rate used to determine the accrued benefit obligation was determined by reference to the City's borrowing rate or the plan asset earnings rates as deemed appropriate, at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments; or inherent in the amount at which the accrued benefit obligation could be settled.

e) The assumptions included in the actuarial valuation are those that management instructed Mercer, Buck and Aon to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named consolidated financial statements, in accordance with PS 3250.

f) In arriving at these assumptions, management has obtained the advice of consulting actuaries who assisted in reaching best estimates, but has retained the final responsibility for them.

g) The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

h) The disclosure of the City's share of the risks and benefits under joint defined benefit plans, the total financial status of any joint plans, significant policies and a description of the unique nature and terms of any joint plans are accurate and complete.

i) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension costs and obligations and as such have been communicated to you as well as to the actuary.

25. Statements of operations and net debt

All transactions entered into by the City have been recorded in the books and records presented to you.

All amounts have been appropriately classified within the statements of operations and net debt.

The accounting principles and policies followed throughout the period were consistent with prior period practices (except as disclosed in the consolidated financial statements).

26. Environmental matters

There are no liabilities or contingencies arising from environmental matters that have not already been disclosed to the auditor.

Liabilities or contingencies related to environmental matters have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements.

We have considered the effect of environmental matters and the carrying value of the relevant assets is recognized, measured and disclosed, as appropriate, in the consolidated financial statements.

All commitments related to environmental matters have been measured and disclosed, as appropriate in the consolidated financial statements.

27. **Use of a specialist**
We assume responsibility for the findings of other specialists in evaluating the employee benefit obligation and landfill closure and post-closure liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the consolidated financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

28. **Minutes**
All matters requiring disclosure to or approval of the Executive Committee has been brought before them at appropriate meetings and are reflected in the minutes.

29. **General**
There are no proposals, arrangements or actions completed, in process, or contemplated which would result in the suspension or termination of any material part of the City's operations.

Information relative to any matters handled on behalf of the City by any legal counsel, including all correspondence and other files, has been made available to you.

30. **Segment disclosures**
Pursuant to PS 2700, Segment Disclosures, in identifying segments, management has considered the definition of a segment and other factors, including:

a) The objectives of disclosing financial information by segment;

b) The expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;

c) The qualitative characteristics of financial reporting as set out in PS 1000, Financial Statement Concepts;

d) The homogeneous nature of the activities, service delivery, or recipients of the services;

e) Whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;

f) Whether discrete financial information is reported or available; and

g) The nature of the relationship between the government and its organizations (within the reporting entity).

Management has identified following operating segments: General government, Protection to persons and property, Transportation, Environmental services, Health services, Social and family services, Social housing, Recreational and cultural services and Planning and development

The consolidated financial statements disclose all the relevant factors used to identify the City's reportable segments.

Changes in accounting policies related specifically to segment reporting that have a material effect on segment information have been disclosed. Prior period segment information presented for comparative purposes has been restated.

31. **Government transfers**
Transfers without eligibility criteria or stipulations have been recognized as revenue once the transfer has been authorized.

Transfers with eligibility criteria but without stipulations have been recognized as revenue once the transfer has been authorized and all eligibility criteria have been met.

Transfers with or without eligibility criteria but with stipulations have been recognized as revenue in the period the transfer has been authorized and all eligibility criteria have been met, except when, and to the extent that, the transfer gives rise to an obligation that meets the definition of a liability for the recipient government in accordance with PS 3200, Liabilities.

Disclosure

The major kinds of transfers recognized have all been disclosed in the consolidated financial statements as well as the nature and terms of liabilities arising from government transfers received.

32. Budgetary data

We have included budgetary data in our consolidated financial statements which is relevant to the users of the consolidated financial statements. Planned results were presented for the same scope of activities and on a basis consistent with that used for actual results.

33. Events after balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Yours truly,

The City of Toronto

Mr. J. Pennachetti, City Manager

Mr. C. Weldon, Deputy City Manager & Chief Financial Officer

Ms. G. Carbone, Treasurer

Mr. M. St. Amant, Director Accounting Services

Appendix D: Independence letter

June 18, 2012

Members of the Audit Committee, Sub Committee of City Council
City of Toronto

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of the City of Toronto (the City) for the year ended December 31, 2011.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the City, its management and us that 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 provincial institute and applicable legislation covering such matters as:

a. holding a financial interest, either directly or indirectly, in a client;

b. serving as an officer or director of a client;

c. performance of management functions for an assurance client;

d. personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;

e. economic dependence on a client;

f. long association of senior personnel with a listed entity audit client;

g. audit committee approval of services to a listed entity audit client; and

h. provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since June 20, 2011, the date of our last letter.

