



## STAFF REPORT INFORMATION ONLY

### PricewaterhouseCoopers' (PWC) Consolidated Financial Statement Audit Plan – Year Ended December 31, 2014

<b>Date:</b>	February 19, 2015
<b>To:</b>	TTC Audit Committee
<b>From:</b>	Chief Executive Officer

#### Summary

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It is recommended that the Audit Committee receive the PWC Consolidated Financial Statement Audit Plan for the year ended December 31, 2014.

The report outlines PWC's audit plan for the audit of TTC's consolidated financial statements and its subsidiary company, TTC Insurance Company, for the year ended December 31, 2014.

#### Financial Impact

This report has no financial impact beyond what has been approved in the current year's budget.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

#### Decision History

The *City of Toronto Act* requires the city auditor to annually audit the accounts and transactions of the City and its local boards and to express an opinion on their financial statements. Furthermore, TTC's Corporate Policy 6.2.0 *Financial Reporting to the Board*, paragraph 4.1 states that annual audited financial statements must be included in the TTC's Annual Report.

In addition, section 102, paragraph 3, of the Insurance Act (Ontario), *Auditor's report*, requires annual audited financial statements of the TTC Insurance Company.

#### Issue Background

The report summarizes PWC's audit plan for the audit of TTC's consolidated financial statements and its subsidiary company, TTC Insurance Company, for the year ended December 31, 2014.

## **Accessibility Issues**

This report and its recommendations have no accessibility issues or impact.

## **Comments**

The report outlines PWC's audit plan for the audit of TTC's consolidated financial statements and its subsidiary company, TTC Insurance Company, for the year ended December 31, 2014.

The audit plan includes:

- PWC's team members
- PWC's view on audit & fraud risks
- The nature, approach, extent & timing of PWC's audit work
- PWC's materiality levels
- PWC's 2014 fees
- PWC's terms of engagement

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

## **Contact**

Vincent Rodo, Chief Financial & Administration Officer  
Tel: (416) 393-3914, E-mail: Vincent.Rodo@ttc.ca

Michael Roche, Head of Finance & Treasurer  
Tel: (416) 393-3654, E-mail: Michael.Roche@ttc.ca

Paul Buttigieg, Director, Budgets, Costing & Financial Reporting  
Tel: (416) 393-3647, E-mail: Paul.Buttigieg@ttc.ca

Sharon Tippett, Manager, Financial Statements  
Tel: (416) 393-3038, E-mail: Sharon.Tippett@ttc.ca

Elizabeth Thomas, Supervisor, Accounting Policy & Financial Reporting  
Tel: (416) 393-3299, E-mail: Elizabeth.Thomas@ttc.ca

## **Attachments**

2014 PWC Audit Plan

[www.pwc.com/ca](http://www.pwc.com/ca)

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# ***Toronto Transit Commission***

*Audit plan for the year  
ended  
December 31, 2014*





February 6, 2015

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

Dear Members of the Audit Committee:

PricewaterhouseCoopers LLP (PwC or we) are pleased to present an overview of our audit plan for the 2014 audit of the consolidated financial statements of the Toronto Transit Commission (the TTC) and the Toronto Transit Commission Insurance Company (the TTCIC) prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) established by the Public Sector Accounting Board (PSAB) of The Chartered Professional Accountants of Canada (CPA Canada) (referred to as the financial statements).

This overview includes 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 hope to have a dialogue with you about the identified risks and our audit approach. We welcome your suggestions and observations when we talk about the audit plan at our upcoming meeting on February 19, 2015.

Yours very truly,

*PricewaterhouseCoopers LLP*

Cathy Russell  
Partner  
Audit and Assurance Group

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

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*PricewaterhouseCoopers LLP*  
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada, M5J 0B2  
T: +1 416 863 1133, F: +1 416 365 8215, [www.pwc.com/ca](http://www.pwc.com/ca)

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

## Communications to the Audit Committee

<i>Key matters for discussion</i>	<i>Comments</i>
Client service team	<ul style="list-style-type: none"> <li>Cathy Russell is the engagement leader and Tasha Dewan is the engagement manager for the 2014 consolidated TTC audit engagement.</li> <li>We also assigned a quality review partner, who is independent of the audit team.</li> <li>Akif Siddiqui is the TTCIC engagement leader and Rida Sheikh is the engagement manager.</li> </ul>
Service deliverables	<ul style="list-style-type: none"> <li>The services we will provide:               <ul style="list-style-type: none"> <li>We will audit the consolidated TTC and the TTCIC financial statements as of December 31, 2014 and for the year then ended in accordance with Public Sector Accounting Standards.</li> </ul> </li> <li>Our engagement letter (included in Appendix A) sets out the terms and conditions for the audit of the City of Toronto and its agencies and corporations and outlines the responsibilities of the auditors, management and those charged with governance.</li> </ul>
Audit timeline	<ul style="list-style-type: none"> <li>We worked with management to develop the following project timeline:               <ul style="list-style-type: none"> <li>Planning: Completed September and October, 2014</li> <li>Interim visit: Completed November, 2014</li> <li>Year-end visit: To be completed March and April, 2014</li> <li>Clearance meeting with management: April, 2015</li> <li>Year-end Audit Committee meeting: May 21, 2015</li> <li>Finalization of financial statements: May 27, 2015</li> </ul> </li> </ul>
Audit approach	<ul style="list-style-type: none"> <li>Our audit approach is a combination of tests of internal controls on which we plan to place reliance and substantive analytics and detailed testing of transactions.</li> <li>Significant risks are risks of material misstatement that we believe need special audit consideration. We identified several significant audit risks and plan to address them as outlined below. Please let us know if you agree that these are the most significant risks from your point of view and if you have any other areas of concern.</li> </ul>
<b>Significant risks to discuss</b>	<b>Management's response and our audit approach</b>
1 – Significant accounting estimates	<p>The preparation of the financial statements requires the use of significant accounting estimates that are subject to management judgment in the following areas:</p> <ul style="list-style-type: none"> <li>post-employment and post-retirement benefits (pension and other); and</li> <li>contingent liabilities (including the provision for property and liability claims (covering both self-insured and insured liabilities)).</li> </ul> <p><b>Management response:</b> Management has processes and controls in place for formulating these estimates.</p> <p>Where applicable, management has engaged external specialists to assist in the determination of these significant accounting estimates.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
	<p>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).</p> <p><b>Audit approach:</b> We will perform the following procedures:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Test management's calculations, supporting data and assumptions used in these calculations.</li> <li>• Utilize our own internal experts (i.e. PwC actuary) to assess the appropriateness of methodology and assumptions used.</li> <li>• Assess the competency and objectivity of experts engaged by the TTC.</li> </ul>
2 - Management override of controls.	<p>Management override of controls is an assumed significant risk under Canadian Auditing Standards. Areas typically subject to management override of controls include bias in accounting estimates and manual journal entry override.</p> <p><b>Management response:</b> Management has established appropriate segregation of duties in order to mitigate the risk of management override of controls.</p> <p>The TTC has policies and procedures in place to prevent and deter fraud including a code of conduct, an internal audit department and policies for the review and approval of manual journal entries.</p> <p><b>Audit approach:</b> We will perform the following procedures:</p> <ul style="list-style-type: none"> <li>• Assess the control environment, ensure there is appropriate segregation of duties and assess any manual controls established to mitigate this risk.</li> <li>• Test significant and non-standard manual journal entries made during the year.</li> <li>• Review assumptions used by management in making significant estimates for indicators of bias.</li> <li>• Introduce an element of unpredictability into our audit through our sample selections.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements.</li> <li>• Consistent with the prior year, we have set a preliminary materiality at 1.5% of total operating expenses as of December 31, 2013 for the consolidated TTC financial statement audit. This results in a preliminary materiality level of \$28.7M (2013 - \$28.5M).</li> <li>• We'll report unadjusted and adjusted items over \$1.4M (2013 - \$1.4M) to the Audit Committee on completion of the audit.</li> <li>• We have set a TTCIC preliminary materiality at 2% of total assets as of December 31, 2014 consistent with the calculation used in 2013. This results in a final materiality level of \$3.2M (2013 - \$3M).</li> <li>• We'll report unadjusted and adjusted items over \$158,000 (2013 - \$150,000) to the Audit Committee on completion of the audit.</li> </ul>

