



For Action

PricewaterhouseCoopers LLP Audit Results Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2018

Date: June 12, 2019

To: TTC Board

Summary

The subject report, reviewed at the TTC Audit and Risk Management Committee on June 3, 2019 is forwarded to the TTC Board for information and then to the City Clerk for appropriate handling.

Contact

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PricewaterhouseCoopers LLP Audit Results Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2018

Date: May 29, 2019
To: TTC Audit & Risk Management Committee
From: Chief Financial Officer

Summary

This report from the TTC's external auditors, PricewaterhouseCoopers LLP (PwC) outlines the results from the audit of the TTC's consolidated financial statements for the year ended December 31, 2018.

Recommendations

It is recommended that the TTC Audit and Risk Management Committee:

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

Implementation Points

This report requires approval at the May 29, 2019 TTC Audit & Risk Management Committee Meeting to ensure timely submission to the June 12, 2019 TTC Board Meeting and then to the June 28, 2019 Audit Committee Meeting of the City of Toronto.

Financial Summary

There are no financial implications resulting from the adoption of this report.

Equity/Accessibility Matters

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

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.

At its meeting on February 9, 2017, the TTC Audit & Risk Management Committee approved that the terms of reference of the Audit & Risk Management Committee include a requirement to “review with management and the external auditors the results of the audit, including any difficulties encountered”.

[https://www.ttc.ca/About the TTC/Commission reports and information/Committee meetings/Audit Risk Management/2017/February 9/Reports/2 TTC Audit %20and Risk Management Committee Terms Of Referenc.pdf](https://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Committee%20meetings/Audit%20Risk%20Management/2017/February%209/Reports/2%20TTC%20Audit%20and%20Risk%20Management%20Committee%20Terms%20Of%20Referenc.pdf)

Issue Background

The report presents the financial audit results of the consolidated financial statements of the TTC for the fiscal year December 31, 2018.

Comments

The consolidated financial statements of the TTC for the year ended December 31, 2018 were prepared by management. They were audited by PwC in accordance with the plan approved by the Audit & Risk Management Committee at its February 26, 2019 meeting.

[https://www.ttc.ca/About the TTC/Commission reports and information/Committee meetings/Audit Risk Management/2019/Feb 26/Reports/4 PWC LLP Consolidated Financial %20Stmts Audit Plan for Year-.pdf](https://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Committee%20meetings/Audit%20Risk%20Management/2019/Feb%2026/Reports/4%20PWC%20LLP%20Consolidated%20Financial%20Stmts%20Audit%20Plan%20for%20Year-.pdf)

The attached report was prepared by PwC and it includes their comments on the significant accounting, auditing and reporting matters.

PwC proposes to issue an unqualified Independent Auditor’s Report on the 2018 consolidated financial statements (see Appendix A) once the outstanding items noted on page 1 have been completed.

Cathy Russell, Partner, Assurance of PwC will be at the Audit & Risk Management Committee meeting to present this report. You may wish to direct the auditors to address any specific areas.

Contact

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Signature

Dan Wright
Chief Financial Officer

Attachments

Attachment 1 – 2018 year-end report to the Audit and Risk Management Committee

Toronto Transit Commission

*2018 year-end report to
the Audit and Risk
Management
Committee*

*Prepared as of
May 22, 2019*





May 22, 2019

Members of the Audit and Risk Management
of the Toronto Transit Commission
1900 Yonge Street
Toronto ON M4S 1Z2

Dear Members of the Audit and Risk Management Committee:

We have substantially completed our audit of the consolidated financial statements of the Toronto Transit Commission (TTC) 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) for the year ended December 31, 2018. 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 audit, 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 29, 2019.

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Assurance

c.c.: Mr. R. Leary, Chief Executive Officer
Mr. D. Wright, Chief Financial Officer

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

Communications to the Audit and Risk Management Committee

<i>Key matters for discussion</i>	<i>Comments</i>
<p>Status of the audit</p>	<p>We have substantially completed our audit of the 2018 consolidated financial statements (the financial statements). We have included our draft auditor’s report, which reflects the enhanced auditor reporting standards effective for years ending on or after December 15, 2018, in Appendix A.</p> <p>Significant outstanding items at time of mailing include the following:</p> <ul style="list-style-type: none"> • Receipt of City of Toronto confirmation for capital and operating subsidy revenue and receivables and audit testing; • Receipt of signed management representation letter; • Receipt of response to legal confirmation letters from external and internal legal counsel; • Board of Directors’ approval of the financial statements; and • Subsequent events procedures to the date of our auditor’s report.
<p><i>Significant audit, accounting, and financial reporting matters discussed with management</i></p>	
<p>1. Fraud risk – management override of controls</p>	<p>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.</p> <p>The TTC has policies and procedures 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 journal entries.</p> <p>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.</p> <ul style="list-style-type: none"> • We assessed the control environment to ensure there is appropriate segregation of duties and assessed manual controls established to mitigate this risk. • We reviewed the quarterly fraud investigation reports and 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 other than previously communicated.

<i>Key matters for discussion</i>	<i>Comments</i>
Significant audit, accounting, and financial reporting matters discussed with management	
	<ul style="list-style-type: none"> • We performed audit work over non-standard journal entries made during the year. • We reviewed assumptions used by management in making significant estimates for indicators of bias. • We incorporated unpredictable procedures into our audit approach. <p>Conclusion: Based on our work performed, we found no circumstances that evidenced inappropriate management override of controls.</p>
<p>2. Fraud risk in revenue recognition</p>	<p>The TTC has processes, controls and other procedures in place to ensure that revenue is appropriately measured and recognized.</p> <p>As revenue derived from PRESTO devices continues to increase significantly, the reliability of controls in place at PRESTO is critical to ensuring the accuracy and completeness of PRESTO revenues.</p> <p>PwC work performed:</p> <ul style="list-style-type: none"> • We updated our understanding of management’s processes and internal controls surrounding revenue recognition and tested certain controls on which we take reliance for operating effectiveness. • We obtained the service auditor’s report for the operating effectiveness of controls in place at PRESTO and performed testing on relevant user complementary controls in place at the TTC. • We obtained confirmation for PRESTO revenues and reconciled confirmed amounts to revenue amounts recorded. • We obtained confirmations from the City of Toronto for capital and operating subsidies received during the year and traced amounts to additional supporting documentation. • We tested significant revenue streams through substantive analytical procedures and tests of detail. <p>Conclusion: Based on the results of our testing to date, we noted no issues with regard to fraud in revenue recognition.</p>

Key matters for discussion	Comments
<p>3. Certain significant accounting estimates</p>	<p>In preparing the financial statements, there were a number of significant accounting estimates that required management judgment:</p> <ul style="list-style-type: none"> • Assets in the Pension Fund Society <ul style="list-style-type: none"> - The fair value measurement of certain complex investments. • Property and liability claims (self-insured and insured liabilities) <ul style="list-style-type: none"> - The measurement of the unsettled accident claims liability uses a number of estimates and actuarial assumptions. • Other significant provision <ul style="list-style-type: none"> - The financial statements includes a significant provision, which is based on management judgment and estimation. <p>PwC work performed:</p> <ul style="list-style-type: none"> • Pension plan complex investments <ul style="list-style-type: none"> - We tested acquisitions of investments that occurred throughout the year, as well as reviewed the investments from date of acquisition to year-end for any indication of significant change in fair values. For investments held at fair value, we confirmed with investment managers and reviewed audited financial statements for the respective investment managers. For investments, where audited financial statements are not available, we assessed historical accuracy of net asset value provided by the investment managers. There were no issues identified as a result of our testing. • Property and liability claims (self-insured and insured liabilities) <ul style="list-style-type: none"> - We utilized 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 significant provision <ul style="list-style-type: none"> - We tested this significant provision by inquiring with management regarding estimates and methods used, reviewing supporting documentation and, where applicable, reviewing settlements after year-end. We also engaged our PwC internal specialists to assess the reasonability of the assumptions and methodology used by the TTC. No matters to report were identified as a result of our testing. <p>Conclusion: Based on our audit work performed, we have concluded that the significant accounting estimates included in the financial statements are supportable within an acceptable range.</p>

Key matters for discussion	Comments
Other areas of focus	
SAP Implementation	<p>In late 2018, TTC completed Phase I of the SAP implementation, including pension payroll processing, general ledger, employee payroll and human resource management processes. Since our last communication to you, we have completed the following procedures in support of the audit of the financial statements:</p> <ul style="list-style-type: none"> • Testing of program development / project controls for employee payroll and human resources management; • Testing of data migration between existing systems and SAP; and • Post-implementation testing of operational effectiveness of key automated financial controls and security for the general ledger, employee payroll and human resources management processes. <p>Our findings relating to this work are included in Appendix E.</p>
Summary of unadjusted and adjusted items	<p>Our final materiality was \$46 million, which is consistent with the planning materiality previously communicated to the Audit and Risk Management Committee. We identified one adjusted item with a reclassification effect of \$15.1 million within tangible capital assets. There are no other unadjusted or adjusted items. Disclosure exception can be found in Appendix B.</p> <p>In our opinion, the financial statements, taken as a whole, are free of material misstatement.</p>
Management's representations	<p>We need to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C.</p> <p>We requested our standard representations.</p>
Internal controls recommendations	<p>We included our internal control recommendations relating to the SAP implementation in Appendix E.</p>
Other information in documents containing audited financial information	<p>We read the non-financial information, other than the consolidated financial statements and our auditor's report thereon, included in the 2018 Annual Report (collectively, other information) and have considered whether there is a material inconsistency between the other information and the financial statements or with our knowledge obtained in the course of the audit. While reading the other information, we have remained alert for indications that the other information not related to the financial statements or our knowledge obtained in the audit appears to be materially misstated.</p>

<i>Key matters for discussion</i>	<i>Comments</i>
	No instances of information inconsistent with the financial statements or our knowledge obtained in the course of the audit came to our attention as a result of our reading these items.
Independence	We confirm our independence with respect to the company in our annual independence letter, which is attached as Appendix D to this report.
Fraud and illegal acts	<p>No fraud involving senior management, or employees with a significant role in internal control or that would cause a material misstatement of the financial statements and no illegal acts came to our attention as a result of our audit procedures.</p> <p>We wish to reconfirm that the Audit and Risk Management Committee is not aware of any known, suspected or alleged incidents of fraud or illegal acts not previously discussed with us.</p>
Subsequent events	<p>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.</p> <p>We wish to confirm whether the Audit and Risk Management Committee is aware of any subsequent events, which would impact the financial statements other than those disclosed.</p>

The matters raised in this and other reports that will flow from the audit are only those that have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all internal control weaknesses. Comments and conclusions should only be taken in context of the financial statements as a whole, as we do not mean to express an opinion on any individual item or accounting estimate. This report has been prepared solely for your use. It was not prepared for, and is not intended for, any other purpose. No other person or entity shall place any reliance upon the accuracy or completeness of statements made herein. PwC does not assume responsibility to any third party, and, in no event, shall PwC have any liability for damages, costs or losses suffered by reason of any reliance upon the contents of this report by any person or entity other than you.

Appendix A: Draft auditor's report

Appendix B: Summary of unadjusted and adjusted items

Adjusted disclosure item

As a result of our audit, we identified one item with an impact on the financial statement note disclosure in Note 11 relating to tangible capital assets. This resulted in a \$15.1 million reclassification from construction in progress assets to another tangible capital assets category. This has been adjusted by management in the financial statements.

Appendix C: Management representation letter

Appendix D: Independence letter

Appendix E: SAP implementation findings

SAP and SuccessFactors

1. User access assigned in certain SAP profiles is not appropriately restricted

Observation

For 16 user accounts in SAP, it was noted that they were not configured with appropriate access restrictions. This allows some of the users to have superuser access via a system-wide access profile, as well as others having the ability to edit production data, or to make direct changes to roles in the production environment.

Implication

Accounts with pervasive and powerful access may be misused to edit data, access confidential or financially significant information, and make inappropriate changes to roles by circumventing authorization checks and change management controls.

Recommendation

Management should consider removing all unnecessary access for these accounts. Should there be a need for certain users to maintain this access, a review control should be implemented to monitor all changes made directly in the production environment to ensure there are no inappropriate changes made.

Management response

Management has removed 4 users' access. The remaining 12 users are Production Support team members who are SAP System Administrators or SAP Security Administrators and require this level of access to properly monitor and support the Production system for daily operations / incidents. Therefore, the 12 operational production support users cannot be removed. Management will also put in place the recommended monitoring controls to review the changes made directly in the production environment. Monitoring controls will be implemented as soon as possible and no later than Q3 2019.

2. Firefighter account process does not include a review process for the use of the accounts

Observation

Management has not implemented a control activity whereby a supervisor is responsible for reviewing the transactions/activities performed by the firefighter account in order to validate whether it aligns with the use of that access. (Note: a firefighter account has elevated privileges that will be provisioned to approved users upon production emergencies.)

Implication

The lack of review control over the activities performed by elevated firefighter accounts introduces the possible risk of unauthorized transactions being processed after the access is provisioned.

Recommendation

Management should consider implementing a control to review the transactions performed by firefighter IDs on a "per instance" basis (ie. every time that the firefighter ID is used). Evidence of review should be documented and retained by management.

Management response

Management has commenced implementing a control to review transactions performed by firefighter IDs and documenting evidence of this review. The implementation of the new process will be completed by Q3 2019.

3. User accounts of terminated employees are not removed from SAP and SuccessFactors applications on a timely basis**Observation**

It was noted that across the population of users with access to SAP and SuccessFactors, there were 10 terminated users who continued to have access to SAP and 13 users who continued to have access to SuccessFactors subsequent to their termination from TTC.

Implication

Without timely removal or disabling of terminated employees, dormant accounts of terminated employees may be misused in the applications. Additionally, this may result in terminated employees being paid (both salaries and/or benefits) after their termination dates.

Recommendation

Management should continue to monitor users with active access to SAP and SuccessFactors and consider implementing an account expiry for terminated user accounts within a reasonable period after termination date in order to remain consistent with TTC policies. Management should also consider implementing a periodic review control process to review the list of terminated employees against key financial applications.

Management response

As of May 1, 2019, IT management has removed/revoked the access of the terminated users. There are other mitigating controls including physical access controls to a TTC laptop and/or desktop, security passes and security controlled areas that significantly reduce the probability of SAP accounts being accessed by former employees.

When employees move within the organization, Access Control Administration validates whether existing access to systems is to be maintained, with the new department's IT representative. If access is no longer required as part of the employee's new role, it is removed at that time. In addition, management in Payroll will maintain a list of all employees with access to ECC (SAP Payroll), including their job classification information, and implement a quarterly review to validate that existing users have not changed roles since the previous review. Users who have changed roles will be contacted and if their access requirements have changed, they will be asked to reapply. If they still require the same access, they will be required to re-obtain approval from their department head confirming this to be the case. With respect to terminated employees, Access Control Administration will receive notice of terminated employees and take action to remove their access accordingly. As part of the quarterly review, the Payroll business team will validate that access for terminated employees has been removed.

Management will implement this quarterly review to ensure that payroll access for all terminated employees has been removed from payroll financial applications by Q3, 2019.

4. Certain employees have access to maintain employee master data and execute payroll process (segregation of duties)**Observation**

It was noted that there are 8 users with the ability to maintain employee master data (ie. edit time) and to execute pay run, which presents a segregation of duties conflict. Users with conflicting access include 6 employees who do not require access to execute pay run. For the remaining 2 users, they require access to both functions in order to lock employee records (where necessary) before the pay run.

Implication

There is a risk that a single user may perform unauthorized changes to master data information (ie. pay rates) and execute the pay run process, which would impact financial reporting.

Recommendation

Management should consider changing the roles of these users to resolve the segregation of duties conflicts. If management does not change the roles of these users, they should consider implementing a monitoring or review control to mitigate this risk.

Management response

Management is aware of the conflicting access rights, and for employees who do not require access to execute pay run, they have initiated a request to update the users' roles to eliminate this conflict for 6 of the 8 users. For the remaining 2 users who require access to both employee master data as well as executing payroll, management will include a new review control to identify any hours that may have been directly changed in SAP. This review control will be performed by the Payroll Manager each payroll cycle commencing pay ending May 4, 2019.

5. SuccessFactors workflows are not appropriately configured**Observation**

It was noted that workflows in SuccessFactors were configured with the Service Centre Coordinator as the last person in the workflow with access to "edit without route change". This setting allows the Service Centre Coordinator to edit an already submitted or approved request without the need to re-route the request for approval.

Implication

There is a risk that the Service Centre Coordinator may erroneously or maliciously edit an already approved workflow that could result in financial impact during the payroll process.

Recommendation

Management should consider implementing a monitoring or review control to mitigate this risk.

Management response

Management confirmed that the workflows are required to be configured in this manner because the Service Centre Coordinator requires such edit access to support the business process. Any change is auditable in SuccessFactors and will be monitored by the Employee Service Centre Manager to ensure it is being used appropriately. Management is aware of and accepts the risk, as they determine that the guidelines around how edit access is used and the auditability of the data changes provide sufficient compensating controls in the process.

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