We are not aware of any relationships between the City or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence that have occurred from June 20, 2011 to June 18, 2012.

We hereby confirm that we are independent with respect to the City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of June 18, 2012.

PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 218 1500, F: +1 416 814 3220, www.pwc.com/ca

This report is intended solely for the use of the Audit Committee, Council, management and others within the City and should not be used for any other purpose.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on July 3, 2012.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Appendix E: Internal control recommendations

pwc

June 18, 2012

Mr. Cam Weldon
Deputy City Manager and Chief Financial Officer
City of Toronto
Metro Hall – 55 John Street
Toronto, ON, Canada
M5V 3C6

Management Letter
2011 Audit of City of Toronto

Dear Mr. Weldon:

We have substantially completed our audit examination of the City of Toronto. Our audit was directed at providing the basis for our opinion on the consolidated financial statements for the year ended December 31, 2011. During the course of our work, we noted several areas where we believe that controls and procedures could be improved and accordingly, we enclose a memorandum of recommendations designed to address these matters. We summarize these observations and recommendations in the appendix attached to this letter.

Our examination was designed in accordance with Canadian generally accepted auditing standards to enable us to express an opinion on the consolidated financial statements as a whole and our work involved evaluating only those systems and internal controls in your organization upon which we intend to rely. The objective of an audit is to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. Therefore, this memorandum does not necessarily include all matters that may be of interest to management, which a more extensive or special internal controls examination might develop. It is not designed to identify and cannot necessarily be expected to uncover fraud, defalcations and other irregularities.

The responsibility for the maintenance of an adequate system of internal control, as well as for the prevention and detection of irregularities rests with management and we trust you will find the recommendations in this letter helpful in achieving this objective.

This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

We would like to take this opportunity to thank the management and staff of the City of Toronto for the co-operation that we received during the course of our audit. Please do not hesitate to contact us if there are any matters in this letter that you would like to discuss further.

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Audit and Assurance Group
Encl.

PricewaterhouseCoopers LLP, Chartered Accountants
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APPENDIX

Table of Contents **Page**

1. City of Toronto (manual internal control related recommendations)
Internal Control points identified in the prior year not yet addressed

1.1 Financial statement close process

Observation:

The financial statement close process (FSCP) includes the initiation, authorization and recording of journal entries and preparing the financial statements. The FSCP also includes the preparation of financial statement disclosures where transactions, events, or conditions required to be disclosed are accumulated, recorded, processed, summarized and appropriately reported in the consolidated financial statements.

The City's FSCP is a complex annual process given the number of Agencies, Boards and Commissions (ABC's) that are consolidated within its financial statements. In addition, some of the ABC's follow different accounting frameworks than the City and their financial results need to be adjusted to conform to the City's accounting standards. Further, since the ABC's accounting systems are different than the City's, the consolidation is a manual process that is performed in Excel spreadsheets and as a result, is a complex and time consuming process to complete.

During the performance of our audit procedures relating to the City's FSCP, we noted a significant number of adjustments recorded on consolidation relating to intercompany eliminations, reclassifications, adjustments to the accounting records of the City's ABC's to conform with PSAS, and late adjustments identified by management.

Impact:

As the consolidation process is complex and manually driven, there is an increased risk of error with respect to consolidating the City's ABC's and recording consolidation adjustments.

Recommendation:

Management should consider enforcing the following policies and procedures to strengthen the FSCP process:

- Timely reporting of audited financial statements from ABC's sufficiently in advance of the City's reporting deadlines, including the implementation of an accountability framework and enforcement by the City for all ABC's;
- Timely communication by the ABC's to City management of any changes to their submitted financial statements;
- City management provide the ABC's with a reconciliation schedule of the ABC's accounting standards to the City's accounting under PSAS; and
- Appropriate level of review of ABC financial statements for significant disclosures that are required to be presented in the consolidated statements of the City.

In addition to the above recommendations, we would also suggest that the City consider using financial reporting software for consolidating the City and its ABC's.

