TORONTO TRANSIT COMMISSION
REPORT NO. 1 (d)

MEETING DATE: May 30, 2012

SUBJECT: PricewaterhouseCoopers LLP Audit Results Report on the Toronto Transit Commission Consolidated Financial Statements for the Year Ended December 31, 2011

ACTION ITEM

REASON FOR CONFIDENTIAL INFORMATION

This report contains information which is subject to solicitor-client privilege.

RECOMMENDATION

It is recommended that the Commission:

1) receive the attached report and update letter from PricewaterhouseCoopers LLP ("PWC"), including the information noted in the confidential attachment, regarding the audit of the consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2011, for information;

2) forward a copy of the attached report and update letter to the City Council through the Audit Committee of the City of Toronto; and

3) retain the contents of the Confidential Attachment as confidential in their entirety as it contains advice which is subject to solicitor-client privilege.

BACKGROUND

At the TTC's Audit Committee meeting on April 30, 2012, a review was 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, 2011.

DISCUSSION

The consolidated financial statements of the Toronto Transit Commission for the year ended December 31, 2011 have been prepared by management. They have been audited by PWC, in accordance with the plan presented to the Audit Committee on January 23, 2012.

Since the review of the attached report at the April 30, 2012 Audit Committee meeting, PWC has worked to address the few remaining outstanding procedures. The appended PWC letter dated May 14, 2012, is an update to the PWC report. The letter provides the current status of the audit as well as an updated summary of unadjusted misstatements.

The summary of unadjusted misstatements is a normal component of an audit report. If the total of all differences is below the audit materiality level ($20 million), the auditors do not require a change to the financial statements, which is the case for 2011. There is one item that was adjusted as a result of the audit. This item is discussed in the confidential attachment.

The attached report from PWC provides comments on significant audit, accounting and financial reporting matters which are summarized on pages 7 through 11. Pages 34 to 42 of the attached report contain the management letter on internal control recommendations. A management letter provides recommendations for the improvement of internal controls and accounting procedures. Staff welcome these suggestions as they strive to improve their procedures on a continuing basis. Management's initial response to these recommendations is included in the attachment. A follow-up report on these recommendations will also be presented to the Audit Committee, later this year.

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

pwc

May 14, 2012

Members of the Audit Committee of the
Toronto Transit Commission

Dear Members of the Audit Committee:

Further to our Year-End Audit Committee report, dated April 19, 2012 which was presented to the Audit Committee of the Toronto Transit Commission on April 30, 2012, we have provided below an update on the Status of the Audit section of our report (page 4) and also have included an updated summary of unadjusted misstatements which was included in Appendix B of our report dated April 19, 2012.

Status of the Audit

The following items will need to be completed/received prior to the issuance of our audit opinion:

Outstanding items	
i.	Completion of subsequent event procedures to the date of our audit opinion and finalization of the TTC consolidated financial statements to our audit opinion date
ii.	General queries of management and miscellaneous outstanding information relating to audit work in progress
iii.	Receipt of signed management representation letter

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pwc

Appendix B: Summary of unadjusted misstatements

Adjustment 3 (below) was added subsequent to the Audit Committee meeting held on April 30, 2012.

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
Current year unadjusted Misstatements:					
1. Understatement of accounts payables and accounts receivable related to a subsidized capital project		1,793	(1,793)		
2. Overstatement of prepaid expenses and understatement of tangible capital assets					
DR. Tangible capital assets				3,215	
CR. Prepaid expenses				(3,215)	
3. To correct for a misstatement noted in the completion of the PFS audit which results in a misstatement in the amount recorded for PFS in the TTC consolidated financial statements.	1,372			(1,372)	
Total unadjusted misstatements before impact of reversal of prior year differences	**1,372**	**1,793**	**(1,793)**	**(1,372)**	
Reversal of prior year unadjusted misstatements:					
Reversal of overstatement of depreciation expense in the prior year	2,786				(2,786)
Total Unadjusted Misstatements	**4,158**	**1,793**	**(1,793)**	**(1,372)**	**(2,786)**

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Audit and Assurance Group

www.pwc.com/ca

Toronto Transit Commission

Year-end report to the Audit Committee
December 31, 2011

Prepared as of April 19, 2012

pwc

pwc

April 19, 2012

Members of the Audit Committee of the
Toronto Transit Commission

Dear Members of the Audit Committee:

We have substantially completed our audit of the consolidated financial statements of the Toronto Transit Commission (the Commission or the TTC) for the year ended December 31, 2011. 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 have issued 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 propose to review the key elements of this report at the upcoming meeting and discuss with you our key findings.

We would like to express our sincere thanks to the management and the staff of the TTC who have assisted us in carrying out our work and we look forward to our meeting on April 30, 2012. Should 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
Audit and Assurance Group

cc: Members of the Audit Committee
Mr. Vincent Rodo, General Manager – Executive and General Secretary
Mr. Michael Roche, Chief Financial Officer

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Appendix B: Summary of unadjusted and adjusted misstatements
Appendix C: Management representation letter
Appendix D: Independence letter
Appendix E: Management Letter
Appendix F: Overview of the audit approach and risk analysis
Appendix G: Confidential Appendix

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. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted, as the report has not been prepared for, and is not intended for, any other purpose. 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.

1. Executive summary

a. Status of the audit

We have substantially completed our audit of the 2011 consolidated financial statements of the Toronto Transit Commission (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.

This document includes the required communications between an auditor and Audit Committee, as required by Canadian generally accepted auditing standards (Canadian GAAS).

Our audit has been performed substantially in accordance with the plan and timeline previously communicated and summarized in Appendix F.

The following items will need to be completed/received prior to the issuance of our audit opinion. We will provide an update on the status of these items at our upcoming meeting.

Outstanding item	Status as at April 30, 2012
i. Receipt of all capital asset supporting schedules and the performance of the necessary audit procedures	
ii. City of Toronto confirmation of amounts receivable from/ payable to the TTC, including support for any reconciling items	
iii. Finalization of audit work over valuation of assets within the TTC Pension Fund Society.	
iv. Responses to our legal confirmation letters from external legal counsel	
v. Completion of subsequent event procedures to the date of our audit opinion	
vi. General queries of management and miscellaneous outstanding information relating to audit work in progress	
vii. Final review of the TTC consolidated financial statements	
viii. Receipt of signed management representation letter	
ix. Review of annual report	
x. Approval of the consolidated financial statements by the Audit Committee	

b. Key issues for discussion

Discussion item	Summary	For further reference
Adoption of Public Sector Accounting Standards (PSAS)	• In the current year, the TTC and all of its subsidiaries reported for the first time under PSAS. • In transitioning to PSAS, management of the TTC reassessed the Commission's accounting policies under PSAS and identified areas of significant differences, most notably revenue recognition for capital subsidies and accounting for retirement, compensated absences and post-employment benefits. • Management quantified the impact of these accounting policy changes and prepared reconciliation schedules restating the opening balance sheet, at January 1, 2010 and comparative figures through 2010 from Canadian Generally Accepted Accounting Principles (GAAP) to PSAS. • Based on our audit work performed, we have concluded that the PSAS conversion adjustments are appropriate and within our expectations.	Page 7
Significant Accounting Estimates	• In preparing the consolidated financial statements there were a number of significant accounting estimates that required management judgment • Based on our audit work performed, we have concluded that the significant accounting estimates detailed within this report are supportable and within our expectations.	Page 9
Management Override of Controls	• In completing our audit, we are responsible for maintaining professional skepticism and considering the potential for management override of controls. • Based on our audit work performed, we found no circumstances that evidenced inappropriate management override of controls.	Page 10
Capital Accounting for Transit Expansion	• In the current year additional clarification was obtained regarding the Transit Expansion assets and the associated capital subsidy. • All capital assets relating to the approved Transit Expansion lines continue to not be included in the consolidated financial statements of the TTC as they are owned by Metrolinx.	Page 11
Summary of unadjusted and adjusted misstatements	• As a result of our audit, we identified unadjusted misstatements with a net effect of $2.8 million (overstatement of surplus) for the year ended December 31, 2011. • In our opinion, the financial statements, taken as a whole, are free of material misstatement.	Appendix B

Discussion item	Summary	For further reference
Fraud	• No instances of fraud were noted as part of our audit procedures. • We wish to reconfirm whether the Audit Committee is aware of any known, suspected or alleged incidents of fraud.	
Control deficiencies	• We have noted several internal control recommendations which we have brought to the attention of management and the Audit Committee.	Page 14 and Appendix E
Independence	• We confirm that we are independent of the TTC as at April 30, 2012, and our independence letter can be found in Appendix D.	Appendix D
Management representations	• Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C.	Appendix C

2. Significant audit, accounting and financial reporting matters

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

We are responsible for discussing with the Audit Committee our views about the significant qualitative aspects of the company's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures in accordance with the requirements of Public Sector Accounting Standards (PSAS).

Our comments and views included in this report 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. We are sharing our views with you to facilitate an open dialogue of these matters.

a. Year-end issues

Item 1	**Adoption of Public Sector Accounting Standards (PSAS)**
Background information and management's process	• In December 2009, the Canadian Institute of Chartered Accountants ("CICA") amended the Public Sector Accounting Standards. Under the new standards, the Commission is now classified as an "other government organization" and the Commission has elected to adopt Public Sector Accounting Standards ("PSAS"). • The financial statements for 2010, originally prepared under existing Canadian GAAP at that time have been retrospectively restated with the exception of the permitted exemptions outlined below. **Permitted exemptions taken on adoption of Public Sector Accounting Standards (PS 2125)** • ***Retirement benefits*** – The Commission elected to recognize all cumulative actuarial losses, related to its post-employment and post-retirement pension plans, directly to accumulated surplus at January 1, 2010. • ***Tangible capital assets impairment*** - The Commission elected to prospectively adopt the requirements to perform tangible capital asset impairment tests. Due to this election all tangible capital asset impairments that were recognized prior to January 1, 2010 were not reassessed in adopting PSAS. **Impact of the retrospective application of Public Sector Accounting Standards** • ***Retirement benefits (PS 3250)*** – Previously under Canadian GAAP, contributions for the Commission's multi-employer plan were expensed as they were due and no pension asset or liability was recognized on the consolidated statement of financial position. • Under PSAS, the Commission's pension plan is classified as a joint defined benefit plan as the risks and rewards of plan performance are shared equally between the Commission and plan participants.

Item 1	Adoption of Public Sector Accounting Standards (PSAS)
	• As a result of this change in classification, the Commission had to consider its share (50%) of the net plan asset. On January 1, 2010 and December 31, 2010 full valuation allowances of $108 million and $149 million respectively had been provided against a calculated plan surplus at each of those year-end dates. A full valuation allowance was provided as a contribution rate reduction or holiday will only occur in very rare circumstances, limiting the Commission's ability to reduce pension contributions to utilize any accumulated surplus. • ***Post-employment benefits, compensated absences and termination benefits (PS 3255)*** - Previously under Canadian GAAP, the Commission amortized actuarial gains and losses, for its post-retirement plans, using a 10% corridor method. Under PSAS, post-retirement actuarial gains or losses are amortized on a straight-line basis over the expected average remaining employee service life. • As well, under previous Canadian GAAP, the Commission amortized actuarial gains and losses on a straight-line basis over the expected period during which benefits would be paid and post-employment experience gains and losses were recognized immediately. The timing of recognition changed under PSAS, such that all actuarial gains and losses, including experience gains and losses, are amortized on a straight-line basis over the expected period during which benefits will be paid. • The adoption of PS 3250 and PS 3255, resulted in a decrease of a opening accumulated surplus by $56 million and increased the surplus for the year ended December 31, 2010 by $5 million. • ***Government Transfers (PS 3410) - Deferred capital contributions and capital subsidy*** – Previously under Canadian GAAP, the Commission deferred the capital contributions received and those contributions were amortized as subsidy revenue into income over a period consistent with the expected useful life of the capital asset the capital contribution was used to purchase. • Now under PSAS, Government Transfers, which includes subsidies for capital assets, are now recognized as revenue when specific eligibility criteria have been met. • The adoption of PS 3410, increased opening accumulated surplus by $4.4 billion and increased the surplus for the year ended December 31, 2010 by $378 million. • ***Government Reporting Entity (PS 1300) - Consolidation of the TTC Sick Benefit Association ("SBA")*** – Previously under Canadian GAAP, the SBA was not consolidated with the TTC. • Under PSAS, there are specific indicators of control which include the Commission's ability to unilaterally dissolve the SBA. If that occurred, the assets and liabilities of the SBA would be transferred to the Commission. In addition, the Commission is responsible for paying the full cost of the benefits provided by the SBA. For these reasons, under PSAS, the Commission has control over the SBA and therefore the SBA has been consolidated.

<table>
<tr><th>Item 1</th><th>Adoption of Public Sector Accounting Standards (PSAS)</th></tr>
<tr><td>PwC's Views</td><td>We have examined and assessed the appropriateness of the Public Sector accounting policies selected by the Commission and we have confirmed that these new accounting policies have been applied retrospectively with the exception of the permitted exemptions outlined above.
We have also performed audit procedures on the adjustments recorded to transition the financial statements of the Commission from existing Canadian GAAP to Public Sector Accounting Standards.
As well, we have ensured that the disclosures within the Commission's consolidated financial statements are compliant with the required disclosures as set out in the Public Sector Accounting Standards.</td></tr>
<tr><td>Conclusion</td><td>Based on our audit work performed, we have no additional matters to report with respect to the PSAS conversion.</td></tr>
</table>

<table>
<tr><th>Item 2</th><th>Significant Accounting Estimates</th></tr>
<tr><td>Background information and management's process</td><td>In preparing the consolidated financial statements there were a number of significant accounting estimates that required management's judgment, including the following:
Deferred passenger revenue
TTC Pension Fund, post-employment and post-retirement benefits (pension and other)
Unsettled accident claims
Contingent liabilities (provisions for legal claims)
Management has processes and controls in place for formulating these estimates. Where applicable, management has engaged external specialists to assist in the determination of these significant accounting estimates. In particular, the TTC has contracted external specialists to assist with the valuation of post-employment and post-retirement benefits and accident claim liabilities.</td></tr>
<tr><td>Subjective estimates / areas of judgment by management</td><td>Significant estimates and areas of judgment made by management are as follows:
Deferred Revenue - Token and ticket loss factors as well as estimating the dollar amount of fare media in the custody of TTC employees at year-end.
TTC Pension Fund, post-employment and post-retirement benefits – Discount rates used to present value the pension, post-employment and post-retirement benefit obligations are between 3.1% to 5.75%. Numerous other actuarial assumptions such as mortality rates, retirement age etc. are also incorporated in the valuation of these obligations.
Unsettled accident claims – The measurement of the unsettled accident claims liability uses a number of estimates and actuarial assumptions, including a discount rate of 1.35% to present value future settlements. The actuary has incorporated claims provisions for adverse deviations (PFAD) within a reasonable range and has also incorporated an appropriate internal loss adjustment expense.
Contingent liabilities (provisions for legal claims) – The TTC is subject to a number of legal claims, in connection with operations, labour relations and the completion of capital projects. Management uses all information available including the assessment and likelihood of a claim by external counsel and historical experience to record provisions for what management believes is the most accurate estimate of future</td></tr>
</table>

Item 2	Significant Accounting Estimates
	settlement based on the current known facts.
PwC's Views	• Deferred Revenue - We met with TTC management to understand the process for establishing the deferred revenue provision. As part of the audit, we tested the key assumptions and concluded that all assumptions used in the calculation were supportable and within our expected range. • Unsettled accident claims – Our PwC actuarial specialists assessed the reasonableness of the assumptions and methodology used by the TTC in recording the unsettled accident claims liability. We 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. • TTC Pension Fund, Post-employment and post-retirement benefits – We examined the third party actuarial valuations of the post-employment and post-retirement benefit plans at year-end with the assistance of our PwC specialists to assess the appropriateness of the assumptions and methodology used to record the post-retirement and post-employment liabilities. No significant matters were noted. • Contingent liabilities (provisions for legal claims) - We obtained independent legal confirmations letters from all external counsel to obtain third party confirmation on the status of outstanding legal proceedings and discussed significant cases with internal counsel and management. We ensured that the provision recorded at year-end is supported by the conclusions reached in the external confirmations received.
Conclusion	Based on the testing performed above, we conclude that these significant accounting estimates are reasonable and have been recorded in accordance with PSAS.

Item 3	Management Override of Controls
Background information and management's process	• In completing our audit, we are responsible for maintaining professional skepticism throughout our audit engagement, considering the potential for management override of controls. • Management has a process to ensure appropriate segregation of duties has 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 and a process to ensure the review and approval of manual journal entries.
PwC 's Views	• Through our audit procedures we did not note any circumstances where we believe there was inappropriate segregation of duties. • 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 also confirmed that all were appropriately approved.
Conclusion	Based on our work performed, we found no circumstances that evidenced inappropriate management override of controls.

Item 4	Capital Accounting for Transit Expansion
Background information and management's process	• At December 31, 2010, there were no formal Master Agreements executed with Metrolinx. During fiscal 2011, Metrolinx, the TTC and the City negotiated and made progress towards finalizing the Master Agreement for Transit Expansion. Property, procurement, financial and communications protocols were drafted and established in principal detailing issues of ownership, contracting, invoicing and liability. • We understand that in these negotiations it was agreed that Transit Expansion assets would be owned by Metrolinx, which is consistent with the original Memorandum of Agreement signed in 2009. • Through the current year, additional project funding of $81.5 million has been drawn through the City to subsidize all 2011 expenditures. At December 31, 2011, total eligible expenditures of $167.1 million incurred to date on capital assets relating to the approved Transit Expansion lines have not been included in the consolidated financial statements of the TTC. • A number of Toronto City Council meetings were held through fiscal 2011 to discuss transportation alternatives available to improve the City's transit system. At the same time, the TTC has also entered into a number of contracts with external providers to assist with the engineering and construction of the Transit Expansion. It should be noted that there are significant cancelation penalties included in these contracts. • On February 8, 2012, Toronto City Council voted in favour of Transit Expansion and the plan to return to an LRT-based transit strategy as was originally contemplated. Based on this vote, the Commission has continued to work on the Transit Expansion lines and no cancellation provisions have been recorded by the Commission.
PwC's Views/Conclusion	• The presentation of no Transit Expansion assets on the consolidated financial statements of the TTC is consistent with the Memorandum of Agreement dated November 2009 and subsequent extension letters to May 2011. Consequently, we agree with not including the Transit Expansion assets on the consolidated financial statements of the TTC. • As well, based on the February 8, 2012 Council vote, we agree with management that no cancellation provisions need to be recorded at the current time. • It should be noted that the TTC has numerous future purchase commitments with third parties which have been appropriately disclosed in note 17 of the consolidated financial statements. • As well, the TTC has been fully subsidized by the City for all eligible expenditures incurred to date.

