

City of Toronto audit results for the year ended December 31, 2019

For presentation to the Audit Committee
Prepared as of November 4, 2020



A message from Michael Hawtin

I am pleased to provide you with the results of our audit of the consolidated financial statements of the City of Toronto (the City) for the year ended December 31, 2019.

The accompanying report is prepared 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 from our audit that we believe would be of greatest interest to the Audit Committee.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in February 2020. We have subsequently reviewed our audit plan and, concluded that our original risk assessment remains appropriate.

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements, pending resolution of outstanding items noted in this report. Our draft auditor's report is included as Appendix 1.

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 the specified parties. We disclaim any responsibility to any third party who may rely on it.

We look forward to discussing our report with you on November 19, 2020. If you have any questions or concerns prior to the Audit Committee meeting, please do not hesitate to contact me at +1 (416) 815-5003 or michael.hawtin@pwc.com.

Yours very truly,

(Signed) "PricewaterhouseCoopers LLP"

Michael Hawtin
Partner
Assurance



On behalf of our team, I would like to express our sincere gratitude to the management and staff of the City for their cooperation and assistance throughout the course of our audit.



Michael Hawtin
Partner

We are reimagining the possible, investing in our people and our technology to provide you with a digitally amplified and insightful audit.



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01 Status of the audit →



We have substantially completed our audit of the 2019 consolidated financial statements.

Outstanding items at the time of mailing are referred to in this report.

02 Significant audit, accounting and financial reporting matters →

This section provides an overview of the three significant audit risks identified in our Audit Plan as well as our views on other significant audit, accounting and reporting matters.

03 Audit findings →

Misstatements

3 Unadjusted 0 Adjusted

Control deficiencies

0 Significant deficiencies 2 Control recommendations

04 Other items for discussion →

05 Appendices →



01

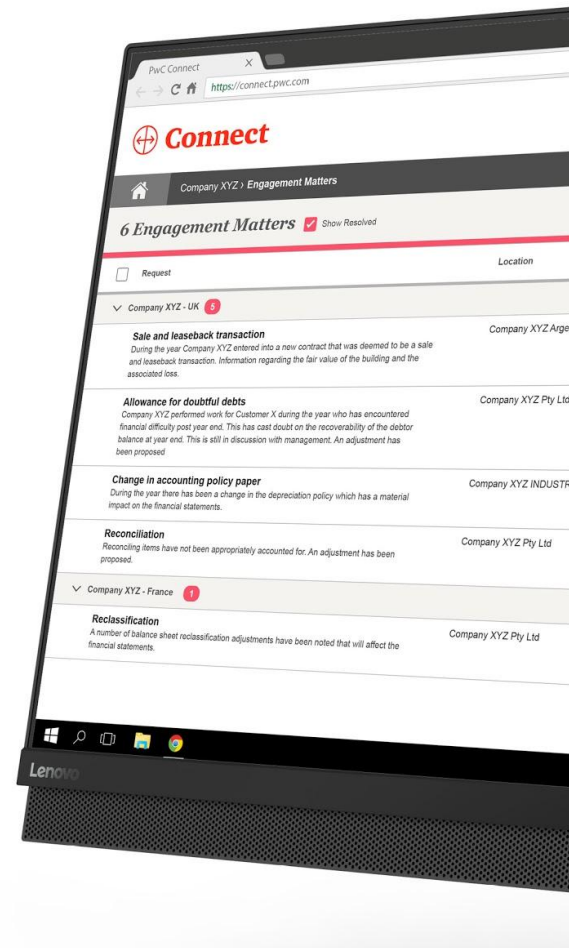
Status of the audit



We have substantially completed our audit of the 2019 consolidated financial statements.

The following items are outstanding at the time of mailing and need to be addressed before we can issue our auditor's report. We will provide an update on the status of these items at our upcoming meeting.

