

TTC INSURANCE COMPANY LIMITED AUDIT COMMITTEE REPORT NO.

MEETING DATE: June 24, 2014

SUBJECT: PricewaterhouseCoopers Audit Results - 2013

INFORMATION ITEM

RECOMMENDATION

It is recommended that the Audit Committee receive the attached letter from PricewaterhouseCoopers expressing its opinion on the 2013 financial statements, noting that no issues of concern have been identified.

BACKGROUND

Each year the external auditors provide a summary of their findings in letter format.

DISCUSSION

The PricewaterhouseCoopers audit for the 2013 financial year enables the TTC Insurance Company Limited to meet the statutory reporting requirements of the Financial Services Commission of Ontario.

42.35
Attachment



February 19, 2014

Mr. Vincent Rodo
President – TTC Insurance Company Limited
Toronto Transit Commission
1900 Yonge Street
Toronto, Ontario
M4S 1Z2

Dear Mr. Rodo:

Reporting letter on results of audit examination for the year ended December 31, 2013

We are pleased to provide this report following the substantial completion of our audit examination of the financial statements and accompanying notes and Annual Return P&C-1 (collectively the financial statements) of TTC Insurance Company Limited (TTCICL) for the year ended December 31, 2013. Our auditor's reports are included as Appendix A.

As auditors, our Canadian generally accepted auditing standards (Canadian GAAS) requires certain communication with those charged with governance in an audit of financial statements. This document includes these required communications including any significant matters which came to our attention in the conduct of our audit.

The auditor's responsibility under Canadian GAAS

As the TTCICL's auditors, our primary responsibility is to form and express an opinion on the organization's financial statements as at December 31, 2013 and for the year then ended in accordance with Canadian public sector accounting standards. The financial statements are prepared by management. An audit of the financial statements does not relieve management of its responsibilities.

We conducted our audit in accordance with Canadian GAAS. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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



Mr. Vincent Rodo
Toronto Transit Commission
February 19, 2014

Your team

Your team comprised of the following individuals:

Name	Role	Phone	Email
Scott Ewert	Partner	416 869 2384	scott.f.ewert@ca.pwc.com
Namrata Maraj	Manager	416 687 8505	namrata.n.maraj@ca.pwc.com
Veerpal Dhaliwal	Senior Associate	416 941 8383 x14495	veerpal.k.dhaliwal@ca.pwc.com
Joseph Oh	Actuarial Manager	416 687 8023	joseph.oh@ca.pwc.com

Audit approach

Our audit approach consisted of a mixture of key controls reliance and substantive tests of detail.

Our audit approach is designed to allow us to execute a quality and efficient audit. We do this by:

- i. gaining an understanding of the business by focusing on new developments and key business issues affecting the organization as well as management's monitoring of controls and business processes;
- ii. identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;
- iii. using well-reasoned professional judgement, especially, in areas that are subjective or require estimates; and
- iv. leveraging reliance where possible on the organization's internal controls and information technology and data systems.

In the current year, our procedures included testing controls in the following areas:

- claims payments;
- segregation of duties in the claims process and claims file reviews; and
- information technology general controls on the RiskMaster system.

All other areas were subject to tests of details.

Materiality

Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users, taken on the basis of the financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.



Mr. Vincent Rodo
Toronto Transit Commission
February 19, 2014

As the primary user of the audited financial statements is the Financial Services Commission of Ontario, and their focus is on solvency, shareholder's equity is the most relevant quantitative measure. However, shareholder's equity has a nominal value compared to the total assets and total liabilities due to the indemnity agreement in place between the Toronto Transit Commission and TTCICL and therefore would not render an appropriate level of materiality. Therefore a benchmark of total assets is used instead of net assets.

	Basis	Amount \$	Prior year's Amount \$
Overall materiality	2% total assets	2,897,000	3,094,000
Unadjusted and adjusted items in excess of this amount are reported to those charged with governance	5% of overall materiality	144,900	154,700

Status of the audit

We have substantially completed our audit of the financial statements. Our auditor's report will be issued once we receive and have completed our audit work on the outstanding items noted below:

- Receipt of signed management representation letter
- Completion of subsequent event procedures
- Receipt of the final appointed actuary report
- Approval of the financial statements by management

Significant audit, accounting and financial reporting matters

The financial statements have been prepared in accordance with Canadian public sector accounting standards.

Preparation of the financial statements requires management to select accounting policies, as well as make critical accounting estimates and disclosures that may involve significant judgement and measurement uncertainty. These matters can significantly impact the organization's reported results.

We are responsible for communicating our views about significant qualitative aspects of the organization's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures in accordance with Canadian public sector accounting standards.

