

# **TORONTO TRANSIT COMMISSION AUDIT COMMITTEE REPORT NO.**

**MEETING DATE:** February 19, 2013

**SUBJECT:** PRICEWATERHOUSECOOPERS CONSOLIDATED FINANCIAL  
STATEMENT AUDIT PLAN – YEAR ENDED DECEMBER 31,  
2012

## **INFORMATION ITEM:**

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### **RECOMMENDATION**

It is recommended that the Audit Committee receive the attached report from PricewaterhouseCoopers (PWC). The report outlines PWC's audit plan for the audit of the Commission's consolidated financial statements and its subsidiary companies, for the year ended December 31, 2012.

### **DISCUSSION**

Cathy Russell of PWC will be at the meeting to present this report. You may wish to direct the auditors to address any specific areas that require a more detailed evaluation.

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January 14, 2013

42-22

Attachment: 2012 PWC Audit Plan

# ***Toronto Transit Commission and Subsidiary Companies***

Audit plan for the year  
ended December 31,  
2012

Prepared as at  
January 16, 2013





January 16, 2013

Members of the Audit Committee of the  
Toronto Transit Commission  
1900 Yonge Street  
Toronto, Ontario  
M4S 1Z2

Dear Members of the Audit Committee

We are pleased to present our audit plan for the December 31, 2012 audit of the consolidated financial statements of the Toronto Transit Commission (the TTC), and the consolidated financial statements of the Toronto Coach Terminal Inc. (the TCTI) and the financial statements of the Toronto Transit Commission Insurance Company (the TTCIC). All financial statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) established by the Public Sector Accounting Board (PSAB) of The Canadian Institute of Chartered Accountants (CICA).

This document summarizes our audit plan including our view on audit risks, the nature, extent and timing of our audit work as well as our proposed fees and the terms of our engagement.

We value your feedback and we hope that this document will facilitate two-way communication on the risks identified and our audit approach. We welcome any suggestions and observations you may have and look forward to discussing the contents of this audit plan with you at our upcoming meeting on January 29, 2013.

Yours very truly,

*PricewaterhouseCoopers LLP*

Cathy Russell  
Partner  
Audit and Assurance Group

cc: Mr. M. Roche, Head of Finance and Treasurer  
Mr. V. Rodo, Chief Financial and Administration Officer

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

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**Appendices***Appendix A: Engagement letter**Appendix B: Audit Service Guideline*

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.

## 1. Executive summary

We have prepared the attached document to provide you with the opportunity to review, comment on and approve our audit plan for the 2012 audits of the consolidated financial statements of the Toronto Transit Commission, along with the consolidated financial statements of the Toronto Coach Terminal Inc. (TCTI) and the financial statements of the Toronto Transit Commission Insurance Company (TTCIC) for the year ending December 31, 2012.

This audit plan includes the required communications between an auditor and Audit Committee as required by Canadian generally accepted auditing standards (Canadian GAAS).

Below, we highlight key areas for discussion, including new matters or changes from the prior year's audit plan to facilitate your review. We would be pleased to answer any questions you might have at our upcoming meeting.

	Discussion item	Summary	For further reference
a.	Client service team	<ul style="list-style-type: none"> <li>Cathy Russell continues to be the engagement leader on the consolidated TTC and consolidated TCTI engagements.</li> <li>Mathew Walsh continues to be the engagement senior manager on the consolidated TTC and consolidated TCTI engagements. Emanuel Mascoll will act as the engagement manager on the consolidated TTC and consolidated TCTI engagements.</li> <li>Scott Ewert is the engagement partner on the TTCIC engagement.</li> <li>Lisa Wittich is the engagement manager on the TTCIC engagement.</li> </ul>	Page 4
b.	Service deliverables	<ul style="list-style-type: none"> <li>The scope of our services remain consistent with prior years and include audits of the consolidated financial statements of the TTC, along with audits of the consolidated financial statements of the TCTI and the financial statements of TTCIC for the year ended December 31, 2012.</li> </ul>	Page 5
c.	Timing	<ul style="list-style-type: none"> <li>We performed our audit planning in September and October 2012.</li> <li>Interim visit: Completed in November 2012</li> <li>Year-end visit: Will be completed in March 2013</li> </ul>	Page 6
d.	Audit approach	<ul style="list-style-type: none"> <li>Our audit approach will consist of a combination of key controls reliance and substantive detail testing.</li> <li>Consistent with Canadian Auditing Standards, we will also implement a level of unpredictability into our audit procedures in the current year.</li> </ul>	Page 8

	Discussion item	Summary	For further reference
e.	Risk analysis	<ul style="list-style-type: none"> <li>The areas of significant audit focus, identified through our planning process are noted as follows: <ul style="list-style-type: none"> <li>Significant accounting estimates</li> <li>Management override of controls</li> </ul> </li> </ul>	Pages 9
f.	Materiality	<p><b><u>TTC</u></b></p> <ul style="list-style-type: none"> <li>We have calculated materiality for the consolidated financial statements of the TTC (based on the 2012 operating budget) and have determined a preliminary materiality of \$20 million (2011 - \$20 million)</li> <li>Unadjusted and adjusted items over \$1.0 million (2011 - \$1.0 million) will be reported to the Audit Committee on the completion of our audit.</li> </ul> <p><b><u>TCTI</u></b></p> <ul style="list-style-type: none"> <li>We have calculated materiality for the consolidated financial statements of the TCTI (based on the 2012 operating budget) and have determined a preliminary materiality of \$102,000 (2011 - \$101,000)</li> <li>Unadjusted and adjusted items over \$5,100 (2011 - \$5,100) will be reported to the Audit Committee on the completion of our audit.</li> </ul> <p><b><u>TTCIC</u></b></p> <ul style="list-style-type: none"> <li>We have calculated materiality for TTCIC financial statements (based on the total assets) and have determined a preliminary materiality of \$3.0 million (2011 - \$2.8 million)</li> <li>Unadjusted and adjusted items over \$150,000 (2011 - \$140,000) will be reported to the Audit Committee on the completion of our audit.</li> </ul>	Page 10
g.	Fraud risk	<ul style="list-style-type: none"> <li>We are required to discuss fraud risk annually with the Audit Committee.</li> <li>In planning our audit, we have considered the risk of fraud, management's processes for mitigating the risk, and the Audit Committee's oversight processes.</li> <li>Our required discussions are covered on pages 11-12.</li> </ul>	Pages 11-12

	Discussion item	Summary	For further reference
h.	Our commitment to audit quality	<ul style="list-style-type: none"><li>• Our core values ensure we achieve audit quality and quality service:<ul style="list-style-type: none"><li>• Investing in relationships</li><li>• Sharing and collaborating</li><li>• Putting ourselves in others' shoes</li><li>• Enhancing value</li></ul></li><li>• Our audit work will stand up to the scrutiny of stakeholders.</li></ul>	Page 13
i.	2012 Audit Fees	<ul style="list-style-type: none"><li>• Our audit fees for the consolidated TTC audit, the audit of the consolidated TCTI and the audit of the TTCIC for the 2012 year are outlined in our response for proposal No. 9171-09-7137 dated December 1, 2009 (the RFP).</li><li>• Fees for each of these engagements have been detailed on page 14.</li></ul>	Page 14

