

TCTI AUDIT COMMITTEE REPORT NO.

MEETING DATE October 21, 2011

SUBJECT PricewaterhouseCoopers LLP 2010 Management Letter – Follow-up Report

ACTION ITEM

RECOMMENDATION

It is recommended that the Audit Committee:

- 1) receive the attached follow-up report on the PricewaterhouseCoopers LLP (“PWC”), management letter, for information; and
- 2) approve the forwarding of the attached report to a regular meeting of the Commission for information and then to the Audit Committee of the City of Toronto.

BACKGROUND

The PWC audit results report, presented at the April 19, 2011 TCTI Audit Committee meeting, included a management letter on internal control recommendations. A management letter provides recommendations for the improvement of internal controls and accounting procedures. Management’s initial response to these recommendations was included in the April 19th report. PWC’s recommendations and the initial management response is reproduced in the attached. This is followed by a status update detailing the action staff have taken to address the recommendations.

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

DISCUSSION

PWC initially provided 2 recommendations in the management letter presented at the April 19, 2011 TCTI Audit Committee meeting. Both management letter points have since been addressed, as detailed in the attached. All action taken to date will be subject to review by PWC during the 2011 external financial statement audit.

October 6, 2011
42-48

Attachment: PWC LLP Year-end Report to the Audit Committee

1.1 Reassessment of useful lives of property, plant, and equipment

Observation

During our testing of capital assets at the Company we noted that a number of capital assets, with a total original cost of \$1.4 million and fully depreciated, continue to be in use. Canadian accounting standards suggest that estimated useful lives of capital assets and expected residual values should be reviewed at least at each financial year-end.

Implication

The depreciation expense and the carrying values of capital assets may be over or understated in a particular year.

Recommendation

We believe that management should annually reassess the estimated economic useful lives of capital assets. If determined that the current economic useful lives need to be extended this should be accounted for on a prospective basis, as necessary.

April 2011 Management Response

We agree. It should be noted that some existing fixed assets have been retained and maintained well beyond their estimated useful lives in order to minimize capital investments for their replacement because the future of the terminal is unknown. This uncertainty stems from a decision pending from Metrolinx regarding a potential replacement.

Staff will review the estimated useful lives of fixed assets which have not been fully depreciated based on the best information available and adjust them, if required. Any resulting reduction to the annual depreciation expense is expected to be minimal.

October 2011 Update

On a go-forward basis, we will annually assess the useful lives of fixed assets that have not been fully depreciated and adjust the depreciation expense on a prospective basis. For 2011, the estimated useful lives of these fixed assets were adjusted according to the information available and the depreciation expense was reduced.

Status

Complete.

1.2 Expired carrier agreements

Observation

During our testing of revenue, it was noted that the agreements with the carriers which outline the commission percentages to be paid to the TCTI have expired.

Implication

Current agreements should be obtained to minimize any potential contractual disputes between the parties.

Recommendation

We recommend that the TCTI obtain updated agreements with all carriers.

Management Response

TCTI staff and its Board are well aware of this issue and staff have made numerous attempts to renegotiate and obtain agreements over the years. TCTI will negotiate updated agreements with the carriers following the decision by Metrolinx to construct a new bus terminal, expected some time in 2011. The carriers have been unwilling to renegotiate agreements until this matter is resolved and the future of the terminal is known. They have also cited other reasons such as poor economic performance and loss of market share as contributing factors for their reluctance to do so.

In the interim, all parties recognize and abide by the terms of the existing agreements.

October 2011 Update

Metrolinx staff advised that they are still in negotiations concerning a possible new terminal in the Union Station vicinity. Staff expect some sort of reporting out by year end.

In addition, the two major bus companies occupying the Bay Street terminal, Greyhound and Coach Canada, have approached the TTC about a possible alternative approach to the operation of the existing terminal. Staff expect a formal proposal from them by year end.

Status

Pending.