
City of Toronto

*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 (the City) prepared in accordance with Canadian public sector accounting standards 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 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 company who have assisted us in carrying out our work and we look forward to our meeting on June 27, 2014. 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

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

Communications to the Audit Committee

Key matters for discussion	Comments
Status of the audit	<ul style="list-style-type: none"> • We have substantially completed our audit of the consolidated financial statements. • Significant outstanding items at the date of this report include the following: <ul style="list-style-type: none"> • Certain support items and outstanding questions relating to our procedures on inventory and manual journal entries. • Responses to our legal confirmation letters from external legal counsel. • 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 and budget information. • Completion of subsequent events procedures to the date of our audit opinion. • Approval of the financial statements by City Council.
Significant accounting estimates and areas of management judgment	<ul style="list-style-type: none"> • In preparing the consolidated financial statements there were a number of significant accounting estimates that required management judgment which included: <ul style="list-style-type: none"> - Assumptions used in calculating the pension and other employee future benefit liabilities. - Landfill liabilities including assumptions related to the closure and post-closure costs for active and inactive landfill sites. - Contingent liabilities (including provisions for property and personal liability claims covering both self-insured and insured liabilities) and certain other significant provisions. • PwC work performed: <ul style="list-style-type: none"> - Pensions & other employee future benefits – we examined the third party actuarial valuations at year-end with the assistance of our PwC actuarial specialists and assessed the appropriateness of the assumptions and methodology used to record the pension and employee future benefit liabilities. No significant matters were noted. - Landfill liabilities – as at December 31, 2013, the City maintains a liability for closure/post-closure of \$133.3 million. In our testing of estimated closure and post closure costs for active and inactive sites, we noted an overstatement of landfill liabilities of \$9.5 million. This amount has been included in Appendix B as an adjusted difference. - Contingent liabilities (provisions for legal claims) – we obtained independent legal confirmation letters from all external counsel regarding the status of outstanding legal proceedings and discussed significant cases with the City’s internal legal counsel and management. We ensured that the provision recorded at year-end is supported and consistent with conclusions reached by external counsel.

Key matters for discussion	Comments
	<ul style="list-style-type: none"> - Regarding other significant provisions/liabilities (such as for assessment appeals on property taxes, ice storm costs and Metrolinx sunk costs) we tested these liabilities by inquiring with management regarding estimates and methods used, reviewing supporting documentation (invoices, cash disbursement records and contracts), and where applicable reviewing settlements. • Based on our audit work performed, we have concluded that the significant accounting estimates included in the consolidated financial statements are consistently conservative and supportable within an acceptable range.
Consolidation process	<ul style="list-style-type: none"> • We have completed our planned procedures to test the City's consolidation and as a result have identified several financial statement reclassification items and incorrect elimination entries. These have been outlined in our summary of unadjusted and adjusted items included in Appendix B.
Adoption of new accounting standards in 2013	<ul style="list-style-type: none"> • Adoption of PS 3410 government transfers <ul style="list-style-type: none"> - On January 1, 2013 the City adopted PS 3410, Government Transfers on a prospective basis. Under the new standard additional guidance is provided on how to account for government transfers received and paid. - Based on our audit work performed, we have tested management's support relating to the impact of adopting this standard and no matters were identified to report to the Audit Committee as a result of the adoption of this standard. • Adoption of PS 3510 tax revenue <ul style="list-style-type: none"> - On January 1, 2013 the City adopted PS 3510, Tax Revenue on a retroactive basis. Under the new standard additional guidance is provided on how to account for taxes receivable and tax revenue. - Based on our audit work performed, we have tested management's support for the impact of adopting this standard and no matters were identified to report to the Audit Committee as a result of the adoption of this standard.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> • We experienced no difficulties or disagreements with management during the completion of our audit that would require the attention of the Audit Committee.
Fraud	<ul style="list-style-type: none"> • 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.

