STAFF REPORT
ACTION REQUIRED

PricewaterhouseCoopers LLP Audit Results Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2014

Date:	May 27, 2015
To:	TTC Board
From:	Chief Executive Officer

Summary

This report from the TTC's external auditors, PricewaterhouseCoopers LLP (PWC) outlines the audit findings from the audit of the TTC's consolidated financial statements for the year ended December 31, 2014.

Recommendations

It is recommended that the Board

1. Receive the report

2. Approve forwarding a copy of the report to the City Clerk for appropriate handling

Implementation Points

This report must be received at the May 27, 2015 TTC Board meeting to ensure timely submission to the City of Toronto Audit Committee meeting on June 26, 2015.

At the Audit Committee meeting on May 27, 2015, a review will be undertaken of the attached report from the external auditors, regarding the audit of the consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2014.

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

The *City of Toronto Act* requires the city auditor (PWC) 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.

Comments

The consolidated financial statements of the TTC for the year ended December 31, 2014 were prepared by management. They were audited by PWC in accordance with the plan approved by the Audit Committee at its February 19, 2015 meeting[1] . The attached report was prepared by PWC and it includes their comments on the significant audit, accounting and financial reporting matters which are summarized on pages 1-3.

PWC proposes to issue an unqualified Independent Auditor's Report (or "clean opinion") on the 2014 consolidated financial statements (see Appendix A) once the outstanding items noted on page 1 have been completed.

Both staff and PWC would be pleased to answer any questions that you may have about the report and the audit in general.

Contact

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

Attachments

Audit Results Report from PWC LLP – Year Ended December 31, 2014

[1] See Item 3a at: http://www.ttc.ca/About_the_TTC/Audit_Committees/Audit_Committee_Meetings/2015/February_19/Agenda/index.jsp

www.pwc.com/ca

Toronto Transit Commission

2014 year-end report to the Audit Committee

Prepared as at May 11, 2015

pwc

pwc

May 11, 2015

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

Dear Members of the Audit Committee:

We have substantially completed our audit of the consolidated financial statements of the Toronto Transit Commission (TTC) for the year ended December 31, 2014, 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). We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We prepared the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant accounting and financial reporting matters dealt with during the audit process.

We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and staff who have assisted us in carrying out our work, and we look forward to our meeting on May 27, 2015. If you have any questions or concerns prior to the Audit Committee meeting, please do not hesitate to contact me in advance.

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Assurance

c.c.:

Mr. V. Rodo, Chief Financial and Administration Officer
Mr. M. Roche, Head of Finance and Treasurer
Ms. B. Romeo-Beehler, Auditor General

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Communications to the Audit Committee

Key matters for discussion	*Comments*
Status of the audit	PricewaterhouseCoopers LLP (PwC or we) have substantially completed our audit of the consolidated financial statements. Significant outstanding items at time of mailing include the following: • Receipt of signed management representation letter; • Receipt of response to legal confirmation letters from external legal counsel; • Board approval of the financial statements; and • Subsequent events procedures to the date of our auditor's report.

Significant accounting estimate; areas of management judgement	In preparing the financial statements there were a number of significant accounting estimates that required management judgment:
	
	• TTC Pension Fund and employee future benefits
	  ○ Discount rates used to determine the pension and employee future benefit (WSIB, LTD, Post retirement and Post employment Health and Dental) obligations are between 2.8% and 6.3%.
	  ○ Other actuarial assumptions such as mortality rates and retirement age are also incorporated in the valuation of these obligations.
	• Contingent liabilities (Unsettled accident claims)
	  ○ The measurement of the unsettled accident claims liability uses a number of estimates and actuarial assumptions, including a discount rate of 1.4%. The actuary has incorporated claim provision for adverse deviations (PFAD) and an internal loss adjustment expense.
	• Other provisions
	  ○ The financial statements include various other significant provisions which are based on management judgment and historical experience.
	
	PwC work performed:
	• TTC Pension Fund and employee future benefits
	  ○ We examined the third party actuarial valuations of the TTC Pension Fund and employee future benefit obligations at year-end with the assistance of our PwC actuarial specialists to assess the appropriateness of the assumptions and methodology used to record the pension and employee future benefit liabilities.
	  ○ We noted an unadjusted difference relating to the disclosure in Note 9 (Employee Future Benefits) of the financial statements as TTC Pension Fund's plan assets, the unamortized actuarial gains and accrued benefit assets were understated on a net basis by approximately \$4.5 million, \$4.2 million and \$0.3 million respectively.
	  ○ No significant matters were noted.