## 2. Your team

### a. Your client service team

The key members of the TTC engagement teams are as follows:

Name	Role	Phone number	Email address
Cathy Russell	Engagement leader on TTC and TCTI	(416) 815-5291	cathy.russell@ca.pwc.com
Scott Ewert	Partner on TTCIC	(416) 869-2384	scott.f.ewert@ca.pwc.com
Mathew Walsh	Engagement senior manager on the TTC and TCTI	(905) 949-7384	mathew.walsh@ca.pwc.com
Emanuel Mascoll	Engagement manager on the TTC and TCTI	(416) 687-8547	emanuel.g.mascoll@ca.pwc.com
Lisa Wittich	Engagement manager on TTCIC	(416) 941-8572	lisa.wittich@ca.pwc.com
Wayne Landman	Information technology specialist	(416) 815-5322	wayne.landman@ca.pwc.com
Mario Chasse	Post employment benefits specialist	(416) 365-8822	mario.chasse@ca.pwc.com
Brenda Lee- Kennedy	Tax specialist	(416) 218-1452	brenda.lee-kennedy@ca.pwc.com

We have also assigned a quality review partner, who is independent of the audit team and whose responsibilities include ensuring that we deliver a quality audit.



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### **3. *Scope of our services***

#### **a. Our audit objectives**

As the TTC's auditor, our primary responsibility is to form and express an opinion on the TTC's consolidated financial statements, the TCTT's consolidated financial statements and the financial statements of the TTCIC as at December 31, 2012 prepared in accordance with Canadian generally accepted accounting principles for the Public Sector. The financial statements for each of these entities are prepared by management with the oversight of those charged with governance (the Audit Committee).

An audit of the financial statements does not relieve management or the Audit Committee of its responsibilities. We will conduct 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 Audit Committee. Where appropriate, we will discuss significant developments in public sector accounting and provide management with our views and insights. Also we will advise management of other services we feel could be helpful – at all times staying within the realms of our independence rules.

#### **b. Engagement terms**

Our engagement letter with the City of Toronto, dated November 1, 2010, sets out the terms and conditions for our engagement as the independent auditor of the City of Toronto and certain of the City's agencies, boards and commissions, including the TTC, TCTI and TTCIC, for the years ended December 31, 2010 through 2014. A copy of this letter has been included in Appendix A of our audit plan for your reference.

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

## 4. When will we do the audit?

### a. Audit timeline

Working with management, we have developed the following project timeline:

<b>Audit planning</b>	
Audit Planning	September – October 2012
Presentation of audit plan to the Audit Committee	January 29, 2013
<b>Audit</b>	
Interim audit visit	November 2012
Year-end audit	March 2013
Clearance meeting with management and PwC	First week of April 2013
Year-end Audit Committee meeting	April 25, 2013
Finalization of the financial statements	April 25, 2013

<sup>1</sup> At the year-end Audit Committee meeting we will provide the Audit Committee with our draft audit opinion, key findings (particularly, regarding significant estimates, transactions, accounting policies and disclosures), any significant deficiencies identified in internal controls and also provide a confirmation of our independence.

### b. Project management

A well-executed audit requires good project management from both your team and PwC.

Working with management, we have developed the following process to ensure information is flowing and that issues are dealt with on a timely basis:

#### i. Issues meetings

We will hold regular meetings with key management throughout the year to discuss potential issues affecting the TTC and subsidiaries to develop plans for the resolution of key accounting issues on a timely basis.

We will share elements of our assessment of significant risks with management and the Audit Committee to avoid surprises and obtain your feedback (page 9).

We will maintain an ongoing register of matters that require further effort and will regularly monitor progress on these matters.

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**ii. Communications**

- We will use the information from the issues meetings, along with our other cumulative knowledge of the TTC, to develop a detailed list of documents that we will need from management to complete the audit. This document will list those responsible and the expected delivery dates agreed to by management.
- We have asked management to appoint an “Audit Champion” (Project Manager as outlined in the RFP) to be our key contact. This person is responsible for managing the flow of information and audit requests to ensure both of our organizations are being as efficient as possible and that the audit is not disruptive to the TTC.

Elizabeth Thomas – Supervisor, Accounting Policy & Financial Reporting - has been selected by management as the Audit Champion.

- We will hold periodic meetings with management during the audit to discuss the status of our audit procedures. As 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. We will work closely with management to resolve outstanding audit information requests and issues in a timely manner and obtain agreement with management on additional audit services provided, if any, during the audit.
- Once we have completed our audit and have mailed our report, the results and findings of the audit will be discussed at the Audit Committee meeting.
- We have developed an Audit Service Guideline which has been discussed with management and outlines our audit services and what may be considered additional services. All additional services will be communicated to both management and the Audit Committee. A copy of this guideline is included in Appendix B of our audit plan for your reference.

**iii. Continuous improvement**

After the audit, we will debrief with management and obtain feedback on how the audit went and what improvements can be made to the process. We will also solicit feedback from the Audit Committee. These improvements will be documented and reflected in next year’s audit plan.

## ***5. How will we do 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 TTC and subsidiary companies - focusing on new developments and key business issues as well as management's monitoring of controls and business processes. Our audit procedures will include tests of controls within the revenue operations, payroll, purchases, payables, treasury, capital subsidies and inventory processes and substantive tests of other significant account balances and transactions;
- ii. Identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to address these risks;
- iii. Making use of our network of internal pensions and information systems specialists, who will be integrated into our team to assist in our audit;
- iv. Using well-reasoned professional judgment, especially, in areas that are subjective or require management estimates; and
- v. Leveraging reliance where possible on the internal controls, information technology and data management systems.

Our approach will, therefore, include a mixture of key controls reliance, substantive analytics and detailed testing. Our understanding of the business also drives our assessment of materiality and the identification of audit risks.

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. Risk analysis

Significant risks are those risks of material misstatement that, in our judgment, require special audit consideration. We have identified the following significant audit risks and other risks, including business risks with a potential audit impact, as part of our planning process.

These risks were identified based on discussions with management, our knowledge of the business and current developments in your industry and the economy.

These are the most important risks from our perspective. We request your input on the following significant risks and whether there are any other areas of concern that the Audit Committee has identified.

The following chart summarizes the most important risks, from our perspective, that we want to share with you:

Risk	Management's response	Our audit approach
<b>Significant accounting estimates</b>  The preparation of the financial statements requires the use of significant accounting estimates that are subject to management judgment in the following areas: <ul style="list-style-type: none"> <li>• Deferred revenue</li> <li>• Post employment and post retirement benefits (pension and other); and</li> <li>• Contingent liabilities (including provisions for legal claims, property and liability claims (covering both self-insured and insured liabilities)).</li> </ul>	Management has processes and controls in place for formulating these estimates.  Where applicable, management has engaged external specialists to assist in the determination of significant accounting estimates.  In particular, management has contracted an external actuary to assist with the valuation of post-employment and post-retirement benefits and certain other contingent liabilities (accident claims).	Meet with non-financial management and internal specialists responsible for establishing provisions to understand the key assumptions and validate these estimates against our own expectations.  Test management's calculations, supporting data and assumptions used in these calculations.  Utilize our own internal experts (i.e. actuary) to assess the appropriateness of methodology and assumptions used.  Assess the competency and objectivity of experts engaged by the TTC.  We will send confirmations to TTC's external legal counsel to obtain third party evidence on the status of all outstanding legal proceedings up to the date of our audit report.
<b>Management override of controls</b>	Appropriate segregation of duties has been established in order to mitigate the risk of management override of controls.  The TTC has policies and procedures in place to prevent and deter fraud including a code of conduct, an internal audit department and the review and approval of manual journal entries.	We will assess the control environment, ensure there is appropriate segregation of duties and access any manual controls established to mitigate this risk.  We will test significant and non-standard manual journal entries made during the year.  We will introduce an element of unpredictability into our audit through our sample selections.

### c. 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.

We have set our preliminary materiality for the respective audits as follows:

<b>TTC Consolidated Materiality</b>	<b>Basis</b>	<b>Amount</b>
Overall materiality	1.2% of total operating expenditures <sup>1</sup> for the full year	\$20.0 million
Unadjusted and adjusted items in excess of this amount will be reported to the Audit Committee	5% of overall materiality	\$1.0 million
<b>TCTI Materiality</b>		
Overall materiality	2% of total operating expenditures <sup>1</sup> for the full year	\$102,000
Unadjusted and adjusted items in excess of this amount will be reported to the Audit Committee	5% of overall materiality	\$5,100
<b>TTCIC Materiality</b>		
Overall materiality	2% of total assets	\$3.0 million
Unadjusted and adjusted items in excess of this amount will be reported to the Audit Committee	5% of overall materiality	\$150,000

<sup>1</sup> Our materiality calculation is based on 2012 operating budget; should there be a significant change, we will communicate changes to the Audit Committee at year-end.

## d. Discussion on fraud risk

Canadian Auditing Standards require us to discuss fraud risk annually with the Audit Committee. We understand that part of your governance role is also to consider the fraud risks and the responses to those risks.

Question 1:

Required discussion	<ul style="list-style-type: none"> <li>• Through our planning process (and prior year audits), we have developed an understanding of your oversight processes including               <ul style="list-style-type: none"> <li>◦ Code of conduct</li> <li>◦ Audit Committee charters</li> <li>◦ Presentation by management, including Chief Executive Officer's (CEO) Report</li> <li>◦ Review of related party transactions</li> <li>◦ Review and approval over manual journal entries</li> <li>◦ Tone at the top</li> <li>◦ Internal Audit</li> <li>◦ the quarterly communication protocol report that the Head of HR prepares and reports on to the Chief Financial and Administration Officer and the CEO</li> <li>◦ the City of Toronto's Fraud and Waste Hotline</li> </ul> </li> <li>• Are there any new processes or changes to the above that we should be aware of?</li> </ul>
Notes	

Question 2:

Required discussion	<p>We are not aware of any significant fraud at the current time.</p> <p>We would like to ask whether you are aware of instances of actual, suspected or alleged fraud affecting the entity.</p>
Notes	

### 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.

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

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

We would be pleased to discuss any other procedures or suggestions the Audit Committee may have.



## 6. Our commitment to audit quality

We are proud of PwC's long history of delivering high quality and recognize that quality in everything we do is paramount. We know that you expect our people to be competent, objective and embody the right level of professional skepticism, while at all times maintaining an open dialogue with your management team. We believe our core values described below ensure that we achieve audit quality and quality service at the same time.

Core value	How it helps us execute a high-quality audit
Investing in relationships	<ul style="list-style-type: none"> <li>We believe that the professional relationships we foster with management and the Audit Committee allow us to have open and candid dialogue over issues including, when necessary, asking those difficult questions.</li> <li>Relationships also allow us to provide timely advice and enable us to better understand the TTC's business.</li> </ul>
Sharing and collaborating	<ul style="list-style-type: none"> <li>Tackling today's complex business issues requires the collaboration of different team members from various areas of our firm.</li> <li>If necessary, our experts will work with members of your team to help solve complex issues and bring forward best practices.</li> </ul>
Putting ourselves in others' shoes	<ul style="list-style-type: none"> <li>Listening to and understanding others' perspectives allows for enhanced dialogue and allows us to think about issues from various points of view.</li> <li>We consider issues from multiple perspectives, starting with the standards, and including the views of management and the Audit Committee as well as our assessment of what financial statement users expect. While we will express our views or preferences, we do not impose them on you unless we believe that there are no other alternatives within the standards.</li> </ul>
Enhancing value	<ul style="list-style-type: none"> <li>Our understanding of the business and execution of a quality audit allows us to identify issues that are important to the Audit Committee and management.</li> <li>Within the realm of our independence rules, it also offers opportunities to provide recommendations and insight on improvements in controls, operations and other areas of business that can enhance shareholder value.</li> </ul>

These core values govern how we operate; the audit work and documentation of procedures in our files are always of the same high standard. Our people are subject to continual training to ensure that they are equipped with the right tools and best practices to achieve quality and a focus on continuous improvement.

Although our audits are planned to focus on the key risks, our professional audit standards require us to ensure that we have sufficient evidence in all areas of our files. While we strive to achieve high quality in a cost-effective manner, the reality is that we are being required to do more to comply with existing standards. This means that you will see us performing procedures in areas that you might consider lower risk.

As always we welcome your feedback on our performance and your views on how we achieve quality. You have our commitment that audit quality is paramount and you can have the confidence that the audit work performed by PwC will stand up to the scrutiny of stakeholders.

## 7. Fees

The fees detailed below are in accordance with our proposal covering the five year contract period for the years ended December 31, 2010 through to 2014.

<b>Service description</b>	<b>Estimated fees for the year ended December 31, 2012 \$</b>	<b>Actual fees for the year ended December 31, 2011 <sup>(1)</sup> \$</b>
Audit of the TTC consolidated financial statements	62,080	71,853
Audit of the TCTI consolidated financial statements	5,240	4,880
Audit of the TTCIC financial statements	12,610	11,750

(1) Includes an additional billing of \$14,013 for TTC.

## ***Appendix A: Engagement letter***



PricewaterhouseCoopers LLP  
Chartered Accountants  
PO Box 82  
Royal Trust Tower, Suite 3000  
Toronto Dominion Centre  
Toronto, Ontario  
Canada M5K 1G8  
Telephone +1 416 863 1133  
Facsimile +1 416 365 8215

November 1, 2010

Mr. Jeffrey Griffiths  
Auditor General  
City of Toronto, Metro Hall  
55 John Street, 9<sup>th</sup> Floor  
Toronto, Ontario, M5V 3C6

Dear Mr. Griffiths:

PricewaterhouseCoopers LLP (PricewaterhouseCoopers or we), a limited liability partnership organized under the laws of the Province of Ontario, is pleased to be appointed auditors of the City of Toronto and its major agencies, boards, commissions and other entities listed in the "Annual Financial Statement and Other Reports" section of this engagement letter (collectively, the City), for the years ending December 31, 2010, 2011, 2012, 2013 and 2014. The purpose of this engagement letter is to confirm our mutual understanding of the specific terms and conditions of our engagement, which terms and conditions are supplemented by our standard terms and conditions set out in the Appendix attached to this letter. Should there be any conflict between our standard terms and conditions and the specific terms and conditions set out in this letter, specific terms and conditions shall apply.

#### Audit Services and Related Reports

We will provide the following services (the Audit Services):

**Annual Financial Statement and Other Reports** We will audit the City's financial statements and issue other reports, as outlined in the request for proposal 9171-09-7137 for external audit services dated November 3, 2009 for the engagements listed below as at December 31, 2010, 2011, 2012, 2013 and 2014 and for the years then ending, prepared in accordance with Canadian generally accepted accounting principles.

For the pension fund audits other than the Toronto Transit Commission Pension Fund Society, we will audit the statement of net assets available for benefits and the related statement of changes in net assets available for benefits in accordance with the basis of accounting disclosed in the notes to the financial statements. These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of management and the administrator of the funds and the Financial Services Commission of Ontario for complying with Section 76 of Regulation 909 of the Pension Benefits Act of the Province of Ontario (the Act). These financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose. These financial statements have been prepared by management and/or the administrator.

1. Consolidated Financial Statements of the City of Toronto.
2. Consolidated Financial Statements of the City of Toronto Trust Funds.
3. City of Toronto Sinking Funds.
4. City of Toronto – Report on Compliance with Investment Policy.
5. City of Toronto – Report on Compliance with Agreement for the Transfer of Federal Gas Tax Revenue and Annual Expenditure Report.
6. 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.
7. Long-term Care Homes and Services – Residents' Interest Trust Fund.
8. Long-term Care Homes – Annual Reconciliation Reports (10 as listed below):

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

- (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.
- 9. The Toronto Track and Field Centre – Statement of Operating Costs.
- 10. Toronto Community Housing Corporation:
  - (a) Toronto Community Housing Corporation; and
  - (b) Housing Services Inc.
- 11. Toronto Economic Development Corporation
- 12. Toronto Parking Authority:
  - (a) Toronto Parking Authority; and
  - (b) Toronto Parking Authority Carpark No. 161 – St. Clair-Yonge Garage – Statement of Operations.
- 13. Toronto Police Services Board Special Fund – Section 9110 Report.
- 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).
- 15. Toronto Public Library Board.
- 16. Toronto Public Library Foundation.
- 17. Consolidated Financial Statements of the Board of Governors of Exhibition Place.
- 18. Canadian National Exhibition Association.
- 19. Canadian National Exhibition Foundation.
- 20. The Sony Centre for the Performing Arts.
- 21. St. Lawrence Centre for the Arts.
- 22. Toronto Centre for the Arts.
- 23. Board of Management of the Toronto Zoo.
- 24. Consolidated Financial Statements for the Toronto Transit Commission.
- 25. Toronto Coach Terminal Inc.
- 26. TTC Insurance Company Limited.
- 27. The Pension Fund of the Corporation of the City of York Employee Pension Plan.
- 28. The Fund of the Metropolitan Toronto Pension Plan.
- 29. The Fund of the Metropolitan Toronto Police Benefit Fund.
- 30. The Fund of the Toronto Civic Employees' Pension and Benefit Fund.
- 31. The Fund of the Toronto Fire Department Superannuation and Benefit Fund.
- 32. Toronto Transit Commission Pension Fund Society.
- 33. Toronto Transit Commission Sick Benefit Association.

**Reports** Upon completion of our annual audits, we will provide the City with our reports on the work referred to above. The form and content of our audit reports will be in accordance with Canadian Audit Standard (CAS) 700 / CICA 5400. For the pension fund audits other than the Toronto Transit Commission Pension Fund Society, the form and content of our reports will be in accordance with CAS 800/CICA5600. There may be circumstances where our reports may differ from the expected form and content and if, for any reasons caused by or relating to the affairs or management of the City, we are unable to complete our audits, we may decline to issue our reports.

#### Our Responsibilities

**Annual Financial Statement Audit** The objective of a financial statement audit is the expression of an opinion on the financial statements. We will be responsible for performing the audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform the audit to attain reasonable assurance whether the financial statements are free of material misstatement. The audits will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

**Other Reporting Responsibilities** Our responsibility as auditors of the TTC Insurance Company Limited (TTC Insurance Co.) is also to report to the Financial Services Commission of Ontario (FSCO) whether certain statements and notes in the TTC Insurance Co.'s Annual Return P&C-1 to FSCO at December 31, 2010, 2011, 2012, 2013 and 2014 present fairly, in all material respects, the TTC Insurance Co.'s financial position, results of operations and changes in cash flows in accordance with Canadian generally accepted accounting principles.

**Internal Control, Fraud and Error** We will obtain an understanding of the City's internal control over financial reporting solely for the purpose of identifying types of potential misstatements, considering factors that affect the risks of material misstatements and determining the nature, timing and extent of auditing procedures necessary for expressing our opinions on these financial statements. This understanding will not be sufficient to enable us to render our opinions on the effectiveness of internal control over financial reporting, or to consider whether internal control is adequate for management's purposes, nor to identify all significant weaknesses in the City's system of internal financial controls. However, we will inform the appropriate level of management, the Auditor General and the Audit Committee of any significant weaknesses in internal control that come to our attention. Such communications are derivative in nature, and we do not design procedures for the principal purpose of identifying such matters.

Because of the inherent limitations of internal control over financial reporting, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected.

We will design our audits to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on these financial statements as well as other illegal acts having a direct and material effect on these financial statement amounts. Our audits will not include a detailed audit of transactions, such as would be necessary to disclose errors or fraud that did not cause a material misstatement of the financial statements.

It is important to recognize that there are inherent limitations in the auditing process such as: (i) the use of selective testing of the data underlying these financial statements, which involves judgment regarding the areas to be tested and the nature, timing, extent and results of the tests to be performed; (ii) the inherent limitation of internal control; and (iii) the fact that most audit evidence is persuasive rather than conclusive. Audits are, therefore, subject to the limitation that material errors or fraud or other illegal acts having a direct and material financial statement impact, if any exist, may not be detected. Because of the characteristics of fraud, particularly those involving concealment through collusion, falsified documentation and management's ability to override controls, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material fraud. Further, while effective internal control reduces the likelihood that errors, fraud or other illegal acts will occur and remain undetected, it does not eliminate that possibility. For these reasons, we cannot ensure that errors, fraud or other illegal acts, if present, will be detected. However, we will communicate to the Auditor General, Audit Committee and management of the City, as appropriate, any such matters identified during our audits.

