



2019 External Audit Service Plan

To: Audit Committee

Date: 23 September, 2019

Report No.: 09-19-3725

Strategic Directions

- Allocate Human and Financial Resources Strategically to Support Student Needs

Recommendation

It is recommended that the 2019 External Audit Service Plan be approved

Context

The Audit Service Plan outlines Deloitte LLP's audit approach, audit scope, planned communications and responsibilities relating to the audits of Toronto District School Board's financial statements for the fiscal year ending 31 August 2019.

Action Plan and Associated Timeline

For reporting purposes only.

Resource Implications

Not applicable.

Communications Considerations

Included in public Audit Committee minutes.

Board Policy and Procedure Reference(s)

P089 – External Auditor Independence is applicable.

Appendices

- Appendix A: External Audit Service Plan for the Fiscal Year Ending 31 August 2019

From

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Toronto District School Board 2019 Audit service plan

For the year ending August 31, 2019
For presentation to the Audit Committee
May 28, 2019



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May 15, 2019

Private and confidential

To the Chair and Members of the
Audit Committee
Toronto District School Board
5050 Yonge Street
Toronto ON M2N 5N8

2019 Audit service plan

Dear Audit Committee members,

We are pleased to provide you with our Audit Service Plan for the Toronto District School Board (the "Board") for the year ending August 31, 2019. This document describes the key features of our plan including our audit scope, our audit approach and our planned communications with you.

Our commitment to you is straightforward: we will provide you with outstanding professional services delivered by an experienced and dedicated team of professionals. Our professionals will continue providing you with best practices and insights to face the increasingly complex array of issues and challenges encountered by school boards in Ontario.

We are providing this audit service plan to the Audit Committee on a confidential basis. It is intended solely for the use of the Audit Committee and the Board of Trustees to assist you in discharging your responsibilities with respect to the financial statements and is not intended for any other purpose. We accept no responsibility or obligation to any third party who may rely on this report.

We look forward to discussing our audit service plan with you and answering any questions you may have.

Yours truly,

A handwritten signature in black ink that reads "Deloitte LLP".

Chartered Professional Accountants
Licensed Public Accountants

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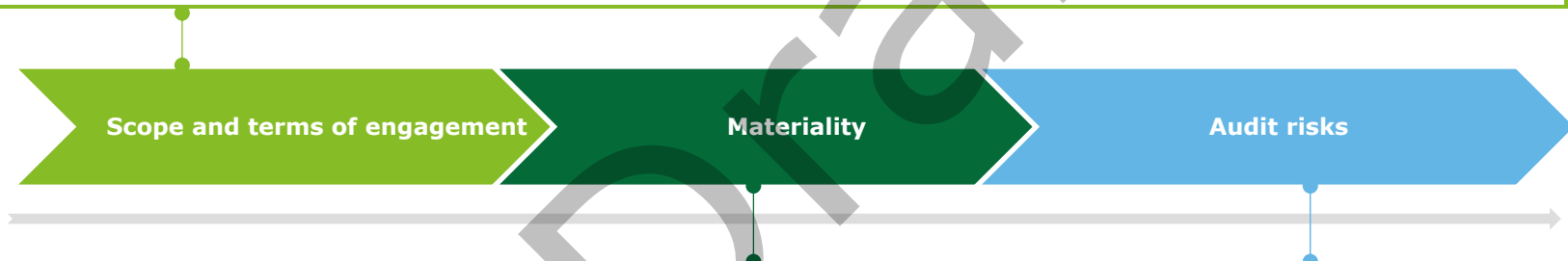
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Our audit explained

Audit scope and terms of engagement

We have been engaged to perform an audit of the Board’s consolidated financial statements (the “Financial Statements”) prepared in accordance with the Financial Administration Act supplemented by Ontario Ministry of Education memorandum 2004:B2 and Ontario Regulation 395/11, Accounting Policies and Practices Public Entities (“Regulation 395/11”), of the Financial Administration Act as at, and for the year ending August 31, 2019. In addition, we have also been engaged to perform the audit of the Board’s Trust Funds (“Trust Funds”), the Toronto Lands Corporation (“TLC”) and certain government funded programs as required. Our audits will be conducted in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Deloitte also performs specified procedures on the Board’s March year-end reporting to the Ontario Ministry of Education.

The terms and conditions of our engagement are described in the master services agreement dated April 3, 2019, which is to be signed on behalf of the Board of Trustees and management. The fees for services are based on our proposal submitted on January 7, 2019 and/or fees agreed with management should the scope of services change.



