
Toronto Public Library Board

*2016 year-end report
to the Board*

*Prepared as of
April 28, 2017*





April 28, 2017

The Board Members
Toronto Public Library Board

Dear Board Members:

We have substantially completed our audit of the financial statements of the Toronto Public Library Board (The Board) prepared in accordance with Canadian public sector accounting standards (PSAS) for the year ended December 31, 2016. We propose to issue our auditor's 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 15, 2017. If you have any questions or concerns prior to the meeting, please do not hesitate to contact me in advance.

Yours very truly,



Terri McKinnon
Partner
Assurance

c.c.: Vickery Bowles, City Librarian
Larry Hughsam, Director, Finance & Treasurer

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership

Communications to the Board

<i>Key matters for discussion</i>	<i>Comments</i>
Status of the audit	<p>PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the financial statements of the Toronto Public Library Board (the financial statements).</p> <p>Significant outstanding items at time of mailing include the following:</p> <ul style="list-style-type: none"> • Update on legal confirmations; • Management representation letter; • Subsequent events procedures; and • Approval of the financial statements by the Board.
Significant accounting, auditing and reporting matters discussed with management	
Risk of material misstatement due to management override (significant risk) <p>Accounting regulatory authorities require that the risk of material misstatement due to management override of controls be considered a significant risk on every audit engagement.</p>	<p>To address the risk of management override of controls, and as part of our fraud procedures, we performed the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the entity's financial reporting processes and the controls over major business processes; • Identified risk criteria specific to the entity to scope in journal entries for testing; • Inquired of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; and • Incorporated an element of unpredictability into the current year audit procedures. <p>We performed testing over a selection of journal entries for appropriateness and authorization. As a result of this testing, we did not note any matters that require your attention.</p> <p>In addition, for the unpredictable procedure we performed testing over user access to the Great Plains software. There were no significant matters to bring to your attention.</p>
Risk of fraud in revenue recognition (significant risk) <p>Auditing standards assume a rebuttable presumption, that there is a significant risk of fraud in revenue recognition in all businesses.</p>	<p>In order to address this risk, we performed the following procedures:</p> <ul style="list-style-type: none"> • Confirmed all revenues received and receivable with the City of Toronto; • Obtained confirmations from the Province of Ontario for significant funding grants; and • Agreed donations received from the Toronto Public Library Foundation (the Foundation) to the records of the Foundation. <p>We did not note any matters to bring to your attention.</p> <p>At December 31, 2016, \$926,692 of donations from the Foundation have been included in deferred revenues.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
<i>Other required communications</i>	<i>Summary</i>
Fraud and illegal acts	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. We wish to reconfirm that the Board is not aware of any known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us.
Unadjusted items	<p>Final materiality level determined for the year ended December 31, 2016 was \$6,143,000 (previously communicated a materiality level of \$6,160,000) as a result of actual results being lower than the initial estimate.</p> <p>As a result of our testing, we identified an understatement of both accounts receivable from City of Toronto and accounts payable to City of Toronto of \$686,300 due to the offsetting of financial assets and financial liabilities. This has not been adjusted in the financial statements.</p> <p>As a result of our audit, we conclude the above unadjusted items are immaterial to the financial statements taken as a whole.</p>
Internal control recommendations	We have no significant internal control recommendations to report. However, we noted a couple of areas where the Library could strengthen its internal control system in Appendix C.
Subsequent events	<p>No subsequent events which would impact the financial statements other than those disclosed have come to our attention.</p> <p>We would like to reconfirm that the Board is not aware of any other subsequent events that might affect the financial statements.</p>
Significant difficulties or disagreements that occurred during the audit	We did not have any significant difficulties or disagreements during the course of the audit.
Significant related party transactions	PwC reviewed related party transactions conducted in the normal course of operations related to the transfer of grants from the Foundation or the City of Toronto to the Board and the allocation of certain shared costs. No other non-routine transactions were noted.

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.

Appendix A: Draft auditor's report

See Final Financial Statements – Appendix 1

Appendix B: Management representation letter

Not Included

Appendix C: Internal control recommendations

Early review of accumulated vacation hours results in unapproved carry-forward vacation balances at year-end

Observation

The accumulated vacation hours report is prepared in October of each year and sent out to all managers for their respective departments. Managers take into account the current remaining balance and any vacation requests that are planned for the remainder of the year in order to quantify any unused vacation by employees. For bargaining unit employees that are trending above 105 hours, there is a requirement for approval by the Director or designate. However, as the review is completed 2 months before year-end, it does not take into account circumstances where vacation plans may change and employees have a carry forward vacation balance of over 105 hours, which has not been properly authorized.

Implication

Early review of vacation balances may result in non-compliance with approved policies and a potential misstatement in the vacation accrual liability.

Recommendation

It is recommended that the review of employee vacation balances take place in October and a secondary review take place shortly after year-end. The secondary review will identify those employees that were initially expected to be under 105 hours but are above the cut-off to ensure appropriate approval is obtained and the vacation accrual is accurately calculated.

Management response

Management agrees with this recommendation and plans to implement the change going forward.

Finance Manager has super-user access to Great Plains Accounting Software

Observation

As a result of our procedures, we identified a finance manager that was provided with full access to Great Plains (GP) in order to perform duties during an emergency situation (e.g. labour disruption). The access included the ability to post journal entries, create and modify vendors and authorize payments.

Implication

By allowing the finance manager to have full access to the GP system for operational reasons, it results in a lack of segregation of duties whereby individuals have the ability to create new vendors as well as make payments. In addition, they have the ability to post journal entries, which impacts the financial results of the Library Board.

Recommendation

PwC recommends that full access to GP only be provided when necessary given the risks involved. If full access is required, we recommend that the IT department run a quarterly report of all activity performed by users with full access. This report should be provided directly from the Director of IT to the Director, Finance & Treasurer for review to ensure that there is no inappropriate activity.

Management response

Management authorizes the Finance Manager to have full access to GP. When the finance manager uses the full access to GP, the Director, Finance and Treasurer will be notified in addition to the quarterly report.