For Action

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

Date: June 12, 2019
To: TTC Board

Summary

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

Contact

Dan Wright, Chief Financial Officer
416-393-3914
Dan.Wright@ttc.ca

For Action

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

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

Summary

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

Recommendations

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

1. Approve the report; and

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

Implementation Points

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

Financial Summary

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

Equity/Accessibility Matters

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

Decision History

The City of Toronto Act requires the city auditor (PwC) to annually audit the accounts and transactions of the City and its local boards and to express an opinion on their financial statements.

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

https://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2017/February_9/Reports/2_TTC_Audit_%20and_Risk_Management_Committee_Terms_Of_Referenc.pdf

Issue Background

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

Comments

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

https://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Committee_meetings/Audit_Risk_Management/2019/Feb_26/Reports/4_PWC_LLP_Consolidated_Financial_%20Stmts_Audit_Plan_for_Year-.pdf

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

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

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

Contact

Stephen Conforti, Head of Finance & Treasurer
(416) 393-3654
Stephen.Conforti@ttc.ca

Signature

Dan Wright
Chief Financial Officer

Attachments

Attachment 1 – 2018 year-end report to the Audit and Risk Management Committee www.pwc.com/ca

Toronto Transit Commission

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

Prepared as of May 22, 2019

pwc

May 22, 2019

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

Dear Members of the Audit and Risk Management Committee:

We have substantially completed our audit of the consolidated financial statements of the Toronto Transit Commission (TTC) prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada) for the year ended December 31, 2018. We propose to issue an unqualified report on those financial statements, pending resolution of outstanding items outlined on page 1. Our draft auditor's report is included as Appendix A.

We prepared the accompanying report to assist you in your review of the financial statements. It includes an update on the status of our work, as well as a discussion on the significant audit, accounting and financial reporting matters dealt with during the audit process.

We will review the key elements of this report at the upcoming meeting and discuss our findings with you.

We would like to express our sincere thanks to the management and staff who have assisted us in carrying out our work, and we look forward to our meeting on May 29, 2019.

Yours very truly,

PricewaterhouseCoopers LLP

Cathy Russell
Partner
Assurance

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

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Communications to the Audit and Risk Management Committee

Key matters for discussion	*Comments*
Status of the audit	We have substantially completed our audit of the 2018 consolidated financial statements (the financial statements). We have included our draft auditor's report, which reflects the enhanced auditor reporting standards effective for years ending on or after December 15, 2018, in Appendix A. Significant outstanding items at time of mailing include the following: • Receipt of City of Toronto confirmation for capital and operating subsidy revenue and receivables and audit testing; • Receipt of signed management representation letter; • Receipt of response to legal confirmation letters from external and internal legal counsel; • Board of Directors' approval of the financial statements; and • Subsequent events procedures to the date of our auditor's report.
Significant audit, accounting, and financial reporting matters discussed with management	
1. Fraud risk – management override of controls	Management has implemented internal controls to ensure that appropriate segregation of duties have been established at the TTC in order to mitigate the risk of management override of controls. The TTC has policies and procedures in place to prevent and detect fraud, including a code-of-conduct, an internal audit department, an integrity hotline for employees and a process to review and approve journal entries. **PwC work performed:** In completing our audit, we are responsible for maintaining professional scepticism throughout our audit engagement, considering the potential for management override of controls. • We assessed the control environment to ensure there is appropriate segregation of duties and assessed manual controls established to mitigate this risk. • We reviewed the quarterly fraud investigation reports and the call log of the City Whistle-blower hotline and TTC integrity hotline. Further, we held discussions with management, internal legal counsel and the Staff Sergeant of Special Investigations. No significant items were noted in this review other than previously communicated.