Materiality

We are responsible for providing reasonable assurance that the Board’s Financial Statements as a whole are free from material misstatement.

Our materiality levels are based on professional judgment. We expect to use approximately 1.0% of expenses (2018 – 1.0%) as a reference point for determining materiality for the audit of the consolidated financial statements.

We will inform the Audit Committee of all uncorrected misstatements greater than a clearly trivial amount of 5% of materiality and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will ask that any misstatements, greater than a clearly trivial amount, be corrected.

Audit risks

Through our preliminary risk assessment process, we have highlighted certain of the audit risks. These risks of material misstatement and related audit responses are described in the “Audit risks” section of this report.

Fraud risk

We will develop our audit strategy to address the assessed risks of material misstatement due to fraud. Determining this strategy will involve:

1. Asking people involved in the financial reporting process about inappropriate or unusual activity.
2. Testing a sample of journal entries throughout the period as well as adjustments made at the end of the reporting period.
3. Identifying and obtaining an understanding of the business rationale for significant or unusual transactions that are outside the normal course of business.
4. Evaluating whether your accounting policies may be indicative of fraudulent financial reporting resulting from management’s effort to manage results.
5. Evaluating whether the judgments and decisions related to management estimates indicate a possible bias.
6. Incorporating an element of unpredictability in selecting our audit procedures.

We will also ask The Audit Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the Board and their role in the oversight of management’s antifraud programs.

If we suspect fraud involving management, we will immediately inform The Audit Committee of our suspicions and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

Complete engagement reporting

Audit reporting

Under Canadian GAAS, we are required to communicate certain matters to the Audit Committee. The primary reports and formal communications through which we will address these matters are:

- This Audit Service Plan
- Year End Communication, and
- Our Independent Auditor’s Report on the Financial Statements.

Business Insights

We will provide you with insights and offer meaningful suggestions for improvement that we identify during the audit.

Appendix 2 summarizes the Communication Requirements.



Group audit controlled entity

The Board is a component of the Group Audit of the Province of Ontario’s consolidated financial statements. Deloitte provides information relating to the audit of the Board to the Office of the Auditor General of Ontario (“OAGO”) in conjunction with the audit by the Auditor General of Ontario for the Government of Ontario’s consolidated financial statements.

Canadian Auditing Standard (“CAS 600”) Group Audits require certain procedures to be carried out for significant components of Group Audits and we are required to comply with the requests of the Group Auditor. The Board is assessed as a significant component by the OAGO.

Audit risks

The following table sets out certain of the audit risks, including the significant risks that we identified during our preliminary planning activities, and our proposed response to each area.

Revenue/deferred revenue*

Audit risk

Appropriate recognition of revenue in accordance with Canadian Public Sector Accounting Standards supplemented by Ontario Government regulations

Our proposed audit response

- Testing of Government transfers received through confirmation with the Ministry of Education
- Detailed substantive testing of revenue supplemented by analytical review procedures
- Review of grant stipulations
- Review of related disclosure

Management override of controls*

Audit risk

Management override of controls is a presumed area of risk in a financial statement audit due to management’s ability to override controls that otherwise appear to be operating effectively.

Our proposed audit response

- Our audit tests the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements.
- We obtain an understanding of the business rationale for significant transactions that we become aware of that are outside of the normal course of business, or that otherwise appear to be unusual given our understanding of the Board and its environment.
- We review accounting estimates for bias and evaluate whether the circumstances producing the bias, if any, represented a risk of material misstatement.
- In addition, experienced Deloitte personnel will be assigned to the testing and review of journal entries and areas of estimates that require management judgments and assumptions.
- Professional skepticism will be maintained throughout the audit.

* Identified as area of significant risk, in accordance with Canadian Auditing Standards

Payroll

Audit risk

Significance and volume of transactions

Our proposed audit response

- Review and test the design, implementation and operating effectiveness of internal controls related to the payroll cycle.
- Detail test payroll transactions for appropriate pay in accordance with employment agreements and other relevant documentation
- Overall analytical review of payroll amounts.

Accounting for Government Transfers in accordance with Ministry of Education directives and Ontario government regulations as it relates to capital contributions

Audit risk

Requires certain accounting which has been prescribed by the Ministry and can be complex given the significance of transactions and balances impacted at the Board.

Our proposed audit response

- Attend Ministry of Education training for school business officials and auditors to understand any new directives and reporting requirements.
- Detailed testing of transactions and balances impacted and determine that TDSB has accounted for these transactions in accordance with regulations and relevant policies.
- Ensure adequate disclosure of the basis of accounting in the notes to the consolidated financial statements.

