



STAFF REPORT INFORMATION ONLY

PricewaterhouseCoopers' (PWC) Consolidated Financial Statement Audit Plan – Year Ended December 31, 2015

Date:	November 12, 2015
To:	TTC Audit & Risk Management Committee
From:	Chief Executive Officer

Summary

This 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, 2015.

Recommendation

It is recommended that the Audit & Risk Management Committee receive the PWC Consolidated Financial Statement Audit Plan for the year ended December 31, 2015.

Financial Impact

This report has no financial impact.

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, 2015.

Accessibility Issues

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

Comments

The Audit & Risk Management Committee is tasked with the responsibility of reviewing the external auditors' proposed annual financial statement audit scope and plan.

The appended 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, 2015.

The audit plan includes:

- PWC's view on audit & fraud risks
- The nature, approach, extent & timing of PWC's audit work
- PWC's materiality levels
- PWC's 2015 fees

Cathy Russell of PWC will be at the Audit & Risk Management 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

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Attachments

2015 PWC Audit Plan

Toronto Transit Commission

*Audit plan
for the year ending
December 31, 2015*

*Prepared as of
October 21, 2015*





October 21, 2015

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

Dear Members of the Audit and Risk Management Committee:

We're pleased to present an overview of our audit plan for the 2015 audit of the consolidated financial statements of the Toronto Transit Commission (the TTC) and the Toronto Transit Commission Insurance Company (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 (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.

We value your feedback and hope to have a dialogue with you about the identified risks and our audit approach. Please give us your suggestions and observations when we talk about the audit plan at our upcoming meeting on November 12, 2015.

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Assurance

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

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Communications to the Audit and Risk Management Committee

<i>Key matters for discussion</i>	<i>Comments</i>
Client service team	<ul style="list-style-type: none"> • Cathy Russell is your engagement leader and Tasha Dewan is your engagement manager. • Akif Siddiqui is the TTCIC engagement leader and Anna Fabroa is the engagement manager.
Service deliverables	<ul style="list-style-type: none"> • We will audit the consolidated TTC and the TTCIC financial statements as of December 31, 2015 and for the year then ended in accordance with Public Sector Accounting Standards. • Our engagement letter for the years ended December 31, 2015 through December 31, 2019 which sets out the terms and conditions for our engagement as the independent auditor of the City and certain of the City's Agencies and Corporations (A&C's) and also outlines the responsibilities of the auditor, management and those charged with governance is currently being finalized with the Auditor General's Office and City internal legal counsel. A copy of this letter will be provided to the Audit and Risk Management Committee at a future meeting.
Audit timeline	<ul style="list-style-type: none"> • We worked with management to develop this project timeline: <ul style="list-style-type: none"> – Interim visit: November 2015 – Year-end visit: March & April 2016 – Clearance meeting with management: April 2016 – Year-end Audit and Risk Management Committee meeting: May 2016 – Finalization of financial statements: May 2016
Audit approach	<ul style="list-style-type: none"> • Our audit approach is a mixture of tests of internal controls (within the payroll, purchases/payables, capital, inventory and revenue/receivables cycles) analytical review and detailed testing selected transactions. In addition, we will place reliance on certain of the TTC's IT systems. • Significant risks are risks of material misstatement that we think need special audit consideration. We identified several significant audit risks and plan to address them as follows. 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.
<i>Significant risks to discuss</i>	<i>Management's response and our audit approach</i>
1. Significant accounting estimates	<ul style="list-style-type: none"> • 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"> – post-employment and post-retirement benefits (pension and other); and – contingent liabilities (including the provision for property and liability claims (covering both self-insured and insured liabilities)). <p>Management response:</p> <ul style="list-style-type: none"> • Management has processes and controls in place for formulating these estimates. • Where applicable, management has engaged external specialists to assist in the determination of these 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).

<i>Key matters for discussion</i>	<i>Comments</i>
	<p>Audit approach:</p> <ul style="list-style-type: none"> • 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. PwC actuary) to assess the appropriateness of methodology and assumptions used. • Assess the competency and objectivity of experts engaged by the TTC.
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>Management response:</p> <ul style="list-style-type: none"> • Management has established appropriate segregation of duties 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 policies for the review and approval of manual journal entries. <p>Audit approach:</p> <ul style="list-style-type: none"> • Assess the control environment, ensure there is appropriate segregation of duties and assess any manual controls established to mitigate this risk. • Test significant and non-standard manual journal entries made during the year. • Review assumptions used by management in making significant estimates for indicators of bias. • Introduce an element of unpredictability into our audit through our sample selections.
3. Risk of fraud in revenue recognition	<p>The risk of fraud in revenue recognition is a presumed significant risk under Canadian Auditing Standards. We will assess this risk for passenger and non-passenger revenue streams (e.g. Advertising, Property rental, and Outside City Services) through the consideration of the City's revenue recognition policies, the incentive/pressure to fraudulently misstate revenue and the potential opportunity.</p> <p>Management response:</p> <ul style="list-style-type: none"> • The TTC has processes, controls and other procedures in place to ensure that revenue is appropriately measured and recognized. <p>Audit approach:</p> <ul style="list-style-type: none"> • Update our understanding of management's processes and internal controls surrounding revenue recognition. • Obtain confirmations from the City of Toronto for capital and operating subsidies received during the year. • Test significant revenue streams through substantive analytical procedures and tests of detail.

<i>Key matters for discussion</i>	<i>Comments</i>
Areas of focus	
1. Revenue recognition from Presto	<p>As revenue derived from PRESTO devices has increased in 2015 and is expected to further increase in the coming years we need to perform additional audit procedures as follows:</p> <ul style="list-style-type: none"> • Perform an independent assessment of relevant business and IT processes and controls in Metrolinx, Accenture and TTC related to revenue generated and allocated through PRESTO system; • Identify potential key risks which are currently not addressed by controls covered by the service auditor's report for Metrolinx and Accenture, and by the controls currently being operated at TTC; and • For any potential key risks that are currently not being addressed determine a testing strategy to obtain sufficient audit comfort.
2. PSAB Accounting Policy Changes – Liability for contaminated sites	<p>Effective January 1, 2015, the TTC is required to apply Section PS3260 which outlines specific guidance on how a liability associated with the remediation of a contaminated site is recorded.</p> <p>Management's response</p> <ul style="list-style-type: none"> • Management has determined a methodology for identifying potential contaminated sites and determining the liability, ensuring the appropriate involvement of the TTC's internal experts in the process. <p>Our audit approach</p> <ul style="list-style-type: none"> • Review management's processes and controls in place to accurately identify potential contaminated sites and determine any liability that should be recorded. • Test management's calculations, supporting data and assumptions used in measurement of liabilities for contaminated sites. • Review sufficiency and appropriateness of additional disclosures in the financial statements. <p>Utilize our own internal experts (i.e. PwC environmental specialists) to assess the appropriateness of methodology and assumptions used.</p>
Materiality	<ul style="list-style-type: none"> • Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users of the financial statements. • Consistent with the prior year, we have set a preliminary materiality at 1.5% of total operating expenses as of December 31, 2014 for the consolidated TTC financial statement audit. This results in a preliminary materiality level of \$30.2M (2014 - \$28.7M). • We'll report unadjusted and adjusted items over \$1.5M (2014 - \$1.4M) to the Audit and Risk Management Committee on completion of the audit. • We have set preliminary TTCIC materiality at 2% of total assets as of December 31, 2014. This results in a materiality level of \$3.2M (2014 - \$3.2M). • We'll report unadjusted and adjusted items over \$158,000 (2014 - \$158,000) to the Audit and Risk Management Committee on completion of the audit.

<i>Key matters for discussion</i>	<i>Comments</i>
Fraud risk	<ul style="list-style-type: none"> • We discuss fraud risk annually with the Audit and Risk Management Committee. • Through our planning process (and prior years' audits), we developed an understanding of your oversight processes including: <ul style="list-style-type: none"> - Code of conduct - Audit and Risk Management Committee charter - Presentations by management to the Audit and Risk Management Committee - Chief Executive Officer's (CEO) Report - Review of related party transactions - Review and approval of manual journal entries - Tone at the top - Internal Audit department - the quarterly communication protocol report by the Investigative Services Unit to the Chief Financial and Administration Officer and the CEO - the TTC's Integrity Reporting Program - the City of Toronto's Fraud and Waste Hotline • We are not aware of any new processes or changes to the items above during 2015. • We will be having detailed fraud discussions with various levels of management during the course of our work and will have a discussion with the Audit and Risk Management Committee during our year-end meeting.
2015 audit fees	<ul style="list-style-type: none"> • The TTC audit fee is \$62,500 and the TTCIC audit fee is \$12,000 for 2015, which is in line with our response for proposal No. 9171-14-7121 dated December 5, 2014.

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. It was not prepared or intended for any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

Appendix A: Audit Service Guideline

Audit Service Guideline

	Our commitment to you and expectations of the TTC	Additional audit services
Audit readiness and monitoring of audit progress	<ul style="list-style-type: none"> We will provide a detailed listing of audit information requests and agree with management up front the required dates to provide the requested information. We will agree with you the start dates of our interim and year-end audit fieldwork. A completed trial balance that includes all management year end closing entries will be provided at a date agreed to upfront with management. We will hold periodic meetings with management (dates and times to be agreed upfront) to discuss the status of the audit. As 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. 	<ul style="list-style-type: none"> 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.
Significant accounting and reporting matters	<ul style="list-style-type: none"> 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. 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. 	<ul style="list-style-type: none"> Time incurred to review management's position paper and resolve significant accounting matters will be billed separately. In addition, time incurred to quantify and perform additional audit procedures, as necessary, to validate adjustments will be billed separately.
Financial statement review	<ul style="list-style-type: none"> Year-end financial statements and note disclosures will be prepared and reviewed by management and provided to us for our review in accordance with the timelines as outlined in our audit information request listing. We will review two versions of the financial statements. We will provide our comments, including any suggestions for change to management, on the first version and will review a second version of the financial statements for any changes made as a result of our initial review. 	<ul style="list-style-type: none"> 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.
Audit and Risk Management Committee / Board meetings	<ul style="list-style-type: none"> We will attend one meeting at year-end to present our draft year-end audit report (summarizing our key audit findings) to management and discuss any comments or revisions suggested by management. In addition, we will attend two audit and risk management committee / board meetings to present our audit plan and final year-end audit report and the annual general meeting (if applicable). 	<ul style="list-style-type: none"> Additional meetings with the Audit and Risk Management Committee / Board and additional drafting sessions or clearance meetings with management will be billed separately.