3. Summary of unadjusted and adjusted misstatements

We have concluded that the financial statements taken as a whole are free of material misstatement and (pending the completion, to our satisfaction, of the outstanding matters identified in section 1), we are prepared to issue an unqualified opinion on the financial statements.

Our responsibility is to issue an opinion as to whether the financial statements are free of material misstatement.

Under Canadian Auditing Standards, we are required to communicate to you the unadjusted misstatements and the effect that they may have on our opinion and to request that these items be corrected. As a result of our audit, we identified certain items and have discussed these with management, and management adjusted the financial statements to reflect certain of these items. Management has concluded that the remaining unadjusted misstatements, which are summarized further in Appendix B, are immaterial individually and in the aggregate.

We are also required to communicate the effects of any unadjusted misstatements that relate to prior periods. These are also included in Appendix B.

4. Other required communications

Canadian Auditing Standards requires that the external auditor communicate certain matters to the Audit Committee that may assist you in overseeing management's financial reporting and disclosure process.

Below, we summarize these required communications as they apply to you:

Matter to be communicated	**PwC's response**
Management's representations	• Under Canadian Auditing Standards, we are required to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C.
Significant deficiencies in internal control	• Recent changes to Canadian Auditing Standards require us to communicate to the Audit Committee internal control weaknesses identified as part of our audit that are considered to be significant deficiencies. • During our audit, we identified a number of control recommendation that we have discussed with management and wish to bring to your attention. Please see Appendix E for a copy of our management letter.
Other information in documents containing audited financial information	• Once completed, we will review the Annual Report for consistency with the audited financial statements
Significant difficulties or disagreements that occurred during the audit	• No difficulties or disagreements occurred while performing our audit that require the attention of the Audit Committee
Fraud and illegal acts	• No fraud involving senior management, employees with a significant role in internal control or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures

5. Internal control recommendations

The purpose of our audit was to enable us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation 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 internal control.

During our audit, we identified a number of control recommendations that we have discussed with management and wish to bring to your attention. Please see Appendix E for a copy of our management letter.

6. 2011 audit fees

The fees detailed below are in accordance with our response to the City's Request for Proposal covering the five year contract period for the years ended December 31, 2010 through to 2014.

Service description	Actual fees for year ended December 31, 2011 $
Audit of the TTC consolidated financial statements	57,840
Audit of the Toronto Coach Terminal Inc. financial statements	4,880
Audit of the TTC Insurance Company Ltd. financial statements	11,750
Total	**74,470**

Appendix A: Draft auditor's report

Independent Auditor's Report

DRAFT

To the Chair and Members 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, 2011, December 31, 2010 and January 1, 2010, the consolidated statement of net debt as at December 31, 2011 and December 31, 2010 and the consolidated statements of operations and accumulated surplus and cash flows for the years then ended, and the related notes including 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 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 the 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 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 is sufficient and appropriate to provide a basis for our audit opinion.

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, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years 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, 2011 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 Accountants, Licensed Public Accountants

Toronto, Canada
April 30, 2012

Appendix B: Summary of unadjusted and adjusted misstatements

a. Unadjusted misstatements

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
Current year unadjusted Misstatements:					
Understatement of accounts payables and accounts receivable related to a subsidized capital project		1,793	(1,793)		
Overstatement of prepaid expenses and understatement of tangible capital assets DR. Tangible capital assets CR. Prepaid expenses				 3,215 (3,215)	
Total unadjusted misstatements before impact of reversal of prior year differences		**1,793**	**(1,793)**		
Reversal of prior year unadjusted misstatements:					
Reversal of overstatement of depreciation expense in the prior year	2,786				(2,786)
Total Unadjusted Misstatements	**2,786**	**1,793**	**(1,793)**		**(2,786)**

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

b. Adjusted misstatements

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
Current year adjustments:					
Confidential Appendix	(5,817)			5,817	
Total adjustments	**(5,817)**			**5,817**	

Appendix C: Management representation letter

April 30, 2012

PricewaterhouseCoopers LLP
Royal Trust Tower
TD Centre, Suite 3000
Toronto, Ontario
M5K 1G8
Attention: Cathy Russell

Dear Sirs,

We are providing this letter in connection with your audit of the consolidated financial statements of the Toronto Transit Commission (TTC or Commission) as of December 31, 2011 and for the years then ended (the financial statements) 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 in accordance with Canadian public sector accounting standards.

Management's responsibilities
We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated December 31, 2011. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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;
- 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 financial statements.

We confirm the following representations:

Preparation of financial statements
The 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 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 intercompany unit accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

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 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 us 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 Canadian public sector accounting standards.

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 of December 31, 2011.

Internal controls over financial reporting

We have designed disclosure controls and procedures to provide reasonable assurance that material information relating to us 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 Canadian public sector accounting standards.

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;
  - Minutes of the meetings of the Commission
- 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, analysts, 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 us 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 our 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 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 business or to cease operations).

Assets and liabilities
We have satisfactory title or control over all assets.

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

We also confirm that all assumptions used in accruing the liabilities within the confidential appendix are our best estimates and what we feel are reasonable assumptions at year-end.

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. 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 $20 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 financial statements are free of material misstatements, including omissions.

The effects of the uncorrected misstatements in the consolidated financial statements, as summarized in the accompanying schedule (Appendix B), are immaterial, both individually and in the aggregate, to the consolidated 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 attached table (Appendix C) have been approved by us and adjusted in the financial statements.

Cash and banks
The books and records properly reflect and record all transactions affecting cash funds, bank accounts 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.

All cash and bank accounts and all other properties and assets of the TTC of which we are aware are included in the consolidated financial statements at December 31, 2011.

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

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

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.

Inventory
Inventory recorded in the consolidated financial statements are stated at the weighted-average cost, with due provision recorded to reduce all damaged, wholly or partially obsolete, usable or excess 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, weight or measurement by component employees under the supervision of management. Liabilities for amounts unpaid are recorded for all items included in inventories at balance sheet date.

Tangible Capital Assets
All charges to property, plant and equipment asset accounts represented the actual cost of additions to property, plant and equipment. No significant property, plant and equipment additions were charged to repairs and maintenance or other expense accounts.

Book values of property, plant and equipment sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Property, plant and equipment 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.

Based on the Memorandum of Agreement dated November 2009, total eligible expenditures of $167.6 million incurred to date on capital assets relating to the approved Transit Expansion lines have appropriately not been included in the consolidated financial statements of the TTC as these assets are the property of Metrolinx.

It is our intent, under the direction of City Council, to proceed with the approved Transit Expansion.

All lease agreements covering property leased by or from the TTC have been disclosed to you and classified as capital, operating, sales-type or direct financial leases as appropriate.

There have been no events or changes in circumstances that indicate tangible capital asset no longer contributes to a government'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; accordingly management was not required to perform an impairment test in accordance with PS 3150 "Tangible Capital Assets" during the period. We believe that the carrying amount of the TTC's long-lived assets is fully recoverable.

Investment in subsidiaries and affiliates
We have appropriately consolidated all entities for which we directly or indirectly have a controlling financial interest.

Accounts Payable
Amounts payable that are non-interest bearing and are expected to be paid more than a year after initial recognition date have been initially recognized at fair value, using an appropriate discount rate, and subsequently measured at amortized cost.

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

Retirement benefits, post-employment benefits, compensated absences and termination benefits
All arrangements, whether formal or informal, explicit or implied, to provide retirement income and other post-retirement benefits to employees after they cease employment, have been identified to you and have been included in the last actuarial valuation, with the acception of the unfunded supplemental pension plan.

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

The TTC does not plan to make amendments to the pension or other post-retirement benefit plans that would have an impact on the current year consolidated financial statements.

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

The employee future benefit costs, assets and obligations have been determined, accounted for and disclosed in accordance with PS 3250, *Retirement Benefits* & PS 3255, Post-employment Benefits, Compensated Absences and Termination Benefits. In particular:

i) The significant accounting policies that the TTC has adopted in applying PS 3250 & PS 3255 are accurately and completely disclosed in the notes to the consolidated financial statements.
ii) Each of the best estimate assumptions used reflects management's judgment of the most likely outcomes of future events;
iii) The best estimate assumptions used are, as a whole, internally consistent, and consistent with the asset valuation method adopted;
iv) The discount rate used to determine the accrued benefit obligation was determined by reference to the City's cost of borrowing.
v) 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 PS 3250 & PS 3255.
vi) 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.
vii) The source data and plan provisions provided to the actuaries for preparation of the actuarial valuations are accurate and complete.
viii) 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.

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 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.

Environmental remediation liabilities
Provision has been made for any material loss that is probable from environmental remediation liabilities. We believe that such estimate is reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been adequately described in the consolidated financial statements.

We have disclosed to you all liabilities or contingencies arising from environmental matters. These liabilities or contingencies have been recognized, measured and disclosed, as appropriate, in the consolidated financial statements. The environmental liabilities included in the balance sheet represent our best estimate of the potential losses using the assumptions that we believe represent the expected outcomes of uncertainties. With respect to the valuation of related assets, we consider 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. Any commitments related to environmental matters have been measured and disclosed as appropriate, the consolidated financial statements.

Statements of operations and net debt
All transactions entered into by the TTC have been recorded in the books and records presented to you.

All amounts have been appropriately classified within the statements of operations and net debt.

The accounting principles and policies followed throughout the period were consistent with prior period practices (except as disclosed in the consolidated financial statements).

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 PS 3200, Liabilities.

Disclosure

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.

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

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

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.

Yours truly,

Toronto Transit Commission

Mr. Andy Byford, Chief Executive Officer

Mr. Vincent Rodo, Chief Financial and Administration Officer

Mr. Michael Roche, Chief Financial Officer

Mr. David Presley, Chief Accountant – Capital Projects

Mr. Paul Buttigieg, Chief Accountant – Financial Services

Ms. Sharon Tippett, Superintendent – Financial Statements

Mr. Alex Cassar, Supervisor – Accounting Policy & Financial Reporting

Appendix A – Listing 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) (1/3rd proportionately)
- Toronto Hydro Corporation
- Toronto Parking Authority

Appendix B - Summary of Unadjusted Misstatements

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
Current year unadjusted Misstatements:					
Understatement of accounts payables and accounts receivable related to a subsidized capital project		1,793	(1,793)		
Overstatement of prepaid expenses and understatement of tangible capital assets DR. Tangible capital assets CR. Prepaid expenses				 3,215 (3,215)	
Total unadjusted misstatements before impact of reversal of prior year differences		1,793	(1,793)		
Reversal of prior year unadjusted misstatements:					
Reversal of overstatement of depreciation expense in the prior year	2,786				(2,786)
Total Unadjusted Misstatements	**2,786**	1,793	(1,793)		(2,786)

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

Appendix C - Summary of Adjusted Misstatements

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
Current year adjustments:					
Confidential Appendix	(5,817)			5,817	
Total adjustments	**(5,817)**			**5,817**	

Appendix D: Independence letter

pwc

April 30, 2012

Chair of the Audit Committee of Toronto Transit Commission
Toronto Transit Commission
1900 Yonge Street
Toronto, Ontario
M4S 1Z2

Dear Members of the Audit Committee:

We have been engaged to audit the consolidated financial statements of Toronto Transit Commission (TTC) for the year ended December 31, 2011

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the TTC, 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 Ontario provincial institute 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 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 April 19, 2011 to April 30, 2012.

We hereby confirm that we are independent with respect to the TTC within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of April 30, 2012.

This report is intended solely for the use of the Audit Committee, the Commission, 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 April 30, 2012.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

cc: Members of Audit Committee

PricewaterhouseCoopers LLP, Chartered Accountants
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Appendix E: Management Letter

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April 30, 2012

Mr. Michael A. Roche
Chief Financial Officer
Toronto Transit Commission
1900 Yonge Street
Toronto, ON
M4S 3B2

Dear Mr. Roche:

Report to Management
2011 Audit of Toronto Transit Commission

We have substantially completed our audit examination of the Toronto Transit Commission (referred to as the "Company" or "TTC" throughout this report). Our audit was directed at providing the basis for our opinion on the consolidated financial statements for the year ended December 31, 2011. During the course of our work, we noted several areas where we believe that controls and procedures could be improved and accordingly, we enclose a memorandum of recommendations designed to address these matters. We summarize these observations and recommendations in the appendix attached to this letter.

Our examination was designed in accordance with Canadian generally accepted auditing standards to enable us to express an opinion on the consolidated financial statements as a whole and our work involved evaluating only those systems and internal controls in your organization upon which we intend to rely. The objective of an audit is to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. Therefore, this memorandum does not necessarily include all matters that may be of interest to management, which a more extensive or special internal controls examination might develop. It is not designed to identify and cannot necessarily be expected to uncover fraud, defalcations and other irregularities.

The responsibility for the maintenance of an adequate system of internal control, as well as for the prevention and detection of irregularities rests with management and we trust you will find the recommendations in this letter helpful in achieving this objective.

This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

We would like to take this opportunity to thank the management and staff of the TTC for the co-operation that we received during the course of our audit. Please do not hesitate to contact us if there are any matters in this letter that you would like to discuss further.

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Audit and Assurance Group

Encl.

PricewaterhouseCoopers LLP, Chartered Accountants
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APPENDIX

Business Process Control Observations

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1. Toronto Transit Commission (TTC)

1.1 Schedules supporting the TTC's capital asset balances, including additions, disposals, depreciation calculation, and capital subsidies should be automated.

Observation

During our testing of capital assets, it was noted that the capital asset process is not automated. Rather, excel spreadsheets are used to track and account for expenditures on capital assets, asset disposals, capital subsidies received and depreciation of capital assets.

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.

Recommendation

Management should investigate capital asset software packages available to automate their capital asset continuity schedules. Doing so will allow the Company to:

- More accurately track capital spending against associated capital subsidies
- Generate a fixed asset continuity schedule, detailing cost and accumulated depreciation, by asset class.
- More easily identify when an asset is put into productive use.
- Reduce the amount of estimation used in determining depreciation expense throughout the year.
- Eliminate the risk that an excel formula or other type of error will go undetected.

In the interim, we recommend that management implement spreadsheet controls around the current excel spreadsheets being used, restricting access through password controls and write-protecting the continuity schedules so that changes cannot be made inadvertently or without appropriate authorization or approval.

Management Response

The Capital Asset system in the Worth-It software application has been established for 2006 assets of record and subsequent year capital additions for years 2007-2010 have been entered into the system. Further system testing and realignment of asset groupings continue to ensure that compliance to PSAB requirements and financial statement presentation are correctly being tracked and reported. The tracking of capital expenditures, funding and related capital additions will continue to be handled through spreadsheets under the direct control of Capital Accounting staff to mitigate the risk of changes without proper authorization.

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1.2 Use of manual records to support inventory usage and receipt during system conversion

Observation

In completing our inventory cycle counts at Greenwood warehouse, we noted in several of our samples selected for testing that the quantity of physical inventory items counted differed from the quantity supported within the inventory subledger.

In investigating these differences it was noted that manual records were kept to track inventory usage and receipt during the Company's conversion of the inventory management system from MMS to IFS. It was determined that not all of these manual records were updated in the new system.

Implications

The inventory subledger may not be an accurate representation of the amount of inventory on-hand throughout the year or at year-end.

Recommendation

We recommend that management undergo a process to ensure that all manual records maintained in the system conversion have been effectively uploaded into IFS by year-end.

For future system conversions, we recommend a formalized process is implemented to ensure that all manual records maintained during system conversion are accurately and completely uploaded into the new inventory management system.

Management Response

We agree with the above recommendation. A manual process was in place during the system conversion however there were several items that didn't get updated due to the large number of manual inputs required by two employees over a short period of time. A mitigating control however, does exist in that cycle counts are performed on all inventory stock codes. From the IFS implementation in May 2011 until April 9, 2012, approximately 75% of the inventory stock codes were counted. In cases where there was a difference between the quantity recorded in the inventory subledger and the amount of the physical count, the amount recorded in the inventory subledger was adjusted accordingly. As a result of this mitigating control, any errors in the inventory records that did exist at the time of the IFS implementation have since been substantially rectified.

pwc

1.3 Frequency of cycle counts over less used inventory items

Observation

During our testing of the inventory cycle count process, it was noted that there were numerous inventory items physically counted only once every three years.

Implications

Large inventory 'book to physical' differences might exist for these items due to theft or human error in processing inventory and these differences would not be identified until the inventory items were counted. As a result of these items not being counted more frequently, the inventory balance could be misstated.

Recommendation

We recommend that all inventory items, regardless of how often they are used, should be counted at a minimum once per year.

Management Response

The majority of inventory is counted at least once per year (in many cases multiple times per year). Parts that are counted once every three years are slow moving items that are stored at either the Greenwood or Duncan warehouse. These slow moving parts comprise approximately 25% of total inventory value and typically consist of critical spare components or are items that have a low unit value.

Management will review the cycle count processes and consider making some adjustments to the cycle count schedule to count additional stock codes at least once per year where it is warranted. When making adjustments to the cycle count schedule, consideration will be given to additional resources required to undertake the additional counts.

pwc

1.4 Formalization of the communication protocol between Special Investigations and TTC senior management.

Observation

In the process of completing our audit we noted that there is not a formalized communication protocol between the Special Investigations department and senior management at the TTC to keep them informed of progress on any on-going investigations. It currently is an ad hoc, informal, process.

Implications

Without a formal communication protocol there is the risk that senior management may be unaware of investigations on-going which may impact or involve the departments and/or staff for which they are responsible.

Recommendation

We recommend that formal communication protocols be established whereby the Special Investigations department submits a report, at least quarterly, detailing the investigations that are on-going and the areas impacted.

Management Response

Management will formalize a quarterly report on the progress of ongoing investigations and will report same to the Chief Executive Officer (CEO) and Chief Financial and Administrative Officer (CFAO). The CFAO will forward the information to the City Auditor General. If anything arises that is of critical importance between reports, the CEO, CFAO and Auditor General will be advised accordingly.

pwc

2. Toronto Transit Commission Insurance Company (TTCIC)

2.1 Lack of approval on claim payments

Observation

In auditing the claim payment process it was noted that adjusters have the ability to make claim payments within an authority limit while visiting a claimant off-site. Adjusters are permitted to make payments above their authority limit with prior approval from their supervisor.

Implication

There is some risk of an unauthorized payment given that there is no IT system to prevent the release of a bank draft that has been written in excess of an adjuster's limit without the supervisor approval.

Recommendation

The payment process should be automated through the Riskmaster system. Adjusters should need to obtain approval before payment is provided to any claimant.

Automated authority limits for claim payments should also be set-up within Riskmaster. Should a claim payment be outside an adjuster's authority limit the payment should need to be approved and evidence provided to support that the escalated payment is necessary before the payment is provided to the claimant.

Management Response

Currently all adjusters have the authority to write a draft within their individual dollar authority. All adjusters are fully aware that any draft written above their authority without prior approval could lead to disciplinary action up to and including dismissal.