Management Response:

2010:
Currently the year-end process has deadlines in place for reporting by ABC's though certain organizations have had difficulties providing the information as scheduled. For the 2011 year end process, staff will provide assistance and guidance to those ABC's converting to PSAS, delay the start of the auditors an additional week, and include escalation procedures, including offers of assistance to complete their financial information. In addition, the Director, Accounting Services will undertake a review of available software, determine benefits available, and consider whether purchasing consolidation software or enhancements to existing procedures will improve the year end process.

2011:
Accounting staff have reviewed the types of software available, the benefits and the costs of implementation. As there was no capital budget allocated for this activity for the 2011 and 2012 budgets, Accounting staff are reviewing potential changes to the consolidation process that can be implemented using the current IT environment, as well as improvements which will be available in 2012 & 2013.

The enhanced process will then be reviewed against the incremental benefits and costs involved through implementing third-party software.

1.2 Bank account signatory list

Observation:

In completing our testing of the City's cash balances at year-end we noted that the authorization signatories on file at certain bank branches are not up to date and include individuals who no longer work for the City. Additionally, it was noted that for certain bank accounts, information is not maintained at the City detailing which individuals are charged with signing/authorization for various accounts.

Impact:

This increases the risk of misappropriation of City funds as unauthorized individuals may have access to City banking information.

Recommendation:

Management should consider retaining an authorization signature list for all its bank accounts. This list should be reviewed periodically to ensure that it is up to date with any changes to the list communicated to the appropriate financial institution in a timely manner.

Management Response:

2010:
Accounting Services staff updated the signing authorities for all accounts during the year-end audit. These documents will be reviewed annually and updated as signatories change.

2011:
Accounting Services will review the signing authorities for all existing banks other than Royal Bank of Canada and will ensure that the Treasurer and the Director of Accounting Services are added as additional signatories in order to avoid future confirmation issues with the banks. This will be done on an ongoing basis as new accounts are opened.

1.3 Reconciliation of investment balances

Observation:

In our testing of investment balances at year-end we noted differences in the cost of certain investments between the City and the trustee that were not reconciled at year-end. The City believes that these differences are a result of differing methodologies applied by the City and the trustee in calculating the amortized premium/discount on bonds when valuing the City's investment holdings at year-end.

Impact:

Differences that are not reconciled increase the risk of assets held by the City not being appropriately valued.

Recommendation:

Management should consider reconciling the City's internal treasury reports to the reports received by the trustee on an individual investment basis for any anomalies in amortized cost with consideration given to the different methodologies between the City and the trustee.

Management Response:

2010:
On a monthly basis, the City will reconcile internal treasury reports to the reports received by the trustee on an individual investment basis for any anomalies, with consideration given to the different methodologies between the City and the trustee.

2011:
Corporate Finance and Accounting staff will investigate the possibilities of aligning the accounting methodologies for cost and amortization used by the Custodian and the City.

In the event that the alignment of accounting methodologies with the Custodian is not cost-effective, Corporate Finance and Accounting Services staff will undertake to provide reconciliation having regard to segregation of duties principles.

1.4 Employee future benefits experience study

Observation:

During our testing of the City's employee benefits at year-end we noted that the City has never conducted an "experience study". Experience studies for sufficiently large organizations are typically conducted periodically to support the assumptions used in measuring the expense and liability for its defined benefit plans. In absence of an experience study, the City has relied on information from other third parties (such as OMERS) to develop the assumptions used to calculate the City's employee benefits amounts at year-end.

Impact:

Assumptions used to determine the expense and liability for the City's defined benefit plans may not be accurate which can result in a misstatement in this expense and liability balances.

Recommendation:

We have audited management's assumptions at year-end and find them to be reasonable and supportable. However, we believe that the City is of significant size that an experience study prior to the next employee future benefits valuation would provide meaningful insights and further support management's estimates of assumptions.

Management Response:

2010 & 2011:
PPEB and Accounting Services have worked very closely with Buck Consultants to review the assumptions and approve each of the assumptions prior to the evaluation. It is the City's view that the assumptions used are reasonable and in accordance with the industry standards for public sector employers.

Notwithstanding the reasonableness of the assumptions, it has also been recommended by Buck Consultants that the City consider an experience study to further support all actuarial assumptions contained in their report.

The City will be issuing an RFP in the fall of 2012 for a Benefits Consultant to conduct a full Actuarial Valuation. At that time, we will also consider the inclusion of a requirement to conduct an experience study to support the actuarial assumptions.

