Appendix B: Management representation letter

[Date]

PricewaterhouseCoopers LLP
PWC Tower
18 York Street, Suite 2600
Toronto, Ontario M5J 0B2

Attention: Cathy Russell

Dear Sirs,

We are providing this letter in connection with your audit of the consolidated financial statements of Toronto Transit Commission (the TTC) as of December 31, 2012 and for the year then ended for the purpose of expressing an opinion as to whether such consolidated financial statements present fairly, in all material respects, the financial position, the net debt, the results of operations and the cash flows of Toronto Transit Commission 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 letter dated November 1, 2010. In particular, we confirm to you that:

- We are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian Public Sector Accounting Standards;
- We are responsible for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In this regard, we are responsible for establishing policies and procedures that 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 consolidated financial statements.

We confirm the following representations:

Preparation of consolidated financial statements

The consolidated financial statements include all disclosures necessary for fair presentation in accordance with Canadian Public Sector Accounting Standards and disclosures otherwise required to be included therein by the laws and regulations to which Toronto Transit Commission is subject.

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

Accounting policies

We confirm that we have reviewed Toronto Transit Commission's accounting policies and, having regard to the possible alternative policies, our selection and application of accounting policies and estimation techniques used for the preparation and presentation of the consolidated financial statements is appropriate in Toronto Transit Commission's 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 Toronto Transit Commission 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 consolidated financial statements, such as records, documentation and other matters including:
  - Contracts and related data;
  - Information regarding significant transactions and arrangements that are outside of the normal course of business;
  - Minutes of the meetings of the Board.
- 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 Toronto Transit Commission with third parties have been properly reflected in the accounting records or/and, where material (or potentially material) to the consolidated financial statements, have been disclosed to you. We have complied with all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance.

Fraud

We have disclosed to you:

- The results of our assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud;
- All information in relation to fraud or suspected fraud of which we are aware affecting Toronto Transit Commission involving management, employees who have significant roles in internal control or others where the fraud could have a material effect on the consolidated financial statements; and
- All information in relation to any allegations of fraud, or suspected fraud, affecting Toronto Transit Commission's consolidated 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 consolidated financial statements, including actual or suspected non-compliance with laws and regulations whose effects should be considered when preparing consolidated financial statements.

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

Accounting estimates and fair value measurements

Significant assumptions used by Toronto Transit Commission in making accounting estimates, including fair value accounting estimates, are reasonable.

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

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

Significant estimates and measurement uncertainties known to management that are required to be disclosed in accordance with The Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook Section PS 2130, Measurement Uncertainty have been appropriately disclosed.

Related parties

We confirm the completeness of information provided to you regarding the identification of related parties as defined by CAS 550 – Related Parties. We also confirm the completeness of information provided to you regarding the nature of Toronto Transit Commission's relationships with and transactions involving those entities.

The list of related parties attached to this letter as Appendix A accurately and completely describes Toronto Transit Commission's 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 consolidated financial statements (e.g. to dispose of the entity or to cease operations).

Assets and liabilities

We have satisfactory title or control over all assets.

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. Receivables classified as current do not include any material amounts that are collectible after one year. 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 consolidated 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 consolidated 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.

Cash and banks

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

All cash balances are under the control of Toronto Transit Commission, 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 Toronto Transit Commission of which we are aware are included in the consolidated financial statements at December 31, 2012.

Accounts Receivable

All amounts receivable by Toronto Transit Commission were recorded in the books and records.

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

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. 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 Toronto Transit Commission are being depreciated on a systematic basis over their estimated useful lives, and the provision for depreciation was calculated on a basis consistent with that of the previous date.

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

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

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 exception 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 post-retirement benefits are appropriate in the circumstances.

Toronto Transit Commission does not plan to make frequent 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 plan 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 and PS 3255 – Post-employment Benefits, Compensated Absences and Termination Benefits. In particular:

a. The significant accounting policies that Toronto Transit Commission has adopted in applying PS 3250 and PS 3255 are accurately and completely disclosed in the notes to the consolidated financial statements.

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

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

d. The discount rate used to determine the accrued benefit obligation was determined by reference to the City's cost of borrowing or for the funded plans, the expected rate of return.

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

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

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

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

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

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

Use of a specialist

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

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

Guidance taken from other standards

Consistent with our results from the 2011 audit, section PS1150 states that where Public Sector Accounting Standards is silent on the accounting treatment of specific transactions, that the entity should take guidance from other sources of GAAP to determine appropriate accounting policies. In regards to Insurance Contract liabilities, the entity has chosen to take guidance from International Financial Reporting Standards (IFRS), IFRS 4 – Insurance Contracts to determine the appropriate accounting policies and relevant disclosures.