<i>Key matters for discussion</i>	<i>Comments</i>
	<ul style="list-style-type: none"> <li>Our materiality calculations above are based on 2013 actual financial information; should there be a significant change based on 2014 final results, we will communicate changes to the Audit Committee at year-end.</li> </ul>
Fraud risk	<ul style="list-style-type: none"> <li>We are required to discuss fraud risk annually with the Audit Committee.</li> <li>Through our planning process (and prior years' audits), we developed an understanding of oversight processes including: <ul style="list-style-type: none"> <li>Code of conduct</li> <li>Audit Committee charter</li> <li>Presentations by management to the Audit Committee</li> <li>Chief Executive Officer's (CEO) Report</li> <li>Review of related party transactions</li> <li>Review and approval of manual journal entries</li> <li>Tone at the top</li> <li>Internal Audit department</li> <li>the quarterly communication protocol report by the Investigative Services Unit to the Chief Financial and Administration Officer and the CEO</li> <li>the TTC's Integrity Reporting Program</li> <li>the City of Toronto's Fraud and Waste Hotline</li> </ul> </li> <li>Based on discussions with TTC senior management to date, we are not aware of any material fraud. Prior to the completion of our audit we will also seek input from the Audit Committee on fraud risks and the Committee's knowledge of any known or suspected fraud.</li> </ul>
2014 audit fees	<ul style="list-style-type: none"> <li>The TTC audit fee for 2014 is \$70,950, which is an increase of \$4,630 from 2013 in line with our response for proposal No. 9171-09-7137 dated December 1, 2009.</li> <li>The TTCIC audit fee for 2014 is \$14,410, which is an increase of \$940 from 2013 in line with our response for proposal No. 9171-09-7137 dated December 1, 2009.</li> </ul>

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.

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***Appendix A: Engagement letter***





February 6, 2015

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

Dear Ms. Romeo-Beehler:

We wish to confirm that the terms and conditions of our engagement letter dated November 1, 2010 relating to the audit of the consolidated financial statements of the City of Toronto and its major agencies, boards, commissions (the City) for the years ending December 31, 2010, 2011, 2012, 2013 and 2014, continue to remain in effect for the year ended December 31, 2014. We have summarized each of the engagements included in the Request for Proposal 9171-09-7137 dated December 1, 2009 as follows:

<b>Engagement</b>	
1. Consolidated financial statements of the City of Toronto	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles as issued by the Public Sector Accounting Board (Public Sector Accounting Standards).
2. Consolidated financial statements of the City of Toronto Trust Funds	Financial statement audit (CAS 700) in accordance with a specified basis of accounting (as disclosed in the notes to the financial statements).
3. City of Toronto Sinking Funds	Financial statement audit (CAS 700) in accordance with a specified basis of accounting (as disclosed in the notes to the financial statements).
4. City of Toronto – Report on compliance with investment policy	Specified audit procedures in accordance Canadian Institute of Chartered Accountants Section 9100 – Reports on the Results of Applying Specified Auditing Procedures to Financial Information (a separate engagement letter was issued outlining the procedures).
5. City of Toronto – Report on compliance with agreement for the transfer of federal gas tax revenue and annual expenditure report	Audit of expenditures in accordance with Canadian Institute of Chartered Accountants section 5815, Special Reports on Compliance with Agreements, Statutes and Regulations, in accordance with the provisions of the related agreement.

PricewaterhouseCoopers LLP  
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2  
T: +1 416 863 1133, F: +1 416 365 8215, [www.pwc.com/ca](http://www.pwc.com/ca)

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Engagement	
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	Audit of expenditures in accordance with Canadian Institute of Chartered Accountants section 5815, Special Reports on Compliance with Agreements, Statutes and Regulations, in accordance with the provisions of the related agreement.
7. Long-term Care Homes and Services – Residents' Interest Trust Fund	Not applicable - This engagement is no longer required.
8. Long-term Care Homes – Annual reconciliation reports (10 as listed below): (a) Bendal Acres; (b) Carefree Lodge; (c) Castleview Wychwood Towers; (d) Cummer Lodge; (e) Fudger House; (f) Kipling Acres; (g) Lakeshore Lodge; (h) Seven Oaks; (i) True Davidson Acres; and (j) Wesburn Manor	Audit of reconciliation reports (CAS 805) in accordance with the provisions of the related agreements.
9. The Toronto Track and Field Centre – Statement of operating costs	Not applicable - This engagement is no longer required.
10. Toronto Community Housing Corporation: (a) Toronto Community Housing Corporation; and (b) Housing Services Inc.	(a) Financial statement audit (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations (b) Not applicable – This engagement is no longer required.
11. Toronto Economic Development Corporation	Financial statement audit (CAS 700) in accordance with International Financial Reporting Standards (IFRS)



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**Engagement**

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12. Toronto Parking Authority:	
(a) Toronto Parking Authority; and	(a) Financial statement audit (CAS 700) in accordance with IFRS
(b) Toronto Parking Authority Carpark No. 161 – St. Clair-Yonge Garage – Statement of operations.	(b) Audit of statement of operations in accordance with IFRS
13. Toronto Police Services Board Special Fund	Specified audit procedures in accordance with Canadian Institute of Chartered Accountants Section 9100 – Reports on the Results of Applying Specified Auditing Procedures to Financial Information (a separate engagement letter was issued outlining the procedures).
14. Toronto Public Health – Specified procedures in connection with various Settlements of Toronto Public Health programs (7 as listed below):	Specified audit procedures in accordance with Canadian Institute of Chartered Accountants Section 9100 – Reports on the Results of Applying Specified Auditing Procedures to Financial Information (a separate engagement letter was issued outlining the procedures).
(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;	g) Not applicable - This engagement is no longer required
(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	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards.
16. Toronto Public Library Foundation	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.

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<b>Engagement</b>		
17.	Consolidated financial statements of the Board of Governors of Exhibition Place	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards.
18.	Canadian National Exhibition Association	Not applicable - This engagement is no longer required.
19.	Canadian National Exhibition Foundation	Not applicable - This engagement is no longer required.
20.	The Sony Centre for the Performing Arts	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.
21.	St. Lawrence Centre for the Arts	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.
22.	Toronto Centre for the Arts	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.
23.	Board of Management of the Toronto Zoo	Financial statement audit (CAS 700) in accordance with Public Sector Accounting Standards for Not-for-Profit Organizations.
24.	Consolidated financial statements for the Toronto Transit Commission	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards.
25.	Toronto Coach Terminal Inc.	Not applicable - This engagement is no longer required.
26.	TTC Insurance Company Limited	Audit of the financial statements (CAS 700) in accordance with Public Sector Accounting Standards.
27.	The Pension Fund of the Corporation of the City of York Employee Pension Plan	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
28.	The Fund of the Metropolitan Toronto Pension Plan	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.



<b>Engagement</b>		
29.	The Fund of the Metropolitan Toronto Police Benefit Fund	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
30.	The Fund of the Toronto Civic Employees' Pension and Benefit Fund	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
31.	The Fund of the Toronto Fire Department Superannuation and Benefit Fund	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
32.	Toronto Transit Commission Pension Fund Society	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.
33.	Toronto Transit Commission Sick Benefit Association	Financial statement audit (CAS 700) in accordance with Canadian Generally Accepted Accounting Principles for Pension Plans.

Yours truly,

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**

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***Appendix B: Audit service guideline***



## Audit Service Guideline

	Our commitment to your 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 up front 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> </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, management will prepare a position paper, in a format as outlined in our summary of audit information requests, summarizing the issue, the technical analysis/research supporting management's position and the impact to the TTC.</li> </ul>	<ul style="list-style-type: none"> <li>• Time incurred to review management's position paper and 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 one meeting at year-end to present our draft year-end audit report (summarizing our key audit findings) to management and discuss any comments or revisions suggested by management.</li> <li>• In addition, we will attend two audit committee / board meetings to present our audit plan and final year-end audit report and the annual general meeting (if applicable).</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>