Internal control points identified during the 2011 audit

1.5 Review of accident claims liability

Observation:

During our testing of the valuation of accident claims liabilities, it was noted that an incorrect discount rate was used as an input in the calculation of the liability. The rate used was significantly lower than the average return on investment assets of the City in accordance with the duration of accident claim liabilities and indicated a lack of formal review of the discount rate provided to the actuary.

Impact:

The use of an inaccurate discount rate can lead to material misstatements of the liability recorded.

Recommendation:

In connection with the annual review of the accident claim liability, management should review the rate provided to the actuary to ensure that the discount rate is appropriate and a formal review of the actuary's report for overall reasonableness should be completed prior to recording the relevant journal entries.

Management Response:

Accounting Services will ensure that they sign off on the rate that is provided to Oliver Wyman to ensure that the discount rate is appropriately in line with the liability and will review the reports prior to recording the relevant journal entries.

1.6 Inaccuracy in water tax revenues

Observation:

During our testing of utility/water charges revenues, we noted that one sector of the City was not updated to reflect a rate increase in utility charges effective March 1, 2011. This sector was billed at the old rate during March and April of 2011, at which time the error was identified and corrected but no retroactive billing was sent to customers. This resulted in an undercharge in revenue to some users of approximately $300,000.

Through discussions with representatives from the City's Revenue Services Division, it was noted that while there is a formal review process in place to ensure rate changes in utility charges are properly updated prior to going live in the UMACs system (used to calculate the revenues billed to each user), some rate changes were overlooked and errors were not detected before bills were issued.

Additionally, in 2011 the water rate by-law establishing water rates for 2011 (starting March 1, 2011) was not passed by Council until February 24, 2011. At this time, 2011 flat rate bills had already been issued (sent in December of 2010) for the first half of 2011, using 2010 rates. This resulted in an under billing for the service period from March 1, 2011 to June 30, 2011. This billing should have been adjusted and applied to the next bill. The City's Revenue Services Division performed a detailed analysis of the impact of this error in application of new rates and concluded that the total amount under-billed is approximately $1.8 million.

Management noted that a misinterpretation of the relevant by-law resulted in this undercharge in revenue.

Impact:

As a result of the audit findings and management's further analysis and follow up, the corrected 2011 amounts will be billed during 2012. However, in the future without additional levels of review of rate changes, certain bills could be incorrectly calculated and the error not detected.

Recommendation:

Management should implement a process to formally review rate changes to ensure all changes are appropriately inputted prior to going live in the system.

Management Response:

In order to prevent a similar situation happening in future, Revenue Services has taken the following steps:

i) Staff have re-verified all billing rate tables in WMACS (the City's utility billing system) to ensure that correct rates were used for 2011 and that correct rates have been entered for 2012.
ii) In future, a total of 4 Utility Billing staff members will review and approve the rate tables following the update, to ensure that all rate tables have been correctly updated. This process will be reflected in written billing procedures.
iii) Once the rates have been reviewed and approved by Utility Billing Staff, Revenue Accounting staff will perform a final check to ensure that the water rates agree with the approved Council approved by-law. This would include validating the rates using information downloaded from WMACS and comparing against the by-law provisions.
iv) A Service Request has been created for a WMACS programming change that will see common rates entered once, and automatically populated within the 75 rate categories that exist in WMACS, such that the operator need only enter these common rates once, making the verification process much more streamlined, and reduce the chance of operator error in entering rates. This change will be implemented as soon as possible.

Written procedures will be updated to reflect that flat rate billings that occur in the year following an election (i.e., where the rates are set after the Jan-June flat rate bills have already been issued) be adjusted to include any flat rate change for the applicable period.

1.7 Formal review of actuary reports

Observation:

As a result of our testing of the support for the defined benefit pension liability, it was noted that a formal review of the report prepared by the City's actuary for the accuracy of input data and reasonableness of the results is not completed. PwC noted the value of the plan assets provided to the actuary were overstated by $18.3 million as preliminary information was used.

Impact:

The City's liabilities in respect of employee future benefits and the associated expense within the statement of operations may be understated within the financial statements.

Recommendation:

A formal review process of the actuary's report for overall reasonableness should be implemented prior to recording the relevant journal entries.

Management Response:

For 2012 year end and onwards, pension staff will ensure that the custodial statements are final before being incorporated into the draft pension financial statements that will be provided to the actuary. This will significantly improve the liability and expense calculations. The actuarial report will be reviewed upon receipt to ensure that we are satisfied with the appropriateness of the liability at year end.