Key matters for discussion	Comments
Any matters involving known or suspected non-compliance with laws or regulations that came to our attention	<ul style="list-style-type: none"> 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.
Summary of unadjusted items and audit adjustments	<ul style="list-style-type: none"> As we noted in our audit plan as presented to the Audit Committee in October, 2013, we have determined materiality for the 2013 audit to be \$102 million. Unadjusted and adjusted items over \$5.1 million have been reported to the Audit Committee in Appendix B. As a result of our audit, we identified unadjusted differences with an annual surplus effect of \$29.1 million (overstatement of annual surplus) for the year ended December 31, 2013. Total adjusted audit differences had an annual surplus effect of \$11.0 million (corrected an overstatement of annual surplus). Refer to Appendix B for further details.
Internal controls recommendations	<ul style="list-style-type: none"> While completing our audit procedures we identified certain internal control recommendations for management's consideration which are outlined in Appendix E.
Management representation letter	<ul style="list-style-type: none"> We have included a draft version of the management representation letter in Appendix C.
Independence letter	<ul style="list-style-type: none"> We confirm that we are independent of the City as at June 12, 2014, the date of this report, and our independence letter can be found in Appendix D.
Other information in documents containing audited financial information	<ul style="list-style-type: none"> Once completed, we will review the Annual Report for consistency with the audited financial statements.
Subsequent events	<ul style="list-style-type: none"> 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. We wish to confirm whether the Audit Committee is aware of any subsequent events which would impact the financial statements other than those disclosed.
Our fees	<ul style="list-style-type: none"> 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. In the current year we have incurred additional time during the audit as a result of performing additional procedures relating to new accounting matters, such as the adoption of new accounting standards, ice storm costs and Pan Am related costs. As of the date of this report we are in discussions with management regarding an additional billing.

Appendices

Appendix A – Draft auditor’s report

Appendix B – Summary of unadjusted and adjusted items

Appendix C – Management representation letter

Appendix D – Independence letter

Appendix E – Internal control recommendations

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.

Appendix A: Draft auditor's report



July X, 2014

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 statement of financial position as at December 31, 2013 and the consolidated statement of operations and accumulated surplus, changes 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.

*PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada, M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca*

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



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, 2013 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Appendix B: Summary of unadjusted and adjusted items

a. Unadjusted items

All amounts in \$ million	Annual surplus	Statement of financial position			
		Description	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$
1. <i>To reclassify portion of Union Station assets from inventory to tangible capital assets.</i> Dr. Tangible capital assets Cr. Inventory			19.0 (19.0)		
2. <i>To adjust for incorrect balances consolidated for Leaside Memorial Community Gardens.</i> Dr. Revenue Cr. Accounts receivable	8.4		(8.4)		
3. <i>To correct presentation of TYSSE amounts funded</i> Dr. Development charges Cr. Funding transfers from other governments	9.3 (9.3)				
4. <i>To record reclassification entry</i> Dr. Other Expense Cr. Other Revenue	5.2 (5.2)				
Out of period adjustments					
5. <i>To record impact of out of period corrections made in the current year's financial statements with respect to deferred revenue.</i> Dr. Revenue Cr. Opening accumulated surplus	38.3				(38.3)
6. <i>To record impact of loss on land remediation recorded in 2013 that relates to 2012.</i> Dr. Opening accumulated surplus Cr. Expenses	(20.2)				20.2

All amounts in \$ million	Annual surplus	Statement of financial position			
		Description	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$
7. <i>To record impact of prior year unadjusted item relating to use of incorrect census data.</i> Dr. Expenses Cr. Opening accumulated surplus	15.0				(15.0)
8. <i>To record impact of prior year unadjusted item relating to concessionary terms given by the City on certain loans receivable.</i> Dr. Opening accumulated surplus Cr. Funding Transfers	(12.4)				12.4
9. <i>To record development charges, previously written off for Build Toronto on consolidation</i> Dr. Real Estate Inventory Cr. Opening accumulated surplus		8.3			(8.3)
Total unadjusted differences	29.1	(0.1)	-		(29)

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

b. Adjusted items

All amounts in \$ million	Annual surplus	Statement of financial position			
		Description	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$
1. <i>To reclassify loss on disposal of tangible capital assets from other revenues to other expenses.</i> Dr. Other Expense Cr. Other Revenue	27.1 (27.1)				

All amounts in \$ million	Annual surplus	Statement of financial position			
		Description	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$
2. <i>To reclassify net impact of water and waste obligatory reserve funds from other revenue to user charge revenue (2013 – \$76.7m, 2012 comparative - \$137.1m).</i> Dr. User Charge revenue Cr. Other revenue	76.7 (76.7)				
3. <i>To correct overstatement of landfill provision.</i> Dr. Landfill closure & post-closure liabilities Cr. Other Expenses	(9.5)			9.5	
4. <i>To correct intercompany elimination related to TCHC.</i> Dr. Expense Cr. Accounts payable and accrued liabilities	20.5			(20.5)	
Total adjusted differences	11.0	-	(11.0)	-	

Appendix C: Management representation letter

[City of Toronto letterhead]

July X, 2014

Ms. Cathy Russell
Partner
PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto ON 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 at December 31, 2013 and for the year then ended (the financial statements) 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, the changes in accumulated surplus and net debt and the cash flows in accordance with Canadian public sector accounting standards.

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 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 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 financial statements.

We confirm the following representations:

Preparation of financial statements

The 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 we are subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the financial statements to their related supporting information (e.g. subledger 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 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 financial statements.

Accounting policies

We confirm that we have reviewed our 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 financial statements is appropriate in our 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.

Internal controls over financial reporting

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to us, including our 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 at December 31, 2013.

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 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 management, directors and committees of directors. The most recent meetings held were: Executive Committee on May 27, 2014 and Audit Committee on May 28, 2014;
- 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 us with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- the results of our assessment of the risk that the 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 us involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- all information in relation to any allegations of fraud, or suspected fraud, affecting the 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 financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We are not aware of any illegal or possibly illegal acts committed by our directors, officers or employees acting on our behalf.

Accounting estimates and fair value measurements

Significant assumptions used by us in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the 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 financial statements; and
- The significant assumptions used in determining fair value measurements are consistent with our 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.

Related party transactions

We confirm the completeness of information provided to you regarding the identification of related parties as defined by Canadian Auditing Standard 550, Related Parties, 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.

The identity and relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian public sector accounting standards.

The list of related parties as detailed in note 1 of the City financial statements accurately and completely describes the City related parties and the relationships with such parties.

Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the 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. All liens or encumbrances on our assets and assets pledged as collateral, to the extent material, have been disclosed in the notes to the financial statements.

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, whether written or oral, under which we are contingently liable in accordance with the CICA Public Sector Accounting Handbook Section PS 3300, Contingent Liabilities, have been disclosed to you and are appropriately reflected in the financial statements. We are not able to estimate at this time any potential costs associated with the LRT vehicle supply contract as amounts are subject to negotiations.

Litigation and claims

All known actual or possible litigation and claims, which existed at the balance sheet 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.

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 financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule 1, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Schedule 1.

The adjusted misstatements identified during your audit and summarized in the attached table Schedule 2 have been approved by us and adjusted in the financial statements.

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.

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 City of which we are aware are included in the consolidated financial statements at December 31, 2013.

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 purpose(s) 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.

Condensed supplementary financial information relative to internally restricted entities has been disclosed in the financial statements, by entity and as a whole.

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. All receivables have been appropriately reduced to their estimated net realizable value.

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 CICA Public Sector Accounting Handbook 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 CICA Public Sector Accounting Handbook PS 3050, Loans Receivable. The valuation allowance for loan losses and/or forgiveness encompasses probable credit losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio that have been incurred as at December 31, 2013.

Inventory

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

There have been no events conditions or changes in circumstances that indicate inventory held for consumption will no longer be used or consumed in the City's operations.

Financial assets

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 (divested October 31, 2012), Toronto Hydro Corporation, Toronto Port Lands Company and Toronto Parking Authority meet the definition of a government business enterprise (GBE) in accordance with PS 3070, *Investments in Government Enterprises*.

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

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.

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 CICA Public Sector Accounting Handbook PS 3150.

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, 2013, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.

Deferred revenue

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

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, 2013, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation dated December 31, 2013 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 plan'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 plan 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, 2013 and where applicable, and their extrapolation to December 31, 2013.

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 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 Buck, Morneau Shepell and Oliver Wyman 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 CICA Public Sector Accounting Handbook Section 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.

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).

Environmental matters

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

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.

Use of a specialist

We assume responsibility for the findings of 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 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.

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.

General

There are no proposals, arrangements or actions completed, in process, or contemplated that 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.

Segment disclosures

Pursuant to CICA Public Sector Accounting Handbook PS 2700, Segment Disclosures, in identifying segments, management has considered the definition of a segment and other factors, including:

- the objectives of disclosing financial information by segment;
- the expectations of members of the community and their elected or appointed representatives regarding the key activities and accountabilities of the government;
- the qualitative characteristics of financial reporting as set out in CICA Public Sector Accounting Handbook PS 1000, Financial Statement Concepts;
- the homogeneous nature of the activities, service delivery, or recipients of the services;
- whether the activities relate to the achievement of common outcomes or services as reflected in government performance reports and plans;
- whether discrete financial information is reported or available; and
- 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, Environment services, Health services, Social and family services, Social Housing, Recreation 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. The prior period's segment information presented for comparative purposes has been restated.

Government transfers

- *Transferring organization*
Transfers have only been recognized as an expense in the period the transfer has been authorized and all eligibility criteria have been met by the recipient.
- *Recipient organization*
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 CICA Public Sector Accounting Handbook 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.

Budgetary data

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

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.

Yours truly,

The City of Toronto

Mr. J. Pennachetti, City Manager

Mr. R. Rossini, Deputy City Manager & Chief Financial Officer

Ms. G. Carbone, Treasurer

Mr. M. St. Amant, Director Accounting Services

Schedule 1 - Summary of Uncorrected Misstatements (SUM)

All amounts in \$ million	Annual surplus	Statement of financial position			
		Description	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$
1. <i>To reclassify portion of Union Station assets from inventory to tangible capital assets.</i> Dr. Tangible capital assets Cr. Inventory			19.0 (19.0)		
2. <i>To adjust for incorrect balances consolidated for Leaside Memorial Community Gardens.</i> Dr. Revenue Cr. Accounts receivable	8.4		(8.4)		
3. <i>To correct presentation of TYSSE amounts funded</i> Dr. Development charges Cr. Funding transfers from other governments	9.3 (9.3)				
4. <i>To record reclassification entry</i> Dr. Other Expense Cr. Other Revenue	5.2 (5.2)				
Out of period adjustments					
5. <i>To record impact of out of period corrections made in the current year's financial statements with respect to deferred revenue.</i> Dr. Revenue Cr. Opening accumulated surplus	38.3				(38.3)
6. <i>To record impact of loss on land remediation recorded in 2013 that relates to 2012.</i> Dr. Opening accumulated surplus Cr. Expenses	(20.2)				20.2

All amounts in \$ million	Annual surplus	Statement of financial position		
Description	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$	Accumulated surplus over (under) stated \$
7. <i>To record impact of prior year unadjusted item relating to use of incorrect census data.</i> Dr. Expenses Cr. Opening accumulated surplus	15.0			(15.0)
8. <i>To record impact of prior year unadjusted item relating to concessionary terms given by the City on certain loans receivable.</i> Dr. Opening accumulated surplus Cr. Funding Transfers	(12.4)			12.4
9. <i>To record development charges, previously written off for Build Toronto on consolidation</i> Dr. Real Estate Inventory Cr. Opening accumulated surplus		8.3		(8.3)
Total unadjusted differences	29.1	(0.1)	-	(29)

Schedule 2 - Summary of Adjusted Misstatements (SAM)

All amounts in \$ million	Annual surplus	Statement of financial position		
Description	Over (under) stated \$	Assets (over) under stated \$	Liabilities over (under) stated \$	Accumulated surplus over (under) stated \$
<p>1. <i>To reclassify loss on disposal of tangible capital assets from other revenues to other expenses.</i></p> <p>Dr. Other Expense Cr. Other Revenue</p>	<p>27.1 (27.1)</p>			
<p>2. <i>To reclassify net impact of water and waste obligatory reserve funds from other revenue to user charge revenue (2013 – \$76.7m, 2012 comparative - \$137.1m).</i></p> <p>Dr. User Charge revenue Cr. Other revenue</p>	<p>76.7 (76.7)</p>			
<p>3. <i>To correct overstatement of landfill provision.</i></p> <p>Dr. Landfill closure & post-closure liabilities Cr. Other Expenses</p>	<p>(9.5)</p>		<p>9.5</p>	
<p>4. <i>To correct intercompany elimination related to TCHC.</i></p> <p>Dr. Expense Cr. Accounts payable and accrued liabilities</p>	<p>20.5</p>		<p>(20.5)</p>	
<p>Total adjusted differences</p>	<p>11.0</p>	<p>-</p>	<p>(11.0)</p>	<p>-</p>

Appendix D: Independence letter



June 12, 2014

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 City of Toronto (the City) for the year ended December 31, 2013.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the company, 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 Chartered Professional Accountants of Ontario 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 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 19, 2013, the date of our last letter to June 12, 2014.

Total fees charged to the City for audit services were \$315,310 and for non-audit services were \$802,000 for the year ended December 31, 2013

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 12, 2014.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

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



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

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Appendix E: Internal control recommendations



June 12, 2014

Mr. Roberto Rossini
Deputy City Manager and Chief Financial Officer
City of Toronto
Metro Hall – 55 John Street
Toronto ON M5V 3C6

Management Letter
2013 Audit of City of Toronto

Dear Mr. Rossini:

We have substantially completed our audit examination of the consolidated financial statements 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, 2013. 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. 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

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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
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

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1. City of Toronto (manual internal control related recommendations)

Internal control points identified in the prior year not yet fully 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 and Corporations (A&C's) that are consolidated within the financial statements. In addition, some of the A&C'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 A&C'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 in 2013, we noted that management has made improvements to the method of manually tracking consolidation entries. We noted fewer audit adjustments in this area in the current year relative to previously years; however we did have audit adjustments relating to consolidation entries with respect to reclassifications, incorrect elimination entries 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 A&C's and recording consolidation adjustments.

Recommendation:

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

- Continued improvement in timely communication by the A&C's to City management of any changes to their submitted financial statements.
- City management provide the A&C's with a reconciliation schedule of the A&C's accounting standards to the City's accounting under Public Sector Accounting Standards (PSAS), specifically with respect to the impact of new PSAS standards applicable in the current year
- Appropriate level of review of A&C 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 it's A&C's.

Management response:

2013: For 2014 reporting, improvements will be implemented to agency and corporation reporting and communication to ensure completeness and timeliness of data and increased communication between City and agency staff.

Improvements will also be made to documentation of the unconsolidated financial statements, as well as for the material subsidiaries in the consolidation process. Automation of the process will not be undertaken in 2014, but may be considered in future years, based on a cost-benefit review.