1. Update to our legal confirmation letter responses from external legal counsel;
2. Completion of subsequent events procedures to the date of our audit opinion;
3. Signed management representation letter; and
4. Approval of the financial statements by City Council



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City employees



02

Significant audit, accounting and financial reporting matters



We are responsible for discussing our views about the significant qualitative aspects of the company's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.



Significant audit, accounting and financial reporting matters

Audit risks and results

Fraud risk in revenue recognition

Background information

Under Canadian auditing standards (CAS), there is a presumed significant risk of fraud with respect to accounting for revenue transactions.

PwC's views

Details of our approach, as well as the results of our testing with respect to revenue recognition, are outlined below:

- During our audit, we updated our understanding of management processes and internal controls surrounding revenue recognition and the accounting policies adopted by the City for recognizing revenue;
- We performed substantive tests of detail on a sample basis across all revenue streams by examining supporting documents;
- For obligatory reserve funds we performed tests of detail to assess the appropriateness of revenue recognition within the various revenue streams;
- We also examined agreements for eligibility criteria and stipulations to test that revenue from transfers from other governments has been recognized in accordance with the City's accounting policy;
- We tested certain management review controls to ensure they are operating effectively; and
- We also tested certain journal entries affecting revenue accounts following a risk based approach.

We completed our testing as planned and have no matters to report with respect to revenue recognition.



Significant audit, accounting and financial reporting matters

Audit risks and results

Management override of controls

Background information

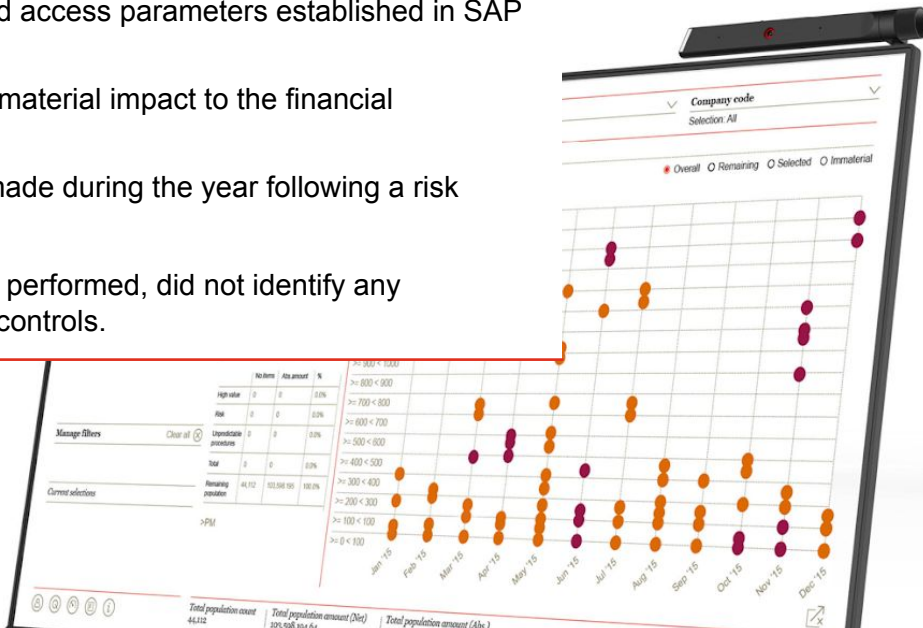
Canadian auditing standards require that management override of controls be considered an area of significant audit risk.

PwC's views

Details of our approach, as well as the results of our testing with respect to management override of controls are outlined below:

- We assessed the control environment, segregation of duties and access parameters established in SAP that mitigate this risk;
- We reviewed whistle-blower reports for issues that may have a material impact to the financial statements; and
- We tested certain significant and non-standard journal entries made during the year following a risk based approach.

We completed our testing as planned and, based on our audit work performed, did not identify any circumstances that indicate inappropriate management override of controls.



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International Accounting Bulletin



Significant audit, accounting and financial reporting matters

Audit risks and results

Consolidation process

Background information

As we have reported in prior years, the City's consolidation process is complex and manual in nature.

PwC's views

We tested the consolidation process including testing of significant manual journal entries and adjustments recorded in the consolidation and comparing the consolidation information for the significant subsidiaries to the source accounting records or financial statements of the respective A&Cs.

As a result of our testing of the City's consolidation, we did not identify any exceptions but noted the correction of two items in the current year that relate to items identified as part of the prior year 2018 audit. These two items individually and in aggregate are not material to the financial statements taken as a whole and have been reflected in our summary of unadjusted items included in Section 3 of our report itemized as "out-of-period" adjustments.



Significant audit, accounting and financial reporting matters

Audit risks and results

Subway Upload to the Province

Background information

Changes to Ontario transit regulations were passed in July 2019 that prescribed certain transit projects previously under the ownership and control of the City / TTC as the sole responsibility of the Province of Ontario and its agency, Metrolinx. As a result, the City (and the TTC) were no longer permitted to design, develop, construct or work on, or cause design, construction or work on these subway projects.

The City received an offer from the Minister of Transportation in October 2019 which included an offer to contractually compensate the City for investments the City had made related to these subway projects. Following receipt of the offer, in October 2019, City Council authorized the City Manager to negotiate an agreement with the Minister of Transportation in regards to various aspects of the transit projects including authorizing the City Manager to accept this offer by entering into an agreement on terms that included the following:

- The Province shall undertake a financial review and reconciliation exercise with the City, related to the investments made to fund the planning design and engineering work for these subway projects, and will reimburse the City for reasonable costs incurred for these subway projects.

Background information

In February 2020, the City and the Province of Ontario concluded discussions and entered into a preliminary agreement, which agreement included substantially the same terms in regards to compensation for the designated projects as was set out in the term sheet approved by City Council in October, 2019.

At December 31, 2019, the City derecognized \$239 million from construction in progress, which represents costs incurred related to these subway projects, and recognized a financial asset for the same amount that reflects the City's best estimate of amounts owing from the Province for reimbursement of reasonable costs incurred for these subway projects pursuant to the terms of the preliminary agreement.

PwC's views

We held discussions with City staff and the City solicitor's office, reviewed the amendments to the Ontario transit regulations, offer from the Minister of Transportation, City Council's approval and the signed preliminary agreement between the City and the Province and note the City's accounting treatment is supportable under Public Sector Accounting Standards. We understand the financial review and reconciliation exercise has not yet been completed and, as a result, significant measurement uncertainty exists with respect the amount of reimbursement from the Province for these subway projects. This measurement uncertainty has been disclosed in the notes to the consolidated financial statements of the City for the year ended December 31, 2019.

03

Audit findings



We are required to communicate any unadjusted items, including disclosures and items that relate to prior periods or could impact future periods, and the effect that they may have on our opinion. We also share findings from your system of internal controls.



Audit findings

Summary of unadjusted items

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Taken as a whole, the financial statements are free of material misstatement. We did identify certain items and have discussed these with management. Management has concluded that the unadjusted items, which are summarized below, are immaterial individually and in aggregate.

We're also required to communicate the effects of any unadjusted items that relate to prior periods or those that could impact future periods. These are also included below.

The overall materiality levels previously communicated to you have changed from \$270.6 million to \$259.8 million. We will report all individual unadjusted misstatements greater than \$12.9 million to you.

As a result of our audit, we noted the following items with an impact on annual surplus:

Out of period adjustments

Out of period adjustments for the year ended December 31, 2019	\$ (000,000s) 2019 Surplus over (under) stated
Correction made in 2019 related to the 2018 year for the elimination of an intercompany payable (and expenditure) with an agency	\$165
Expenditure recorded in 2019 related to the 2018 year pursuant to a legal settlement pertaining to a capital project	(\$51)

Unadjusted items

Unadjusted items for the year ended December 31, 2019	\$ (000,000s) 2019 Surplus over (under) stated
To reverse the recognition of the City's portion of pension surplus on the basis that final regulatory approval has yet to be received	\$106

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



Audit findings

Focus on internal controls

During our audit, we have summarized the following internal control recommendations that we discussed with management and wish to bring to your attention.

Observation

Based on our review of the segregation of duties relating to procurement processing, it was noted that a number of user accounts for operations support have access to transactions that provide incompatible 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 the invoice in the same order.

Additionally, we noted certain users whose duties required view-only access to human resources master data but these individuals had access to edit and maintain the data.

Impact and Recommendation

Impact:

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

Recommendation:

Management should monitor access and conflicting abilities on a periodic basis and review the transactions posted by the user accounts to ensure validity of transactions.

Management response

Management recognizes the importance of segregation of duties in system access and recognizes the potential risks. Management continues to monitor transaction processing and mitigate the risks through compensating controls. At this time, there are significant constraints to making any changes to the current system, however, segregating access based on user roles to ensure that this risk is mitigated will be a key consideration in the implementation of the City's new financial system. Work supporting the City's implementation of the new financial system will start in 2021 and is anticipated to be completed by early 2023. In the meantime, management will continue to monitor and mitigate risk through appropriate compensating controls in both the procurement and payroll areas.



Audit findings

Focus on internal controls

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&Cs) that are consolidated within the financial statements. In addition, some of the A&Cs follow different accounting frameworks from the City, and their financial results need to be adjusted to conform to the City's accounting standards. Further, since the A&Cs' accounting systems are different from 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 audits in the current year, we noted that management's consolidation process has remained consistent with the prior fiscal year.

Impact and Recommendation

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&Cs' and recording consolidation adjustments.

Recommendation:

While significant improvements have been made, there's still a significant risk of error given the manual nature of the process. Therefore, we suggest that the City consider implementing financial reporting software for consolidating the City and its A&Cs. Additionally, we recommend the City consider implementing a year-end process with its A&C's that involves a discussion with A&C management with respect to any significant transactions and unusual items at the A&C. This will assist the City with the preparation of their consolidation and the accounting, presentation and disclosure of these transactions in the consolidated financial statements.

Management response

Management continued to make improvements to the consolidation process for the 2019 year end. An agency and corporation reporting package was prepared and utilized for significant consolidation balances, variances and related party activity. The package allowed for agencies and corporations to share material transactions and disclosures which were captured for consolidated statement preparation and reporting. Management recognizes the benefits of using an automated and system-enabled consolidation process. However, at this time, the consolidation process remains a manual exercise being managed as efficiently and effectively as possible. It should be noted that an automated consolidation tool is in scope for the City's new financial system, allowing Accounting Services to manage risks and increase efficiency and effectiveness in the consolidation process.



04

Other items for discussion



Working in harmony with you, we combine our judgment and experience to communicate matters that may assist you in overseeing both management's financial reporting process and our commitment to an effective audit.



Other items for discussion

Required communications

Draft auditor's report	The draft auditor's report is included in Appendix 1
Management's representations	<p>We are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix 2.</p> <p>We requested our standard representations.</p>
Independence	We confirm our independence with respect to the City as at November 4, 2020, the date of this report.
Other information in documents containing audited financial information	We will not receive the Annual Report before our auditor's report date. You will provide this document to us before its issuance so we may complete our procedures in accordance with our responsibilities on this other information.
Fraud and illegal acts	<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.</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>



Other items for discussion

Revised standard for auditing accounting estimates

CAS 540 (Revised) “Auditing Accounting Estimates and Related Disclosures” is the enhanced standard for auditing accounting estimates and is effective for periods beginning on or after December 15, 2019. The revised standard enhances and expands on the existing requirements in a number of key areas, which will in many cases, have a significant impact on the robustness of audit risk assessment procedures and the resulting audit work we perform.

Risk Assessment

Key Changes

- More detailed requirements around understanding processes and controls
- Deeper evaluation of estimation uncertainty, complexity, subjectivity and other inherent risk factors (characteristics that drive risks of misstatement) for all estimates
- Requirement to consider spectrum of inherent risk as basis for ‘scaling’ audit response

Expected Impact

- More time spent with management and additional inquiries of personnel and requests for supporting documentation
- May result in additional identified audit risks or changes in audit strategy to respond to those risks
- Risk assessment procedures performed for more estimates

Audit Response

Key Changes

- Emphasis on consideration of testing operating effectiveness of relevant controls
- More detailed objectives-based requirements for testing methods, significant assumptions and data
- Expanded requirements regarding audit evidence when developing auditor’s point estimate or range

Expected Impact

- Possible increase in testing and reliance on internal controls
- Expanded procedures and additional evidence over methods, significant assumptions and data
- Changes in the nature and extent of audit testing and documentation when testing management’s estimate or when developing a point estimate

Disclosures

Key Changes

- Evaluation of disclosures alongside the accounting estimate for risk assessment and testing, with emphasis on the adequacy of estimation uncertainty information

Expected Impact

- Earlier evaluation, expanded procedures and additional supporting documentation for related disclosures

Communications

Key Changes

- Emphasized requirements regarding communications with those charged with governance

Expected Impact

- Additional matters to be communicated, further management representations required and extended procedures on ‘stand back’ evaluation during completion



Click to read CPA Canada’s Audit Client briefing:
Revised CAS 540, auditing estimates

<https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/canadian-auditing-standards-cas/publications/client-briefing-cas-540-revised>



Appendices

05

- 1 Draft auditor's report
.....
- 2 Management representation letter



Appendix 1

Draft auditor's report





Independent auditor's report

To the Members of Council, Inhabitants and Ratepayers of the City of Toronto

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the City of Toronto and its subsidiaries (together, the City) as at December 31, 2019 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.

What we have audited

The City's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2019;
 - the consolidated statement of operations and accumulated surplus for the year then ended;
 - the consolidated statement of change in net debt for the year then ended;
 - the consolidated statement of cash flows for the year then ended; and
 - the notes to the consolidated financial statements, which include a summary of significant accounting policies.
-

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 City 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.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control

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



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 City'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 City or to cease operations, or has no realistic alternative but to do so.

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

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 City'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 City'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 City to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the City 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
December 16, 2020

DRAFT



Appendix 2

Management representation letter



Client Letterhead

December 16, 2020

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

Attention: Mr. Michael Hawtin

We are providing this letter in connection with your audit of the consolidated financial statements of City of Toronto and its subsidiaries (together, the City) as at December 31, 2019 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 of the City and results of its operations and its cash flows in accordance with Canadian public sector accounting standards (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 the annual confirmation letter of our terms and conditions dated January 23, 2020.

We confirm the following representations:

- The preparation and fair presentation of the consolidated financial statements are in accordance with Canadian public sector accounting standards including disclosures and other information referred to below;
- We designed, implemented and maintained 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 designed, implemented and maintained an effective system of internal control to prevent and detect fraud;
- We provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- We ensured all transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

Preparation of consolidated financial statements

The consolidated financial statements are fairly presented in accordance with Canadian public sector accounting standards, 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 City is subject. We have prepared the City's consolidated financial statements on the basis that the City 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 profit and loss account and vice versa. All consolidating entries have been properly recorded. All intra-entity and inter-entity accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.

Other information

We have informed you of all of the documents, listed below, that we expect to issue or are otherwise required to be issued in accordance with law, regulation or custom that will contain or accompany the consolidated financial statements and the auditor's report thereon and which will include information on the City's operations and the City's financial results and financial position as set out in the consolidated financial statements.

