

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: July 25, 2013

SUBJECT: UPDATE TO PRICEWATERHOUSECOOPERS 2012
AUDIT RESULTS REPORT

INFORMATION ITEM

RECOMMENDATION

It is recommended that the Audit Committee receive the attached update to PricewaterhouseCoopers (“PWC”) Audit Results report regarding the audits of the financial statements of the Toronto Transit Commission and its subsidiaries for the year ended December 31, 2012.

BACKGROUND

On April 25, 2013, the Audit Committee received an interim report on the audit results from PWC and approved the forwarding of the report to a regular meeting of the Board. On May 24, 2013, the Board received the interim report. At that time the audit was substantially complete except for the City of Toronto confirmation of intercompany balances.

DISCUSSION

On June 14, 2013, PWC finalized their work related to the audited financial statements of the TTC and its subsidiaries and issued their final reports. The appended update to PWC’s Audit Results report indicates their work is complete and that they are prepared to issue unqualified or “clean” audit opinions on the consolidated financial statements of both TTC and Toronto Coach Terminal Inc. (TCTI).

The auditors have also reported the final materiality levels and have added one item to the Summary of Unadjusted Misstatements for TTC. This item is in respect of a potential \$2 million understatement of the amount owing to the City by TTC for capital projects. The difference is primarily attributed to four City of Toronto invoices, three of which were received by the TTC in 2013 relating to activity in 2008 and 2010. Staff are in the process of obtaining and reviewing supporting documentation from the City to validate the amounts owing. The Committee should note this potential misstatement is immaterial from a financial statement perspective, meaning neither the TTC nor the City would adjust their 2012 year-end financial statements for this item.

The auditor’s reports (i.e. opinions) for TTC and TCTI are also appended for your information.



June 14, 2013

Members of the Audit Committee of the
Toronto Transit Commission

Dear Members of the Audit Committee:

Further to our Year-End Audit Committee report, dated April 15, 2013 which was presented to the Audit Committee of the Toronto Transit Commission on April 25, 2013, we have provided below an update on the Status of the Audit section of our report (page 4) and also have included an updated summary of unadjusted misstatements which was included in Appendix B of our report dated April 15, 2012.

We would also like to update you on our final materiality levels used throughout the conduct of our audits. Preliminary materiality levels were previously reported to you in the 2012 audit plan dated January 16, 2013. Overall materiality for the financial statements was determined to be:

- Consolidated Toronto Transit Commission- \$20 million
- Consolidated Toronto Coach Terminal Inc. - \$3.18 million (specific materiality over stand-alone operations of \$75,180)
- Toronto Transit Commission Insurance Company - \$3.09 million

Status of the Audits

As of the date of this letter we have completed all of our previously reported outstanding items and we are in a position to issue our audit report on the consolidated financial statements as at December 31, 2012 and for the year then ended.

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Audit and Assurance Group

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Appendix B: Summary of unadjusted misstatements

The first two adjustments below were previously noted in our year-end audit committee report dated April 15, 2013. Adjustment 3 below was added subsequent to the Audit Committee meeting held on April 25, 2013.

Description (presented in thousands)	Surplus Over/ (Under) Stated	Financial Assets (Over)/ Under Stated	Liabilities Over/ (Under) Stated	Non- Financial Assets (Over)/ Under Stated	Opening Accumulated Surplus Over/ (Under) Stated
Current year unadjusted misstatements:					
Understatement of accounts payable and cash The TTC incorrectly understated accounts payable and cash, by not reversing a cancelled check relating to a payable for 2012 in the amount of \$1.2 million. Dr. Cash & Cash equivalents Cr. Accounts Payable & Accruals	-	1,159	(1,159)	-	-
Overstatement of gain on sale The TTC incorrectly overstated the gain on sale of subway cars by not writing off the remaining net book value of the H6 subway cars sold. Dr. Miscellaneous operating revenue Cr. Tangible Capital Assets	1,495	-	-	(1,495)	-
Potential understatement of accounts payable and fixed assets Unreconciled difference between TTC and City of Toronto on the amounts owing to the City of Toronto. Dr. Tangible Capital Assets Cr. Accounts Payable			(2,056)	2,056	
Total unadjusted misstatements	1,495	1,159	(3,215)	561	-



June 14, 2013

Independent Auditor's Report

To the Members of the Board of the Toronto Transit Commission

We have audited the accompanying consolidated financial statements of Toronto Transit Commission, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of operations and accumulated surplus, net debt and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission as at December 31, 2012 and the results of its operations, its net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matter

The accompanying consolidated financial statements supplementary schedules as at and for the year ended December 31, 2012 is presented as supplementary information only and is not a required part of the basic consolidated financial statements. The information in these schedules has been subject to audit procedures only to the extent necessary to express an opinion on the consolidated financial statements of the Toronto Transit Commission.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants



June 14, 2013

Independent Auditor's Report

To the Members of the Board of the Toronto Coach Terminal Inc.

We have audited the accompanying consolidated financial statements of Toronto Coach Terminal Inc., which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of operations and accumulated deficit, change in net debt and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toronto Coach Terminal Inc. as at December 31, 2012 and the results of its operations, change in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants