Audit Plan for City of Toronto for the year ending December 31, 2019

For presentation to the Members of the Audit Committee,
Sub Committee of City Council
City of Toronto
Prepared as of January 23, 2020

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A message from Michael Hawtin

I am pleased to present our audit plan for the audit of the consolidated financial statements of the City of Toronto (the City) for the year ended 2019.

We are committed to our relationship with you and look forward to ongoing, open dialogue with you. By balancing our understanding of your organization with technology, insights and the right people, we commit to delivering the highest level of service and audit quality, while maintaining an independent point of view.

This report has been prepared to provide you with a summary of our team, audit scope and approach, including an initial assessment of risks and required communications. Our audit continues to evolve to reflect the changes within the City's environment and any significant changes to this audit plan will be shared and discussed with the Audit Committee.

We look forward to presenting our audit plan, addressing questions and discussing any other matters of interest at the Audit Committee meeting on February 10, 2020.

(Signed) "PricewaterhouseCoopers LLP"

Michael Hawtin
Partner
Assurance

> I'm committed to open communication through early, meaningful discussions

Michael Hawtin
Partner

We are changing the way audits are done, digitally enabling the audit to bring better quality and insights that matter.

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People powered by technology

Your client service team

Your PwC team, led by Michael Hawtin, combines a detailed knowledge of the City of Toronto and working with other major public sector entities in Canada.

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People powered by technology

Our key technologies

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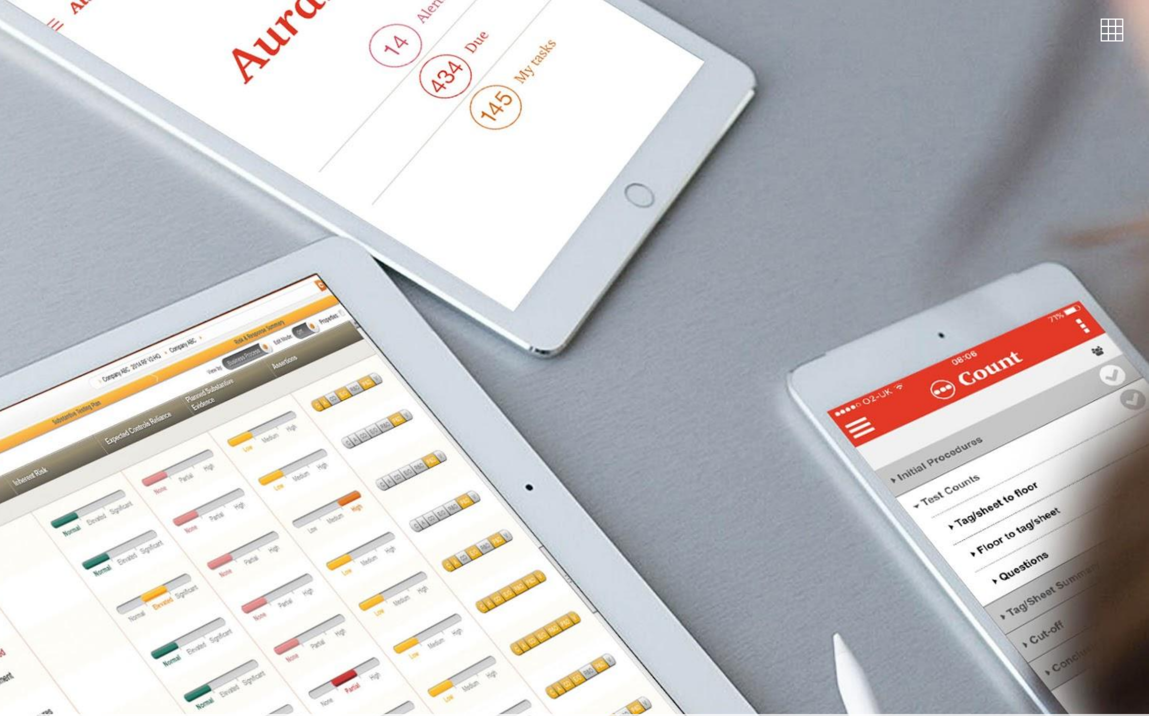
Our pioneering technologies deliver quality, efficiency and insight, tailored to your systems and processes.

Planning the audit

We design a tailored testing plan for each scoped-in balance, optimizing between tests of detail, controls testing, validation of judgments and data techniques.



Aura, our single instance software, ensures work gets done one way—the right way—consistently and efficiently, both globally and locally. It is used by over 100,000 auditors worldwide on every PwC audit.

Planning the audit

Significant risks

Management override of controls

* Required Significant Risk

Risk identification
There is an inherent risk of fraud in all entities of potential management override of controls over financial reporting. This is a required significant risk under auditing standards.

Audit response

- Understand management's assessment of the risk and the overall control environment in place. This includes understanding the tone of the organization and controls in place.
- Perform regular discussions with management to understand any new risks or matters identified.
- Obtain a list of journal entries and confirm its completeness. Using PwC's assurance technology, Halo for Journals, a sample of journal entries will be tested, focusing on riskier journals and periods.
- We will test for appropriateness of the top-side adjustments made to the consolidated financial statements.
- Perform unpredictable testing of certain balances; for example, varying the scope and/or timing of certain procedures.
- Assess the control environment and segregation of duties as well as access parameters established in SAP to mitigate this risk.
- Review Fraud and Waste hotline reports for issues that may have a material impact to the consolidated financial statements.
- Apply professional skepticism and corroborate management's explanations with supporting evidence.

Halo for Journals

Dynamic visualisation software allows us to explore your data in different ways, supporting our auditors in understanding your business, including your fraud risk exposure.

Visualisations highlight patterns and potentially higher risk transactions instantly, enabling deeper understanding of your organization, supporting more relevant conversations and delivering insight.

Watch now:
How Halo works

Planning the audit

Significant risks

Fraud risk in revenue recognition

* Required Significant Risk

Risk identification

Auditing standards assume a rebuttable presumption that there is a significant risk of fraud in revenue recognition in all organizations.

We have considered the complexity of the City's revenue recognition policy and types of transactions in assessing the risk.

Audit response

- Understand the potential risks of fraud related to revenue recognition as well as update our understanding of management processes and internal controls surrounding revenue recognition and assess the accounting policies adopted by the City for recognizing revenue.
- Perform substantive tests of detail on revenue streams where the risk of misstatement in revenue recognition is considered to be most pervasive.
- For obligatory reserve funds, perform tests of detail to assess the appropriateness of revenue recognition within the various revenue streams.
- Examine significant funding agreements between the City and other governments, on a sample basis, for eligibility criteria and stipulations to test that revenue from transfers from other governments is recognized in accordance with the City's accounting policy.
- Test that certain management review controls over revenue and reserve funds are operating effectively.
- Perform testing of journal entries and identify significant and unusual entries affecting revenue and reserve fund accounts.

Planning the audit

Significant risks

Consolidation process

Risk identification

We have considered the following items in determining the consolidation process a significant risk:

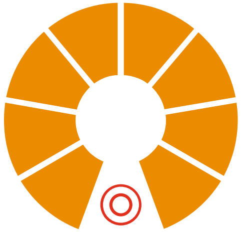
- The City's organizational structure is complex as there are many individual legal entities that are included in the consolidated accounts of the City.
- The consolidation process is manually performed in Excel spreadsheets and requires top-level adjustments to conform to the accounting policies of the City.

Audit response

- The PwC City audit team will keep in close communication with the PwC Agencies and Corporations (A&Cs) audit teams to ensure that accounting differences and issues raised by the PwC A&Cs audit teams and management are identified, discussed and resolved in a timely manner and are appropriately included in the consolidation of the City accounts.
- We will test 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.