Name of document provided before the auditor's report date that will contain or accompany the consolidated financial statements	Name of document that will not be provided before the auditor's report date that will contain or accompany the consolidated financial statements
None	Annual Report

None of the documents referred to above will be available before the date of your auditor's report. We intend to prepare, and provide to you before issuing such document, so you may complete your procedures in accordance with your responsibilities.

Accounting policies

We confirm that we have reviewed the City's 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 City's particular circumstances.

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 of.

Minutes

All matters requiring disclosure to or approval of the Executive Committee and the Audit Committee have been brought before them at appropriate meetings and are reflected in the minutes.

Completeness of transactions

All contractual arrangements entered into by the City 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 City 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 City 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 City's 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 the Executive Committee and Audit Committee. The most recent meetings held were: Executive Committee on September 30, 2020 and Audit Committee on February 10, 2020;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the City 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 the consolidated 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 City 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 City's 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 City's related parties as defined by CPA Canada Public Sector Accounting Handbook Section PS 2200, *Related Party Disclosures*, and all the related party relationships and transactions.

The identity and relationship of, and balances and transactions with, related parties have been properly recorded and adequately disclosed in the consolidated financial statements as required by CPA Canada Public Sector Accounting Handbook Section PS 2200, *Related Party Disclosures*. We provided support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's length transaction.

The list of related parties attached to this letter as Appendix A accurately and completely describes the City's related parties and the relationships with such parties.

Going concern

There are no events or conditions that, individually or collectively, may cast significant doubt on the City's 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. All liens or encumbrances on the City's assets and assets pledged as collateral, to the extent material, have been disclosed in the consolidated 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 the City 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, 2019 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

Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the consolidated financial statements are free of material misstatements, including omissions.

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

Events after balance sheet date

We have identified all events that occurred between December 31, 2019 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.

For the following specific representations, the terms “year end” and “year” are defined as each year end and each year respectively, covered by the audit of the consolidated financial statements as stated above.

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 are included in the consolidated financial statements.

Restricted assets and revenues

All assets and revenues subject to externally imposed restrictions are disclosed in the consolidated financial statements.

All externally restricted inflows, other than those that relate to government transfers received or trusts under administration, have been recognized as revenue in the year/period in which the resources were used for the purpose specified. All externally restricted inflows received before this criterion has been met have been reported as liabilities until the resources are used for the purpose specified.

Condensed supplementary financial information relative to internally restricted entities has been disclosed in the consolidated 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 are not subject to discount except for normal cash discounts which are appropriately provided for.

All receivables were free from hypothecation or assignment as security for advances to the City, except as hereunder stated.

The City has disclosed to us all transfers of receivables (including securitizations) that have occurred during the year.

The City has recognized a receivable of \$239 million as at December 31, 2019 for amounts owing from the Province of Ontario related to the subway upload. The City believes the amounts owing from the Province meet the definition of an asset as at December 31, 2019 and have recorded the receivable at year-end, which reflects management's best estimate of amounts owing from the Province.

Receivables, other than transfers receivable accounted for in accordance with the CPA Canada Public Sector Accounting Handbook Section PS 3410, *Government Transfers* and taxes receivable accounting for in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3510, *Tax Revenue*, recorded in the consolidated financial statements, represent bona fide claims against debtors for sales or other charges arising on or before year end and are not subject to discount except for normal cash discounts.

Loans receivable

We have disclosed to you all loan agreements containing forgivable conditions, significant concessionary terms and those that are to be repaid through future appropriations.

Loans receivable that are not to be repaid through future appropriations, nor contain forgivable conditions have been accounted for as financial assets, in accordance with CPA Canada Public Sector Accounting Handbook PS 3050, *Loans Receivable*. The cost of loans receivable excludes any portion of the loan that will be repaid through future appropriations and any grant portion relating to significant concessionary terms of the loan.