All payments are bank drafts (not cash) and whether the draft is issued in or outside the office, it is processed in the same fashion. All drafts are sequentially numbered when assigned to the adjuster and they are required to verify and sign for the drafts they have been issued.

Once the draft is issued by the adjuster to the claimant and processed through Riskmaster the payment is entered on to a transmittal sheet by Claims department clerical staff. The transmittal sheet lists the draft number and the amount of the draft. The Claims Director reviews the transmittal sheet and the draft copies to ensure that all payments listed are within adjustor's limit. If the amount of the payment exceeds the adjustor's authority, the draft copy would have the supervisor's sign-off, which is verified by the Claims Director. Once this verification has been completed, the payment information is forwarded to Finance. Finance staff reconcile payments processed through the bank, with this record of authorized payments listed in Riskmaster. If Finance staff identify a payment that was not listed in Riskmaster, Claims staff would be immediately contacted to follow-up.
All claimants assigned to an adjuster are done so by Claims Management Staff who have reviewed the reports and confirm the incident. The adjusters have no prior knowledge as to which claimant they are going to be assigned.

In addition to the controls already in place, staff are in contact with Riskmaster personnel and are in the process of investigating the required process and system modifications that would be required to implement the recommendation wherever possible given both system limitations and operational requirements.

pwc

3. IT Control Recommendations

3.1 User access considerations

Observation

During our audit procedures, we noted a number of user accounts within Payroll, MMS/IFS, Risk Master and Millennium with respect to terminated employees were not removed on a timely basis. We also noted that the TTC security policy does not establish a time frame in which user accounts are cancelled after the termination of an employee.

As well, we noted that user access reviews for super users are not performed to ensure user access is appropriate at the database level (e.g. Windows, SQL and Oracle).

Implications

Unauthorized transactions could be performed using terminated user accounts.

Staff could have super-user access at the database level which could allow them to by-pass application level or monitoring controls.

Recommendation

User access for terminated employees should be performed at the date of termination. The TTC Information Security policy should enforce that staff terminations will be communicated to the IT department in a timely manner to ensure that terminated employees no longer have access to the system.

A super-user access review should be performed at least once per year or according to TTC risk considerations. This review should be performed by an individual without administrative privileges. Any exceptions noted should be properly disabled.

Management Response

User access to the primary environment (i.e. the Windows Server Domain) is removed immediately upon the receipt of an employee termination notification.

However, Information Technology Services Department will streamline th e user access termination process for secondary environments (i.e. mainframe, applications, databases, CICS and CMS) by having the Access Control Administration Section coordinate the termination of user access across the departments in a timely manner. Th is process will be initiated upon the receipt of an employee termination notification from Human Resources Department or from an employee's immediate supervisor to ensure that access to the primary and secondary environments of each terminated employee is removed.

The following changes will be made to improve the access termination process:

1. Improvements to termination notification process will be undertaken and targets for complete access removal will be established; and
2. Once the process is established, the corporate security policy will be updated to reflect the changes.

We agree. A listing of super and/or privileged user accounts at database and operating system level will be produced once a year and will be reviewed for exceptions by the Information Secu rity Office.

pwc

3.2 Password security parameters could be strengthened

Observation

During our audit, we reviewed the password settings on the Voltage and Pistons servers and noted that the password aging settings were "disabled' and there were no security guidelines in the TTC's security policies about super-user password management.

As well, we reviewed the password settings within VM Secure and noted that the password length for all users is set at four characters. We also noted that Great Plains and Risk Master do not have the typical security features on passwords such as requiring passwords to be minimum of six characters in length, requiring the use of an alpha-numeric passwords, not allowing the same password to be used twice etc.

Implication

Account passwords should be changed with scheduled frequency to reduce the risk, if a user's password is compromised, that an unauthorized individual could gain access to the Company's system for an extended period of time.

Weak password controls also increase the risk of unauthorized users gaining access to the system.

Recommendation

We recommend that users should be required to change their passwords at least every 90 days. Password lengths should be set at a minimum of at least six characters and alpha-numeric passwords should be required.

Management Response

Server Technology, after review with PWC, confirmed that password aging was disabled and that Server Technology will enable the password aging in the UNIX environment.

The Corporate Security Policy will be reviewed and updated to reflect the changes recommended by PwC regarding the password management of super user or privileged accounts, including service accounts as deemed appropriate.

Server Technology will adjust system settings on the mainframe environment such that the minimum password length will be six characters. The current maximum number of lockout attempts will remain at three. The Corporate Security Policy will be reviewed and updated to reflect the changes recommended by PwC about Password settings and lockout account attempts as deemed appropriate.

RiskMaster and Great Plans administrators will implement, where possible, the following steps to better enforce the setting of password parameters:

1. Enforce Password Policy: Users to adhere to the same password policies that have been established on the Windows Server domain;
2. Change Password Next Login: Users to change their passwords the next time they log into Microsoft Dynamics RM;
3. Enforce Password Expiration: Users to change their passwords after the number of days that is defined by the Windows Server domain password policies; and
4. Enforce Password Complexity: Users to make the choice of selecting a password a little more difficult rather than, for example, 12345. Users will make sure that they have capital letters, small letters, special characters, numbers, etc. when selecting passwords.

In addition to the above, RiskMaster and Great Plans administrators will review access rights periodically in order to eliminate the risk of unauthorized access.

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Appendix F: Overview of the audit approach and risk analysis

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Our audit approach

Our audit approach is based on:

- A combination of key controls reliance and substantive detail testing ;
- Risk-based approach to planning and conducting the audit; and
- The application of well-reasoned professional judgment.

In developing our audit approach, we start by obtaining an understanding of the business and risks which drives our assessment of materiality and the identification of audit risks; including key risks—audit risks that require special audit consideration. We then scale our audit approach based on the size and complexity of the business and entity-level and information technology controls.

We gather audit evidence in a number of different ways – tests of controls through inquiry, observation, inspection and reperformance and substantive procedures, including analytical procedures and tests of details. Our audit strategy is designed to achieve the effective and efficient accumulation of audit evidence to support the issuance of our opinion on the financial statements.

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 consolidated 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.

We have set an overall materiality of $20 million for the year. The overall materiality was determined at approximately 1% of actual annual expenses.

We have reported to the Audit Committee individual unadjusted and adjusted misstatements in excess of the de minimus level of $1 million (set at 5% of overall materiality).

Risk analysis

Financial statements involve varying degrees of uncertainty or audit risk. Analyzing and assessing these risks, and planning procedures that will reduce them to an acceptable level, is a critical phase in our planning process. Our understanding and knowledge of the Toronto Transit Commission and its business, obtained from ongoing contact with management and other means, provides a strong basis for assessing risk.

a) Management judgments, accounting estimates and financial statement disclosures:

Risk	Management's response / Controls identified	Audit approach
Adoption of Public Sector Accounting Standards (PSAS) In the current year, the TTC and all of its subsidiaries will be reporting for the first time under PSAS.	To date, management has reassessed their accounting policies under PSAS and has identified the following areas where significant differences are expected to occur: i. Revenue recognition for capital subsidies	PwC will meet with management regularly to understand and audit the key differences between Canadian GAAP and PSAS. PwC will test management's calculations, supporting data and assumptions used in these calculations.

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Risk	Management's response / Controls identified	Audit approach
	ii. Accounting for the TTC Pension Fund Society and Post-retirement benefits iii. Financial statement presentation and disclosure. Management has quantified the impact of these accounting policy changes on the consolidated fiscal 2010 and 2011 financial statements. Management has prepared reconciliation schedules restating the opening balance sheet, at January 1, 2010 and comparative figures through the 2010 and 2011 fiscal years from Canadian GAAP to PSAS. Management is in the process of finalizing draft consolidated financial statements for the TTC under PSAS.	PwC will review the draft consolidated financial statements once prepared to ensure that the financial statement presentation and disclosure is appropriate under PSAS.
Significant accounting estimates The preparation of the TTC's financial statements requires the use of significant accounting estimates that are subject to management judgment in the following areas: • Deferred revenue • Post employment and post retirement benefits (pension and other); and • Contingent liabilities (including provisions for legal claims, property and liability claims (covering both self-insured and insured liabilities).	Management has processes and controls in place for formulating these estimates. Where applicable, management has engaged external experts to assist in the determination of significant accounting estimates. In particular, the TTC has contracted external specialists to assist with the valuation of post-employment and post-retirement benefits and certain other contingent liabilities (accident claims).	Meet with non-financial management responsible for establishing provisions to understand the key assumptions and validate these estimates against our own expectations. Test management's calculations, supporting data and assumptions used in these calculations. Utilize our internal experts (i.e. actuaries) to assess the appropriateness of assumptions used. Assess the competency and objectivity of experts engaged by the TTC. We will send confirmations to TTC's external legal counsel to obtain third party evidence on the status of all outstanding legal proceedings up to the date of our audit report
Management override of controls.	Appropriate segregation of duties has been established in order to mitigate the risk of management override of controls. The TTC has policies and procedures in place to prevent and deter fraud including a code of conduct, an internal audit department and the review and approval of manual journal entries	We will assess the control environment, ensure there is appropriate segregation of duties and access any manual controls established to mitigate this risk We will test significant and non-standard manual journal entries made during the year We will introduce an element of

Risk	Management's response / Controls identified	Audit approach
		unpredictability into our audit through our sample selections.

In our initial Audit Plan, presented to the TTC Audit Committee on January 23, 2012, we had identified revenue recognition as a potential significant audit risk. After considering the lack of complexity associated with revenue recognition at the TTC and fact that passenger revenue transactions are homogeneous in nature we have concluded that audit risk in this area is not significant. We have no matters to bring to the attention of the Audit Committee related to the completion of our procedures on revenue.

b) Perspectives on fraud risk

Canadian Auditing Standards require us to discuss fraud risk annually with the Audit Committee. We understand that part of your governance role is also to consider the fraud risks facing the Company and the responses to those risks. Owing to the inherent limitation of an audit, the auditor is able to obtain only reasonable assurance that material misstatements in the financial statements will be detected. 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 and sophisticated and carefully organized schemes designed to conceal it (forgery, manipulation, falsification, intentional misrepresentation, etc.). We have had discussions with the management team around this issue, and within the scope of audit of the financial statements as a whole.

During the course of our audit with a view of issuing an opinion of the financial statements, we use a number of techniques that are used by organizations to detect common types of fraud. Although as noted above, it is not our mandate under an audit engagement to detect fraud or the occurrence of illegal acts.

Some of the audit techniques used during the current year audit was as follows:

- incorporating unpredictability to our audit
- increase our controls work performed over purchases and payables such as PO change testing, approval of overspending and timestamp testing
- testing additional bank reconciliation items
- testing accounts below our scoping threshold such as prepaids
- testing of cut-off in the area of purchases;
- review of the SAS 70 report obtained from payroll administrator;
- search for unrecorded liabilities;
- review of unusual and manual journal entries.

In completing all of these various tests as part of our audit of the financial statements as a whole, we noted no items that would be indicators of fraud or illegal acts.

We have discussed the area of fraud and illegal acts with management. They have responded that they are not aware of any specific occurrences during the current year. This will be confirmed to us in writing in the management letter of representation.

STAFF SUMMARY SHEET

1(d)

CORPORATE SERVICES GROUP **15497CR**

PREPARED BY: Alex Cassar	**DEPARTMENT HEAD** - Michael A. Roche
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COMMISSION REPORT: PRICEWATERHOUSECOOPERS LLP AUDIT RESULTS REPORT ON THE TORONTO TRANSIT COMMISSION CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

#	ROUTING	CONCUR	NON-CONCUR	DATE
	CHIEF OPERATING OFFICER			
	CHIEF CAPITAL OFFICER			
	CHIEF CUSTOMER SERVICE OFFICER			
2	CHIEF FINANCIAL AND ADMINISTRATION OFFICER	[signature]		May 16/12
1	HEAD OF FINANCE AND TREASURER	[signature]		MAY 16/12
	HEAD OF LEGAL			
	HEAD OF HUMAN RESOURCES			
	HEAD OF M&P			
	HEAD OF IT			
3	DIR - COMMUNICATIONS	[signature]		May 16/12

ATTACHMENT(S)

- REPORT TO THE COMMISSION
- UPDATE LETTER AND AUDIT RESULTS REPORT FROM PWC LLP – YEAR ENDED DEC. 31, 2011

ACTION REQUIRED BY CHIEF EXECUTIVE OFFICER

- ☐ SIGN AGREEMENT
- ☐ RECEIVE FOR INFORMATION
- ☐ APPROVE
- ■ APPROVE FOR SUBMISSION TO COMMISSION
- ☐ APPROVE FOR SUBMISSION TO CHAIR

[signature] 17 MAY 2012

SIGNATURE DATE

Form Revised: July 2007