Planning the audit

Materiality

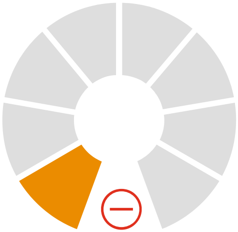


$270,588,000

(2018 - $243,809,000)

$202,941,000

(2018 - $182,856,000)



$13,529,000

(2018 - $12,190,000)

Definitions

Overall materiality	Level at which we believe misstatements would reasonably influence users of the financial statements. We have set a preliminary materiality based on latest available forecasts of annual expenditures for 2019, and is calculated at 2.0% of estimated annual expenditures. This benchmark and percentage used is consistent with the prior year. We will communicate any changes in materiality to you throughout the year if required.
Performance materiality	To account for aggregation risk, we design the nature, timing and extent of our procedures at a lower level of materiality.
SUM de minimis	We will report all individual unadjusted misstatements, including disclosure exceptions, above this level to the Audit Committee.

Group Audit Considerations

Our Toronto team will lead an engagement team that includes other local audit teams from PwC and non-PwC firms.

Group scoping

Group Audit

While PwC performs audits of many A&Cs, for the purposes of the consolidated audit, we will focus on the audits of the significant entities included in the consolidated financial statements of the City (i.e. the City, Toronto Transit Commission, Toronto Community Housing Corporation and Toronto Hydro Corporation). This will result in audit coverage of greater than 90% of the City's consolidated assets and expenses for the 2019 year. We have taken the following steps to ensure the overall quality of the audit engagement:

- issued formal instructions to the local A&C audit teams leveraging the work of the significant individual A&C audits;
- arranged for continuous communication throughout our engagement between the City and the PwC A&C audit teams;
- arranged for debriefing conference calls with management and respective local A&C audit teams to review results and findings of work performed; and
- planned adherence to engagement timelines in order to meet the reporting objectives.

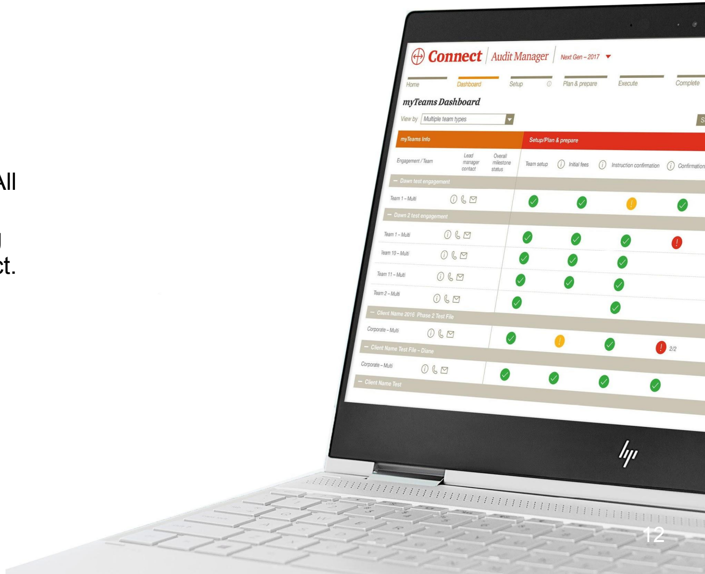
Group team oversight

The PwC Toronto engagement team manages execution of the group team through:

- developing an overall audit scope and plan, reflecting lessons learned from previous years;
- issuing formal instructions to each local audit team which communicate engagement timelines that will meet your reporting objectives;
- conducting regular team updates; and
- organizing local debrief calls for management and their audit teams to review results and findings.

A unified approach

We maintain quality globally through consistent policies, processes and standards that are implemented across our international network. All PwC member firms use the same audit methodology and technology platform, including our Global collaboration tools, Aura and Connect.



Group scoping

Group Audits

Our multi-location audit scope is determined with consideration to the following factors:

- significance of an entity's contribution to revenue and expenses
- significance of contribution to individual balance sheet financial statement line items
- entities where significant risks exist, or which you have specifically requested we include in audit scope.

Separate Entity	Scope of work	Auditor
Toronto Community Housing Corporation	Audit of stand alone financial statements	PwC
Toronto Transit Commission	Audit of stand alone financial statements	PwC
Toronto Hydro Corporation	Audit of stand alone financial statements	KPMG

Key matters for discussion

Working in harmony with you, we combine our judgement, experience and instinct with market-leading technology, to identify risks and anticipate problems before they occur, so that they are dealt with promptly and at the right level. This is our commitment to an effective audit.

Key matters for discussion

Additional required communications

Auditor responsibilities

We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Independence

As auditors, we are required to comply with the fundamental principles of objectivity, integrity, audit quality and professional behaviour, including independence. Our global independence systems continue to provide real-time identification of independence issues.

Any PwC team that wishes to perform a non-audit assignment for the City of Toronto is obliged to consider the City of Toronto's scope of service requirements and must obtain authorization from the lead engagement partner prior to commencement of any work, or submission of proposals.

We are not aware of any new independence matters of which we need to make the Audit Committee aware. At the date of this report, we confirm we are independent of the City of Toronto.

Fraud risk

Your governance responsibilities include evaluating management's identification of fraud risk, implementation of anti-fraud measures and creation of an appropriate tone at the top; and investigating any actual, suspected or alleged instances of fraud brought to your attention.

We discuss fraud risk annually with the Audit Committee. Through our planning process (and prior years' audits), we developed an understanding of your oversight processes including:

- Fraud and Waste hotline review
- Code of conduct
- Audit Committee (and other) charters
- Discussion at Audit Committee meetings and our attendance at those meetings
- Presentations by management, including business performance reviews
- Review of related party transactions
- Consideration of tone at the top
- Internal audit

We are not aware of any new processes or changes to the items above during 2019.

We will be having detailed fraud discussions with various levels of management during the course of our work.

If the Audit Committee is aware of any known, suspected or alleged incidents of fraud or illegal acts or non-compliance with laws and regulations, please contact Michael Hawtin.

Key matters for discussion

Annual audit cycle

This timeline shows the activities that make up the annual audit cycle. Where possible, we strive to do work early to allow for identification of issues and to reduce demands on your staff at the year-end audit. Regular touchpoints allow for more feedback from you so that we can mutually agree improvements to the process throughout our audit.

Interim fieldwork

- Fieldwork to be performed on-site
- Preliminary sample selection for substantive and controls testing

Year-end meeting

- Audit results
- Other required communications
- Audit report
- Management representation letter
- Legal letters

Planning procedures

- Planning procedures and discuss interim fieldwork plan with management

Planning meeting

- Audit Plan

Year-end fieldwork

Key matters for discussion

Audit fees and service deliverables

The 2015-2019 audits of the City of Toronto and certain related entities were subject to a competitive bid process. PwC responded to the City of Toronto request-for-proposal (RFP) for audit services and was awarded the engagements.

The fees for the audit of the consolidated financial statements of the City for the 2019 year is outlined in our response to proposal No.9171-14-7121 dated December 5, 2014.

We will advise management if we incur more costs due to changes in level of effort or scope changes (see Appendix 3 - Audit service guideline).

Appendices

1 Annual engagement confirmation

2 Upcoming changes to accounting standards

3 City of Toronto - Audit Service Guideline

Appendix 1

Annual engagement confirmation

January 23, 2020

Ms. Beverly Romeo-Beehler
Auditor General
City of Toronto
Metro Hall
55 John Street, 9th Floor
Toronto ON M5V 3C6

Dear Ms. Romeo-Beehler:

We wish to confirm that the terms and conditions of our original engagement letter dated November 30, 2015, as amended by our amending engagement letter dated February 6, 2019, relating to the audit of the consolidated financial statements of the City of Toronto and its major agencies, boards, commissions (the City) for the years ending December 31, 2015, 2016, 2017, 2018 and 2019, continue to remain in effect for the year ending December 31, 2019. We have summarized each of the engagements included in the Request for Proposal 9171-14-7121 dated December 5, 2014 as follows:

Schedule A

Engagement	
1. Consolidated Financial Statements of the City of Toronto.	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles as issued by the Public Sector Accounting Board (Public Sector Accounting Standards).
2. Consolidated Financial Statements of the City of Toronto Trust Funds.	Financial statement audit (CAS 700) in accordance with a specified basis of accounting (as disclosed in the notes to the financial statements).
3. City of Toronto Sinking Funds.	Financial statement audit (CAS 700) in accordance with a specified basis of accounting (as disclosed in the notes to the financial statements).
4. City of Toronto – Report on Compliance with Investment Policy.	Specified audit procedures in accordance Canadian Institute of Chartered Accountants Section 9100 – Reports on the Results of Applying Specified Auditing Procedures to Financial Information (a separate engagement letter was issued outlining the procedures).

Engagement	
5. City of Toronto – Report on Compliance with the Building Canada Fund Contribution Agreement for the Toronto-York Spadina Subway Extension and Report on accounts, records, claims and expenditures incurred under this Agreement.	Audit of expenditures in accordance with CAS 805, Special Considerations, Audits of Single Financial Statements and Special Elements, Accounts or Other Items of a Financial Statement, in accordance with the provisions of the related agreement.
6. Long-term Care Homes – Annual Reconciliation Reports (10 as listed below): a. Bendal Acres; b. Carefree Lodge; c. Castleview Wychwood Towers; d. Cummer Lodge; e. Fudger House; f. Kipling Acres; g. Lakeshore Lodge; h. Seven Oaks; i. True Davidson Acres; and j. Wesburn Manor	Specified procedures in accordance with Annual Report Technical Instructions and Guidelines issued by the Ministry of Healthy and Long Term Care.
7. The Toronto Track and Field Centre — Statement of Operating Costs.	Not required.
8. Toronto Community Housing Corporation: (a) Audit of Consolidated Financial Statements of Toronto Community Housing Corporation. (b) Review of Financial Statements of Regent Park Energy Inc.	 (a) Financial statement audit (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations. (b) Not required.

Engagement	
(c) Review of Financial Statements of Access Housing Connections Inc.	(c) Review of financial statements (CSRE 2400) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.
(d) Audit of Financial Statements of Innoserv Inc.	(d) Not required.
(e) Audits of Financial Statements of Group 1, 2, 3, 4 and 859 of Toronto Community Housing Corporation (property management).	(e) Financial statement audit (CAS 805) in accordance with Property Management specifications.
(f) Audit of Financial Statements of Group 6 of Toronto Community Housing Corporation (property management).	(f) Not required.
(g) Audit of Financial Statements of TCHC Issuer Trust.	(g) Not required.
(h) Quarterly review of condensed interim consolidated financial statements of TCHC.	(h) Not required.
(i) Review of financial statements of Regent Park Development Corporation.	(i) Compilation (Section 9200).
(j) Review of Financial Statements of Toronto Affordable Housing Fund.	(j) Review of financial statements (CSRE 2400) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.
(k) Review of Financial Statement of Alexandra Parking Development Corporation.	(k) Compilation (Section 9200).
(l) Report on Compliance - Regent Park Sustainable Community.	(l) Not required.
(m) Compilation of Consolidated Financial Statements of Toronto Community Housing Enterprises Inc.	(m) Compilation (Section 9200).

Engagement	
(n) Compilation of Financial Statements of Don Mount Court Development Corporation.	(n) Compilation (Section 9200).
(o) Compilation of Financial Statements of Leslie Nymark Development Corporation.	(o) Compilation (Section 9200).
(p) Compilation of Financial Statements of 2001064 Ontario Inc.	(p) Compilation (Section 9200).
9. Build Toronto Inc.	Financial statement audit (CAS 700) in accordance with International Financial Reporting Standards (IFRS).
10. Invest Toronto Inc.	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles as issued by the Public Sector Accounting Board (Public Sector Accounting Standards).
11. City of Toronto Economic Development Corporation – Toronto Port Lands Company.	Financial statement audit (CAS 700) in accordance with International Financial Reporting Standards (IFRS).
12. Toronto Parking Authority:	
(a) Toronto Parking Authority; and	(a) Financial statement audit (CAS 700) in accordance with IFRS.
(b) Toronto Parking Authority Carpark No. 161 – St. Clair-Yonge Garage – Statement of Operations.	(b) Audit of Statement of Operations (CAS 805).
13. Toronto Police Services Board Special Fund – Section 9110 Report.	Specified audit procedures in accordance with Canadian Institute of Chartered Accountants Section 9110 – Agreed Upon Procedures Regarding Internal Control Over Financial Reporting (a separate engagement letter was issued outlining the procedures).

Engagement	
14. Toronto Public Health – Specified procedures in connection with various Settlements of Toronto Public Health programs (7 as listed below): (a) Toronto Board of Health Cost Shared Programs; (b) Settlement of AIDS Bureau Program and Statement of Revenue & Expenditures – Toronto Public Health – AIDS Bureau Program; (c) Blind Low Vision; (d) Healthy Babies Healthy Children Program; (e) Infant Hearing Program; (f) Preschool Speech and Language Program; and (g) Smoke Free Ontario (if applicable).	Audit of financial information (CAS 805) in accordance with PSAS and Instructions and Guidelines issued by the Ministry of Healthy and Long Term Care or Ministry of Children and Youth Services.
15. Toronto Public Library Board: (a) Toronto Public Library Board; and (b) Toronto Public Library Board – Literacy Base Skills Program Statement of Revenue and Expenditures.	(a) Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards. (b) Audit of the financial statements (CAS 805) in accordance with Public Sector Accounting Standards.
16. Toronto Public Library Foundation.	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.

Engagement	
17. Board of Governors of Exhibition Place:	
(a) Consolidated Financial Statements of the Board of Governors of Exhibition Place; and	(a) Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards.
(b) Ricoh Coliseum – Special Audit of Schedule of Expenditures.	(b) Audit of the financial information (CAS 805) in accordance with Public Sector Accounting Standards.
18. Civic Theatres Toronto (formerly known as The Sony Centre for the Performing Arts).	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.
19. St. Lawrence Centre for the Arts.	Not required.
20. Toronto Centre for the Arts.	Not required.
21. Board of Management of the Toronto Zoo.	Financial statement audit (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.
22. Consolidated Financial Statements for the Toronto Transit Commission.	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards.
23. TTC Insurance Company Limited.	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards.
24. The Pension Fund of the Corporation of the City of York Employee Pension Plan.	Financial statement audit (CAS 800) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
25. The Fund of the Metropolitan Toronto Pension Plan.	Financial statement audit (CAS 800) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
26. The Fund of the Metropolitan Toronto Police Benefit Fund.	Financial statement audit (CAS 800) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.

Engagement	
27. The Fund of the Toronto Civic Employees' Pension and Benefit Fund.	Financial statement audit (CAS 800) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
28. The Fund of the Toronto Fire Department Superannuation and Benefit Fund.	Financial statement audit (CAS 800) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
29. Toronto Transit Commission Pension Fund Society.	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
30. Toronto Transit Commission Sick Benefit Association.	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.

Yours very truly,

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Appendix 2

Upcoming changes to accounting standards

As a part of our commitment to quality service, we draw your attention to significant new and emerging accounting, auditing and regulatory developments.

The following standards apply to fiscal years in the future:

Asset Retirement Obligations, Section PS 3280

This section establishes standards on how to account for and report a liability for asset retirement obligations. Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner. Asset retirement costs associated with an asset no longer in productive use are expensed. PS 3280 applies to fiscal years beginning on or after April 1, 2021 with earlier adoption permitted. The City has yet to adopt Section PS 3280.

Financial Instruments, Section, PS 3450 & Portfolio investments, Section PS 3041

PS 3450 provides guidance on the recognition, measurement, presentation and disclosure of financial instruments. Derivatives and portfolio investments that are equity instruments quoted in an active market are measured at fair value. Other financial instruments may be elected as measured at fair value under certain conditions. The change in fair value will now be recognized in the statement of remeasurement gains and losses and no longer in the consolidated statement of operations and accumulated surplus.

PS 3041 provides guidance on portfolio investments which are investments in organizations that do not form part of the government reporting entity and are normally in equity instruments or debt instruments issued by the investee. When there has been a loss in value of a portfolio investment that is other than a temporary decline, the investment will have to be written down to recognize the loss.

Section PS 3450 and Section PS 3041 are effective for fiscal years beginning on or after April 1, 2021. The City has yet to adopt these Sections.

Revenue, Section PS 3400

This section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. This section is effective for fiscal years beginning on or after April 1, 2022 with earlier adoption permitted. The City has yet to adopt this Section.

Appendix 3

City of Toronto - Audit Service Guideline

	Our commitment to you and expectations of the City	Additional audit services [a]
Audit readiness and monitoring of audit progress	• We will provide a detailed listing of audit information requests and agree with management upfront the required dates to provide the requested information. • We will agree with you the start dates of our interim and year-end audit fieldwork. A completed trial balance that includes all management year-end closing entries will be provided at a date agreed to upfront with management. • We will hold periodic meetings with management (dates and times to be agreed upfront) to discuss the status of the audit. As a part of these meetings, we will provide a detailed list of outstanding items and will highlight any items that require more urgent attention and follow-up.	• Significant delays in receiving requested information that results in idle staff time or staffing changes or any changes to the trial balance subsequent to the agreed upon date that results in additional audit testing.
Significant accounting and reporting matters	• We will hold meetings with key staff at the City as part of the audit planning process to understand significant developments and changes for the current year and share with you our views on the accounting and audit implications. • For significant new developments that have an accounting, reporting and/or auditing impact, management will prepare a position paper, in a format as outlined in our summary of audit information requests, summarizing the issue, the technical analysis/research supporting management's position and the impact to the City.	• Time incurred to assist management with the accounting to support the position paper. • Time incurred to perform additional audit procedures, as necessary, to validate significant adjustments to the financial statements.
Financial statement review	• Year-end financial statements and note disclosures will be prepared and reviewed by management and provided to us for our review in accordance with the timelines as outlined in our audit information request listing. • We will review two versions of the financial statements. We will provide our comments, including any suggestions for change to management, on the first version and will review a second version of the financial statements for any changes made as a result of our initial review.	• Significant revisions to the financial statements (i.e. re-writing of note disclosures or pervasive mathematical errors and/or internal inconsistencies) and reviewing multiple versions of the financial statements (i.e. more than two versions with significant changes).
Audit Committee	• We will attend one meeting at year end to present our draft year-end audit report (summarizing our key audit findings) to management and discuss any comments or revisions suggested by management. • In addition, we will attend two Audit Committee meetings to present our audit plan and final year-end audit report.	• Additional meetings with the Audit Committee and additional drafting sessions or clearance meetings with management.

(a) Amounts may be billed for additional audit services (in the areas noted above) that are determined to be beyond the original scope of the audit. We will agree upfront with City management the nature and scope of the additional audit services, including an estimate of the additional time and effort, prior to commencing the audit work.

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