Our comments and views should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate.



Mr. Vincent Rodo
 Toronto Transit Commission
 February 19, 2014

Management override of Controls	
Background information	<p>The risk of management override of controls exists on all audit engagements. TTCICL management mitigates this risk using the following processes:</p> <ul style="list-style-type: none"> • Review and approval of journal entries prior to posting. • Segregation of duties. • Oversight by TTCICL Audit Committee.
PwC's view	<p>We reviewed a sample of journal entries that were recorded in the process of closing the 2013 general ledger for preparation of the financial statements. We validated those journal entries to supporting documentation. We reviewed the appropriateness of these entries and ensured they were consistent with our understanding of the related business processes.</p> <p>We have also performed tests of detail on all significant financial statement line items including cash, the indemnity receivable and actuarial liabilities and accounts payable.</p>
Valuation of Claims Liabilities	
Background information	<p>Qualified, experienced external actuaries are retained to prepare valuations. A claims adjuster reviews claims files on an ongoing basis and assess the adequacy of reserves.</p>
PwC's view	<p>PwC actuaries independently projected an estimate of reserves for all lines of business and compared the valuation results to those of TTCICL. The results of this assessment indicated management's booked reserves were within a reasonable range of our estimates.</p> <p>We tested claim files on a sample basis to assess the accuracy and completeness of data used in the reserve calculations and the data used in the notes to the financial statements.</p> <p>We reviewed reconciliations of data between the general ledger system and the claims administration system.</p> <p>We performed a test for significant claims received subsequent to December 31, 2013 relating to years 2013 or earlier.</p> <p>We reconciled the amounts recorded by TTCICL to those reported on by the Appointed Actuary, Joe Cheng.</p>



Mr. Vincent Rodo
Toronto Transit Commission
February 19, 2014

Adjusted and unadjusted misstatements

There were no adjusted or unadjusted misstatements above our de minimis of \$144,900 identified during completion of our audit engagement. As a result of our audit examination, minor disclosure modifications were made in the notes to the financial statements.

Other information in documents containing audited financial information

We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules or exhibits referenced on pages 20.10 through 20.60 of TTCICL's financial statements included in the Annual Return P&C-1.

Significant difficulties or disagreements encountered while performing the audit

No difficulties or disagreements occurred while performing our audit.

Cooperation in the performance of our audit

We were given complete access to all records, documents and other information we required. We received excellent cooperation from the staff with whom we interacted during the conduct of our work.

Fraud, material errors and illegal acts

Canadian GAAS requires us to discuss fraud risk annually with those charged with governance. We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During our audit, we performed the following procedures in order to fulfill our responsibilities:

- inquired of management and others related to any knowledge of fraud or suspected fraud;
- incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- performed additional required procedures to address the risk of management's override of controls.

No fraud came to our attention as a result of our audit procedures.

Significant deficiencies in internal controls

A significant deficiency is defined as an internal control deficiency that we consider merits the attention of those charged with governance.

No significant internal control weaknesses were identified.



Mr. Vincent Rodo
Toronto Transit Commission
February 19, 2014

Conclusion

We trust that the foregoing comments are helpful to you. We would like to express our sincere thanks to those who have assisted us in carrying out our audit. Should you have any questions surrounding the contents of this report, please do not hesitate to contact me.

Yours very truly,

PricewaterhouseCoopers LLP

Scott Ewert
Partner
Audit and Assurance Group

Appendix A: Auditor's reports



February 20, 2014

Independent Auditor's Report

To the Board of Directors and Shareholders of TTC Insurance Company Limited

We have audited the accompanying financial statements of TTC Insurance Company Limited, which comprise the statement of financial position as at December 31, 2013 and the statements of operations and accumulated surplus 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 financial statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TTC Insurance Company Limited as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants



February 20, 2014

Independent Auditor's Report

To the Superintendent of Financial Services Commission of Ontario

We have audited the accompanying financial statements of TTC Insurance Company Limited (the company), which comprise the statements of assets, liabilities and equity and accumulated other comprehensive income (loss) as at December 31, 2013 and the statements of income, retained earnings, comprehensive income (loss), cash flows and statement of changes in equity for the year then ended, and the related notes including a summary of significant accounting policies and other explanatory information, on pages 20.10 through 20.60 of the company's Annual Return P&C-1.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2013 and its financial performance and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

Other matter

We have not audited, reviewed or otherwise attempted to verify the statement of reserves on page 20.40 and the schedules or exhibits referenced on pages 20.10 through 20.60 of the company's Annual Return P&C-1.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Appendix B: Management representation letter

