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# *City of Toronto Trust Funds*

*2013 year-end report  
to the Audit Committee*

*Prepared as of  
June 12, 2014*





June 12, 2014

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

Dear Members of the Audit Committee:

PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the consolidated financial statements of City of Toronto Trust Funds (the City Trust Funds ) prepared in accordance with the basis of accounting disclosed in note 2 to the consolidated financial statements as at December 31, 2013 and for the year then ended. 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 as Appendix A.

We have issued the accompanying report to assist you in your review of the 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, City 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 would like to express our sincere thanks to the management and the staff who have assisted us in carrying out our work.

Yours very truly,

*PricewaterhouseCoopers LLP*

Cathy Russell  
Engagement Leader

c.c.: Mr. J. Pennachetti, City Manager  
Mr. R. Rossini, Deputy City Manager & Chief Financial Officer  
Mr. J. Griffiths, Auditor General

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

## *Communications to the Audit Committee*

Key matters for discussion	Comments
Status of the audit	<p>We have substantially completed our audit of the consolidated financial statements.</p> <p>Significant outstanding items at the date of this report include the following:</p> <ul style="list-style-type: none"> <li>• Completion of subsequent events procedures to the date of our audit opinion.</li> <li>• Approval of the financial statements by City Council.</li> </ul>
Objectives of an Audit and Our Auditor's Report	<p>As your auditor, our primary responsibility is to form and express an opinion on the consolidated financial statements as at December 31, 2013 and for the year then ended in accordance with the disclosed basis of accounting as outlined in note 2 to the financial statements. The consolidated financial statements are prepared by management with the oversight of those charged with governance (the Audit Committee). An audit of the financial statements does not relieve management or the Audit Committee of its responsibilities.</p> <p>We conducted our audit in accordance with Canadian GAAS. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.</p> <p>Our draft Auditor's Report is included in Appendix A</p>
Audit approach	<p>Our audit approach is designed to allow us to execute a quality and efficient audit. We do this by:</p> <ol style="list-style-type: none"> <li>i. gaining an understanding of new developments and key issues affecting the entity as well as management's monitoring of controls and business processes;</li> <li>ii. identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;</li> <li>iii. using well-reasoned professional judgment, especially in areas that are subjective or require estimates; and</li> <li>iv. leveraging reliance where possible on the entity's internal controls and information technology and data systems.</li> </ol> <p>In the current year, our work included testing of key controls in the following areas:</p> <ul style="list-style-type: none"> <li>• Investments</li> <li>• Investment income</li> </ul> <p>All other areas were subject to tests of detail and substantive analytical testing.</p>

Key matters for discussion	Comments
Materiality	<p>Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users, taken on the basis of the consolidated financial statements.</p> <p>Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.</p> <p>We have set an overall materiality of \$800,000. The overall materiality was determined on the basis of 1.75% of assets as at December 31, 2013.</p> <p>We have reported to the Audit Committee individual unadjusted and adjusted misstatements in excess of the de minimus level of \$40,000 (set at 5% of overall materiality).</p>
Significant accounting policies	<p>We are responsible for providing our views about qualitative aspects of the significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures.</p> <p>Generally accepted accounting principles provide for the City to make accounting estimates and judgments about accounting policies and financial statement disclosures.</p> <p>We will inform you about the appropriateness of the accounting policies to the particular circumstances of the City Trust Funds. When acceptable alternative accounting policies exist, we will identify the financial statement items that are affected by the choice of significant policies.</p> <p>There were no changes in accounting policies from the prior year. Refer to footnote 2 of the consolidated financial statements for disclosure of all significant accounting policies.</p>
Summary of unadjusted items and audit adjustments	<p>As a result of our audit, we identified two differences which management has adjusted in the consolidated financial statements.</p> <ul style="list-style-type: none"> <li>• Incorrect foreign exchange rate used to translate investment income earned - \$442,000</li> <li>• Reclassification between investment income and expenditures on the Statement of Operations - \$400,000</li> </ul> <p>We have no unadjusted differences to report to the Audit Committee</p>

Key matters for discussion	Comments
Internal control recommendation	<p>While completing our audit procedures we identified one internal control recommendation for management's consideration, as follows:</p> <p><b>Observation:</b></p> <p>In our testing of cash balances at year-end we noted that one bank reconciliation was not prepared and reviewed in a timely manner.</p> <p><b>Impact:</b></p> <p>There is an increased risk of misstatement of the cash balance and misappropriation of funds due lack of timely preparation and review of the bank reconciliation.</p> <p><b>Recommendation:</b></p> <p>Management should perform a thorough and timely review of all bank reconciliations to ensure that all accounts have been reconciled and any discrepancies and errors are corrected in a timely manner.</p> <p><b>Management response:</b></p> <p>See Appendix C.</p>
Fraud	<p>No instances of fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures and no instances of management override of controls were noted. We wish to reconfirm whether the Audit Committee is aware of any known, suspected or alleged incidents of fraud.</p>
Significant difficulties or disagreements that occurred during the audit	<p>We experienced no difficulties or disagreements with management during the completion of our audit that requires the attention of the Audit Committee.</p>
Any matters involving known or suspected non-compliance with laws or regulations that came to our attention	<p>No instances of known or suspected non-compliance with laws or regulations came to our attention as a result of our audit procedures. We wish to reconfirm whether the Audit Committee is aware of any known or suspected incidents of non-compliance with laws or regulations.</p>
Management representation letter	<p>We have included a draft version of the management representation letter in Appendix B.</p>
Independence letter	<p>We confirm that we are independent of the City as at June 12, 2014, the date of this report.</p>
Subsequent events	<p>We have not been made aware of any subsequent events which would impact the financial statements other than those disclosed. We will complete our subsequent events procedures to the date of our audit opinion.</p>

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## ***Appendices***

***Appendix A- Draft Auditor's Report***

***Appendix B - Draft Management Representation Letter***

***Appendix C – Management Response to Internal Control Recommendation***

The matters raised in this and other reports that will flow from our involvement as your auditor on the interim review are only those that have come to our attention that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express a conclusion on any individual item or accounting estimate.

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## ***Appendix A: Draft auditor's report***



DRAFT

July X, 2014

## **Independent Auditor's Report**

### **To the Members of Council of City of Toronto**

We have audited the accompanying consolidated financial statements of the City of Toronto Trust Funds, which comprise the consolidated statement of financial position as at December 31, 2013 and the consolidated statements of operations and changes in fund balances and continuity of trust funds, 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 the basis of accounting described in note 2 to the consolidated financial statements, 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 is sufficient and appropriate to provide a basis for our audit opinion.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the City of Toronto Trust Funds as at December 31, 2013 and the results of their operations for the year then ended in accordance with the basis of accounting described in note 2 to the consolidated financial statements.

**Basis of accounting and restriction on use**

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared for management and the Members of Council. As a result, the consolidated financial statements may not be suitable for another purpose. Our report is intended solely for Members of Council and management and should not be used by any other parties.

**DRAFT**

**Chartered Accountants, Licensed Public Accountants**

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## ***Appendix B: Draft management representation letter***

## DRAFT

[City of Toronto Letterhead]

July X, 2014

PricewaterhouseCoopers LLP  
Chartered Professional Accountants  
PwC Tower  
18 York Street, Suite 2600  
Toronto ON M5J 0B2  
Attn: Ms. Cathy Russell

We are providing this letter in connection with your audit of the consolidated financial statements of City of Toronto Trust Funds (the Funds) as at December 31, 2013 and for the year then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the financial position, results of operations of the Funds in accordance with the basis of accounting described in note 2 to the financial statements.

### **Management's responsibilities**

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter 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 the basis of accounting described in note 2 to the financial statements;
- We are responsible for designing, implementing and maintaining an effective system of internal control over financial reporting to enable 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 ensure financial statements are prepared in accordance with the basis of accounting described in note 2 to the financial statements.
- 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:

### **Use of the consolidated financial statements**

We confirm that the financial statements are solely for the information, use of the Members of Council of City of Toronto. We understand that these financial statements are not intended to be and should not be used by anyone other than the above-mentioned users or for any other purpose. We also understand that, during your audit, items of possible interest to a third party, other than the above-mentioned users, have not been specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

### **Preparation of consolidated financial statements**

The consolidated financial statements include all disclosures necessary for fair presentation in accordance the basis of accounting described in note 2 to the financial statements and disclosures otherwise required to be included therein by the laws and regulations to which Funds are 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.

### **Accounting policies**

We confirm that we have reviewed Funds' 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 Funds' particular circumstances to present fairly in all material respects its financial position, results of operations in accordance with the basis of accounting described in note 2 to the financial statements.

### **Internal controls over financial reporting**

We have designed disclosure controls and procedures to ensure material information relating to City of Toronto Trust Funds is made known to us by others during the period in which the annual filings are being prepared.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with the basis of accounting described in note 2 to the financial statements.

We have not identified any deficiency in the design or operation of disclosure controls and procedures and internal control over financial reporting identified as part of our assessment as at December 31, 2013.

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.

### **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 shareholders, management, directors and committees of directors. There have been no meetings held during the reporting period;
- 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.

**Completeness of transactions**

All contractual arrangements entered into by the Funds with third parties have been properly reflected in the accounting records 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.

**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 Funds 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 Funds' consolidated financial statements, communicated by employees, former employees, analysts, regulators or others.

**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 the consolidated financial statements.

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

**Accounting estimates and fair value measurements**

Significant assumptions used by the Funds 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 Funds' 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 CPA Canada Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty, have been appropriately disclosed.

**Related parties**

We confirm the completeness of information provided to you regarding the identification of related parties as defined by CICA Handbook, Part II, Section 3840, *Related Party Transactions*, which include, but are not limited to directors, officers, senior members of management, or immediate family members of such individuals, or entities over which these individuals are able to exert significant influence.

We also confirm the completeness of information provided to you regarding the nature of our relationships with and transactions involving those entities.

We have not identified any related parties transactions, as defined by CICA Handbook, Part II, Section 3840, *Related Party Transactions*.

**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 business or to cease operations).

**Assets and liabilities**

We have satisfactory title or control over all assets.

Trade receivables and other receivables recorded in the consolidated financial statements represent bona fide claims against debtors for sales or other charges arising on or before the consolidated balance sheet 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.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with the basis of accounting described in note 2 to the financial statements. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the Funds are contingently liable in accordance with the CPA Canada Public Sector Accounting Handbook Section PS 3300, Contingent Liabilities, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

**Litigation and claims**

All known actual or possible litigation and claims, which existed at the consolidated balance sheet date or exist now, have been disclosed to you and accounted for and disclosed in accordance with the basis of accounting described in note 2 to the financial statements, whether or not they have been discussed with legal counsel.

**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 adjusted misstatements identified during your audit and summarized in the attached schedule have been approved by us and adjusted in the consolidated financial statements.

**Events after consolidated 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.

**Cash and banks**

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the Funds.

All cash balances are under the control of the Funds, 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 Funds.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the Funds are included in the consolidated financial statements as at December 31, 2013.

**Financial assets**

All securities which were owned by the Funds 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.

For all financial assets classified as "held-to-maturity" or equivalent as at December 31, 2013, the entity has the intention to hold these assets, without sale or disposal, until the specified maturity date of each. Management are not aware of any constraints, legal, financial or otherwise that could mean that the entity is not expected to be able to hold these assets until the maturity date of each financial instrument.

**Investments**

With respect to the Funds' investments:

- a. Investments included in the Funds' financial statements at December 31, 2013 have been determined in accordance with the requirements of CICA Handbook, Part II, section 3856 which requires long positions to be valued at bid and short positions to be valued at ask.
- b. For the year ended December 31, 2013, the Funds have not entered into security lending arrangements, except as disclosed in the financial statements.
- c. The Funds have not purchased any restricted securities during the year ended December 31, 2013, and do not hold any securities on December 31, 2013 which are restricted in any way as to their resale. The Funds have not entered into any agreements, nor are they in the process on entering into any agreements, to acquire restricted securities.
- d. The Funds have no open derivative contracts at on December 31, 2013.

Yours truly,

City of Toronto Trust Funds

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Ms. Guiliana Carbone, Treasurer

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Mr. Mike St.Amant, Director, Accounting Services

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Ms. Shairoz Murji, Manager, Accounting Services

**Schedule**

Descriptions	<b>Annual Surplus</b>	<b>Statement of Financial Position</b>		
	Over (under) Stated \$	Assets (Over) under Stated \$	Liabilities Over (under) Stated \$	Opening accumulated surplus over (under) stated \$
1. FX adjustment using year-end rate  Dr. Investment Cr. Income Investment	   (\$442,192)	   \$442,192		
2. Adjustment to record investment income at gross  Dr. Expenditures Cr. Investment income	  \$400,000 (\$400,000)			
<b>Total Adjusted Differences</b>	<b>(\$442,192)</b>	<b>\$442,192</b>		

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## ***Appendix C: Management Response to Internal Control Recommendation***



## Toronto Police Service

40 College Street, Toronto, Ontario, Canada. M5G 2J3  
(416) 808-2222 FAX (416) 808-8202  
Website: [www.TorontoPolice.on.ca](http://www.TorontoPolice.on.ca)



William Blair  
Chief of Police

File Number: .....

June 7, 2014

Ms. Cathy Russell, CPA, CA  
PwC Partner, Audit and Assurance Group  
PricewaterhouseCoopers LLP  
PwC Tower  
18 York Street, Suite 2600  
Toronto Ontario  
M5J 0B2

Dear Ms. Russell,

We are in receipt of your management letter on the audit of consolidated financial statements for the City of Toronto, which include the Toronto Police Service, for the year ending December 31, 2013.

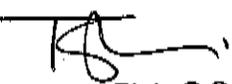
We have examined the report and believe that the audit recommendation relating to the Trust Fund bank reconciliation is a move in the right direction for stronger internal controls.

In partnership with the Attorney General's Office, a Trust Fund bank account was set up to facilitate the Witness Protection Program. It maintains low bank balance with monthly average balance of less than \$80,000. This account is closely monitored to ensure that there are sufficient funds to cover the expenses related to the program.

The Service is committed to ensuring that the Trust Fund bank account and other existing bank accounts are reviewed and reconciled monthly. As part of the reconciliation process, the Service will also investigate any discrepancies and correct errors in a timely manner.

We appreciate your efforts in identifying further improvements to our internal controls. The Service accepts this audit recommendation.

Yours truly,

  
for William Blair, C.O.M.  
Chief of Police

/r

cc:

Dr. Alok Mukherjee, Chair, Toronto Police Services Board  
Mike Federico, Deputy Chief, Operational Support Command  
Tony Veneziano, CAO, Corporate Services Command  
Sandra Califaretti, Director, Finance and Business Management