2. City of Toronto (Information technology internal control related recommendations) Internal Control points identified in the prior year not yet addressed

2.1 Periodic User Access Rights Review

Observation:

PwC noted that SAP user divisions have daily processes in place for granting and removing employee access; however, there is no periodic review of access rights compared to user job responsibilities in SAP for the Information & Technology and Facilities divisions.

Impact:

Access that is not in accordance with job responsibilities may result in unauthorized activities and conflicts in segregation of duties.

Recommendation:

Management should consider requiring the SAP user department managers from all divisions to perform a review of the access rights for each user on a periodic basis, at least annually, which includes a confirmation of the employment status based on each employee's user ID and comparison of the level of access with their current job responsibilities.

Management Response:

2010
Facilities Management (Facilities Services)

FMD will be developing a custom report in 2011 to review staff job changes which will enable our management team to perform periodic reviews to PM (FMD/RES) and RE access.

2011
Facilities Management (Facilities Services)
Acknowledged. FMD has been working with business and technical teams to implement new technology, and a corresponding new process to enable business unit managers to efficiently and effectively review SAP access for those areas which they approve access for. A new process was drafted in May of 2011, and presented to and signed off by business unit managers on June 13, 2011. There have been some delays in on the technical side, but the custom report development is now substantially completed. In addition to a regular review process (currently planned to be monthly, and not less than quarterly), there will also be a one-time review of user access by Business Unit approvers to ensure any previously assigned access is still appropriate, after which the monthly process will catch and report any changes. The new report and process will be active and implemented in production by Q3-2012.

I&T (Solutions Development & Sustainment)
The SAP Landscape Upgrade Project developed an SAP security strategy in 2011 that includes a leading practice of position-based security roles. This strategy will be implemented as part of the PBF Implementation Project in 2013 and so that SAP security is aligned with the job responsibilities in that position.

2.2 Network Password Controls

Observation:

PwC noted that the Account Lockout Duration of 15 minutes at the Novell network is not set to the standard industry practice of 0 minutes (which results in the account being locked indefinitely until an administrator explicitly unlocks it).

Impact:

An unauthorized user could attempt to retry accessing the system once the lockout time has expired and the ID unlocked.

Recommendation:

Management should consider setting up the 'Account Lockout Duration' to "0" to conform to the standard industry practice in this area.

Management Response:

2010
SAP Competency Centre Information & Technology Division
We have considered the latest functionality available in password complexity settings within SAP. The current SAP password complexity settings are aligned with the City's Information & Technology (I&T) policy for password complexity. Changes in the SAP password complexity require a change in City's I&T policy for password complexity. We will consider these changes in coordination with a review of the I&T Governance model.

2011
I&T (Technology Infrastructure Services)
(Previously SAP Competency Centre Information & Technology Division)
We have considered the latest functionality available in password complexity settings within SAP. The current SAP password complexity settings are aligned with the City's Information & Technology (I&T) policy for password complexity. Changes in the SAP password complexity require a change in City's I&T policy for password complexity. We will consider these changes in coordination with a review of the I&T Governance model.

Besides considering standard industry practice, the City also considers its financial constraints and balance between cost and risk to achieve an acceptable risk level at a reasonable cost

The Account Lockout Duration of 15 minutes has been the practice within the City's Novell network environment for many years. It is proven to be a good practice that meets divisional business needs. Technically, the lockout time obviously can be changed but operationally, it may not be practical within the City's environment.

Any change to this practice will have a significant impact to Service Desk and the Data Centre Operations which supports calls during nights and weekends. Given our current operating environment, most user logins are on internal network from their desktop computers in premises which is within a reasonable and acceptable risk level. Our large computer user base will generate a higher number of password reset service calls if this is changed.

Considering all these, the Technology Infrastructure Management (TIS) Management Team would think that the current 15 minutes lockout time setting is reasonable and acceptable.

2.3 Access to Sensitive SAP Basis Transactions

Observation:

PwC noted several user accounts in the Finance, Payroll and HR divisions have the ability to perform Sensitive Basis transactions within the production environment that are not required within their job responsibilities.

Impact:

Access to the Sensitive Basis transactions increases the risk of unauthorized or inappropriate changes within the production environment, and may negatively impact system functionality.

Recommendation:

Management should consider removing the Sensitive Basis transaction access rights from these user accounts immediately.

Management Response:

2010
Finance, Payroll and Human Resources
We agree with this observation. We will review these user accounts and access privileges and where appropriate will remove access.

2011
Finance, Payroll and Human Resources
We agree with this observation. We will review these user accounts and access privileges and where appropriate will remove access. A number of financial user access privileges were removed in late 2011, subsequent to the audit testing.

2.4 Timely Inactivation of Terminated Employee Accounts

Observation:

PwC noted one user from the Real Estate Services division who was not deactivated for 17 days after the termination date

Impact:

Continuing access to terminated employees increases the risk that the ID of the terminated user is misused for unauthorized access to the system. If the City's user administration process is not followed, the risk of unauthorized and inappropriate access to the system increases.

Recommendation:

Management should consider a review of the policies and procedures for deleting access rights of terminated employees to the City's IT infrastructure and applications ensuring timely removal of access rights for terminated employees. Best industry practice is for the user account to be disabled at day of departure. The removal of all access rights should be confirmed by administrators as part of employee exit procedures.

Management Response:

2010
SAP Competency Centre Information & Technology Division
We agree with this observation. While an automated process for managing terminated users is in place, certain supplementary employee accounts (accounts that end with 76, 77, 88 & 99) were not subject to this automated removal process resulting in the delays noted. The ERP Competency Centre has implemented the necessary programming changes to ensure these supplementary accounts are also removed as part of the automated process in Q1 2011.

2011
Pension, Payroll & Employee Benefits
Pension, Payroll and Employee Benefits and Human Resources are currently reviewing the termination process, the Property Retrieval/Access Cancellation Checklist will be updated to include discontinuation of SAP access. Divisions will also be reminded to submit notification to discontinue access to SAP immediately upon receipt of termination notice.

Facilities Management (Facilities Services)
The process for terminating users is the same for ALL SAP users across the City. The SAP user id is automatically deactivated by the end of business day after a personnel action is done in SAP indicating the termination of an employee. However, this process is reliant on timely submission of the Employee Separation Notice paperwork from the hiring manager, and timely processing of same by the Payroll staff.

2.5 Dormant User Accounts

Observation:

In the SAP Basis security testing, PwC noted user accounts in the Finance, HR and Payroll divisions that have never logged into the production environment (client 200), or have not logged into the system within the last three months. PwC identified 28 users who never logged on and 92 who have not logged on in 3 months or more.

Impact:

New user accounts which lay dormant with standard initial password accounts may lead to unauthorized access to the system. Dormant users can be used to gain unauthorised access to the system. In addition, dormant user accounts may be creating unnecessary SAP licenses (and costs).

Recommendation:

Management should consider monitoring the dormant user accounts on a periodic basis, including dormant substitute user accounts, and deleting these accounts where appropriate

Management Response:

2010
Financial Services
Lists are generated by the SAP CC for user accounts that have been dormant for 3 months and these user accounts are contacted to determine if access is still required.

2010
Pension, Payroll & Employee Benefits
User accounts will be monitored to ensure dormant user accounts are removed on a regular basis.

2010
Human Resource (HR Standards & Decision Support*)*
Management will review these accounts and delete those accounts that should be deleted and inform the others to log in and change their password. In addition a periodic review will be performed to monitor this situation.

2011
I&T (Solutions Development & Sustainment), Finance, Payroll and Human Resources
The ERP Competency Centre advises divisions on dormant user accounts but it is the division's responsibility to act on the dormant accounts.

Divisions make the decision whether it is operationally efficient to delete access or to otherwise limit access. These decisions will be approved and documented in each Division to support any accounts not deactivated.

2.6 SAP Application Payroll Controls - Segregation of Duties

Observation:

During our review of segregation of duties and access to sensitive authorization related to payroll processing, we noted that 91 user accounts in the Payroll division who have access to maintain their own core employee data and their own payment related data.

Impact:

The current access assigned can result in individuals making unauthorized and undetected changes to the payroll and HR master data. Through our discussions with management we understand that the following compensating controls are in place to mitigate this risk:

- Changes to master data are reviewed and approved by an independent person (Buddy System) outside of the SAP system.
- A system generated report of user accounts that changed their own core employee data and their own payment related data (detailed and summary level) is reviewed on a periodic basis.
- *Effective March 2011*, City implemented a standard SAP system control to prevent users from updating their own Master Data record. The exception is a restricted number of Payroll Run users who process payroll runs and in critical situations may need to correct an entry to proceed with the pay run. Changes by these users will be monitored by a system generated report by other designated person(s). *This administrative process will be in place by Q2, 2012*.

Recommendation:

At the time of review, the monitoring of Payroll users who have access to change their own Master Data is pending implementation for Q2, 2012. We would recommend that management fully implement this plan of generating a report to monitor changes to an employee's own Master Data and establish a periodic review and sign-off process for this report.

Management Response:

2010
Pension, Payroll & Employee Benefits
The existing "Buddy System" accomplishes the same results as workflow; in addition the manual process ensures that information on the original documentation matches the information entered in the system. Workflow does not eliminated manual checking. As part of the approval process approvers would still be required to compare the source documentation to the information entered into the system. The City may consider the benefits of implementing workflow within the payroll module as part of a future capital project.

2011
Pension, Payroll & Employee Benefits
Management agrees with recommendation, periodic review and sign-off process in place effective April, 2012.

Internal control points identified during the 2011 audit

2.7 SAP Application – Procurement Process - Sensitive Analysis/Segregation of Duties - City of Toronto

Observation:

Based on our review of the segregation of duties and access to sensitive authorization related to procurement processing it was noted that a number of user accounts for operations support have access to transactions that provide conflicting abilities in the Financial Services division.

Control	Observation/ Exception	Impact
PTPC080 - Access to Maintain Vendor Master Data and Process FI Invoices is Segregated	PwC noted 7 users with Access to Maintain Vendor Master Data and Process FI Invoices for company code CITY.	Fraudulent or unauthorized processing of FI invoices to fictitious vendors may lead to financial misstatement and financial loss.
PTPC079 - Access to Maintain GL Master Data and Process FI Invoices is Segregated	PwC noted 8 users with Access to Maintain GL Master Data and Process FI Invoices for company code CITY.	Individuals may create fictitious general ledger accounts and process FI invoices for the same account.
PTPC024 - Access to Create, Change or Release Purchase Orders and Process Invoices is Segregated	PwC noted 7 users with Access to create or change an invoice and create, change or release of a purchase order and 13 users with access to release an invoice and create, change or release of a purchase order for company code CITY.	Individuals may create or change a fictitious purchase order and process an invoice for the same purchase order.
PTPC032 - Access to Create or Change Purchase Orders and Process Goods Receipts is Segregated	PwC noted 560 users with Access to create or change a purchase order and process goods receipts for company code CITY.	Individuals may process an invoice upon fictitious goods receipt.

Recommendation:

Management should consider segregating the conflicting duties from user accounts' job responsibilities.

Management Response:

Financial Services
PTPC080
Senior Financial Application Analysts in FASP are power users that support the 3rd level support in troubleshooting/resolving issues that are reported in the productions system by users. They need access to all FIS transactions to enable them to troubleshoot and resolve SAP and business issues. If they cannot follow the transactions they cannot resolve the issues. There are compensating controls in SAP where all documents that are created cannot be deleted and they are tracked by user ID. The activity of any super-user can be tracked, reviewed and reported on.

Emergency User ID with Finance access is used only if there is an emergency and no security staff is available to change the authorizations of a super-user to enable them to perform a required approved task.
User ID is the Manager, FASP but this is display access only. No transactions can be executed.

PTPC079
User creates master data and can only process AP interface transactions from files received electronically. This person does not perform individual invoice processing. Electronic interfaces have a compensating control that the number and dollar amounts are balanced to control totals.

PTPC024
Senior Financial Application Analysts in FASP are power users that support the 3rd level support in troubleshooting/resolving issues that are reported in the productions system by users. They need access to all FIS transactions to enable them to troubleshoot and resolve SAP and business issues. If they cannot follow the transactions they cannot resolve the issues. There are compensating controls in SAP where all documents that are created cannot be deleted and they are tracked by user ID. The activity of any super-user can be tracked, reviewed and reported on.
Emergency User ID with Finance access is used only if there is an emergency and no security staff is available to change the authorizations of a super-user to enable them to perform a required approved task.
User ID is the Manager, FASP but this is display access only. No transactions can be executed.

PTPC032
All SAP users have access to create DPO's and enter Goods Receipts (decentralized data entry and receiving functions). They do not have access to enter invoices in SAP. All purchasing documents created in the Divisions must have an approval through a release strategy. No goods receipts can be entered without the DPO being approved first. Goods receipts confirm the goods/services have been received by the Division. Invoices are sent directly to AP for payment. This is the approved policy and procedure for Procurement at the City.