<b>Independence</b>	We are required to be, and to remain, independent with respect to the City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.
<b>Informing the Audit Committee and the Auditor General</b>	We also are responsible for determining that the Audit Committee and the Auditor General are informed about certain other matters related to the conduct of our audits, including but not limited to: (i) any disagreements with management about matters that could be significant to the City's financial statements or our reports thereon; (ii) any serious difficulties encountered in performing the audits; (iii) information relating to our independence with respect to the City; and (iv) other matters related to the City's financial statements including its accounting policies and practices.
<b>Reliance by Third Parties</b>	The Audit Services will not be planned or conducted in contemplation of reliance by any specific third party or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

#### Management's Responsibilities

<b>Responsible for Financial Statements and Internal Control</b>	<p>The City's management is responsible for the preparation and fair presentation of these financial statements and information referred to above. Management is also responsible for establishing and maintaining an effective system of internal control over financial reporting to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error. In this regard, management is responsible for establishing policies and procedures that pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets, the proper recording of transactions in the accounting systems and records, and for reporting financial information in conformity with Canadian generally accepted accounting principles.</p> <p>If management engages us to translate these financial statements or other documents referred to above from one language to another, management is responsible for the translated documents.</p>
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<b>Correction of Errors</b>	Management is responsible for adjusting these financial statements to correct material misstatements and for affirming to us that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the year under audit are immaterial, both individually and in the aggregate, to these financial statements taken as a whole. In addition, we expect management will correct all known non-trivial errors.
<b>Prevention and Detection of Fraud</b>	Management also is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us: (i) of the risk that these financial statements may be materially misstated as a result of fraud; (ii) about all known or suspected fraud affecting the City involving (a) management, (b) employees who have significant roles in internal control over financial reporting and (c) others where the fraud could have a non-trivial effect on these financial statements; and (iii) of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, investors or others.
<b>Laws and Regulations</b>	Management is responsible for identifying and ensuring that the City complies with the laws and regulations applicable to its activities. Management will make available to us information relating to any illegal or possibly, illegal acts, and all facts related thereto and will provide information to us relating to any known or probable instances of non-compliance with legislative or regulatory requirements, including financial reporting requirements.
<b>Providing Information on a Timely Basis</b>	Management is responsible for making available to us, on a timely basis, all of the City's original accounting records and related information and the City's personnel to whom we may direct inquiries.
<b>Management Representation Letter</b>	<p>We will make specific inquiries of management and others about the representations embodied in the annual financial statements.</p> <p>Management of the City will provide us with its written representations covering the annual financial statements from certain members of management on matters that are: (i) directly related to items that are material, either individually or in the aggregate, to these financial statements; (ii) not directly related to items that are material to these financial statements but are significant, either individually or in the aggregate, to the engagement; and (iii) relevant to management's judgments or estimates that are material, either individually or in the aggregate, to these financial statements. The results of our tests, the responses to our inquiries and the written representations obtained will comprise the evidential matter we intend to rely on in forming our audit opinions on these financial statements.</p>
<b>Previous Auditors</b>	To assist us in planning our audits, the City will authorize its previous auditors, Ernst & Young LLP, to allow us to review their working papers and to respond fully to our inquiries.

#### Fees for Audit Services

<b>Fee Estimate</b>	Our fees for the Audit Services as outlined in 3.0, Scope of Work, and in 5.3 Section 7, Cost of Service, of the City's request for proposal No. 9171-09-7137(RFP) will be \$750,000 in 2010, \$750,000 in 2011, \$805,000 in 2012, \$860,000 in 2013 and \$920,000 in 2014. These are fixed fees inclusive of all costs and expenses, but exclusive of applicable taxes. Fees are allocated to the City engagements as outlined in Appendix D of the RFP.
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#### Other Matters

<b>City Preparation</b>	Our time and fee estimates take into account the agreed upon level of preparation and assistance from the City's personnel. We will advise you on a timely basis when and if for any reason management does not provide such schedules, information and assistance as outlined in this letter and in the City's Responsibility section of the Appendix. In addition, should these or any other issues arise that will require an extra effort to resolve, we will communicate with management, the Auditor General and the Audit Committee in order to revise the fee estimate to reflect additional services, if any, required of us to complete our work.
<b>Term – Agreement Continues in Force</b>	In the event PricewaterhouseCoopers or the City does not exercise its respective rights to terminate the Agreement provided for herein, the Agreement shall continue in full force and effect for the year ending December 31, 2015 until such time as the Agreement is superseded or replaced by another agreement executed between PricewaterhouseCoopers and the City. It is understood by PricewaterhouseCoopers and the City that a specific agreement will be entered into with respect to audit and related services PricewaterhouseCoopers is to provide in each year, including an update to the agreed upon fees and billing schedule.
<b>Termination by PricewaterhouseCoopers</b>	Upon the completion of the services described in this letter for the year ending December 31, 2014, PricewaterhouseCoopers shall have the right to terminate the Agreement upon providing the City with ten (10) days' prior written notice and the City shall pay all fees for services provided by PricewaterhouseCoopers to the satisfaction of the City and in accordance with the Terms and Conditions of the Agreement up to the date of termination.
<b>Termination by the City</b>	The City shall have the right to terminate the Agreement upon providing PricewaterhouseCoopers with ten (10) days' prior written notice. In the event of termination by the City in accordance with this provision, the City shall pay PricewaterhouseCoopers for all fees for services provided to the satisfaction of the City prior to receipt of notice of termination.
<b>Terms and Conditions</b>	The Appendix sets forth additional terms and conditions, including rights and responsibilities of the parties with respect to this engagement.
<b>Other relevant documents</b>	<p>The terms and conditions contained in the RFP No. 9171-09-7137 and the Proposal by PricewaterhouseCoopers in response to RFP No. 9171-09-7137 are incorporated into and form a part of this agreement. In the event of any inconsistency between the terms of the documents which make up this agreement, the following shall be the order of priority of the documents to the extent of any inconsistency:</p> <ol style="list-style-type: none"><li>1. The Engagement letter;</li><li>2. The Terms and Conditions to the engagement letter;</li><li>3. Request for Proposal No. 9171-09-7137; and</li><li>4. The Proposal by PricewaterhouseCoopers referred to above.</li></ol>

As part of PricewaterhouseCoopers' process of assessing the quality of its services, the City may receive questionnaires from PricewaterhouseCoopers and visits from senior partners not directly involved in providing services to the City. PricewaterhouseCoopers appreciates the attention given to these questionnaires and visits and values the City's commentary.

If the services outlined herein are in accordance with your requirements and if the above terms are acceptable, please have one copy of this letter executed in the spaces provided below and return it to us.



Yours very truly,

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

cc: Ms. Ulli S. Watkiss, City Clerk  
Mr. Cam Weldon, Deputy City Manager and Chief Financial Officer



The services and terms as set forth in this letter, including the provisions of the Appendix, are agreed to.

City of Toronto

Marilyn M. Toft  
for Ulli S. Watkiss  
City Clerk

Ulli S. Watkiss, City Clerk

Authorized by item AU15.3. of the Audit  
Committee adopted by the Council of the  
City of Toronto on the 22nd and 23rd day of  
February, 2010.

Marilyn M. Toft for City Clerk

Date

G. CARBONE FOR  
Cam Weldon, Deputy City Manager and  
Chief Financial Officer

Date

PRICEWATERHOUSECOOPERS LLP

  
Name: Cathy Russell  
Title: Partner

Date

Nov 3, 2010

I have authority to bind the partnership

APPROVED AS TO FORM

For Anna Knapikowski  
City Clerk

## APPENDIX

### TERMS AND CONDITIONS

The engagement letter and any amendments thereto (collectively, the Engagement Letter), together with the Appendix (the Appendix), (collectively, the Agreement), shall, once the Engagement Letter is executed by both parties, constitute the entire agreement between the City of Toronto (City) to which such Engagement Letter is addressed (the City) and PricewaterhouseCoopers LLP (PricewaterhouseCoopers), a limited liability partnership organized under the laws of the Province of Ontario, regarding the services described in the Agreement (the Services). Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Engagement Letter.

#### Timely Performance

- 1 In consultation with the City, PricewaterhouseCoopers will, acting reasonably, establish the timing of the performance of the Services. PricewaterhouseCoopers will use all reasonable efforts to complete the Services within any agreed upon time frame. However, PricewaterhouseCoopers shall not be liable for failures or delays in performance that arise from causes beyond its control, including the untimely performance by the City of its obligations, as set out in the City's Responsibility section below.

#### Right to Terminate Services

- 2 In addition to the termination rights contemplated under the Engagement Letter, should the City not fulfill its responsibilities to PricewaterhouseCoopers under the Agreement and, in the event that the City fails to remedy such default within thirty (30) days, or such extended period of time as the parties may agree to, following receipt of a notice from PricewaterhouseCoopers to this effect, PricewaterhouseCoopers may, without prejudice to its other rights and recourses, and without any further notice, cease providing the Services and consider the Agreement terminated. In such case, PricewaterhouseCoopers will not be responsible for any action, claim, liability, loss, damage, cost or expenses arising out of, in connection with or resulting from such termination.
- 3 In addition to the termination rights contemplated under the Engagement Letter, should PricewaterhouseCoopers not fulfill its responsibilities to the City under the Agreement and, in the event that PricewaterhouseCoopers fails to remedy such default within thirty (30) days, or such extended period of time as the parties may agree to, following receipt of a notice from the City to this effect, the City may, without prejudice to its other rights and recourses, and without any further notice, terminate the Agreement. Despite such termination the City shall provide payment for fees involved by PricewaterhouseCoopers for services performed to the satisfaction of the City prior to the date of termination. In such case, PricewaterhouseCoopers will not be responsible for any action, claim, liability, loss, damage, cost of expense arising out of, in connection with or resulting from such termination.

#### City's Responsibility

- 4 The City will provide and make available complete information and such other assistance as PricewaterhouseCoopers may require to enable PricewaterhouseCoopers to provide the Services. Such information will include, but not be limited to:
  - a) financial records and related data;
  - b) copies of all minutes of meetings of City council and other committees;
  - c) a schedule of all entities that are controlled by the City, those entities over which the City has significant influence and those entities that are under common control with the City (the Schedule of Group Structure);
  - d) a schedule of all other related parties as defined in The Canadian Institute of Chartered Accountants' Handbook Section 3840, "Related Party Transactions" (the Other Schedule), which will include, but not be limited to, directors, officers, senior members of management, immediate family members of such individuals and entities over which these individuals or entities are able to exert significant influence;
  - e) a schedule of all the transactions among the City, the entities referred to in the Schedule of Group Structure and the entities or individuals referred to in the Other Schedule during the reporting period; and
  - f) information relating to the recognition, measurement and disclosure of specific items, including, but not limited to:
    - i) an assessment of the reasonableness of significant assumptions underlying fair value measurements and disclosures in the financial statements;
    - ii) any plans or intentions that may affect the carrying value or classification of assets or liabilities;
    - iii) measurement and disclosure of transactions with related parties;
    - iv) an assessment of all areas of measurement uncertainty known to management
    - v) claims and possible claims, whether or not they have been discussed with the City's legal counsel;
    - vi) information relating to other liabilities and contingent gains or losses, including those associated with guarantees, whether written or oral, under which the City is contingently liable;
    - vii) information on whether the City has satisfactory title to assets;
    - viii) information on whether any liens or encumbrances on assets exist;
    - ix) information on whether any assets are pledged as collateral;
    - x) information relating to compliance with aspects of contractual agreements that may affect these financial statements; and
    - xi) information concerning subsequent events.

## APPENDIX

### TERMS AND CONDITIONS

- 5 The City will ensure that its staff and senior management are available to provide such information, materials and assistance, and that such City personnel will be qualified and have the appropriate skills and experience. If any of the City's personnel fail to perform as required, the City will make suitable additional or alternative personnel available.
- 6 The City will ensure timely communication to PricewaterhouseCoopers of all significant accounting, financial and internal control reporting matters.
- 7 The City will provide the Schedule of Group Structure to PricewaterhouseCoopers at the time of signing the Agreement and will notify PricewaterhouseCoopers of changes thereto within seven (7) days of such events occurring.
- 8 The City agrees that all information disclosed or to be disclosed to PricewaterhouseCoopers is or will, to the best of the City's knowledge, be true, accurate and not misleading in any material respect.
- 9 The City will maintain the existing quality of the City's accounting records during the engagement.
- 10 The City will provide PricewaterhouseCoopers and its staff with all office and other accommodation or workspace and facilities that PricewaterhouseCoopers may reasonably require to perform the Services.
- 11 The City will provide all schedules on the dates established by PricewaterhouseCoopers, acting reasonably and in consultation with the City. Schedules will be completed in an acceptable format, mathematically correct and in agreement with appropriate City records (e.g., general ledger accounts).
- 12 The City's personnel will provide all necessary assistance in obtaining timely responses to third party confirmation requests.
- 13 The City's personnel will prepare a trial balance in financial statement format, which will reference to supporting detailed working papers (by general ledger account number). All entries will be posted to this trial balance prior to PricewaterhouseCoopers' receiving it. Any post-closing entries will be minimal and posted to a final trial balance by the City's personnel. In addition, the City's personnel will prepare draft financial statements that agree with the trial balance and are internally referenced to supporting documentation (for cash flow statements and notes to the financial statements).
- 14 PricewaterhouseCoopers' performance of the Services is dependent on the City carrying out its responsibilities, as set out in this Agreement. PricewaterhouseCoopers shall not be responsible for any delay or any other consequences resulting from the City's failure to perform any of its obligations under this Agreement.
- 15 It is the City's responsibility to ensure that these financial statements, the auditors' report and other information in public documents that contain or incorporate by reference either full or summarized financial statements that we audited are accurately reproduced from the original.
- 16 The City agrees not to offer and not to permit its related parties to offer employment to or hire the lead engagement partner, the quality review partner (if such partner is involved in the provision of the Services) or any other PricewaterhouseCoopers person who provided more than ten (10) hours of audit, review or attest service, without first consulting with the lead engagement partner on any proposed offer of employment.

#### Electronic Mail (email) Communications

- 17 During the engagement, we may from time to time communicate electronically with each other. However, as the City is aware, the electronic transmission of information cannot be guaranteed to be secure or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We shall not have any liability to each other arising from or in connection with the electronic communication of information to or from the City during or as a result of its electronic transmission outside of our electronic environments. If the communication relates to a matter of significance and there are concerns about possible effects of electronic transmission, such information should be restricted to hard copy transmission.
- 18 An electronic communication shall be of no legal effect until received and shall be deemed sent by the sender and received by the addressee when accessible at the email address provided to the sender by the addressee. The electronic signature of a party affixed to, associated with or contained in any electronic communication transmitted by the party shall constitute a valid reliable electronic signature and shall be sufficient to verify that such party signed the electronic communication and its content and had the authority to electronically sign and send the electronic communication and its content. This Agreement and any Schedule may be executed in counterparts, by fax or electronic communication, each of which is deemed to be an original and all of which together are deemed to be one and the same instrument.
- 19 The City approves that PricewaterhouseCoopers' staff may connect their PricewaterhouseCoopers' notebooks to the City's network to access the Internet and use PricewaterhouseCoopers' secure VPN utility to communicate directly with the PricewaterhouseCoopers network.

#### Personal Information Protection

- 20 The City hereby acknowledges and agrees that: (1) the City shall only provide PwC with access to, and PwC will otherwise collect, use and disclose, personal information (as defined in the applicable law) about the City and/or individuals in respect to whom the City collects, uses, holds or discloses personal information, as required to provide the services and deliverables hereunder (the Purposes); (2) the City has obtained all required consents, if any, for such activities, and shall otherwise disclose, transfer or grant access to such personal information only in compliance with applicable legislation regarding the protection of personal information; and (3) in addition to any other liability for breach of these Standard Terms and Conditions, the City shall indemnify and hold PwC, its partners, employees, authorized representatives and associated entities, harmless for any claim, demand, debt,

## APPENDIX

### TERMS AND CONDITIONS

action, or liability to any third party, including legal costs and disbursements, arising out of or in respect of any breach of the City's obligations under this paragraph. Subject to (2) above, PwC agrees that it will receive, collect, use, hold and disclose such personal information in compliance with all applicable legislation regarding the protection of personal information. Further, PricewaterhouseCoopers shall, upon demand, indemnify the City and its employees for any damages finally awarded as a result of any claim, demand, debt, action or liability to City or any City employee arising out of or in respect of any breach by PricewaterhouseCoopers of this Section with respect to personal information of the City's employees in connection with the Purposes, other than to the extent resulting from a breach by the City of this Section. The City further recognizes that PwC may send personal information outside of the country for the Purposes, including for process and storage by service providers, and that to the extent that any personal information is out of the country, it is subject to access by the regulatory authorities in, and to the laws of, those other jurisdictions

#### Fees and Payment

- 21 Fees quoted by PricewaterhouseCoopers are based on the assumption that there are:
- a) no significant new accounting issues that require a significant additional amount of time to resolve, other than as contemplated in the original fee estimate and outlined in 3.0, Scope of Work, of the RFP;
  - b) no significant changes in accounting policies or practices from those used in prior years, that could significantly impact the audit scope other than as contemplated in the original fee estimate and outlined in 3.0, Scope of Work, of the RFP;
  - c) no significant changes or transactions that will occur prior to issuance of our report and that could significantly impact the audit scope assumed in the original fee estimate and outlined in 3.0, Scope of Work, of the RFP; and
  - d) no material delays in providing PricewaterhouseCoopers with the information, assistance or resources required under this Agreement.
- 22 PricewaterhouseCoopers will render invoices as the work progresses. All invoices will be due for payment upon receipt.
- 23 In addition to its fees payable pursuant to this Agreement, PricewaterhouseCoopers will bill the City for all applicable taxes, whether presently in force or imposed in the future.

#### Indemnification for Misrepresentation by Management

- 24 The City hereby agrees to release and indemnify PricewaterhouseCoopers and its agents, partners and employees, and hold them harmless from all claims, liabilities, losses and costs arising in circumstances where there has been a misrepresentation by a member of the City's management, regardless of whether such person was acting in the City's interest. This release and indemnification and holding harmless will not operate where PricewaterhouseCoopers ought to have uncovered such misrepresentation but failed to, due to the negligence, wilful misconduct or dishonesty of PricewaterhouseCoopers, its partners and/or employees.

#### Working Papers

- 25 All working papers and files, methodologies, software, other materials, reports and work created, developed or performed by or for PricewaterhouseCoopers either before or during the course of performance of the Services, are the property of PricewaterhouseCoopers.

#### Reproduction of Financial Statements

- 26 With the exception of the publication requirements outlined in Sections 232, 233, 234, and 235 of the City of Toronto Act 2006, if the City intends to publish or reproduce, in printed form or electronically (e.g. on an internet web site), our Audit Reports together with these financial statements or otherwise make reference to PricewaterhouseCoopers in a document that contains other information, the City agrees to (a) provide us with a draft of such document to read, and (b) obtain our approval for inclusion of our Audit Reports, before the document is finalized and distributed. Where our Audit Reports are reproduced in any medium, the complete financial statements, including notes, must also be presented.

#### Confidential Information

- 27 PricewaterhouseCoopers agrees that all information received from the City, or otherwise learned by PricewaterhouseCoopers, during the course of the engagement is confidential information (Confidential Information). PricewaterhouseCoopers shall use the City's Confidential Information only for the purposes contemplated under the Agreement and shall not disclose such Confidential Information to any party without the City's prior written consent, provided that PricewaterhouseCoopers may disclose the City's Confidential Information to its partners, authorized representatives, subcontractors and employees (collectively, the PwC Authorized Personnel) on a need-to-know basis in connection with this Agreement as well as to those referred to in paragraphs 34, 35 and 37 of the Terms and Conditions of this Agreement. PricewaterhouseCoopers agrees to take measures to protect the confidentiality of the City's Confidential Information that, in the aggregate, are no less protective than those measures it uses to protect the confidentiality of its own confidential information. PricewaterhouseCoopers agrees to keep the City's Confidential Information in a reasonably secure location.

## APPENDIX

### TERMS AND CONDITIONS

- 28 Notwithstanding anything to the contrary contained in this Agreement, PricewaterhouseCoopers shall not be obligated to treat as confidential, or otherwise be subject to the restrictions on use, disclosure or treatment contained in this Agreement, any information disclosed by the City which:
- a) is rightfully known to PricewaterhouseCoopers on a non-confidential basis prior to its disclosure by the City;
  - b) is independently developed by PricewaterhouseCoopers without any reference to, use of, or reliance on, Confidential Information;
  - c) is or later becomes publicly available without violation of this Agreement; or
  - d) is lawfully obtained by PricewaterhouseCoopers from another party.

