



## **STAFF REPORT ACTION REQUIRED**

### **PricewaterhouseCoopers LLP 2014 Management Letter Follow-Up Report**

<b>Date:</b>	September 11, 2015
<b>To:</b>	TTC Audit & Risk Management Committee
<b>From:</b>	Chief Executive Officer

#### **Summary**

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This report outlines a status update on the management letter on internal control recommendations issued by TTC's external auditors, PricewaterhouseCoopers LLP (PWC), in their 2014 year-end audit results report.

#### **Recommendations**

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It is recommended that the Audit & Risk Management Committee:

1. Receive the report; and
2. Approve forwarding a copy of the report to the TTC Board and then to the City Clerk for appropriate handling.

#### **Implementation Points**

This report must be received at the September 11, 2015 TTC Audit & Risk Management Committee meeting and the September 28, 2015 TTC Board meeting to ensure timely submission to the City of Toronto Audit Committee so that TTC's management letter update is received within six months after its issuance.

#### **Financial Summary**

The recommendations in this report have no funding implications.

#### **Accessibility/Equity Matters**

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

## **Decision History**

Based on the City of Toronto Audit Committee July 2004 Report 4, Clause 2 Recommendation 3, the TTC is required to provide an update of outstanding issues raised in the management letter, within six months after its issuance.

The TTC Audit Committee's mandate and responsibilities which were approved at its meeting on April 19, 2011<sup>1</sup> include the requirement to review the external auditors' management letter and management's responses. This responsibility remains under the proposed Terms of Reference (see System of Internal Control) for the TTC Audit and Risk Management Committee (report on this agenda).

## **Comments**

The 2014 year-end PWC audit results report, presented at the May 27, 2015 TTC Audit Committee meeting<sup>2</sup>, included a management letter on internal control recommendations and management's initial response to these recommendations.

This attachment includes PWC's internal control recommendation, management's initial response and a status update detailing the action taken thus far to address the recommendation.

The recommendation is currently in progress, as detailed in the attachment, and all action taken to date will be subject to review by PWC during the 2015 external financial statement audit.

## **Contact**

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

## **Attachments**

PWC LLP 2014 Management Letter with September 2015 Update

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<sup>1</sup> See Item 7 at:

[http://www.ttc.ca/About the TTC/Audit Committees/Audit Committee Meetings/2011/April 19/Agenda/index.jsp](http://www.ttc.ca/About%20the%20TTC/Audit%20Committees/Audit%20Committee%20Meetings/2011/April%2019/Agenda/index.jsp)

<sup>2</sup> See Item 3d at:

[http://www.ttc.ca/About the TTC/Audit Committees/Audit Committee Meetings/2015/May 27/Agenda/index.jsp](http://www.ttc.ca/About%20the%20TTC/Audit%20Committees/Audit%20Committee%20Meetings/2015/May%2027/Agenda/index.jsp)

## **PricewaterhouseCoopers LLP 2014 Management Letter with September 2015 Update**

**1) Schedules supporting the TTC's tangible capital asset balances, including additions, disposals, amortization calculation, and capital subsidies should be subject to thorough review.**

### **Observation**

During our testing of tangible capital assets, it was noted that the process is not automated. Rather, excel spreadsheets are used to track and account for expenditures on capital assets, asset disposals, capital subsidies received and amortization of capital assets. We noted in the current year that errors were made to the amortization calculations affecting amortization recorded in the current and prior years.

### **Implications**

The use of excel spreadsheets to track and account for such significant balances is less secure, more time intensive and increases the risk of error, therefore should be subject to a thorough management review.

### **Recommendation**

A regular and thorough management review of these excel spreadsheets is required in order to ensure that no errors and omissions are made. We recommend that management perform validation of manual adjustments inputted into the spreadsheet and track these on an individual basis. In addition, we also recommend that the accumulated net book value of assets be monitored to ensure that assets that are fully depreciated do not continue to record amortization expense. Lastly, we recommend that management perform the above exercises on a granular level within each asset class and asset type to ensure that each asset class is appropriately recorded.

### **Management Response**

We agree. Management will conduct a review of the excel spreadsheets on a granular basis and implement necessary spreadsheet controls. The long term solution will be achieved with the implementation of the SAP system.

### **September 2015 Update**

A review of the depreciation model is currently underway and by year-end an interim process will be established to employ necessary spreadsheet controls until a permanent solution is implemented (re: SAP).

### **Status**

In Progress