For each of these matters, staff will review compensating controls with PwC audit staff in order to ensure that they are adequate.

Appendix F: Recent developments in Public Sector Accounting

As part of our commitment to quality service, we now draw your attention to new and emerging accounting, auditing and regulatory developments together with their assessed impact on the City's financial reporting:

a. Financial reporting by Government Not-for-Profit-Organizations

As previously communicated, in September 2010, PSAB approved the inclusion of the 4400 series of standards from the CICA Handbook – Accounting into the PSA Handbook for use by government organizations applying the standards for not-for-profit organizations (NPO's). The standards will be renumbered Sections PS 4200 to PS 4270.

PSAB also approved changes to the Introduction to Public Sector Accounting Standards giving these organizations a choice to apply either:

(a) the PS 4200 series of standards plus the PSA Handbook; or

(b) the PSA Handbook without the PS 4200 series of standards

The basis of accounting chosen would have to be applied in its entirety, disclosed and consistently applied. These organizations will be required to adopt the standards for fiscal periods beginning on or after January 1, 2012.

The City's NPO's will need to make a decision and choose between the two available accounting frameworks available for the year ended December 31, 2012. Depending on the accounting framework chosen, this standard may have a significant impact on the reporting of certain of the City's ABC's.

b. Government transfers

As previously communicated, in December 2010 PSAB approved a final standard to replace existing Section PS 3410, Government Transfers. The revised Section PS 3410 was issued in February 2011 and will be effective for fiscal years beginning on or after April 1, 2012.

The most significant impact to the City is likely around the accounting for grants received for tangible capital assets. There will likely be little opportunity to defer government grant transfers received and not spent unless they meet the definition of a liability.

c. Financial instruments and financial statement presentation

In March 2011 PSAB approved section PS 3450, Financial Instruments, and will be effective for periods beginning on or after April 1, 2012 for government organizations and April 15, 2015 for governments. The new section provides guidance on the recognition, measurement, presentation and disclosure of financial instruments. Financial assets and/or financial liabilities are to be recognized when the entity becomes a party to a financial instrument contract. Derivatives and portfolio investments that are equity instruments quoted in an active market are to be measured at fair value. The entity may report non-derivative financial assets and/or financial liabilities on a fair value basis if it manages and reports performance of these items on a fair value basis. The change in fair value of the items is recognized in the statement of remeasurement gains and losses until settlement.

In March 2011 PSAB approved section PS 1201 which replaces section PS 1200, Financial Statement Presentation, and will be effective for periods beginning on or after April 1, 2012 for government organizations and April 15, 2015 for governments. The new Section includes a statement of remeasurement gains and losses which will report; unrealized gains and losses with the change in fair value of financial instruments; exchange gains and losses associated with monetary assets and monetary liabilities denominated in foreign currency that have not been settled; amounts reclassified to the statement of operations upon derecognition or settlement; and other comprehensive income reported when an entity includes the results of its government business enterprises and government business partnerships in the summary financial statements.

The most significant impact to the City will be the presentation of the change in the fair value of derivative financial instruments for its purchase of electricity and natural gas as well for the change in the fair value on the interest rate *swaps at TCHC. The change in the fair value will now be recognized in the statement of remeasurement gains and losses and no longer in the consolidated statement of operations and accumulated surplus.*

In addition there will be an impact on the City's investments which are currently being recorded at cost, and will need to be recorded at fair value with the change in the fair value being recognized in the statement of remeasurement gains and losses

d. Other projects

Other previously communicated projects are in progress for PSAB:

- Amalgamation and government restructuring - A project was approved in March 2009 to issue an accounting standard that addresses the definition and classification of amalgamation and restructuring activities; the recognition criteria and accounting treatment of various elements of the amalgamation and restructuring transaction; the measurement basis of assets and liabilities involved; and the disclosure requirements unique to amalgamation and restructuring. A statement of principles is expected to be approved in December 2011.
- 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 the 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 derecognition criteria for assets and contingent assets, provide guidance on the measurement of assets and contingent assets (including impairments) 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 December 2011.
- Related Party Transactions and Appropriations - PSAB approved a project proposal in September 2010 to issue a new accounting standard covering related party transactions and appropriations. The objectives of the project are to define related parties and appropriations in the context of government and government organizations; describe the disclosures required; and address recognition and disclosure appropriations. Our audit national public sector leader is the chair of this PSAB task force.

The City will need to monitor these projects for future impact on their own financial reporting.