Internal control points identified during the 2013 audit**1.2 Accuracy of census data provided to the actuaries****Observation:**

During our testing of the City's employee benefits at year-end we noted that the membership data relied upon by the Actuary for the City's five defined benefit pension plans contained incorrect data as of December 31, 2013.

Impact:

The Actuary relies on the accuracy and completeness of the data provided by the City. The actuarial analysis is based on the underlining demographics of the members and as such, the membership data provided by the City plays an important role. If the underlying data is inaccurate or incomplete, the results of the Actuary's analysis may be inaccurate or incomplete.

Recommendation:

In connection with the annual review of the assumptions to be used in the Actuary analysis, management should review the membership data provided to the Actuary to ensure the data is accurate, complete, and extracted as of the valuation date.

Management response:

2013: The data errors for the two samples related to an error in commencement of a spousal pension (keyed in as 1996 whereas the pension began in 1998), and an error by one month in a spousal birthdate (keyed as June 21, 1916 rather than July 21). Both errors have been corrected.

Although staff take steps and institute measures to ensure the accuracy of the information entered into the database, the 5 legacy pension plans have been in existence for a significant period of time, with most of the relevant data entered years ago. Of the 6,500+ active files, City staff as part of an ongoing work plan. Will randomly select files for review to validate the data that appears in the system, ensuring that membership data provided to the Actuary is both current and accurate.

2. City of Toronto (information technology 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 formal periodic review of access rights compared to user job responsibilities in SAP for the ERP Competency Center (ECC), Financial Accounting Systems and Policy (FASP), and Toronto Police Services (TPS).

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:

2013:

ERP Competency Center:

We agree with your finding and ERP CC will start to perform periodic review of access privileges on ERP CC users by Q3 2014.

TPS:

Currently, access assessment and/or deletion is performed at the time of granting/deleting access. This includes establishment of roles and license type. Standard roles for Approver/Creator/Super-Users were initially established in 2001 and are basically replicated to create new ones based on the requirements of the new user/group of users. No new t-codes were added to these roles in 2013.

Access rights are granted based on various types of Authorization, as follows:

- 1) E-mail approvals from Unit Commanders.
- 2) TPS Routine Orders, a daily internal notification which includes all employee transfers and retirements/resignations/terminations.
- 3) Notification from TPS-ITS Computer Access to all system administrators.

TPS will perform full review of roles in 2014-15 and put together a process for periodic review of access privileges.

FASP:

FASP sent some user lists to certain user groups upon request, which didn't include the timeline for the groups to complete the user access review and follow up actions if applicable. Therefore, it was not a completed and formal periodic user access review.

2.2 SAP application payroll controls - segregation of duties**Observation:**

The automated HR Infotype approval process is not configured; therefore, authorized users can create and change employee data, including their own data without approval.

Impact:

The current access assigned can result in individuals making unauthorized and undetected changes to the payroll and HR master data.

Recommendation:

Management should consider enforcing an automated HR Infotype approval process in SAP, to ensure all changes to the employee data need to be approved by different personnel.

Management response:**2013**

A "Peer Review System" is currently in place outside of SAP to address this. The City has commenced a project to implement SAP's ESS/MSS (Employee Self Service/ Management Self Service) functionality which will allow us to start to address automated approvals. Tentative implementation date is Q2 2015.

2.3 SAP application – procurement process - sensitive analysis/segregation of duties**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. For example access to maintain vendor master data and process invoices or access to create, change or release purchase orders and process and invoice for the same order.

Impact:

If proper segregation of duties does not exist, there is a risk that unauthorized processing could occur.

Recommendation:

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

Management response:**2013:**

Users with access to accounts with conflicting abilities are 3rd level support for troubleshooting and resolving issues, and are not involved in posting of transaction. Accounting Services will review alternate approaches adopted by organizations using SAP, to ensure that duties are properly segregated, or should certain IDs require unrestricted access, that the use of such IDs are restricted and proper reporting controls are in place to ensure that any use is reported and reviewed on a timely basis.

