



PricewaterhouseCoopers LLP 2017 Management Letter Follow-up Report

Date: February 26, 2019
To: TTC Audit & Risk Management Committee
From: Chief Financial Officer

Summary

This report provides a status update on the management letter on internal control recommendations issued by TTC's external auditors, PricewaterhouseCoopers LLP (PWC), in their 2017 year-end audit results report.

Recommendations

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 February 26, 2019 TTC Audit & Risk Management Committee meeting and the February 27, 2019 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.

Equity/Accessibility Matters

This report and its recommendations have no accessibility or equity issues or impacts.

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.

At its meeting on November 12, 2015, the TTC Audit & Risk Management Committee modified its terms of reference to include a requirement to “understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses”.

[Audit & Risk Management Committee Terms of Reference](http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2015/November_12/Reports/TTC_Audit-Risk_Mngmnt_Committee_Terms-Reference.pdf)

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2015/November_12/Reports/TTC_Audit-Risk_Mngmnt_Committee_Terms-Reference.pdf

Issue Background

The 2017 year-end PWC audit results report, presented at the May 28, 2018 TTC Audit Committee meeting, included a management letter on internal control recommendations and management's initial response to these recommendations.

[PricewaterhouseCoopers LLP Audit Results Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2017](http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2018/May_29/Reports/1_PWC_Audit_Results_Report_of_the_TTC_Consolidated_Financial.pdf)

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2018/May_29/Reports/1_PWC_Audit_Results_Report_of_the_TTC_Consolidated_Financial.pdf

Comments

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. This update is beyond six months of issuance, due to the 2018 council elections and consequently no Board or Committee meetings.

The recommendation is currently completed, as detailed in the attachment, and all action taken to date will be subject to review by PWC during the 2018 external financial statement audit.

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Attachments

PricewaterhouseCoopers LLP 2017 Management Letter – May 2018

PricewaterhouseCoopers LLP 2017 Management Letter – May 2018

Cyclic inventory counted not performed for certain inventory parts

Observation

Of the 16 inventory items selected from the parts-not-counted report, it was noted that five items were erroneously omitted from the inventory counts in 2017. It was noted that these parts were active but that cycle counting, which is configured to ensure that each part is subject to an inventory count based on the inventory category, was not activated, resulting in these items being omitted for inventory cycle counting procedures.

Implication

Parts not subject to routine physical verification procedures could result in inaccurate or incomplete inventory amounts being reported, which may have an impact on the financial and operating results.

Recommendation

Monitoring over parts not counted should be performed on a periodic basis to ensure that all relevant spare parts are included in an appropriate count cycle.

Management response

Materials and Procurement is implementing a weekly review process related to this internal control recommendation. On a weekly basis, supervisors will review and compare to previous week's report from IFS (Industrial Financial System) detailing any active inventory parts that do not have cycle counting procedures activated. This will be in place by June 1, 2018.

Management Update – January 2019

In June 2018 Inventory Management implemented a weekly scheduled report (Report 0375-INV-162) to ensure staff was fully compliant with defining every inventory part to be included in cyclic counts. Since deployment of this report, corrections of 15 inventory parts were flagged for review and action. Materials and Procurement has mitigated the impact of any errors made during the part creation process through this weekly report, which identifies errors made, if any, as well as validates corrective action taken. Additionally, the timeliness of identifying these errors has enabled Inventory Management to ensure adequate staff training and monitoring of this process. This review is supplementary to the annual count review performed by the IFS System Administrator and is formally included in Inventory Management's part creation process.

Status

Completed