Key matters for discussion	*Comments*
Significant audit, accounting, and financial reporting matters discussed with management	
	• We performed audit work over non-standard journal entries made during the year. • We reviewed assumptions used by management in making significant estimates for indicators of bias. • We incorporated unpredictable procedures into our audit approach. **Conclusion:** Based on our work performed, we found no circumstances that evidenced inappropriate management override of controls.
2. Fraud risk in revenue recognition	The TTC has processes, controls and other procedures in place to ensure that revenue is appropriately measured and recognized. As revenue derived from PRESTO devices continues to increase significantly, the reliability of controls in place at PRESTO is critical to ensuring the accuracy and completeness of PRESTO revenues. **PwC work performed:** • We updated our understanding of management's processes and internal controls surrounding revenue recognition and tested certain controls on which we take reliance for operating effectiveness. • We obtained the service auditor's report for the operating effectiveness of controls in place at PRESTO and performed testing on relevant user complementary controls in place at the TTC. • We obtained confirmation for PRESTO revenues and reconciled confirmed amounts to revenue amounts recorded. • We obtained confirmations from the City of Toronto for capital and operating subsidies received during the year and traced amounts to additional supporting documentation. • We tested significant revenue streams through substantive analytical procedures and tests of detail. **Conclusion:** Based on the results of our testing to date, we noted no issues with regard to fraud in revenue recognition.

Key matters for discussion	*Comments*

3. Certain significant accounting estimates	In preparing the financial statements, there were a number of significant accounting estimates that required management judgment:
	• Assets in the Pension Fund Society
	  - The fair value measurement of certain complex investments.
	• Property and liability claims (self-insured and insured liabilities)
	  - The measurement of the unsettled accident claims liability uses a number of estimates and actuarial assumptions.
	• Other significant provision
	  - The financial statements includes a significant provision, which is based on management judgment and estimation.
	
	PwC work performed:
	• Pension plan complex investments
	  - We tested acquisitions of investments that occurred throughout the year, as well as reviewed the investments from date of acquisition to year-end for any indication of significant change in fair values. For investments held at fair value, we confirmed with investment managers and reviewed audited financial statements for the respective investment managers. For investments, where audited financial statements are not available, we assessed historical accuracy of net asset value provided by the investment managers. There were no issues identified as a result of our testing.
	• Property and liability claims (self-insured and insured liabilities)
	  - We utilized our PwC actuarial specialists in order to assess the reasonableness of the assumptions and methodology used by the TTC in recording the unsettled accident claims liability. We further tested the accuracy and completeness of the data used in the calculation and our specialists independently projected a reserve estimate, which was compared to the estimate recorded by the TTC. No significant differences were noted.
	• Other significant provision
	  - We tested this significant provision by inquiring with management regarding estimates and methods used, reviewing supporting documentation and, where applicable, reviewing settlements after year-end. We also engaged our PwC internal specialists to assess the reasonability of the assumptions and methodology used by the TTC. No matters to report were identified as a result of our testing.
	
	Conclusion:
	Based on our audit work performed, we have concluded that the significant accounting estimates included in the financial statements are supportable within an acceptable range.

Key matters for discussion	*Comments*
Other areas of focus	
SAP Implementation	In late 2018, TTC completed Phase I of the SAP implementation, including pension payroll processing, general ledger, employee payroll and human resource management processes. Since our last communication to you, we have completed the following procedures in support of the audit of the financial statements: • Testing of program development / project controls for employee payroll and human resources management; • Testing of data migration between existing systems and SAP; and • Post-implementation testing of operational effectiveness of key automated financial controls and security for the general ledger, employee payroll and human resources management processes. Our findings relating to this work are included in Appendix E.
Summary of unadjusted and adjusted items	Our final materiality was $46 million, which is consistent with the planning materiality previously communicated to the Audit and Risk Management Committee. We identified one adjusted item with a reclassification effect of $15.1 million within tangible capital assets. There are no other unadjusted or adjusted items. Disclosure exception can be found in Appendix B. In our opinion, the financial statements, taken as a whole, are free of material misstatement.
Management's representations	We need to inform you of the representations we are requesting from management. A copy of the management representation letter is included in Appendix C. We requested our standard representations.
Internal controls recommendations	We included our internal control recommendations relating to the SAP implementation in Appendix E.
Other information in documents containing audited financial information	We read the non-financial information, other than the consolidated financial statements and our auditor's report thereon, included in the 2018 Annual Report (collectively, other information) and have considered whether there is a material inconsistency between the other information and the financial statements or with our knowledge obtained in the course of the audit. While reading the other information, we have remained alert for indications that the other information not related to the financial statements or our knowledge obtained in the audit appears to be materially misstated.