As we perform our audit procedures, we will inform you of any changes to the audit risks discussed above and the reasons for those changes. We will also inquire of the Audit Committee of any additional areas of interest which we should consider as part of our audit.

Appendix 1 – Audit approach

Deloitte's audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing the Board.

The following steps are not necessarily sequential nor are they mutually exclusive. For example, once we have developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- Assessing your current business and operating conditions
- Understanding the composition and structure of your business and organization
- Understanding your accounting processes and internal controls
- Understanding your information technology systems
- Reviewing the work undertaken by internal audit and the Regional Internal Audit Team (RIAT) during the year
- Identifying potential engagement risks
- Planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks.

2. Assessing and responding to engagement risk

Our Audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Consideration of the risk of fraud

When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of management representations.

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

- Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.
- Evaluate whether the Board's selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage results.
- Incorporate an element of unpredictability when selecting the nature, timing and extent of our audit procedures.

We will inquire directly of the Audit Committee regarding:

- Its views about the risk of fraud,
- Whether it has knowledge of any actual or suspected fraud affecting the Board, and
- The role it exercises in the oversight of fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Audit Committee is aware of tips or complaints regarding the Board's financial reporting including those received through the Board's internal whistleblower program and, if so, the Audit Committee's responses to such tips and complaints and whether it is aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations.

If we suspect fraud involving management, we will communicate these suspicions to the Audit Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

Information technology

An important part of our audit planning process involves gaining an understanding of:

1. The importance of the computer environment relative to the risks to financial reporting
2. The way in which that environment supports the control procedures we intend to rely on when conducting our audit, and
3. The computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. To accomplish this, we gain an up-to-date understanding of your organization's computer processing environment and our understanding of the relevant general computer controls. We then assess the design and operating effectiveness of controls considered relevant to the audit.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and determining the implementation of internal controls relevant to the audit, testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with management for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow us sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of internal control over financial reporting to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the Financial Statements is not designed to determine whether internal controls were adequate for management’s purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

The extent to which deficiencies in internal control may be identified through an audit of Financial Statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of Financial Statements.

We will inform the Audit Committee and management of any significant deficiencies that are identified in the course of conducting the audit.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls tests and are designed to enable us to obtain reasonable assurance that the Financial Statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the Financial Statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the threshold has been set at 5% of materiality), will be reported to management and the Audit Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

Use of the work of specialists

The Deloitte Audit is distinguished by the use of a broad range of industry and functional specialists who are integral to the audit team and carry a deeper understanding of specific topics. These specialists augment the core engagement audit team in understanding business processes and related risks, and help the audit engagement team apply an appropriate level of professional skepticism to challenge significant management assumptions.

Deloitte will use internal IT specialists for the testing of IT general controls in our audit.

In addition, we will use the work of external specialists as follows:

- The Board’s Actuary – with respect to the valuation of retirement and other post-employment benefits liabilities, and

- External Legal Counsel – with respect to the assessment of claims and possible claims against the Board.

4. Reporting and assessing performance

Perform post-engagement activities

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audit was sufficient to support our opinion, and
- The misstatements identified during the audit do not result in the Financial Statements being materially misstated.

Independence

We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditor to the Board.

We are independent of the Board and we will reconfirm our independence in our final report to the Audit Committee.

5. Leveraging technology

Our audit approach utilizes fully automated, paperless audit software where information and supporting schedules are prepared and exchanged electronically. Our audit software facilitates leveraging what the Board already prepares as part of account analysis and financial closings and allows us to share files and work papers with our engagement team members. We use other web-based connectivity tools and file interrogation software to quickly and comprehensively analyze data.

Our audit software supports the full lifecycle of an audit engagement. The proprietary software we use is globally connected and allows for real-time tracking, ultimately providing better status reporting to our clients. Our software leverages industry guidance and knowledge so that we tailor our approach in a meaningful way to reflect the nuances of our clients' businesses. Our ability to customize our software to each client's specific situation enables us to have more engaging business conversations. In addition, our software allows us to track findings and observations noted throughout the course of our audits, enabling us to provide our clients with more meaningful insights and discuss any issues as they arise with fewer surprises.

The tools described in the following table help us determine our audit scope, prepare consistent audit work papers and files, conduct analytical procedures, select data for testing, accumulate audit results, and monitor progress to provide for the timely completion of tasks. In addition, we intend to make full use of the Board's own technologies to gain further efficiencies.

Technology	Description	Benefits
Engagement Management System	Deloitte’s audit software, incorporating audit-specific templates, reference materials, support documents, and management insights	Rapid and effective electronic transfer of information among the audit team members
Deloitte Technical Library	A comprehensive online compilation of accounting and financial disclosure literature that allows Deloitte to research specific accounting issues and functions through access to authoritative literature from pertinent regulatory bodies, as well as our own interpretations and guidance	The extensive accounting and reporting guidance helps support the quick and efficient research of complex accounting matters
Deloitte Connect	A secure, interactive knowledge-sharing and project collaboration platform for our engagement teams and clients	Allows information, leading practices, and ideas to be disseminated; supports efficient access, interactive productivity, and communication

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Appendix 2 – Communication requirements

Required communication	Reference
Audit service plan	
1. Our responsibilities under GAAS, including forming and expressing an opinion on the Financial Statements.	CAS ¹ 260.14.
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a) Timing of the audits b) Significant risks, including fraud risks, and c) Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk. 	CAS 260.15.
3. Significant transactions outside of the normal course of business, including related party transactions.	CAS 260 App. 2, CAS 550.27.
Enquiries of those charged with governance	
4. How those charged with governance exercise oversight over management’s process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks.	CAS 240.20.
5. Any known suspected or alleged fraud affecting the Board.	CAS 240.21.
6. Whether the Board is in compliance with laws and regulations	CAS 250.14.
Year end communication	
7. Fraud or possible fraud identified through the audit process.	CAS 240.40-.42.
8. Significant accounting policies, practices, unusual transactions, and our related conclusions.	CAS 260.16 a.
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	CAS 260.16 a.
10. Matters related to going concern.	CAS 570.25
11. Management judgments and accounting estimates.	CAS 260.16 a.

¹ CAS: Canadian Auditing Standards – CAS are issued by the Auditing and Assurance Standards Board of CPA Canada

Required communication	Reference
12. Significant difficulties, if any, encountered during the audits.	CAS 260.16 b.
13. Material written communications between management and us, including management representation letters.	CAS 260.16 c.
14. Other matters that are significant to the oversight of the financial reporting process.	CAS 260.16e.
15. Modifications to our Independent Auditor’s Reports.	CAS 260.A21.
16. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns.	CAS 260.A22.
17. Significant matters discussed with management.	CAS 260.A22.
18. Illegal or possible illegal acts that come to our attention.	CAS 250.23.
19. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the Financial Statements.	CAS 265.
20. Uncorrected misstatements and disclosure items.	CAS 450.12-13.
21. Any significant matters arising during the audits in connection with the Board’s related parties.	CAS 550.27

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Appendix 3 – 2019 Summary audit timeline

This estimated audit timetable indicates our various audit activities and release of our communications as planned throughout the year:

Activity	Timing
Presentation of Audit Service Plan to the Audit Committee	May 28, 2019
Interim audit	Week of June 24, 2019
School visits	September/October 2019
Year-end audit	Commencing mid-October 2019
Review the result of our audit	December 9, 2019



Appendix 4 – New PSAS standards

Title	Description	Effective date
Section PS 3430 – Restructuring transactions	This Section establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.	This Section applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.
Section PS 3450 – Financial instruments	This Section establishes standards on how to account for and report all types of financial instruments including derivatives.	This Section is effective for: (i) Government organizations – fiscal years beginning on or after April 1, 2012, and (ii) Governments – fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. School boards follow requirements noted in (ii).
Section PS 2601 – Foreign currency	This Section establishes standards on how to account and report transactions that are denominated in a foreign currency.	This Section is effective for: (i) government organizations for fiscal years beginning on or after April 1, 2012, and (ii) governments for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. School boards follow requirements noted in (ii).
Section PS 1201 – Financial statement presentation	This Section establishes general reporting principles and standards for the disclosure of information in government financial statements.	This Section is effective for: (i) government organizations for fiscal years beginning on or after April 1, 2012, and (ii) governments for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. School boards follow requirements noted in (ii).
Section PS 3280 – Asset retirement obligations	This Section establishes standards for reporting legal obligations associated with the retirement of long lived tangible capital assets currently in productive use.	This Section is effective for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
Section PS 3400 - Revenue	This Section establishes standards that apply to revenues of governments and government organizations other than government transfers and tax revenue. This standard addresses recognition, measurement and presentation.	This Section is effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.