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# The North York Performing Arts Centre Corporation

*Operating as "The Toronto Centre for the Arts"*

*2015 year-end report to the Board of Directors*

*Prepared as of May 11, 2016*

May 11, 2016

Members of the Board of Directors
The Toronto Centre for the Arts

Dear Members of the Board:

We have substantially completed our audit of the financial statements of The Toronto Centre for the Arts (the organization or the Centre) prepared in accordance with Public Sector Accounting Standards including standards that apply only to government not-for profit organizations (PSAS +4200) for the year ended December 31, 2015. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We prepared the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting matters dealt with during the audit process. We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and staff of the organization who have assisted us in carrying out our work, and we look forward to your meeting on May 26, 2016. If 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,

PricewaterhouseCoopers LLP

Chartered Professional Accountants

cc: Pim Schotanus, General Manager

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# *Communications to the Board of Directors*

| *Key matters for discussion* | *Comments* |
|---|---|
| **Status of the audit** | PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the financial statements (the financial statements).<br><br>Significant outstanding items at time of mailing include the following:<br><br>• Legal updates and subsequent events procedures;<br>• Final tie-out of the financial statements;<br>• Signed management representation letter;<br>• Review and approval of the financial statements by the Board of Directors. |
| **Service deliverables** | We performed audit of the organization's financial statements as of December 31, 2015 and for the year then ended prepared in accordance with PSAS + 4200.<br><br>Our engagement letter, which has been signed by the City of Toronto (the City), sets out the terms and conditions for the audit as the independent auditor of the Centre for the above-mentioned year. |
| **Audit timeline** | We worked with management to develop this project timeline:<br>• Interim visit: December 7 – 11, 2015<br>• Year-end visit: April 4 – 8, 2016<br>• Clearance meeting with management: May 2016<br>• Year-end Board of Directors meeting: May 26, 2016<br>• Delivery of financial statements: upon resolution of above items and Board of Directors' approval. |
| **Audit approach** | Our audit approach is a mixture of tests of internal controls and substantive testing. In the current year, our work included testing of key controls in the following areas:<br>• Purchases, payables and disbursements<br>• Payroll<br><br>All material areas were subject to tests of detail and substantive analytical testing. |
| **Materiality** | Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.<br><br>We set our materiality at $150,000 and are reporting unadjusted and adjusted items over $15,000 to the Board of Directors as a result of the audit. See details in Appendix B. |

| *Key matters for discussion* | *Comments* |
|---|---|
| **Significant accounting, auditing and reporting matters discussed with management** | |
| **Risk of management override of controls** | Canadian auditing standards require that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement.<br><br>We have assessed significant and non-standard manual journal entries recorded in the year and selected a sample of items for testing to ensure that the entries represent valid and appropriately authorized transactions. No exceptions were noted from our testing.<br><br>We also incorporated unpredictable procedures into our audit and noted no exceptions. |
| **Revenue recognition** | Management recognizes revenue based on separate criteria per revenue stream and ensures processes are in place to record revenue accurately and in the proper period.<br><br>We selected a sample of revenue transactions for the year and traced to supporting documentation, including dates of shows held during the year or other available evidence, to ensure proper cut-off and accuracy of the amounts recorded.<br><br>Amounts deferred on the statement of financial position were also tested using the same testing methodology. We noted no issues as a result of our testing. |
| **Related party transactions – City of Toronto** | As a significant amount of activity occurs between the Centre and the City, we requested a confirmation from the City of all amounts received during the year and balances outstanding at the year-end.<br><br>We received an independent confirmation from the City of Toronto confirming the transactions and balances between City of Toronto and the Centre at year-end and were able to fully reconcile the amounts per confirmation to the financial statements.<br><br>We also reviewed documentation regarding write-off of the loan payable to the City of Toronto and noted no exceptions.<br><br>We have reviewed the financial statements note disclosure with respect to the relationship, transactions and balances with the City and it appears to be complete and accurate, including appropriate disclosure of amounts written off during the year. |
| **Budgeted figures** | Currently, under PSAS for government not-for-profit organizations, presentation of the budgeted figures is not a requirement. This budgeted information has been presented and audited to comply with the City audit team's reporting requirements. We agreed the budgeted figures per the statement of operations to the City of Toronto's approved budget for the Centre. No issues were noted. |

| *Key matters for discussion* | *Comments* |
|---|---|
| ***Other required communications*** | |
| **Summary of unadjusted and adjusted items** | As a result of our audit, we identified certain adjusted misstatements. See details in Appendix B. There were no unadjusted misstatements |
| **Internal control recommendations** | During the audit, we did not note any significant deficiencies. Our internal control recommendations are summarized in Appendix C. |
| **Fraud and illegal acts** | We discuss fraud risk annually with management and the Board of Directors. Through our planning process (and prior years' audits), we developed an understanding of your oversight processes and have designed our audit procedures to address these risks.<br><br>No fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention as a result of our audit procedures.<br><br>We wish to reconfirm that the Board of Directors is not aware of any known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us. |
| **Management's representations** | Under Canadian GAAS, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter has been circulated separately to the Board of Directors. |
| **Subsequent events** | No subsequent events which would impact the financial statements other than those disclosed have come to our attention.<br><br>We would like to reconfirm that the Board of Directors is not aware of any other subsequent events that might affect the financial statements. |

# *Appendix A: Draft auditor's report*

## Independent Auditor's Report

**To the Board of Directors of**
**The North York Performing Arts Centre Corporation**
(operating as the Toronto Centre for the Arts)

We have audited the accompanying financial statements of The North York Performing Arts Centre Corporation (operating as the Toronto Centre for the Arts), which comprise the statement of financial position as at December 31, 2015 and the statements of operations and changes in net assets (liabilities) and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**
In our opinion, the financial statements present fairly, in all material respects, the financial position of The North York Performing Arts Centre Corporation (operating as the Toronto Centre for the Arts) as at December 31, 2015 and the results of its operations, change in its net financial assets (liabilities) and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

**Chartered Professional Accountants, Licensed Public Accountants**

# Appendix B: Summary of adjusted items

| Description | Assets DR/(CR) $ | Liabilities DR/(CR) $ | Net assets DR/(CR) $ | Excess of revenue over expense DR/(CR) $ |
|---|---|---|---|---|
| Dr. Capital assets<br>Cr. Amortization expense | 47,523 | | | (47,523) |
| *To reverse amortization booked on Lyric Theatre as it is not available for use* | | | | |
| Dr. Amortization of deferred capital contribution<br>Cr. Deferred capital contribution | | (208,096) | | 208,096 |
| *To reduce deferred capital contribution amortized to revenue for the year based on correct calculation* | | | | |
| Dr. Accounts receivable<br>Cr. Accounts payable and accrued liabilities | (50,349) | 50,349 | | |
| *To net off HST recoverable against HST payable* | | | | |
| **Total** | **$(2,826)** | **$(157,747)** | **-** | **$160,573** |

# Appendix C: Internal control recommendations

| **Internal control observation** | **Recommendation** | **Management's response** |
|---|---|---|
| **Lack of MJE Review and Approval**<br><br>Due to the small size of the Centre's finance team, we noted that the General Manager posts manual journal entries.<br>This means that a review is not being performed on the journal entries that the GM is preparing and posting to the GL, which increases the risk of error and possibility for management override of controls. | *2015 Recommendation:*<br><br>We recommend that the GM delegate certain responsibilities to the Director of Finance and Administration, the Director of Operations, and/or other capable and competent staff, with the appropriate accounting training. This will enable the GM to independently review the work prepared by these staff and to focus on other strategic priorities. We noted instances where this delegation was beginning to happen. We encourage a full review of all roles and responsibilities to ensure this ability has been maximized.<br>Considering that the Director of Finance had been let go in January 2016, PwC recommends that GM starts to train other members of the accounting team to take on some of Director's reporting responsibilities including preparing the manual journal entries. PwC also noted that certain entries such as payroll remittances and Ticketmaster revenue entry are being posted manually. PwC also recommends that the system be modified such that the majority of entries become standard and therefore less time consuming for GM and the accounting team at each month-end. | *2015 Response:*<br><br>Management has already begun to delegate responsibilities where possible. For example, the Director of Finance and Administration took on a much larger role in preparing the audit requirements, as well as certain accounting processes during FY 2015. However, the GM's ability to delegate is restricted by the small finance team and the lack of available resources and sufficiently competent staff.<br><br>Management would like to be able to spend more time on the strategic planning and direction of the Centre; therefore, the potential addition of a qualified staff member would be considered in order to refocus effort on driving the strategy of the organization.<br>Per GM, he has started training Alice Lin, Senior Accountant to take on some of the JE posting responsibilities. The aim is to have her prepare all of the manual JEs, which would be subject to GM's review before being posted to the GL. This could take some time considering the extent of GM's involvement in posting entries and preparing financial statements historically independent of other accounting staff. |

| **Internal control observation** | **Recommendation** | **Management's response** |
|---|---|---|
| **Tracking of Capital Assets**<br><br>Capital assets are compiled, tracked and amortized by general category using an excel spreadsheet on total cost basis. The Centre does not maintain a fixed asset register that shows a detailed breakdown of each asset in detail. Finance has no effective way of confirming all asset are in existence and is reliant on line management expertise as to the obsolescence of certain assets or replacement. | *2015 Recommendation:*<br><br>We recommend that management develop a system of identifying and tracking capital assets (i.e. developing a diagram showing locations of all capital assets in use at the Centre). We also recommend that management considers obtaining a capital asset module for their current accounting system as manually computing depreciation expense, additions and disposals exposes the Centre to the risk of error. | *2015 Response:*<br><br>Management agrees with the overall premise of PwC's recommendation. Management is unable to retrospectively track PPE on item by item basis. Management will begin tracking item by item assets prospectively. |