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

Appendix A: Draft auditor's report

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Independent auditor's report

To the Members of the Board of Directors of Toronto Transit Commission

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Toronto Transit Commission and its subsidiaries (together, the Entity) as at December 31, 2018 and the results of its operations, changes in its net debt, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited
The Entity's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of operations and accumulated surplus for the year then ended;
- the consolidated statement of remeasurement gains and losses for the year then ended;
- the consolidated statement of net debt for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
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Other information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
June @@, 2019

Appendix B: Summary of unadjusted and adjusted items

Adjusted disclosure item

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

Appendix C: Management representation letter

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Client Letterhead

June @@, 2019

Ms. Cathy Russell
PricewaterhouseCoopers LLP
PwC Tower
18 York Street, Suite 2600
Toronto, ON M5J 0B2

Dear Ms. Russell:

We are providing this letter in connection with your audit of the consolidated financial statements of Toronto Transit Commission and its subsidiaries (together, TTC) as at December 31, 2018 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 of TTC, results of its operations, changes in its net debt, its remeasurement gains and losses and its cash flows in accordance with Canadian public sector accounting standards (the consolidated financial statements).

A. Management's responsibilities
We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 30, 2015 and in particular with respect to the following responsibilities:

- the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards including disclosures;
- designing, implementing and maintaining an effective system of internal control over financial reporting to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- designing, implementing and maintaining an effective system of internal control to prevent and detect fraud;
- providing you with all relevant information and access, as agreed in the terms of the audit engagement; and
- ensuring all transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

We confirm the following representations:

B. Preparation of consolidated financial statements
The consolidated financial statements are fairly presented in accordance with Canadian public sector accounting standards, and include all disclosures necessary for such fair presentation and disclosures otherwise required to be included therein by the laws and regulations to which TTC is subject. We have prepared TTC's consolidated financial statements on the basis that TTC is able to continue as a going concern.

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. subledger 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 statement of financial position account, which should have been written off to a profit and loss account and vice versa.

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All consolidating entries have been properly recorded. All intra-entity and inter-entity accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.

C. Other information

We have informed you of all of the documents, listed below, that we expect to issue or are otherwise required to be issued in accordance with law, regulation or custom that will contain or accompany the consolidated financial statements and the auditor's report thereon and which will include information on TTC's operations and TTC's financial results and financial position as set out in the consolidated financial statements.

Name of document provided before the auditor's report date that will contain or accompany the consolidated financial statements	Name of documents that will not be provided before the auditor's report date that will contain or accompany the consolidated financial statements
2018 Annual Report	None

The consolidated financial statements and the other information, included in the document referred to above, that we have provided to you are consistent with one another, and the other information does not contain any material misstatements.

D. Accounting policies

We confirm that we have reviewed TTC'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 TTC's particular circumstances.

E. Internal control over financial reporting

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.

F. Minutes

All matters requiring disclosure to or approval of the Board of Directors or equivalent have been brought before them at appropriate meetings and are reflected in the minutes.

G. Completeness of transactions

All contractual arrangements entered into by TTC 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. TTC has complied with all aspects of contractual agreements that could have a material effect on the consolidated financial statements in the event of non-compliance. There are no side agreements or other arrangements (either written or oral) undisclosed to you.

H. 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 TTC 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 TTC's consolidated financial statements, communicated by employees, former employees, analysts, regulators, investors or others.

I. 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 the normal course of business;
  - Minutes of the meetings of management, directors and committees of directors. The most recent meetings held were May 8, 2019;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within TTC from whom you determined it necessary to obtain audit evidence.

J. 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 any known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

There have been no communications from regulatory agencies concerning non-compliance with or deficiencies in financial reporting practices.