TORONTO TRANSIT COMMISSION



KAREN STINTZ
CHAIR
MAUREEN ADAMSON
VICE-CHAIR
ANDY BYFORD
CHIEF EXECUTIVE OFFICER

MARIA AUGIMERI
RAYMOND CHO
JOSH COLLE
GLENN DE BAEREMAEKER
NICK DI DONATO

ALAN HEISEY
PETER MILCZYN
JOHN PARKER
ANJU VIRMANI



Mr. Scott Ewert
PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto, ON
M5J 0G2

Dear Mr. Ewert:

We are providing this letter in connection with your audit of the financial statements and the Annual Return P&C 1 of TTC Insurance Company Limited (TTCICL) as at December 31, 2013 and December 31, 2012 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 financial position, the results of operations and the cash flows of TTCICL in accordance with the requirements of Canadian public sector accounting standards.

Our 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 financial statements in accordance with the requirements of Canadian public sector accounting standards;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the 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 pertain to the maintenance of accounting systems and records, the authorization of receipts and disbursements, the safeguarding of assets and for reporting financial information in accordance with Canadian public sector accounting standards;
- All transactions have been recorded in the accounting records and are reflected in the financial statements.

We confirm the following representations:

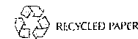
Preparation of financial statements

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

We have appropriately reconciled our books and records (e.g. general ledger accounts) underlying the 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 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 inter governmental unit accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.



1900 Yonge Street, Toronto, Canada M4S 1Z2 Telephone: 416-393-4000 Web Site: www.ttc.ca



Accounting policies

We confirm that we have reviewed our 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 financial statements is appropriate in our particular circumstances to present fairly in all material respects its financial position, results of operations and cash flows in accordance with the requirements of Canadian public sector accounting standards.

Internal controls over financial reporting

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to TTCICL, is made known to us by others.

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

We have not identified any deficiency in the design or operation of disclosure controls and procedures and internal control over financial reporting identified as part of our assessment as of December 31, 2013.

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 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; and
 - Minutes of the meetings of the Directors and Shareholders, the most recent meetings held were a Directors' and a Shareholders' meeting both held on June 24, 2013.
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Completeness of transactions

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

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the 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 us, involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, regulators or others.

Compliance with laws and regulations

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

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



Accounting estimates and fair value measurements

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

For recorded or disclosed amounts in the 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 financial statements; and
- the significant assumptions used in determining fair value measurements are consistent with TTCICL'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 The Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty have been appropriately disclosed.

Related parties

We confirm the completeness of information provided to you regarding the identification of related parties as defined by the requirements of CAS 550 -- Related Parties.

We also confirm the completeness of information provided to you regarding the nature of our relationships with and transactions involving those entities.

The list of related parties attached to this letter as Appendix A accurately and completely describes our related parties and the relationships with such parties.

Going concern

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

Assets and liabilities

We have satisfactory title or control over all assets. There are no liens or encumbrances on our assets and no assets are pledged as collateral.

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, have been disclosed to you and are appropriately reflected in the financial statements.

Litigation and claims

All known actual or possible litigation and claims, which existed at the 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.

Misstatements detected during the audit

Certain representations in this letter are described as being limited to those matters that are material. 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 financial statements are free of material misstatements, including omissions.



Cash and banks

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

All cash balances are under the control of TTCICL, free from assignment or other charges, and unrestricted as to use, except as disclosed to you. The amount shown for cash on hand or in bank accounts excludes trust or other amounts which are not the property of TTCICL.

All cash and bank accounts and all other properties and assets of TTCICL of which we are aware are included in the financial statements at December 31, 2013.

Accounts receivable

All amounts receivable by TTCICL were recorded in the books and records and are considered to be fully collectible.

Use of a specialist

We assume responsibility for the findings of other specialists in evaluating the case reserves and incurred but not reported (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 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.

Events after balance sheet date

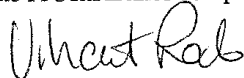
We have identified all events that occurred between the statement of financial position date and the date of this letter that may require adjustment of, or disclosure in, the financial statements, and have effected such adjustment or disclosure.

Approval of financial statements

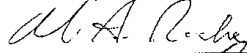
We have the authority to approve the financial statements on behalf of the Board of Directors and have done so on the date of this letter.

Yours truly,

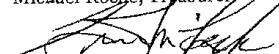
The TTC Insurance Company Limited



Vincent Rodó, President



Michael Roche, Treasurer



Brian Leck, General Counsel



Appendix A – List of related parties

Related Entities:

- City of Toronto
- Toronto Transit Commission
- Toronto Coach Terminal Inc.
- Toronto Transit Infrastructure Limited
- The TTC Sick Benefit Association

