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# *City of Toronto Trust Funds Audit Results*

*2018 year-end report  
to the Audit Committee*

*Prepared as of  
June 14, 2019*





June 14, 2019

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

Dear Members of the Audit Committee:

We are in the process of completing our audit of the consolidated financial statements of the City of Toronto Trust Funds (the Trust Funds) prepared in accordance with the basis of accounting disclosed in note 2 of the consolidated financial statements for the year ended December 31, 2018. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 2. Our draft auditor's report is included as Appendix A.

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 audit, 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 who have assisted us in carrying out our work, and we look forward to our meeting on June 28, 2019. If 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*

Michael Hawtin  
Partner  
Assurance

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

## Communication to the Audit Committee

<i>Key matters for discussion</i>	<i>Comments</i>
<b>Status of the audit</b>	<p>We are in the process of completing our audit of the 2018 consolidated financial statements (the financial statements). We have included our draft auditor’s report, which reflects the enhanced auditor reporting standards effective for years ending on or after December 15, 2018, in Appendix A.</p> <p>Significant outstanding items at time of mailing include the following:</p> <ul style="list-style-type: none"> <li>• Receipt of signed management representation letter;</li> <li>• Completion of audit procedures related to classifications and note disclosures in the financial statements;</li> <li>• Completion of our journal entry testing;</li> <li>• Receipt of certain cash confirmations;</li> <li>• Completion of subsequent events procedures; and</li> <li>• Approval of final financial statements by the City Council.</li> </ul>
<b><i>Significant audit, accounting and financial reporting matters discussed with management</i></b>	
<b>Matter 1 – Management override of control</b>	<p>Canadian audit standards require that management override of controls be considered an area of significant audit risk.</p> <p>Management has implemented internal controls to ensure that appropriate segregation of duties have been established for the Trust Funds in order to mitigate the risk of management override of controls.</p> <p>PwC performed the following procedures:</p> <ul style="list-style-type: none"> <li>• We have reviewed the assumptions made to determine key accounting estimates;</li> <li>• We have substantively tested all material balances and gained an understanding of the control environment/financial reporting process;</li> <li>• We are in the process of performing audit work on a sample of significant and non-standard journal entries. We will obtain documentation to support the entries selected and test that all were appropriately approved; and</li> <li>• We incorporated a level of unpredictability into our audit procedures.</li> </ul> <p>Based on our work performed, up to the date of this report, we have no matters to report.</p>

<b><i>Key matters for discussion</i></b>	<b><i>Comments</i></b>
<b>Matter 2 – Revenue recognition</b>	<p>Under Canadian auditing standards (CAS), there is a presumed significant risk of fraud with respect to accounting for revenue transactions.</p> <p>Details of our approach, as well as the results of our testing with respect to revenue recognition, are outlined below:</p> <ul style="list-style-type: none"> <li>• During our audit, we updated our understanding of management processes and internal controls surrounding revenue recognition and the accounting policies adopted by the Trust Funds for recognizing revenue;</li> <li>• For contribution revenue, we performed substantive tests of details on a sample basis by examining supporting documents;</li> <li>• For investment income, we obtained evidence regarding relevant controls operated at the service organizations as well as performed substantive test of details over the balance; and</li> <li>• We also tested certain journal entries affecting revenue accounts that were considered unusual.</li> </ul> <p>There are no matters to report with respect to revenue recognition as a result of our testing.</p>
<b>Management’s representations</b>	We need to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix B.
<b>Internal controls recommendations</b>	We have no significant internal control recommendations to report.
<b>Materiality and Summary of unadjusted items</b>	<p>Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.</p> <p>We have set our overall materiality of \$1,412,000 which is based on 2% of total assets as at December 31, 2018.</p> <p>We have no adjusted or unadjusted misstatements over \$70,000 (set at 5% of overall materiality) to report to the Audit Committee.</p>
<b>Independence</b>	We confirm our independence with respect to the Trust Funds as of June 14, 2019, the date of this report.
<b>Fraud and illegal acts</b>	<p>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.</p> <p>If the Audit Committee is aware of any known, suspected or alleged incidents of fraud or illegal acts or non-compliance with laws or regulations not previously discussed with us, please contact Michael Hawtin.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
<b>Other information in documents containing audited financial information</b>	You confirm that you are not required or intend to issue any documents that contain or accompany the financial statements and the auditor's report thereon.

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



## *Independent auditor's report*

To the Members of Council of the City of Toronto

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements of the City of Toronto Trust Funds (the Entity) as at December 31, 2018 and for the year then ended are prepared, in all material respects, in accordance with the basis of accounting as described in note 2 to the financial statements.

#### **What we have audited**

The Entity's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of operations and changes in fund balances for the year then ended;
- the consolidated statement of continuity of fund balances; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Emphasis of matter – basis of accounting and restriction on distribution and use*

We draw attention to note 2 to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared to assist Members of City Council to assess the financial performance of the Entity. As a result, the consolidated financial statements may not be suitable for another purpose. Our report is intended solely for the Members of City Council and management, in accordance with the terms of our engagement, and should not be distributed to or used by parties other than the Members of City Council and management. Our opinion is not modified in respect of this matter.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

Management is responsible for the preparation of the consolidated financial statements in accordance with the basis of accounting as described in note 2 to the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.





- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**DRAFT**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
June 14, 2019

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## ***Appendix B: Management representation letter***

## [CLIENT LETTERHEAD]

\_\_\_, 2019

PricewaterhouseCoopers LLP  
PwC Tower  
18 York Street, Suite 2600  
Toronto ON M5J 0B2

Dear Sirs:

We are providing this letter in connection with your audit of the consolidated financial statements of City of Toronto Trust Funds and its subsidiaries (together, the Trust Funds) as at December 31, 2018 and for the year then ended for the purpose of expressing an opinion as to whether such consolidated financial statements present fairly, in all material respects, the financial position, the results of operations, the changes in net financial assets and the cash flows of the Trust Funds in accordance with the basis of accounting described in note 2 to the consolidated financial statements.

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 30, 2015 and annual confirmation letter of terms and conditions dated February 6, 2019. 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 consolidated financial statements, this includes determining that the basis of accounting is an acceptable basis for the presentation of the consolidated financial statements in the circumstances;
- 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;
- We are responsible for designing, implementing and maintaining an effective system of internal control to prevent and detect fraud;
- 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:

### **Distribution and use of the consolidated financial statements**

We confirm that the consolidated financial statements are solely for the information, distribution and use of the Members of Council of City of Toronto. We understand that these consolidated financial statements are not intended to be and should not be distributed and 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 are fairly presented in accordance with basis of accounting described in note 2 to the financial statements, and include all disclosures necessary for such fair presentation and disclosures otherwise required to be included therein by the laws and regulations to which the Trust Funds are subject. We have prepared the Trust Funds' consolidated financial statements on the basis that the Trust Funds is able to continue as a going concern.

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. 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 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 statement of financial position account, which should have been written off to a statement of operations account and vice versa. All consolidating entries have been properly recorded. All intra-governmental and inter-governmental accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.

### **Other information**

We confirm to you that we are not required by law, regulation or custom and do not intend to issue a document (which would include or accompany the consolidated financial statements and our auditor's report thereon) with information on the Trust Funds' operations and the Trust Funds' financial results and financial position as set out in the consolidated financial statements.

### **Accounting policies**

We confirm that we have reviewed the Trust 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 the Trust Funds' particular circumstances to fairly, in all material respects, its financial position, results of operations, changes in net financial assets and cash flows in accordance with the basis of accounting described in note 2 to the consolidated financial statements.

### **Internal control over financial reporting**

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.

We have designed internal controls 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 consolidated financial statements.

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

### **Minutes**

All matters requiring disclosure to or approval of the members of Council of the City of Toronto or the shareholders have been brought before them at appropriate meetings and are reflected in the minutes.

### **Completeness of transactions**

All contractual arrangements entered into by the Trust Funds with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the consolidated financial statements, have been disclosed to you. The Trust Funds has complied with all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance. There are no side agreements or other arrangements (either written or oral) undisclosed to you.

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

### **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 the normal course of business;
  - Minutes of the meetings of shareholders, management, directors and committees of directors;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the Trust Funds from whom you determined it necessary to obtain audit evidence.

### **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 any known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.

### **Accounting estimates and fair value measurements**

Significant assumptions used by the Trust 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 Trust 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 2130, *Measurement Uncertainty*, have been appropriately disclosed.

### **Related parties**

We confirm that we have disclosed to you the identity of the Trust Funds' related parties as defined by CPA Canada Public Sector Accounting Handbook Section PS 2200, Related Party Disclosures.

We have not identified any related party transactions, as defined by CPA Canada Public Sector Accounting Handbook Section PS 2200, Related Party Disclosures.

**Going concern**

There are no events or conditions that, individually or collectively, may cast significant doubt on the Trust Funds' ability to continue as a 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.

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 the Trust Funds is contingently liable in accordance with 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 as at December 31, 2018 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.

**Cash and banks**

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

All cash balances are under the control of the Trust 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 Trust 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 Trust Funds are included in the consolidated financial statements as at December 31, 2018.

**Portfolio investments and other financial assets**

All securities and other financial assets that were owned by the Trust 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.

You have been informed of the acquisition of or the formation of all government units, affiliated and subsidiary companies, partnerships, joint ventures or other participations during the year.

All investments in equity securities that are traded in an active market and not subject to significant influence are accounted for at fair value.

**Investments**

With respect to the Trust Funds' investments:

- For the year ended December 31, 2018, the Trust Funds have not entered into security lending arrangements, except as disclosed in the consolidated financial statements
- The Trust Funds have not purchased any restricted securities during the year ended December 31, 2018, and do not hold any securities as at December 31, 2018 which are restricted in any way as to their resale.
- The Trust Funds have not entered into any agreement, nor are they in the process of entering into any agreements, to acquire restricted securities.
- The Trust Funds have no open derivative contracts as at December 31, 2018.

**Misstatements**

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.

We confirm there are no uncorrected misstatements in the consolidated financial statements.

**Events after the statement of financial position date**

We have identified all events that occurred between December 31, 2018 and the date of this letter that may require adjustment of, or disclosure in, the consolidated financial statements, and have effected such adjustment or disclosure.

Yours truly,

**City of Toronto Trust Funds**

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Mr. Chris Murray, City Manager

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Ms. Heather Taylor, Chief Financial Officer & Treasurer

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Mr. Andrew Flynn, Controller

The matters raised in this and other reports that will flow from the audit 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. 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. Comments and conclusions should only be taken in context of the financial statements as a whole, as we do not mean to express an opinion on any individual item or accounting estimate. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

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