



STAFF REPORT ACTION REQUIRED

PricewaterhouseCoopers LLP 2014 Management Letter Follow-Up Report

Date:	September 28, 2015
To:	TTC Board
From:	Chief Executive Officer

Summary

This report outlines a status update on the management letter on internal control recommendations issued by TTC's external auditors, PricewaterhouseCoopers LLP (PWC), in their 2014 year-end audit results report.

Recommendations

It is recommended that the Board:

1. Receive the report; and
2. Approve forwarding a copy of the report to the City Clerk for appropriate handling.

Implementation Points

The attached report was reviewed at the September 11, 2015 Audit & Risk Management Committee.

This report must be received at the September 28, 2015 TTC Board meeting to ensure timely submission to the City of Toronto Audit Committee so that TTC's management letter update is received within six months after its issuance.

Financial Summary

The recommendations in this report have no funding implications.

Accessibility/Equity Matters

This report and its recommendations have no accessibility issues or impact.

Decision History

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

Comments

The 2014 year-end PWC audit results report, presented at the May 27, 2015 TTC Board meeting¹, included a management letter on internal control recommendations and management's initial response to these recommendations.

This attachment includes PWC's internal control recommendation, management's initial response and a status update detailing the action taken thus far to address the recommendation.

The recommendation is currently in progress, as detailed in the attachment, and all action taken to date will be subject to review by PWC during the 2015 external financial statement audit.

Contact

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Attachments

PWC LLP 2014 Management Letter with September 2015 Update

¹ See Item 13 at:

http://www.ttc.ca/About_the_TTC/Commission_reports_and_information/Commission_meetings/2015/May_27/Agenda/index.jsp

PricewaterhouseCoopers LLP 2014 Management Letter with September 2015 Update

1) Schedules supporting the TTC's tangible capital asset balances, including additions, disposals, amortization calculation, and capital subsidies should be subject to thorough review.

Observation

During our testing of tangible capital assets, it was noted that the process is not automated. Rather, excel spreadsheets are used to track and account for expenditures on capital assets, asset disposals, capital subsidies received and amortization of capital assets. We noted in the current year that errors were made to the amortization calculations affecting amortization recorded in the current and prior years.

Implications

The use of excel spreadsheets to track and account for such significant balances is less secure, more time intensive and increases the risk of error, therefore should be subject to a thorough management review.

Recommendation

A regular and thorough management review of these excel spreadsheets is required in order to ensure that no errors and omissions are made. We recommend that management perform validation of manual adjustments inputted into the spreadsheet and track these on an individual basis. In addition, we also recommend that the accumulated net book value of assets be monitored to ensure that assets that are fully depreciated do not continue to record amortization expense. Lastly, we recommend that management perform the above exercises on a granular level within each asset class and asset type to ensure that each asset class is appropriately recorded.

Management Response

We agree. Management will conduct a review of the excel spreadsheets on a granular basis and implement necessary spreadsheet controls. The long term solution will be achieved with the implementation of the SAP system.

September 2015 Update

A review of the depreciation model is currently underway and by year-end an interim process will be established to employ necessary spreadsheet controls until a permanent solution is implemented (re: SAP).

Status

In Progress