#### Assisting Firms

- 29 PricewaterhouseCoopers is member of a worldwide network of individual partnerships and companies, each of which is a separate legal entity. This Agreement is between the City and PricewaterhouseCoopers only. In the course of providing our Services we may, at our discretion, draw on the resources of another entity (whether or not incorporated) which carries on business under a name which includes all or part of the PricewaterhouseCoopers name or is otherwise within (or associated or connected with an entity within) or is a correspondent firm of the worldwide network of PricewaterhouseCoopers firms (together, including such entities' partners, members and employees, "PwC Affiliates").
- 30 Unless a PwC Affiliate is contracted by you or a group entity to provide any of the Services which are subject to this Agreement, provision of the Services remains the responsibility of PricewaterhouseCoopers alone and you will not bring any claim, whether in contract, tort (including negligence) or otherwise against any PwC Affiliate in respect of this Agreement or the Services. In these circumstances any PwC Affiliate who deals with you in the course of providing the Services does so on behalf of PricewaterhouseCoopers alone. The provisions of this clause have been stipulated by PricewaterhouseCoopers expressly for the benefit of PwC Affiliates. PwC Affiliates will have the right to rely on this clause as if they were parties to this Agreement and will have the right (subject to the discretion of the courts) to a stay in proceedings if you bring any claim against any PwC Affiliate in breach of this clause.

#### Consent to Production

- 31 PricewaterhouseCoopers, like other auditing and accounting firms, must, in conducting audits, meet professional standards and, as such, is regulated or overseen by various professional bodies, including various provincial Institutes of Chartered Accountants and the Ordre des comptables agréés du Québec. In addition, other regulatory or professional authorities (both in Canada and abroad), including the Office of the Superintendent of Financial Institutions and the Investment Industry Regulatory Organization of Canada, among others, have the right to inspect our files, including working papers and other work product relating to the Services (the Documents), to determine if professional standards have been met. The City hereby acknowledges that PricewaterhouseCoopers may from time to time, and in connection with such inspections of PricewaterhouseCoopers, receive requests or orders from such bodies to provide them with information and copies of such Documents. The City hereby consents to PricewaterhouseCoopers providing these Documents without further reference to, or authority from, the City.
- 32 These bodies, among others, may also have the right to conduct investigations of the City, including the Services provided. To the extent practicable, PricewaterhouseCoopers will advise management, the Auditor General and the Audit Committee of the City of any such investigation request or order prior to production of the Documents, except where prohibited by law from doing so. The City will reimburse PricewaterhouseCoopers for its professional time and expenses, as well as the fees and expenses of its counsel, incurred in responding to such an investigation relating to the City.
- 33 Except where production of the Documents is required by the laws of any jurisdiction that govern over the City or PricewaterhouseCoopers, PricewaterhouseCoopers will use all reasonable efforts to refuse access to any document over which the City has expressly informed PricewaterhouseCoopers that the City asserts privilege. The City must mark any document over which the City asserts privilege as "PRIVILEGED". Any legal or other out-of-pocket expense incurred by PricewaterhouseCoopers in asserting privilege on the City's behalf will be charged to the City.
- 34 In the event PricewaterhouseCoopers is requested or authorized by the City or required by government regulation, subpoena or other legal process to produce its Documents or its personnel as witnesses with respect to the Services for the City, the City will, so long as PricewaterhouseCoopers is not a party to the proceeding in which the Documents are sought, reimburse PricewaterhouseCoopers for its professional time and expenses, as well as the fees and expenses of its counsel, incurred in responding to such a request.

#### Governing Law

- 35 The Agreement shall be governed and construed in accordance with the laws of the Province of Ontario and shall be deemed in all respects to be an Ontario contract. The parties hereby agree to the jurisdiction of the courts of the Province of Ontario with respect to all matters arising under or by virtue of this Agreement.

#### Severability

- 36 If any of the provisions of this Agreement are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

## APPENDIX

### TERMS AND CONDITIONS

#### Other Matters

- 37 The failure of either party to insist on strict performance of the Agreement, or to exercise any option herein, shall not act as a waiver of any right, promise or option, but the same shall continue to be in full force and effect. No waiver of any term or provision or of any breach or default shall be valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any other term or provision or any subsequent breach or default of the same or similar nature.
- 38 The Agreement constitutes the entire agreement of the City and PricewaterhouseCoopers with respect to its subject matter and supersedes and replaces all other prior agreements and understandings, whether written or oral, between the City and PricewaterhouseCoopers, relating to the subject matter. On the termination of this Agreement for any reason including normal expiration, the provisions of this Agreement relating to indemnification shall survive the expiration and termination of this Agreement in addition to any other provision that survives by operation of law or which by its nature is intended to survive. This Agreement may not be modified, amended or superseded except by the City and PricewaterhouseCoopers in writing.
- 39 The City agrees that each engagement with PricewaterhouseCoopers for additional services will be subject to a separate engagement letter and the approval of the City's Audit Committee and City Council.



## ***Appendix B: Audit Service Guideline***



## Audit Service Guideline

	Our commitment to you and expectations of the TTC	Additional audit services
<b>Audit readiness and monitoring of audit progress</b>	<ul style="list-style-type: none"> <li>We will provide a detailed listing of audit information requests and agree with management upfront the required dates to provide the requested information.</li> <li>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.</li> <li>We will hold periodic meetings with management (dates and times to be agreed upfront) to discuss the status of the audit. As 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.</li> </ul>	<ul style="list-style-type: none"> <li>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 will be billed separately.</li> <li>Time incurred to review and/or test multiple versions of client prepared schedules will be billed separately.</li> </ul>
<b>Significant accounting and reporting matters</b>	<ul style="list-style-type: none"> <li>We will hold meetings with key staff at the TTC 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.</li> <li>For significant new developments that have an accounting, reporting and/or auditing impact, we ask that management prepare a position paper, summarizing the issue, the technical analysis/research supporting management's position and the impact to the TTC.</li> </ul>	<ul style="list-style-type: none"> <li>Additional time incurred outside of our review of management's position paper to resolve significant accounting matters will be billed separately.</li> <li>In addition, time incurred to quantify and perform additional audit procedures, as necessary, to validate adjustments will be billed separately.</li> </ul>
<b>Financial statement review</b>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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) will be billed separately.</li> </ul>
<b>Audit Committee /Board meetings</b>	<ul style="list-style-type: none"> <li>We will attend two meetings with senior management and the Auditor General; the first will be to discuss our year-end audit plan with management in advance of the Audit Committee meeting. The second will be to present our draft year-end audit report (summarizing our key audit findings).</li> <li>In addition, we will attend three audit committee/board meetings to present our audit plan, final year-end audit report and the annual general meeting.</li> </ul>	<ul style="list-style-type: none"> <li>Additional meetings with the Audit Committee / Board and additional drafting sessions or clearance meetings with management will be billed separately.</li> </ul>