We have reviewed loans receivable for collectability, risk of loss and expected forgiveness, and made appropriate valuation allowances or writeoffs thereon if necessary, in accordance with CPA Canada 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 year end.

Portfolio investments and other financial assets

All securities and other financial assets that 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 assets.

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 year.

All transactions with subsidiaries, business enterprises, partnerships or joint ventures have been recorded in the accounts presented to you. All investments in and advances to subsidiaries, 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 subsidiaries, business enterprises, partnerships, joint ventures or other participations, except as disclosed to you.

Toronto Hydro Corporation and Toronto Parking Authority meet the definition of government business enterprise (GBE) in accordance with PS 3070, *Investments in Government Enterprises*. The modified equity method has been used to account for the City's investment in the above mentioned GBEs.

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.

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 CPA Canada Public Sector Accounting Handbook PS 3150, *Tangible Capital Assets*.

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

the City has not violated any covenants on its long-term debt during the year. We have fully disclosed to you all covenants and information related to how we determined our compliance with the terms of the covenants.

Deferred revenue and deferred contributions

All material amounts of deferred revenue and deferred contributions 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, 2019, the date of the last actuarial valuation, have been identified to you.

The actuarial valuation dates December 31, 2019 incorporates management's best estimates, detailed as follows:

- 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; and
- The City does not plan to make frequent amendments to the pension of other post-retirement benefits.

All changes to the plan provisions and the employee group, or events that impact the plan's performance since the last actuarial valuation have been reviewed, communicated to you as well as to the actuary, and considered in determining the pension plan costs and the estimated actuarial present value of accrued pension benefits and value of pension plan asset.

The City's actuaries have been provided with all information required to complete their valuation as at December 31, 2019, and where applicable, their extrapolation to December 31, 2019.

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 CPA Canada Public Sector Accounting Handbook PS 3250, *Retirement Benefits* and CPA Canada Public Sector Accounting Handbook PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*. In particular:

- The significant accounting policies that the City has adopted in applying CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits*, and CPA Canada Public Sector Accounting Handbook Section PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*, are accurately and completely disclosed in the notes to the consolidated financial statements.

- Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.
- The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.
- 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 using assumptions that are internally consistent with other actuarial assumptions used in the calculation of the accrued benefit obligation and plan assets.
- The assumptions included in the actuarial valuation are those that management instructed Mondelis and Morneau Shepell 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 CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits*.
- 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.
- The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

Consolidated statements of operations, changes in 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 year were consistent with prior period practices (except as disclosed in the consolidated financial statements).

Liabilities for contaminated sites

Liabilities for remediation of contaminated sites were recognized and accounted for in accordance with CPA Canada Public Sector Accounting Handbook PS 3260, *Liabilities for Contaminated Sites*. We believe that such estimate is reasonable based on available information and that the liabilities have been adequately described in the City's consolidated financial statements.

Environmental matters

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

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 benefits obligation, contaminated sites liability 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 consolidated 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.

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 CPA Canada Public Sector Accounting Handbook Section 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 CPA Canada Public Sector Accounting Handbook Section 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, Transportation, Environmental, Health, Social and Family Social Housing, Recreation and Cultural and Planning and Development.

The consolidated financial statements disclose all the relevant factors used to identify the City's reportable segments.

Government transfers

Transferring organization

- Transfers have only been recognized as an expense in the year the transfer has been authorized and all eligibility criteria have been met by the recipient.

Recipient organization

- We have disclosed all significant terms and agreements in respect of transfers received from governments.
- 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 year 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 CPA Canada 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 consolidated financial statements, which is relevant to the users of consolidated financial statements. Planned results were presented for the same scope of activities and on a basis consistent with that used for actual results.

Yours truly,

City of Toronto

Mr. Chris Murray, City Manager

Ms. Heather Taylor, Chief Financial Officer

Mr. Andrew Flynn, Controller

DRAFT

Appendix A: Related Parties

Agencies and Corporations

- Board of Governors of Exhibition Place
- Board of Management of the Toronto Zoo
- Build Toronto Inc. (BTI)
- Casa Loma Corporation
- Heritage Toronto
- Invest Toronto Inc.
- Lakeshore Arena Corporation
- TOLive
- Toronto Atmospheric Fund (TAF)
- Toronto Board of Health
- Toronto Community Housing Corporation (TCHC)
- Toronto Licensing Commission
- Toronto Police Services Board
- Toronto Public Library Board
- Toronto Transit Commission (TTC)
- Create TO
- Yonge-Dundas Square
- City of Toronto Economic Development Corporation c.o.b. Toronto Port Lands Company (TPLC)
- Toronto Pan Am Sports Centre Inc. (TPASC)
- Toronto Waterfront Revitalization Corporation (TWRC)

Arenas

- Forest Hill Memorial
- Moss Park
- George Bell
- North Toronto Memorial
- Leaside Memorial Community Gardens
- McCormick Playground
- Ted Reeve
- William H. Bolton

Community Centres

- 519 Church Street
- Eastview NeighbourhoodApple grove
- Waterfront Neighbourhood
- Cecil Street
- Ralph Thornton
- Central Eglinton
- Scadding Court
- Community Centre 55
- Swansea Town Hall

Business Improvement Areas (BIAs)

- Albion Islington Square
- Forest Hill Village
- Regal Heights Village
- Baby Point Gates
- Gerrard India Bazaar
- Riverside District
- Bayview Leaside
- Greektown on the Danfort
- Roncesvalles Village
- Bloor Annex
- Harbord Street
- Rosedale Main Street
- Bloor By The Park
- Hillcrest Village
- Sheppard East Village
- Bloor Street
- Historic Queen East
- shoptheQueensway.com
- Bloor West Village
- Junction Gardens
- St. Clair Gardens
- Bloor Yorkville
- Kennedy Road
- St. Lawrence Market Neighbourhood
- Bloorcourt Village
- Kensington Market
- Bloordale Village
- Korea Town

- The Beach
- Cabbagetown
- Lakeshore Village
- The Danforth
- Chinatown
- Leslieville
- The Eglinton Way
- Church Wellesley Village
- Liberty Village
- The Kingsway
- City Place & Fort York
- Little Italy
- The Waterfront
- College Promenade
- Little Portugal on Dundas
- Toronto Entertainment District
- College West
- Long Branch
- Corso Italia
- Marketo District
- Trinity Bellwoods
- Crossroads of the Danforth
- Midtown Yonge
- Upper Village
- Danforth Mosaic
- Mimico by the Lake
- Uptown Yonge
- Danforth Village
- Mimico Village
- Village of Islington
- Dovercourt Village
- Mirvish Village
- West Queen West
- Downtown Yonge
- Mount Dennis
- Weston Village
- DuKe Heights
- Mount Pleasant
- Wexford Heights
- Dupont by the Castle
- Oakwood Village
- Wilson Village
- Eglinton Hill
- Ossington Avenue
- Wychwood Heights
- Emery Village
- Pape Village
- Yonge and St. Clair
- Fairbank Village
- Parkdale Village

Appendix B: Summary of unadjusted items

As a result of your audit, you noted the following unadjusted items:

Out of period adjustments

Out of period adjustments for the year ended December 31, 2019	\$ (000,000s) 2019 Surplus over (under) stated
Correction made in 2019 related to the 2018 year for the elimination of an intercompany payable (and expenditure) with an agency	\$165
Expenditure recorded in 2019 related to the 2018 year pursuant to a legal settlement pertaining to a capital project	(\$51)

Unadjusted items

Unadjusted items for the year ended December 31, 2019	\$ (000,000s) 2019 Surplus over (under) stated
To reverse the recognition of the City's portion of pension surplus on the basis that final regulatory approval has yet to be received	\$106

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



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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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