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

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

Statements of operations and net debt

All transactions entered into by Toronto Transit Commission 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 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 & Administration Officer

Mr. Michael Roche, Head of Finance & Treasurer

Mr. David Presley, Director – Capital Projects

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

Ms. Sharon Tippett, Manager – Financial Statements

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

Appendix A – List of related parties

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

Appendix B – Summary of Uncorrected Misstatements (SUM)

Description (presented in thousands)	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 payable and cash The TTC incorrectly understated accounts payable and cash, by not reversing a cancelled check relating to a payable for 2012 in the amount of $1.2 million Dr. Cash & Cash equivalents Cr. Accounts Payable & Accruals	-	1,159	(1,159)	-	-
Overstatement of gain on sale The TTC incorrectly overstated the gain on sale of subway cars by not writing off the remaining net book value of the H6 subway cars sold. Dr. Miscellaneous operating revenue Cr. Tangible Capital Assets	1,495	-	-	(1,495)	-
Total unadjusted misstatements	**1,495**	**1,159**	**(1,159)**	**(1,495)**	-

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

Appendix C: Independence letter

pwc

April 15, 2013

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 (the TTC) for the year ended, December 31, 2012.

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 have prepared the following comments to facilitate our discussion with you regarding independence matters. 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.

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 from April 30, 2012, the date of our last independence letter to April 15, 2013.

This report is intended solely for the use of the Audit Committee, the Board of Directors, management and others within the TTC and should not be used for any other purpose. We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on April 25, 2013.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

cc: Members of Audit Committee

PricewaterhouseCoopers LLP, Chartered Accountants
PwC Tower, 18 York St, Suite 2600, Toronto, Ontario Canada M5J 0B2
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Appendix D: Management Letter

pwc

April 15, 2013

Mr. Michael A. Roche
Head of Finance & Treasurer
Toronto Transit Commission
1900 Yonge Street
Toronto, ON
M4S 3B2

Dear Mr. Roche:

Report to Management
2012 Audit of Toronto Transit Commission

We have substantially completed our audit examination of the Toronto Transit Commission (referred to as the 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, 2012. 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. It is not designed to identify and cannot necessarily be expected to uncover fraud, defalcations and other irregularities. 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.

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
PwC Tower, 18 York St, Suite 2600, Toronto, Ontario Canada M5J 0B2
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APPENDIX

Business Process Control Observations

1. Toronto Transit Commission (TTC)

1.1 Approval of processing manual journal entries

Observation

In our testing manual journal entries in the current year two control observations were noted:

i) We noted circumstances where journal entries were drafted and approved by the same individual, without a secondary review.

ii) We noted circumstances where journal entries, drafted by managers and supervisors, were being reviewed by subordinates to those who drafted the entries.

Implications

A lack of effective segregation of duties in posting manual journal entries or inadequate review and approval of manual journal entries may lead to a risk that unauthorized journal entries are made without detection

Recommendation

PwC recommends that all manual journal entries be independently reviewed in accordance with the TTC's approval matrix before being posted to the general ledger. Individuals who have the ability to draft manual journal entries should also not have the ability to approve the same entry.

Management Response

We agree. The current policy will be reviewed, updated and communicated as required, by mid-year.

1.2 Implement process controls to track inventory requests made outside of the IFS system

Observation

During our testing of the inventory cycle count process, it was noted that there were a number of book to physical adjustments due to inventory records within the IFS system often overstating the quantity of inventory items on-hand.

Upon further investigation we noted that the primary reason for the book to physical differences was due to inventory items being requested and removed from TTC warehouses outside of the IFS inventory management system.

Implications

Inventory usage may not be identified until the inventory items were counted resulting in inaccuracies in the accounting records. As well, inventory could be misappropriated without detection.

Recommendation

All inventory requests for materials or replacement parts should be made through the inventory management process and should be recorded within the IFS inventory management system.

Management Response

Agreed, M&P is in the process of working with IT to have bar coding scanning system project approved for implementation to assist with the control of the inventory material in the various warehouses which will be scanned and the inventory system updated by a store person or a mechanic when the operations group needs a part for a vehicle or to perform their work.

The mechanic is responsible to record the stock code and quantity taken on a Material Requisition form posted in each stockroom. In Bus Operations locations the Work Order Stock Requisition (WOSR) process is followed to allow mechanics to take the part out of the stockroom and fix the vehicle and the mechanic will update their work order recording the parts taken against the WOSR for the work performed. The store person will process the WOSR and update the inventory system at the end of the shift. Management will remind and reinforce this process with their staff to ensure compliance.

1.3 Automate the allocation of labour costs.

Observation

Currently, the TTC uses multiple manual processes to allocate labour costs to various general ledger accounts.

Implications

The use of manual spreadsheets and estimates to determine the labour to be allocated to various general ledger accounts is more time intensive and increases the risk of error.

Recommendation

We understand that the payroll system (OARS) has the capability of allocating labour costs automatically to various GL accounts (operating or capital). We recommend that the capabilities within OARS be utilized to allocate labour costs automatically between the appropriate general ledger accounts.

Management Response

The OARS system does have the capability of processing labour costs directly to the general ledger accounts. However, many areas throughout the TTC have other systems that they use to allocate costs to the General Ledger. These systems provide the reporting tools they need to manage their business appropriately and they are reluctant to give up the tools they know so well. We will endeavour to educate areas about OARS and the options available to them to ensure that over time we use the system to its fullest potential.

2. IT Control Recommendations

2.1 User access considerations

Observation

During our audit procedures, we noted the following IT control recommendations related to user access:

i) We noted that a number of user accounts for terminated employees were not disabled in a timely manner and found evidence that a number of those user accounts were used to access the TTC network after termination.

ii) We noted a number of user accounts in IFS (purchase and payable application software) for employees who transferred to another department but retained access to process goods receipts and issue payments.

iii) We noted that there is no process in place to periodically review user access rights within IFS.

Implications

Unauthorized transactions could be performed or unauthorized access obtained using the user accounts of terminated or transferred employees.

Inappropriate access rights may be assigned to users and this may lead to the risk that unauthorized transactions could be performed or unauthorized access could be obtained.

Recommendation

User access for terminated employees should be removed as soon as possible following employment termination. User access for transferred employees should be modified appropriately on a timely basis after an employee has changed jobs.

The TTC Information Security policy should require that staff terminations or transfers be communicated to the IT department in a timely manner to ensure that unauthorized employees no longer have access to the system.

A formalized process should be implemented to review the appropriateness of user access rights on IFS at least once annually.

Management Response

The "Disabling Process for Terminated Employees/Contractors" has undergone a review and update and was newly published as of April 4, 2013. Updates include streamlining the notification process for unplanned terminations as well as timelines to remove all access to applications of terminated Users. This process was signed off by all affected Department Heads responsible for maintaining ID administration.

TTC Information Security Policy 7.2.2.6.5.3 currently advises all Staff that any changes to an employee's ID in their charge is to be communicated to the IT Services Department.

> 7.2.2.6.5.3
>
> "It is the responsibility of the employee's immediate supervisor to follow the instructions in the Termination, Transfer, Disciplinary Checklist when an employee change occurs, e.g. contact ITS to arrange for a userid or password change.",

IT will remind the Management team that they should advise their staff that timely compliance with this policy is required.

As recommended, an Annual Audit of IFS user's access will be conducted by the Materials and Procurement, Materials Management Systems admin. One of the focus points of the Audit will be validating users assigned IFS role(s) and employees current cost centre.

2.2 Implementation of audit logs in application software

Observation

PwC noted the application software for Millennium (general ledger) and OARS (payroll system) do not have audit logs in place to track which users have accessed or made changes to the application data.

Implication

The lack of audit logs within these applications leads to the risk that these applications could be accessed or changes made to application data by unauthorized users may go undetected.

Recommendation

Understand that TTC management is in the process of assessing new ERP systems. As part of this assessment, management should ensure that audit logs exist over each of these processes. Once in place, a process should be implemented to review the audit logs on a periodic basis.

Management Response

As recommended, TTC management will ensure that new ERP systems include an audit trail logging module. Also, any new system will include audit trail logging module as part of the development requirements. Furthermore, TTC staff will examine what is possible with existing systems and make a decision by the end of the year.

STAFF SUMMARY SHEET

1(a)

CORPORATE SERVICES GROUP

16175 **BR**

PREPARED BY:	Elizabeth Thomas	**SECTION:**	Finance
EXTENSION:	3299	**HEAD:**	Michael A. Roche
EMAIL:	Elizabeth.Thomas@ttc.ca	**CHIEF:**	Vincent Rodo

BOARD REPORT: PWC LLP AUDIT RESULTS REPORT ON THE TORONTO TRANSIT COMMISSION CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

#	ROUTING	CONCUR	NON-CONCUR	DATE
	CHIEF CAPITAL OFFICER			
	CHIEF CUSTOMER OFFICER			
2	CHIEF FINANCIAL & ADMIN OFFICER			May 14
	CHIEF OPERATING OFFICER			
	CHIEF SERVICE OFFICER			
1	HEAD OF FINANCE & TREASURER			May 13/13
	HEAD OF HUMAN RESOURES			
	HEAD OF LEGAL			
	HEAD OF M&P			
3	EXEC DIR CORP COMMUNICATIONS			May 14/13
4	CHIEF OF STAFF			May 14/13

ATTACHMENT(S)

- REPORT TO THE BOARD
- AUDIT RESULTS REPORT FROM PWC LLP – YEAR ENDED DEC 31, 2012

ACTION REQUIRED BY CHIEF EXECUTIVE OFFICER

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

SIGNATURE DATE MAY 14

Revised: March/13