Key matters for discussion	*Comments*

	• Contingent liabilities (Unsettled accident claims)
	  ○ We engaged our PwC actuarial specialists in order to assess the reasonableness of the assumptions and methodology used by the TTC in recording the unsettled accident claims liability.
	  ○ We further tested the accuracy and completeness of the data used in the calculation and our specialists independently projected a reserve estimate which was compared to the estimate recorded by the TTC.
	  ○ No significant differences were noted.
	• Other provisions
	  ○ We tested significant provisions by inquiring with management regarding estimates and methods used, reviewing supporting documentation, and where applicable reviewing settlements after year-end.
	  ○ No significant differences were noted.
	
	Conclusion:
	Based on our audit work performed, we have concluded that the significant accounting estimates included in the financial statements are consistently conservative and supportable within an acceptable range.

Management override of controls	Management has implemented internal controls to ensure that appropriate segregation of duties have been established at the TTC in order to mitigate the risk of management override of controls. The TTC has policies in place to prevent and detect fraud, including a code of conduct, an internal audit department, an integrity hotline for employees and a process to review and approve manual journal entries. PwC work performed: In completing our audit, we are responsible for maintaining professional scepticism throughout our audit engagement, considering the potential for management override of controls. • We reviewed the quarterly fraud investigation reports in corroboration with the call log of the City Whistle-blower hotline and TTC integrity hotline. Further, we held discussions with management, internal legal counsel and the Staff Sergeant of Special Investigations. No significant items were noted in this review. • We performed audit work on a sample of significant and non-standard manual journal entries. • We obtained documentation to support the manual entries selected and ensured that all were appropriately approved. Conclusion: Based on our work performed, we found no circumstances that evidenced inappropriate management override of controls.
Significant difficulties or disagreements that occurred during the audit	No difficulties or disagreements occurred while performing our audit that requires the attention of the Audit Committee.

Key matters for discussion	***Comments***
Fraud and illegal acts	No fraud involving senior management, or employees with a significant role in financial reporting , or instances of fraud that would cause a material misstatement of the financial statements came to our attention as a result of our audit procedures. Furthermore, no illegal acts came to our attention as a result of our audit procedures. We wish to reconfirm that the Audit Committee is not aware of any known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us.
Any matters involving known or suspected non-compliance with laws or regulations that came to our attention	No instances of known or suspected non-compliance with laws or regulations came to our attention as a result of our audit procedures. We wish to reconfirm whether the Audit Committee is aware of any known or suspected incidents of non-compliance with laws or regulations.
Summary of unadjusted and adjusted items	Our final materiality was $28.7 million, which is consistent with the planning materiality level previously communicated to the Audit Committee. Unadjusted and adjusted items in excess of the $1.4 million threshold for reporting differences (previously communicated to the Audit Committee) noted during the course of the audit are included in Appendix B.
Internal controls recommendations	We have noted one internal control recommendation as reported in Appendix C.
Independence	We confirm our independence with respect to the TTC in our annual independence letter, which is attached as Appendix D to this report.
Other information in documents containing audited financial information	Once completed, we will review the TTC Annual Report for consistency with the audited financial statements.
Subsequent events	We have not been made aware of any subsequent events which would impact the financial statements other than those disclosed. We will complete our subsequent events procedures to the date of our audit opinion. We wish to confirm whether the Audit Committee is aware of any subsequent events which would impact the financial statements other than those disclosed.

Appendix A: Draft auditor's report

pwc

May 27, 2015

Independent Auditor's Report

To the Members of the Board of the Toronto Transit Commission

We have audited the accompanying consolidated financial statements of the Toronto Transit Commission, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statement of operations and accumulated surplus, remeasurement gains and losses, 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 in our audit 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 the Toronto Transit Commission as at December 31, 2014 and the results of its operations, remeasurement gains and losses, 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 schedule as at and for the year ended December 31, 2014 is presented as supplementary information only and is not a required part of the basic consolidated financial statements. The information in this schedule 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.

DRAFT

Chartered Professional Accountants, Licensed Public Accountants

Appendix B: Summary of unadjusted and adjusted differences

a. Unadjusted differences

Description	*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*
#1 - Understatement of Amortization Expense *Dr. Amortization Expense* *Cr. Tangible Capital Assets*	$ 16,504	$ (16,504)	-	-	-
#2 - Overstatement of opening Accumulated Amortization *Dr. Tangible Capital Assets (Accumulated Amortization)* *Cr. Opening Accumulated Surplus*	-	$ 14,584	-	-	$ (14,584)
Total	**$ 16,504**	**$ (1,920)**	-	-	**$ (14,584)**

In addition, we noted an unadjusted difference relating to the disclosure in Note 9 (Employee Future Benefits) of the financial statements as TTC Pension Fund's plan assets, the unamortized actuarial gains and accrued benefit assets were understated on a net basis by approximately $4.5 million, $4.2 million and $0.3 million respectively.