K. Accounting estimates and fair value measurements
Significant assumptions used by TTC 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 TTC'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 CPA Canada Public Sector Accounting Handbook Section 2130, *Measurement Uncertainty*, have been appropriately disclosed.

L. Related parties
We confirm that we have disclosed to you the identity of TTC's related parties as defined by CPA Canada Public Sector Accounting Handbook Section PS 2200, *Related Party Disclosures*.

The identity of, relationship, balances and transactions with related parties have been properly recorded and adequately disclosed in the consolidated financial statements, as required by CPA Canada Public Sector Accounting Handbook Section PS 2200, *Related Party Disclosures*.

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

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M. Going concern
There are no events or conditions that, individually or collectively, may cast significant doubt on TTC's ability to continue as a 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 business or to cease operations).

N. Assets and liabilities
We have satisfactory title or control over all assets. There are no liens or encumbrances on TTC's assets and assets pledged as collateral.

We have recorded or disclosed, as appropriate, all liabilities, in accordance with Canadian public sector accounting standards. All liabilities and contingencies, including those associated with guarantees, whether written or oral, under which TTC is contingently liable in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3300, *Contingent Liabilities*, have been disclosed to you and are appropriately reflected in the consolidated financial statements.

O. Litigation and claims
All known actual or possible litigation and claims, which existed as at December 31, 2018 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.

P. Misstatements
Certain representations in this letter are described as being limited to those matters that are material. Items are also considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

We confirm that the consolidated financial statements are free of material misstatements, including omissions.

We confirm there are no uncorrected misstatements in the consolidated financial statements. The adjusted disclosure item summarized in Appendix C has been approved by TTC management and adjusted in the consolidated financial statements.

Q. Events after consolidated statement of financial position date
We have identified all events that occurred between December 31, 2018 and the date of this letter that may require adjustment of, or disclosure in, the consolidated financial statements, and have effected such adjustment or disclosure.

For the following specific representations, the terms "year end" and "year" are defined as each year end and each year respectively, covered by the audit of the consolidated financial statements as stated above.

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

All cash balances are under the control of TTC, free from assignment or other charges, and unrestricted as to use, except as disclosed to you.

The amount shown for cash on hand or in bank accounts excludes trust or other amounts, which are not the property of TTC.

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

All cash and bank accounts and all other properties and assets of TTC are included in the consolidated financial statements.

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

Amounts receivable amounted to $81.8 million and are considered to be fully collectible. This amount is net of $XX million, which represents an appropriate estimate of the allowance for doubtful accounts.

Amounts receivable are not subject to discount except for normal cash discounts which are appropriately provided for.

All receivables were free from hypothecation or assignment as security for advances to TTC.

TTC has disclosed to us all transfers of receivables (including securitizations) that have occurred during the year.

Receivables, other than transfers receivable accounted for in accordance with the CPA Canada Public Sector Accounting Handbook Section PS 3410, *Government Transfers* and, recorded in the consolidated financial statements, represent bona fide claims against debtors for charges arising on or before year end and are not subject to discount except for normal cash discounts.

T. Portfolio investments and other financial assets
All securities and other financial assets that were owned by TTC were recorded in the accounts.

All income earned on the financial assets has been recorded in the accounts, and any interest income has been accrued using the effective interest rate method.

We are not aware of any objective evidence of impairment that would result in the recognition of an impairment loss on any financial asset.

All transactions with subsidiaries have been recorded in the accounts presented to you. All investments in and advances to subsidiaries are appropriately recorded, and there is no evidence of impairment in value below the resulting balances shown in the consolidated financial statements.

There has been no activity in any dormant or inactive subsidiaries.

We hold no investments in equity securities, business enterprises, partnerships or joint ventures.

U. Inventory
Inventories classified as held for resale and held for consumption in the consolidated financial statements are stated at the lower of cost or net realizable value, cost being determined on the basis of weighted average cost, with due provision recorded to reduce all damaged, wholly or partially obsolete, or unusable inventories to their estimated selling price less estimated cost to sell. Inventory quantities as at year end were determined from physical counts or from TTC's perpetual inventory records, which have been adjusted on the basis of physical inventories taken by competent employees as at year end. Liabilities for amounts unpaid are recorded for all items included in inventories as at year end and all quantities billed to customers as at year end are excluded from the inventory balances.

Provision has been made to reduce excess or obsolete inventories held for resale to their estimated net realizable value.

There have been no events conditions or changes in circumstances that indicate inventory held for consumption will no longer be used or consumed in TTC's operations.

V. Tangible capital assets

All charges to tangible capital asset accounts represented the actual cost of additions to tangible capital assets.

No significant tangible capital asset additions were charged to repairs and maintenance or other expense accounts.

Book values of specifically identifiable tangible capital assets sold, destroyed, abandoned or otherwise disposed of have been eliminated from the accounts.

Tangible capital assets owned by 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.

Employee costs capitalized to tangible capital assets reflect the actual time spent by employee on capital projects.

All lease agreements covering assets leased by or from TTC have been disclosed to you and classified as leased tangible capital assets or operating leases.

There are no leased tangible capital assets.

There have been no events, conditions or changes in circumstances that indicate that a tangible capital asset no longer contributes to TTC'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 TTC's long-lived tangible capital assets is fully recoverable in accordance with CPA Canada Public Sector Accounting Handbook PS 3150, *Tangible Capital Assets*.

W. Deferred revenue

All material amounts of deferred revenue and deferred contributions were appropriately recorded in the books and records.

X. Retirement benefits, post-employment benefits, compensated absences and termination benefits

All arrangements to provide retirement benefits, post-employment benefits, compensated absences and termination benefits have been identified to you and have been included in the actuarial valuation as required.

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.

All changes to the plan provisions and the employee group, or events that impact the plan's performance since the last actuarial valuation have been reviewed, communicated to you as well as to the actuary, and considered in determining the pension plan costs and the estimated actuarial present value of accrued pension benefits and value of pension plan assets for defined benefit pension plan (TTC Pension Fund), post-employment benefit plans, post-retirement non-pension benefit plans and supplemental pension plans.

TTC's actuaries have been provided with all information required to complete their valuation as at:

- September 30, 2018 for post-employment benefit plans
- January 1, 2018 for post-retirement non-pension benefit plans, projected out to December 31, 2018
- December 31, 2018 for supplemental pension plans
- December 31, 2018 for TTC Pension Fund

We confirm that the extrapolations with regards to the post-employment benefit plans and post-retirement non-pension benefit plans are accurate and include the proper reflection of the effects of changes and events occurring subsequent to the most recent valuation that had a material effect on the extrapolation.

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

The significant accounting policies that TTC has adopted in applying CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits*, and CPA Canada Public Sector Accounting Handbook Section PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*, are accurately and completely disclosed in the notes to the consolidated financial statements.

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

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

The discount rate used to determine the accrued benefit obligation was determined by reference to the City of Toronto's borrowing rate using assumptions that are internally consistent with other actuarial assumptions used in the calculation of the accrued benefit obligation and plan assets.

The assumptions included in the actuarial valuation are those that management instructed Mercer 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 CPA Canada Public Sector Accounting Handbook Section PS 3250, *Retirement Benefits*. 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.

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

The disclosure of the TTC's share of the risks and benefits under joint defined benefit plans, the total financial status of any joint plans, significant policies and a description of the unique nature and terms of any joint plans are accurate and complete.

Y. Consolidated statements of operations and accumulated surplus, net debt and remeasurement gains and losses

All transactions entered into by TTC have been recorded in the books and records presented to you.

All amounts have been appropriately classified within the statements of operations and accumulated surplus and net debt and statement of remeasurement gains and losses.

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

Z. Consolidations

We confirm that TTC has 100% ownership of the Toronto Coach Terminal Inc. which in turn has a 100% ownership interest in Toronto Transit Commission Insurance Company and are all controlled entities of the TTC. In addition, the Toronto Transit Commission Sick Benefit Association is also controlled by the TTC. We also confirm that there is insignificant activity in Toronto Transit Commission Sick Benefit Association.

