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# *Toronto Parking Authority*

*2014 Year-end report to the Board of Directors*

May 22, 2015

Members of the Board of Directors
Toronto Parking Authority
33 Queen Street East
Toronto ON  M5C 1R5

Dear Members of the Board of Directors:

We have substantially completed our audit of the financial statements of Toronto Parking Authority (the organization or TPA) prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2014. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1.

We prepared 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 matters dealt with during the audit process.

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

We would like to express our sincere thanks to the management and staff of TPA who have assisted us in carrying out our work, and we look forward to our meeting on May 28, 2015. If you have any questions or concerns prior to the meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Terri McKinnon
Partner
Assurance

c.c.: Lorne Persiko, President
Michael Ford, VP Finance & Administration & CFO

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# Communications to the Board of Directors

| *Key matters for discussion* | *Comments* |
|---|---|
| Status of the audit | PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the financial statements for the year ended December 31, 2014.<br><br>Outstanding items at time of mailing include the following which will need to be completed / received prior to issuance of our opinion:<br><br>• Finalization of audit procedures surrounding the accounting for the under contribution of pension payments<br>• Receipt of outstanding legal confirmations<br>• Receipt of signed management representation letter<br>• Completion of subsequent events procedures<br>• Approval of the financial statements by the Board of Directors |
| Client service team | Terri McKinnon is your engagement leader and Melanie Mattacchione is your engagement manager. |
| Service deliverables | We provide an audit of TPA's financial statements as of December 31, 2014 and for the year then ended prepared in accordance with IFRS.<br><br>Our engagement letter with the City of Toronto dated November 1, 2010 sets out the terms and conditions for the audit and outlines the responsibilities of the auditors, management and those charged with governance. |
| Audit approach | Our audit approach included a mixture of tests of internal controls and substantive testing. There were no significant changes to our audit approach compared to the prior year.<br><br>Significant risks are risks of material misstatement that we think need special audit consideration. We identified various audit risks based on our discussions with management and knowledge of the organization and have addressed them as follows. |

| *Key matters for discussion* | *Comments* |
|---|---|
| Significant accounting, auditing and reporting matters discussed with management | |
| **Risk of management override of controls** *(significant risk)* | Canadian auditing standards requires the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement.<br><br>We obtained an understanding of TPA's financial reporting process and made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity related to the processing of journal entries and other adjustments.<br><br>Management ensures appropriate segregation of duties and authorization of manual journal entries. We noted no issues or indication of management override of controls.<br><br>Our audit procedures also included an element of unpredictability. In the current year we tested the approval and appropriateness of management expense reports. No issues were noted.<br><br>We also considered the reasonability and consistency of material management estimates, including whether there was any indication of bias. No issues or indications of bias were noted. |
| **Completeness of revenues of off-street parking** | We noted an audit risk in respect of the off-street parking revenues due to the significant amount of cash that is collected from these operations. Therefore we tested internal controls surrounding the cash collections and reconciliations which are performed on a daily basis. We have tested a sample of these reconciliations and ensured they were complete and accurately recorded in the general ledger. No exceptions were noted. |
| **Accounting for under contribution of pension payments** | During the current year, management identified that the TPA has been incorrectly calculating their employee's contributory earnings and as a result, have under contributed to their pension plan since this time. This issue dates back to 2002, when the definition of contributory earnings was changed by OMERs to include certain taxable benefits which were previously excluded from the definition.<br><br>Management has estimated the maximum potential under contribution of pension payments to be $1,234,000. This reflects both the employer and employee contributions for all active, retired and terminated employees, plus related accrued interest. The ultimate exposure to the TPA is dependent on recoverability efforts among these employees and is not determinable at this time. This has not been adjusted for in the financial statements and has been reported as an unadjusted item in Appendix A.<br><br>We have obtained management's calculations and are in the process of completing our audit procedures in this area. We will provide an update on the status of our work during the upcoming meeting. |

| *Key matters for discussion* | *Comments* |
|---|---|
| **Materiality** | Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.<br><br>We set overall materiality at $5,247,000, which is calculated based on 9% of net income. We report unadjusted and adjusted items over $524,700 to the Board of Directors. See Appendix A for details. |
| **Fraud and illegal acts** | We are required to discuss fraud risk annually with the Board of Directors.<br><br>Through our planning process we have developed an understanding of your oversight including:<br>• Presentations by management, including business performance reviews<br>• Review of related party transactions<br>• Consideration of tone at the top<br><br>Are there any new processes or changes to the items above that we should be aware of?<br><br>No fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention as a result of our audit procedures.<br><br>We wish to confirm whether the Board of Directors is aware of any known, suspected or alleged incidents of fraud. |
| **Other information in documents containing audited financial information** | Once it is available, we will read the annual report and consider whether its content or manner and preparation are materially consistent with the financial statements. |
| **Subsequent events** | No subsequent events which would impact the financial statements have come to our attention.<br><br>We wish to confirm whether the Board of Directors is aware of any subsequent events that might affect the financial statements. |
| **Internal controls recommendations** | We are required to communicate to the Board of Directors internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Board of Directors.<br><br>We have no significant internal control weaknesses to report. |

| *Key matters for discussion* | *Comments* |
|---|---|
| **Management's representations** | We are required to inform you of the representations we are requesting from management. A copy of the draft management representation letter has been provided to management and circulated to members of the Board of Directors for reference. |
| **Significant difficulties or disagreements that occurred during the audit** | No difficulties or disagreements occurred while performing our audit that required the attention of the Board of Directors. |

# *Appendix A: Summary of unadjusted and adjusted items*

## a. Unadjusted items

As a result of our audit, we noted the following items with an impact on the balance sheet and statement of net income.

| Description | Assets at December 31, 2014 $'000 | Liabilities at December 31, 2014 $'000 | Opening equity as at December 31, 2014 $'000 | Net income for year ended December 31, 2014 $'000 |
|---|---|---|---|---|
| Differences in calculation of net receivable amount and estimated fair value and residual values related to calculation of the finance lease receivable | (1,584) | - | 1,541 | 43 |
| Adjustment for maximum potential under contribution of pension payments | | (1,234) | 1,066 | 168 |
| **Total** | **(1,584)** | **(1,234)** | **2,607** | **211** |

## b. Adjusted items

There were no adjusted audit differences identified during the audit.