As a result of our audit, management has concluded that the above unadjusted items are individually and in aggregate immaterial to the financial statements taken as a whole.

b. Adjusted differences

Description	*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*
#1 - Overstatement of Accounts Receivable *Dr. Subsidy Receivable* *Cr. Accounts Receivable*	-	\$ 8,753 \$ (8,753)	-	-	-
#2 - Overstatement of Tangible Capital Assets *Dr. Subsidy Revenue* *Cr. Tangible Capital Assets*	\$ 8,422	\$ (8,422)	-	-	-
Total	**\$ 8,422**	**\$ (8,422)**	-	-	-

Appendix C: Internal control recommendations

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.

Implication

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.

Appendix D: Draft management representation letter

[TTC Letterhead]

May 27, 2015

Ms. Cathy Russell, Partner
PricewaterhouseCoopers LLP
PWC Tower
18 York Street, Suite 2600
Toronto ON M5J 0B2

Dear Ms. Russell:

We are providing this letter in connection with your audit of the consolidated financial statements of the Toronto Transit Commission (the TTC) and its subsidiaries as at December 31, 2014 and for the years then ended for the purpose of expressing an opinion as to whether such financial statements present fairly, in all material respects, the consolidated statement of financial position, consolidated statement of operations and accumulated surplus, the consolidated statement of remeasurement gains and losses, consolidated statement of net debt, and the consolidated statement of cash flows in accordance with Canadian public sector accounting standards.

A. Management's responsibilities

We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 1, 2010. In particular, we confirm to you that:

- we are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards;
- we are responsible for designing, implementing and maintaining an effective system of internal control over financial reporting to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that ensure financial statements are prepared in accordance with Canadian public sector accounting standards;
- we have provided you with all relevant information and access, as agreed in the terms of the audit engagement; and
- all transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

We confirm the following representations:

B. Preparation of consolidated financial statements

The consolidated financial statements include all disclosures necessary for fair presentation in accordance with Canadian public sector accounting standards and disclosures otherwise required to be included therein by the laws and regulations to which the TTC is subject.

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the consolidated financial statements to their related supporting information (e.g. sub ledger or third party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the consolidated financial statements. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an operations account and vice versa. All consolidating entries have been properly recorded. All inter-governmental unit accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.

C. Accounting policies

We confirm that we have reviewed the TTC's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the consolidated financial statements is appropriate in the TTC's particular circumstances to present fairly in all material respects its financial position, results of operations, remeasurement gains and losses and cash flows in accordance with Canadian public sector accounting standards.

D. Internal controls over financial reporting

We have designed disclosure controls and procedures to ensure material information relating to the TTC, including its consolidated subsidiaries, is made known to us by others within those entities.

We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with Canadian public sector accounting standards.

We have not identified any significant deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting as at December 31, 2014.

We have disclosed to you all deficiencies in the design or operation of disclosure controls and procedures and internal control over financial reporting that we are aware as noted in Appendix C.

E. Disclosure of information

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the consolidated financial statements, such as records, documentation and other matters including:
  - contracts and related data;
  - information regarding significant transactions and arrangements that are outside of the normal course of business;
  - minutes of the meetings of the board; including confidential minutes.
- additional information that you have requested from the TTC for the purpose of the audit; and
- unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

F. Completeness of transactions

All contractual arrangements entered into by the TTC with third parties have been properly reflected in the accounting records and, where material (or potentially material) to the consolidated financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance.

G. Fraud

We have disclosed to you:

- our opinion of the risk that the consolidated financial statements may be materially misstated as a result of fraud;
- all information in relation to fraud or suspected fraud of which we are aware affecting the TTC involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the consolidated financial statements; and
- all information in relation to any allegations of fraud, or suspected fraud, affecting the TTC's consolidated financial statements, communicated by employees, former employees, analysts, regulators or others.

H. Compliance with laws and regulations

We have disclosed to you all aspects of laws, regulations and contractual agreements that may affect the consolidated financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated financial statements.

We are not aware of any illegal or possibly illegal acts committed by the TTC's directors, officers or employees acting on the TTC's behalf.

I. Accounting estimates and fair value measurements

Significant assumptions used by the TTC in making accounting estimates, including fair value accounting estimates, are reasonable.

For recorded or disclosed amounts in the consolidated financial statements that incorporate fair value measurements, we confirm that:

- the measurement methods are appropriate and consistently applied;
- the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable and have been consistently applied;
- no subsequent event requires adjustment to the accounting estimates and disclosures included in the consolidated financial statements; and
- the significant assumptions used in determining fair value measurements are consistent with the TTC's planned courses of action. We have no plans or intentions that have not been disclosed to you, which may materially affect the recorded or disclosed fair values of assets or liabilities.

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with CPA Canada Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty, have been appropriately disclosed.

J. Related parties

We confirm that we have disclosed to you the identity of TTC's related parties as defined by Canadian Auditing Standard 550, Related Parties, and all the related party relationships and transactions.

The identity, relationship of and balances and transactions with related parties have been properly recorded and adequately disclosed in the financial statements, as required by Canadian public sector accounting standards. The list of related parties attached to this letter as Appendix A accurately and completely describes the TTC's related parties, consisting of other entities under TTC's control and other entities under common control with TTC with whom significant transactions occur.

K. Going concern

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the consolidated financial statements (e.g. to dispose of the business or to cease operations).

L. Assets and liabilities

We have satisfactory title or control over all assets.

Receivables recorded in the consolidated financial statements represent bona fide claims against debtors for sales or other charges arising on or before the statement of financial position date and are not subject to discount except for normal cash discounts. All receivables have been appropriately reduced to their estimated net realizable value.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which the TTC is contingently liable in accordance with the CPA Canada Public Sector Accounting Handbook Section PS 3300, Contingent Liabilities, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

M. Litigation and claims

All known actual or possible litigation and claims, which existed at the consolidated statement of financial position date or exist now, have been disclosed to you and accounted for and disclosed in accordance with Canadian public sector accounting standards, whether or not they have been discussed with legal counsel.

N. Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. Solely for the purpose of this letter, the term "material" means any item referred to in this letter, individually or the aggregate that are more than $28.7 million. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the consolidated financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the financial statements, as summarized in the accompanying schedule (Appendix B), are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We confirm that we are not aware of any uncorrected misstatements other than those included in Appendix B.

The adjusted misstatements identified during your audit and summarized in the accompanying schedule (Appendix B) have been approved by us and adjusted in the consolidated financial statements.

We note an unadjusted difference relating to the disclosures in Note 9 (Employee Future Benefits) of the financial statements as TTC Pension Fund's plan assets, the unamortized actuarial gains and accrued benefit assets were understated on a net basis by approximately $4.5 million, $4.2 million and $0.3 million respectively. The effect of the uncorrected misstatement to Note 9 is immaterial to the consolidated financial statements taken as a whole. We confirm that we are not aware of any other uncorrected misstatements.

O. Events after consolidated balance sheet date

We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

P. Cash and banks

The books and records properly reflect and record all transactions affecting cash funds, bank accounts and bank indebtedness of the TTC.

All cash balances are under the control of the TTC, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of the TTC are included in the consolidated financial statements as at December 31, 2014.

Q. Accounts receivable

All amounts receivable by the TTC were recorded in the books and records.

Amounts receivable are considered to be fully collectible. All receivables were free from hypothecation or assignment as security for advances to the TTC, except as hereunder stated.

R. Financial assets

All securities which were owned by the TTC were recorded in the accounts.

All income earned on the financial assets has been recorded in the accounts, and any interest income has been accrued using the effective interest rate method.

We are not aware of any objective evidence of impairment that would result in the recognition of an impairment loss on any financial asset.

S. Inventory

Inventories recorded in the financial statements are stated at the weighted average cost, with due provision recorded to reduce all damaged, wholly or partially obsolete, or unusable inventories to their estimated selling price less estimated cost to sell. Inventory quantities at the balance sheet date were determined from carefully kept records at year-end. Using a cycle count process through the year, these records were adjusted to reflect actual quantities on hand as ascertained by the actual count. Liabilities for amounts unpaid are recorded for all items included in inventories at balance sheet date.

T. Tangible capital assets

All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets. No significant tangible capital asset additions were charged to repairs and maintenance or other expense accounts.

Book values of tangible capital assets sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Tangible capital assets owned by the TTC are being depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous date.

All lease agreements covering assets leased by or from the TTC have been disclosed to you and classified as leased tangible capital assets or operating leases.

There have been no events, conditions or changes in circumstances that indicate that a tangible capital asset no longer contributes to the TTC's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. We believe that the carrying amount of the TTC's long-lived tangible capital assets is fully recoverable in accordance with CPA Canada Public Sector Accounting Handbook PS 3150.

U. Deferred revenue

All material amounts of deferred revenue meet the definition of a liability and were appropriately recorded in the books and records.

V. Retirement benefits, post-employment benefits, compensated absences and termination benefits

1. All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

2. The actuarial assumptions and methods used to measure liabilities and costs for financial accounting purposes for pension and other post-retirement benefits are appropriate in the circumstances.

3. The TTC does not plan to make frequent amendments to the pension or other post-retirement benefit plans.

4. All changes to the plan and the employee group and the plan's performance since the last actuarial valuation have been reviewed and considered in determining the pension plan expense and the estimated actuarial present value of accrued pension benefits and value of pension plan assets where latest actuarial valuation for accounting purposes is not at the balance sheet date.

5. The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with CPA Canada Public Sector Accounting Handbook PS 3250, Retirement Benefits and CPA Canada Public Sector Accounting Handbook PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits. In particular:

    a. The significant accounting policies that the TTC has adopted in applying CPA Canada Public Sector Accounting Handbook Section PS 3250 and CPA Canada Public Sector Accounting Handbook Section PS 3255 are accurately and completely disclosed in the notes to the consolidated financial statements.

    b. Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events.

    c. The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted.

    d. The discount rate used to determine the accrued benefit obligation was determined by reference to City's cost of borrowing rates.

    e. The assumptions included in the actuarial valuation are those that management instructed Mercer & Aon Hewitt to use in computing amounts to be used by management in determining pension costs and obligations and in making required disclosures in the above-named consolidated financial statements, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3250 & 3255.

    f. In arriving at these assumptions, management has obtained the advice of consulting actuaries who assisted in reaching best estimates, but has retained the final responsibility for them.

    g. The source data and plan provisions provided to the actuary for preparation of the actuarial valuation are accurate and complete.

    h. Transactions between the TTC and the plan during the period are complete and accurate.

Based on the characteristics of the TTC pension plan (the Pension Fund Society), we believe it has been appropriately accounted for as a joint defined benefit plan and we have appropriately accounted for our share (50%) of the risks and rewards inherent in the plan. As well, we confirm that the plan has been disclosed in accordance with PS 3250, retirement benefits.

Disclosure on the contributions paid by the TTC to the Pension Fund Society is complete and accurate.

W. Environmental matters

There are no liabilities or contingencies arising from environmental matters that have not already been disclosed to the auditor.

Liabilities or contingencies related to environmental matters have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements.

We have considered the effect of environmental matters and the carrying value of the relevant assets is recognized, measured and disclosed, as appropriate, in the consolidated financial statements.

All commitments related to environmental matters have been measured and disclosed, as appropriate in the consolidated financial statements.

X. Use of a specialist

We assume responsibility for the findings of specialists in evaluating the employee benefit obligation and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the consolidated financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

We assume responsibility for the findings of specialists in evaluating the case reserves and IBNR and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give our or cause any instructions to be given to the specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Y. Derivative financial instruments

The TTC has recognized, and recorded at fair value, all embedded derivative instruments that are required to be separated from their host contracts, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3450, Financial Instruments.

The TTC has recognized and recorded at fair value all non-financial derivatives that are included within the scope of CPA Canada Public Sector Accounting Handbook Section PS 3450, Financial Instruments.

We confirm that our objectives with respect to derivative financial instruments (for example, whether derivative financial instruments are used for hedging or speculative purposes) are for hedging purposes.

We confirm that the:

- the records reflect all transactions involving derivative financial instruments; and
- the assumptions and methodologies used in the valuation models applied to derivative financial instruments are reasonable.

All transactions involving derivative financial instruments have been conducted at arm's length and at fair values.

We have disclosed to you the terms of transactions involving derivative financial instruments.

There are no side agreements associated with any derivative financial.

Z. Consolidations

All significant intercompany transactions have been disclosed to you and properly eliminated in the consolidated financial statements.

AA. Minutes

All matters requiring disclosure to or approval of the Board of Directors have been brought before them at appropriate meetings and are reflected in the minutes.

BB. General

There are no proposals, arrangements or actions completed, in process, or contemplated that would result in the suspension or termination of any material part of the TTC's operations.