AA. 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.

BB. Derivative financial instruments

TTC has recognized, and recorded at fair value, all embedded derivative instruments that are required to be separated from their host contracts, in accordance with CPA Canada Public Sector Accounting Handbook Section PS 3450, *Financial Instruments*.

TTC has recognized and recorded at fair value all non-financial derivatives that are included within the scope of CPA Canada Public Sector Accounting Handbook Section PS 3450, *Financial Instruments*.

We confirm that our objectives with respect to derivative financial instruments (for example, whether derivative financial instruments are used for hedging or speculative purposes) are for hedging purposes.

We confirm that the:

- The records reflect all transactions involving derivative financial instruments; and
- The assumptions and methodologies used in the valuation models applied to derivative financial instruments are reasonable.

All transactions involving derivative financial instruments have been conducted at arm's length and at fair values.

We have disclosed to you the terms of transactions involving derivative financial instruments.

There are no side agreements associated with any derivative financial instruments.

CC. General

There are no proposals, arrangements or actions completed, in process, or contemplated that would result in the suspension or termination of any material part of TTC's operations.

Information relative to any matters handled on behalf of TTC by any legal counsel, including all correspondence and other files, has been made available to you.

DD. Government transfers

We have disclosed all significant terms and agreements in respect of transfers received from governments.

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 year 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 CPA Canada Public Sector Accounting Handbook PS 3200, *Liabilities*.

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.

DRAFT

EE. Budgetary data
We have included budgetary data in our consolidated financial statements, which is relevant to the users of consolidated financial statements and consistent with that originally planned and approved by Toronto City Council on February 12, 2018. Planned results were presented for the same scope of activities and on a basis consistent with that used for actual results.

Yours truly,

Toronto Transit Commission

____
Mr. Richard Leary, Chief Executive Officer

____
Mr. Dan Wright, Chief Financial Officer

____
Mr. Stephen Conforti, Head of Finance & Treasurer

____
Mr. Alex Cassar, Director of Budgets, Costing and Financial Reporting

____
Ms. Donna Florindi, Manager – Capital Accounting

____
Ms. Teresa Coelho, Manager – Financial Statements

____
Ms. Angelet Lim, Accounting Policy & Financial Reporting

Appendix A – List of related parties

- City of Toronto, including all Agencies and Corporations
- Toronto Coach Terminal Inc.
- Toronto Transit Commission Insurance Company Limited
- The TTC Sick Benefit Association
- The TTC Pension Fund Society

Appendix B – Summary of unadjusted and adjusted items

Adjusted disclosure item

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

Appendix D: Independence letter

May 22, 2019

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

Dear Audit and Risk Management Committee Members:

We have been engaged to audit the consolidated financial statements of Toronto Transit Commission (the company) for the year ended December 31, 2018.

Canadian generally accepted auditing standards require that we communicate at least annually with you regarding all relationships between the company, its management and us that may reasonably be thought to bear on our independence.

In determining which relationships to report, we are required to consider Chartered Professional Accountants of Ontario CPA Code of Professional Conduct 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 arising since May 17, 2018, the date of our last letter.

We are not aware of any relationships between PwC and TTC or its management that may reasonably be thought to bear on our independence which have continued or occurred since the date of our last letter, through the date of this letter.

We hereby confirm that we are independent with respect to the company within the meaning of the Chartered Professional Accountants of Ontario CPA Code of Professional Conduct as of May 22, 2019.

This report is intended solely for the use of the Audit and Risk Management Committee, the Board of Directors, management and others within the company and should not be used for any other purpose.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you at our upcoming meeting on May 29, 2019. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Very truly yours,

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Appendix E: SAP implementation findings

SAP and SuccessFactors

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

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

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

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

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

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

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

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

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

Management response

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

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

Observation

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

Implication

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

Recommendation

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

Management response

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

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

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

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

Observation

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

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

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

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

5. SuccessFactors workflows are not appropriately configured

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

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

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

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