The City of Toronto

Summary of our Report to the Audit Committee

Year ended December 31, 2011

pwc

1. Status of the audit

We have substantially completed our audit.

The following items will need to be completed/received prior to the issuance of our opinion.

Outstanding items:
Completion of subsequent event procedures up to the date of our audit opinion
Receipt of signed management representation letter
Approval of the financial statements by Council

2. Significant audit, accounting and financial reporting matters

Revenue Recognition

Background:

- Revenue earned from funding transfers from other governments is an area of significant judgment and therefore potentially higher audit risk.

- The City has established revenue recognition accounting policies in accordance with the accounting standards for the Public Sector Accounting Board (PSAB).

PwC Views:

- We performed various audit procedures including testing of certain key controls, substantive analytical procedures and tests of detail.

- We have no matters to report to the Audit Committee.

2. Significant audit, accounting and financial reporting matters

Accounting for employee future benefit liabilities

[redacted]

2. Significant audit, accounting and financial reporting matters

Contingent liabilities (provisions for property and personal liability claims)

Background:

- For insurance-related claims, the City engages external actuarial specialists to assist with the assessment of the valuation of these liabilities 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 Views:

- For insurance related claims, we tested the assumptions used by the actuary (i.e. claims growth, discount rates) and the claims data provided to the actuary for accuracy and completeness.

- We noted an incorrect discount rate was used by the actuary resulting in an overstatement of the liability by $23.6 million which was corrected by management in the consolidated financial statements.

- For non-insurance related claims, we obtained independent legal confirmation letters and have discussed significant claims with internal legal counsel and have no matters to report.

2. Significant audit, accounting and financial reporting matters

Other significant accounting estimates

Background:

- Other significant provisions and estimates include:

    a) Provision for property tax appeals; and

    b) Landfill closure and post-closure liabilities

PwC Views:

- We validated and benchmarked these estimates against our own expectations.

- We have no matters to report to the Audit Committee.

2. Significant audit, accounting and financial reporting matters

Accounting for government business enterprises

Background:

- Toronto Port Lands Company (TPLC) met the definition of a government business enterprise (GBE) effective January 1, 2011.
- PSAB mandated the adoption of IFRS for GBEs effective January 1, 2011 resulting in the transition of TPLC and Toronto Parking Authority (TPA) to IFRS.
- Adjustments to the opening investment balance at January 1, 2011 were recorded totalling approximately $330 million.

PwC Views:

- We concur with management's assessment with respect to the classification of TPLC.
- We tested the consolidation adjustments to recognize the change in status for TPLC and transition to IFRS for TPLC and TPA and note disclosure and have no matters to report.

2. Significant audit, accounting and financial reporting matters

Consolidation process

Background:

- The consolidation of the City's financial statements at year-end is a lengthy, complex and manual process that involves the accumulation of information from the City's accounting system and its ABC's.

PwC Views:

- We tested significant adjusting journal entries and compared the consolidation information for the significant ABCs to their local accounting records.

- We identified an audit difference in respect of accounting for employee benefits at TCHC resulting in an understatement of the employee benefit liability of $9.6 million due to differences in the accounting frameworks between the City and the ABC.

- We recommend that management consider automating the consolidation process.

2. Significant audit, accounting and financial reporting matters

Management override of controls

[redacted]

3. Summary of unadjusted and adjusted misstatements

Unadjusted misstatements (in millions):

Description	Surplus over (under) stated	Assets (over) under stated	Liabilities over (under) stated	Opening Accumulated Surplus over (under) stated
TCHC employee benefit liability	$(4.5)		$(9.6)	$14.1
Sinking Fund transfer	$12.9			$(12.9)
TPLC environmental liability	$20			$(20)
Reclassification from prepaids to deferred revenue.		$47	$(47)	
Dividend from Enwave		$6 $(6)		
Reclassification from other liabilities to deferred revenue.			$(7.0) $7.0	
Adjustments arising from the audit of the Toronto Community Housing Corporation (TCHC)	$5.3	$(22.1)	$16.8	
TOTAL	**$33.7**	**$24.9**	**$(39.8)**	**$(18.8)**

3. Summary of unadjusted and adjusted misstatements

Adjusted misstatements (in millions):

Description	Surplus over (under) stated	Assets (over) under stated	Liabilities over (under) stated
Provision for accident claims	$(24.6)		$24.6
Reclassification of amounts from investments to cash.		$ (66.0) $66.0	
Employee benefit liabilities	$18.3		$(18.3)
Adjustments arising from the audit of the Toronto Transit Commission (TTC)	$(5.8)		$5.8
TOTAL	**$(12.1)**	**$ -**	**$12.1**

4. Management letter recommendations

- Our testing of certain key controls was targeted primarily on those controls in the purchases, payables and payment and payroll processes.

- Internal control recommendations were raised primarily related to non-information technology controls in the following areas:

  - Financial statement close process;
  - Bank Account signatory list;
  - Reconciliation of investment balances;
  - Employee future benefits experience study;
  - Inaccuracy in water tax revenue; and
  - Review and approval of actuary reports

4. Management letter recommendations

- Internal controls were also tested over information technology.
- Internal control recommendations were raised primarily related to information technology controls in the following areas:
  - Password settings;
  - Access and segregation of duties; and
  - Change management process.

Thank-you!