Information relative to any matters handled on behalf of the TTC by any legal counsel, including all correspondence and other files, has been made available to you.

CC. Government transfers

Transfers without eligibility criteria or stipulations have been recognized as revenue once the transfer has been authorized.

Transfers with eligibility criteria but without stipulations have been recognized as revenue once the transfer has been authorized and all eligibility criteria have been met.

Transfers with or without eligibility criteria but with stipulations have been recognized as revenue in the period the transfer has been authorized and all eligibility criteria have been met, except when, and to the extent that, the transfer gives rise to an obligation that meets the definition of a liability for the recipient government in accordance with CPA Canada Public Sector Accounting Handbook PS 3200, Liabilities.

The major kinds of transfers recognized have all been disclosed in the consolidated financial statements as well as the nature and terms of liabilities arising from government transfers received.

DD. Budgetary data

We have included budgetary data in our financial statements, which is relevant to the users of consolidated financial statements. Planned results were presented for the same scope of activities and on a basis consistent with that used for actual results.

Yours truly,

Toronto Transit Commission

Mr. Andy Byford, Chief Executive Officer

Mr. Vincent Rodo, Chief Financial & Administration Officer

Mr. Michael Roche, Head of Finance & Treasurer

Ms. Jennifer Imbrogno, Director – Capital Accounting

Mr. Paul Buttigieg, Director – Budgets, Costing & Financial Reporting

Ms. Sharon Tippett, Manager – Financial Statements

Ms. Elizabeth Thomas, Supervisor – Accounting Policy & Financial Reporting

Appendix A – List of related parties

- City of Toronto
- Toronto Coach Terminal Inc.
- Toronto Transit Commission Insurance Company Limited
- Toronto Transit Infrastructure Limited.
- The TTC Sick Benefit Association
- The TTC Pension Fund Society
- Toronto Waterfront Revitalization Corporation (TWRC)
- Toronto Hydro Corporation
- Toronto Parking Authority

Appendix B: Summary of unadjusted and adjusted differences

a. Unadjusted differences

Description	*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*
#1 - Understatement of Amortization Expense *Dr. Amortization Expense* *Cr. Tangible Capital Assets*	$ 16,504	$ (16,504)	-	-	-
#2 - Overstatement of opening Accumulated Amortization *Dr. Tangible Capital Assets (Accumulated Amortization)* *Cr. Opening Accumulated Surplus*	-	$ 14,584	-	-	$ (14,584)
Total	**$ 16,504**	**$ (1,920)**	**-**	-	**$ (14,584)**

In addition, we noted an unadjusted difference relating to the disclosure in Note 9 (Employee Future Benefits) of the financial statements as TTC Pension Fund's plan assets, the unamortized actuarial gains and accrued benefit assets were understated on a net basis by approximately $4.5 million, $4.2 million and $0.3 million respectively.

As a result of our audit, we conclude that the above unadjusted items are individually and in aggregate immaterial to the financial statements taken as a whole.

b. Adjusted differences

Description	*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*
#1 - Overstatement of Accounts Receivable *Dr. Subsidy Receivable* *Cr. Accounts Receivable*	-	\$ 8,753 \$ (8,753)	-	-	-
#2 - Overstatement of Tangible Capital Assets *Dr. Subsidy Revenue* *Cr. Tangible Capital Assets*	\$ 8,422	\$ (8,422)	-	-	-
Total	**\$ 8,422**	**\$ (8,422)**	-	-	-

Appendix C: Internal control recommendations

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.

Implication
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.

Appendix E: Independence letter

pwc

May 11, 2015

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

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of the Toronto Transit Commission (the TTC) for the year ended December 31, 2014.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the company, its management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Chartered Professional Accountants of Ontario and applicable legislation covering such matters as:

a. holding a financial interest, either directly or indirectly, in a client;
b. serving as an officer or director of a client;
c. performance of management functions for an assurance client;
d. personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or its management;
e. economic dependence on a client;
f. long association of senior personnel with a listed entity audit client;
g. audit committee approval of services to a listed entity audit client; and
h. provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since May 12, 2014, the date of our last letter.

We are not aware of any relationships between the TTC or its management and PricewaterhouseCoopers LLP that may reasonably be thought to bear on our independence that have occurred from May 12, 2014 to May 11, 2015.

We hereby confirm that we are independent with respect to the TTC within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as of May 11, 2015.

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

This report is intended solely for the use of the Audit Committee, the Board of Directors, management and others within the TTC and should not be used for any other purpose.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on May 27, 2015

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants