
Toronto Parking Authority

*2013 Year-end report
to the Board of
Directors*





May 21, 2014

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

Dear Members of the Board of Directors:

We have substantially completed our audit of the financial statements (the financial statements) of Toronto Parking Authority (the organization or TPA) prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2013. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included in Appendix A.

We have issued the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting issues dealt with during the audit process.

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

We would like to express our sincere thanks to the management and the staff of the organization who have assisted us in carrying out our work and we look forward to our meeting on May 28, 2014. Should you have any questions or concerns prior to the Board of Directors meeting, please do not hesitate to contact me in advance.

Yours very truly,

A handwritten signature in blue ink, appearing to read "T. McKinnon", with a horizontal line extending to the right.

Terri McKinnon
Partner
Audit and Assurance Group

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

PricewaterhouseCoopers LLP
North American Centre, 5700 Yonge Street Suite 1900, North York, Ontario, Canada M2M 4K7
T: 1 416 218 1500, F: 1 416 218 1499, www.pwc.com/ca

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

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Appendices

Appendix A: Draft financial statements

Appendix B: Management representation letter

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. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. Comments and conclusions should only be taken in context of the financial statements as a whole as we do not mean to express an opinion on any individual item or accounting estimate.

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2013 financial statements. Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below.

This document includes the required communications between an auditor and the Board of Directors, as required by Canadian generally accepted auditing standards (Canadian GAAS).

The following items will need to be completed/received prior to the issuance of our opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Status as at May 28, 2014
i. Receipt of signed management representation letter	
ii. Subsequent events update	
iii. Approval of the financial statements by the Board of Directors	

b. Key issues for discussion

Discussion item	Summary	For further reference
Items discussed with management	<ul style="list-style-type: none"> During the course of our work we discussed the following items with management: <ul style="list-style-type: none"> Transfer of Bixi Toronto assets from City of Toronto to Toronto Parking Authority Completeness of revenue of off-street parking Management override of controls 	Section 4
Summary of unadjusted items	<ul style="list-style-type: none"> As a result of our audit, we identified unadjusted items with an effect of \$39,000 overstatement of net income. Unadjusted and adjusted items including disclosure exceptions or items not impacting net income are listed in section 5. In our opinion, the financial statements, taken as a whole, are free of material misstatement. 	Section 5
Fraud	<ul style="list-style-type: none"> No instances of fraud were noted as part of our audit procedures. We wish to confirm whether the Board of Directors is aware of any known, suspected or alleged incidents of fraud. 	Section 3
Management representations	<ul style="list-style-type: none"> Under Canadian GAAS, 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 B. 	Appendix B

2. Audit administration

a. Your team

Your client service team comprises the following individuals:

Name	Role	Phone number	Email address
Cathy Russell	Overall engagement leader for City of Toronto	416 815 5291	cathy.russell@ca.pwc.com
Terri McKinnon	Engagement Leader	416 228 1922	terri.mckinnon@ca.pwc.com
Ryan Grey	Engagement Manager	416 973 2132	ryan.grey@ca.pwc.com

b. Our audit objectives

As the organization's auditor, our primary responsibility is to form and express an opinion on the organization's financial statements as at December 31, 2013 and for the year then ended in accordance with International Financial Reporting Standards. The financial statements are prepared by management with the oversight of those charged with governance (the Board of Directors). An audit of the financial statements does not relieve management or the Board of Directors of its responsibilities.

We conducted our audit in accordance with Canadian GAAS. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

In addition, we are committed to being a trusted advisor to management and to the Board of Directors. Where appropriate, we will discuss segment standards, provide management our views and insights and also advise management of other services we feel could be helpful - at all times staying within the realms of our independence rules.

c. Engagement terms

Our engagement letter with the City of Toronto dated November 1, 2010, and reconfirmed on October 11, 2012, sets out the terms and conditions for our engagement as the independent auditor of the organization for the above-mentioned year.

In addition, our engagement letter outlines our responsibilities as the auditor and the responsibilities of management.

3. *How we performed the audit*

a. **Our audit approach**

Our audit approach is designed to allow us to execute a quality and efficient audit. We do this by:

- i. gaining an understanding of the business by focusing on new developments and key business issues affecting the organization as well as management's monitoring of controls and business processes;
- ii. identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;
- iii. using well-reasoned professional judgment, especially in areas that are subjective or require estimates; and
- iv. leveraging reliance where possible on the organization's internal controls and information technology and data systems.

In the current year, our work included testing of key controls in the following areas:

- Purchases, payables and disbursements
- Payroll
- Parking revenue

All areas were subject to tests of detail and substantive analytical testing.

Throughout the audit, we scale our work based on the size of an account balance, its complexity and its impact on the financial statements. As a result, you will always hear us talking to you about the key issues.

b. **Materiality**

Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users, taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both. Although Toronto Parking Authority is technically a not-for-profit organization, it is considered a Government Business Enterprise in Public Sector Accounting Standards similar to a for-profit entity. A common measure for setting materiality for a for-profit organization is to use 5% to 10% of net income.

Accordingly, we set our materiality for the audit as follows:

	Basis	Amount \$	Prior year's amount \$
Overall materiality	8% of net income	5,174,000	3,866,667
Unadjusted and adjusted items in excess of this amount are reported to the Board of Directors	10% of overall materiality	517,000	193,333

c. Discussion on fraud risk

Canadian GAAS requires us to discuss fraud risk annually with the Board of Directors. We understand that part of your governance role is also to consider the fraud risks facing the organization and the responses to those risks.

Question 1:

Required discussion	<ul style="list-style-type: none"> • Through our audit process (and prior years' audits), we have developed an understanding of your oversight processes including: <ul style="list-style-type: none"> - Presentations by management, including business performance reviews - Review of related party transactions - Consideration of tone at the top • Are there any new processes or changes to the above that we should be aware of?
Response	

Question 2:

Required discussion	<p>We are not aware of any fraud at the current time.</p> <p>We would like to ask: Are you aware of instances of actual, suspected or alleged fraud affecting the organization?</p>
Response	

An auditor's responsibilities for detecting fraud

We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During our audit, we performed the following procedures in order to fulfill our responsibilities:

- inquired of management, the Board of Directors and others related to any knowledge of fraud or suspected fraud;
- performed disaggregated analytical procedures, primarily over revenue and consider unusual or unexpected relationships identified in planning the audit;
- incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures;
- performed additional required procedures to address the risk of management's override of controls, including:
 - testing internal controls designed to prevent and detect fraud;
 - examining journal entries and other adjustments for evidence of the possibility of material misstatement due to fraud;
 - reviewing accounting estimates for biases that could result in material misstatement due to fraud, (including a retrospective review of significant prior years' estimates); and
 - evaluating the business rationale of significant unusual transactions.

4. Significant audit, accounting and financial reporting matters

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgment and measurement uncertainty. These matters can significantly impact the organization's reported results.

These risks were identified based on discussions with management, our knowledge of the business and current developments in your industry and the economy. We request your input on the following risks and whether there are any other areas of concern that the Board of Directors has identified.

Item	Comments
<p>Transfer of Bixi Toronto assets from City of Toronto to Toronto Parking Authority</p>	<p>During the year the City of Toronto acquired the assets of Bixi Toronto and then transferred those assets to Toronto Parking Authority for no consideration.</p> <p>The transfer of the Bixi assets to Toronto Parking Authority has been accounted for as a capital contribution from the City of Toronto in accordance with Public Sector Accounting Standards.</p> <p>The assets have been recorded in Toronto Parking Authority's financial statements at a value of \$711,000, with the offsetting entry to the equity balance.</p> <p>The value at which the assets – which comprise largely of bicycles and bicycle docking stations - have been recognised in Toronto Parking Authority's accounts was an area which required management judgement. As the City of Toronto had acquired the assets in a distressed sale, it was concluded that the amounts paid by the City of Toronto did not necessarily reflect the fair value of the assets.</p> <p>Management considered available information including:</p> <ul style="list-style-type: none"> • Amounts paid by the City of Toronto to acquire the assets; • The carrying values of the assets in Bixi Toronto's accounts; • Data available in relation to the prices of used bicycles; • Useful lives of the bicycles and docking stations disclosed by other cities with similar bike sharing arrangements, and how differences in climate would affect the useful life in Toronto as compared to other cities. <p>Based on the information available we consider the value at which the assets have been recorded to be within a reasonable range, and we consider the accounting treatment that has been adopted to be reasonable.</p>
<p>Completeness of revenues of off-street parking</p>	<p>We noted an audit risk in respect of the off-street parking revenues due to the significant amount of cash that is collected from these operations. Therefore we tested internal controls surrounding the cash collections and reconciliations which are performed on a daily basis. We have tested a sample of these reconciliations and ensured they were complete and accurately recorded in the general ledger.</p> <p>We did not note any exceptions.</p>

Item	Comments
Management override of controls	<p>GAAS requires that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement. Management ensures appropriate segregation of duties and authorization of manual journal entries. We reviewed and target tested certain manual journal entries for appropriateness and authorization. We did not note any exceptions.</p> <p>We also performed certain unpredictable procedures as required by GAAS. In addition to the inherent unpredictability associated with procedures where we perform testing on a sample basis, we also attended one of the cash counts for unattended lots on an unannounced basis. No issues were noted.</p> <p>We also considered the reasonability and consistency of material management estimates, including whether there was any indication of bias. No issues or indications of bias were noted.</p>

5. Summary of unadjusted and adjusted items

We have concluded that the financial statements taken as a whole are free of material misstatement and we are prepared to issue an unqualified opinion on the financial statements.

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

Under Canadian GAAS, we are required to communicate to you the unadjusted items and the effect that they may have on our opinion and to request that unadjusted items be corrected. As a result of our audit, we identified certain items and have discussed these with management, and management adjusted the financial statements to reflect certain of these items. Management has concluded that the remaining unadjusted items, which are described in (a) below, are immaterial individually and in the aggregate.

We are also required to communicate the effects of any unadjusted items that relate to prior periods. We did not identify any such items.

a. Unadjusted items

If all of the items (including differences in estimates) were adjusted, the effect on the organization's financial statements would be as follows:

Description	Comprehensive Income	Statement of financial position		
	Overstated (understated) \$'000	Assets (overstated) understated \$'000	Liabilities overstated (understated) \$'000	Net assets overstated (understated) \$'000
Differences in calculation of net receivable amount and estimated fair value and residual values related to calculation of the finance lease receivable				
Dr. Retained earnings	167			1,501
Dr. Interest earned	(128)			
Cr. Other income (contingent rent)		(1,540)		
Cr. Finance lease receivable				
Total unadjusted differences	39	(1,540)	-	1,501

b. Adjusted items

There were no adjusted audit differences.

6. *Other required communications*

Canadian GAAS requires that the external auditor communicate certain matters to the Board of Directors that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	PwC's response
Management's representations	<ul style="list-style-type: none"> • Under Canadian GAAS, 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 B.
Significant deficiencies in internal control	<ul style="list-style-type: none"> • Canadian GAAS requires us to communicate to the Board of Directors internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • A significant deficiency is defined as an internal control deficiency that we consider merits the attention of the Board of Directors. • During our work, we did not note any significant deficiencies.
Other information in documents containing audited financial information	<ul style="list-style-type: none"> • Once it is available, we will read the annual report and consider whether its content or manner and preparation is materially consistent with the financial statements.
Significant difficulties or disagreements that occurred during the audit	<ul style="list-style-type: none"> • No difficulties or disagreements occurred while performing our audit that requires the attention of the Board of Directors.
Fraud and illegal acts	<ul style="list-style-type: none"> • No fraud came to our attention as a result of our audit procedures

7. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

a. Current year recommendations

No new control issues were noted as part of our audit.

b. Prior year recommendations

Item noted	Recommendation	Management's response
<p>Timely performance of payroll controls</p> <p>A number of exceptions were noted related to appropriate and timely sign off of employee termination forms, change forms, and review of payroll reconciliations by the Director of HR and/or Manager, Payroll.</p> <p>We noted that these issues primarily arose due to staffing changes within the year, resulting in lapses in the controls during this time period and for a backlog period thereafter. However, we also noted sufficient compensating controls, such as the employment information form or similar forms being approved by the appropriate levels on a timely basis, were in place.</p>	<p>Human Resources policies should be adhered to so that no unauthorised alterations are made to salaries.</p>	<p>Management agrees that the exceptions were a result of staffing changes which occurred during the year, and that these should be corrected in the future.</p>
<p>2013 update: Resolved</p> <p>No issues were noted in our testing.</p>		

8. 2013 audit fees

Our estimated fees were based on the expected time required to complete the audit. Our fees excluded taxes and out-of-pocket costs, as outlined in our engagement letter.

Service description	Estimated fees 2013 \$	Actual fees - prior year \$
Audit of the financial statements	16,180	15,140
Additional work – time required in relation to Bixi transaction	5,329	-
Total services	21,509	15,140

Appendix A: Draft financial statements