TTC INSURANCE COMPANY LIMITED
AUDIT COMMITTEE
REPORT NO.

MEETING DATE: June 24, 2013

SUBJECT: PRICEWATERHOUSECOOPERS AUDIT RESULTS - 2012

INFORMATION ITEM

RECOMMENDATION

It is recommended that the Audit Committee receive the attached letter from PricewaterhouseCoopers expressing its opinion on the 2012 financial statements, noting that no issues of concern have been identified.

BACKGROUND

Each year the external auditors provide a summary of their findings in letter format.

DISCUSSION

The Pricewaterhouse Coopers audit for the 2012 financial year enable the TTC Insurance Company Limited to meet the statutory reporting requirements of the Financial Services Commission of Ontario.

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42.35
Attachment

February 22, 2013

Mr. Vincent Rodo
President – TTC Insurance Company Limited
Toronto Transit Commission
1900 Yonge Street
Toronto, ON M4S 1Z2

Dear Mr. Rodo:

Reporting letter on results of audit examination for the year ended December 31, 2012

We are pleased to provide this report following the completion of our audit examination of the financial statements and accompanying notes and Annual Return P&C-1 (collectively the financial statements) of TTC Insurance Company Limited (TTCICL) for the year ended December 31, 2012. Our auditor's reports are included as Appendix A.

As auditors, our Canadian generally accepted auditing standards (Canadian GAAS) requires certain communication with those charged with governance in an audit of financial statements. This document includes these required communications including any significant matters which came to our attention in the conduct of our audit.

The auditor's responsibility under Canadian GAAS

As the TTCICL's auditors, our primary responsibility is to form and express an opinion on the organization's financial statements as at December 31, 2012 and for the year then ended in accordance with Canadian public sector accounting standards. The financial statements are prepared by management. An audit of the financial statements does not relieve management of its responsibilities.

We conducted our audit in accordance with Canadian GAAS. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Your team

Your team comprised of the following individuals:

Name	Role	Phone	Email
Scott Ewert	Partner	416 869 2384	scott.f.ewert@ca.pwc.com
Lisa Wittich	Manager	416 687 8572	lisa.m.wittich@ca.pwc.com
Brittany Kaine	Senior Associate	416 941 8383 x14044	brittany.g.kaine@ca.pwc.com
Eric Keen	Actuarial Director	416 815 5141	eric.r.keen@ca.pwc.com

Mr. Vincent Rodo
Toronto Transit Commission
February 22, 2013

Audit approach
Our audit approach consisted of a mixture of key controls reliance and substantive tests of detail.

Our audit approach is designed to allow us to execute a quality and efficient audit. We do this by:

i. gaining an understanding of the business by focusing on new developments and key business issues affecting the organization as well as management's monitoring of controls and business processes;
ii. identifying significant audit risks, sharing our perspectives, obtaining your feedback and ensuring our audit is tailored to these risks;
iii. using well-reasoned professional judgement, especially, in areas that are subjective or require estimates; and
iv. leveraging reliance where possible on the organization's internal controls and information technology and data systems.

In the current year, our procedures included testing controls in the following areas:

- Claims payments.
- Segregation of duties in the claims process and claims file reviews.
- Information technology general controls on the Riskmaster system.

All other areas were subject to tests of details.

Materiality
Misstatements, including omissions, are considered to be material if they (individually or in aggregate with other misstatements) could reasonably be expected to influence the economic decisions of users, taken on the basis of the financial statements.

Judgements about materiality are made in light of surrounding circumstances and are effected by the size or nature of a misstatement, or a combination of both.

As the primary user of the audited financial statements is the Financial Services Commission of Ontario, and their focus is on solvency, shareholder's equity is the most relevant quantitative measure. However, shareholder's equity has a nominal value compared to the total assets and total liabilities due to the indemnity agreement in place between the Toronto Transit Commission and TTCICL and therefore would not render an appropriate level of materiality. Therefore a benchmark of total assets is used instead of net assets.

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	Basis	Amount $	Prior year's Amount $
Overall materiality	2% total assets	3,094,000	2,895,000
Unadjusted and adjusted items in excess of this amount are reported to those charged with governance	5% of overall materiality	154,700	144,750

Significant audit, accounting and financial reporting matters
The financial statements have been prepared in accordance with Canadian public sector accounting standards.

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

We are responsible for communicating our views about significant qualitative aspects of the organization's accounting practices, including accounting policies, the accounting estimates, and financial statement disclosures in accordance with Canadian public sector accounting standards.

Our comments and views should only be taken in the context of the financial statements as a whole and are not meant to express an opinion on any individual item or accounting estimate.

Management override of Controls	
Background information	The risk of management override of controls exists on all audit engagements. TTCICL management mitigates this risk using the following processes: • Review and approval of journal entries prior to posting. • Segregation of duties. • Oversight by TTCICL Audit Committee.
PwC's view	We reviewed a sample of journal entries that were recorded in the process of closing the 2012 general ledger for preparation of the financial statements. We validated those journal entries to supporting documentation. We reviewed the appropriateness of these entries and ensured they were consistent with our understanding of the related business processes. We have also performed tests of detail on all significant financial statement line items including cash, the indemnity receivable and actuarial liabilities and accounts payable.

Mr. Vincent Rodo
Toronto Transit Commission
February 22, 2013

Valuation of Claims Liabilities	
Background information	Qualified, experienced external actuaries are retained to prepare valuations. A claims adjuster reviews claims files on an ongoing basis and assess the adequacy of reserves.
PwC's view	PwC actuaries independently projected an estimate of reserves for all lines of business and compared the valuation results to those of TTCICL. The results of this assessment indicated management's booked reserves were within a reasonable range of our estimates. We tested claim files on a sample basis to assess the accuracy and completeness of data used in the reserve calculations and the data used in the notes to the financial statements. We reviewed reconciliations of data between the general ledger system and the claims administration system. We performed a test for significant claims received subsequent to December 31, 2012 relating to years 2012 or earlier. We reconciled the amounts recorded by TTCICL to those reported on by the Appointed Actuary, Joe Cheng.

Adjusted and unadjusted misstatements
There were no adjusted or unadjusted misstatements above our de minimis of $154,700 identified during completion of our audit engagement. As a result of our audit examination, minor disclosure modifications were made in the notes to the financial statements.

Other information in documents containing audited financial information
We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the schedules or exhibits referenced on pages 20.10 through 20.60 of TTCICL's financial statements included in the Annual Return P&C-1.

Significant difficulties or disagreements encountered while performing the audit
No difficulties or disagreements occurred while performing our audit.

Cooperation in the performance of our audit
We were given complete access to all records, documents and other information we required. We received excellent cooperation from the staff with whom we interacted during the conduct of our work.

Fraud, material errors and illegal acts
Canadian GAAS requires us to discuss fraud risk annually with those charged with governance. We are responsible for planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

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The likelihood of not detecting a material misstatement resulting from fraud is higher than the likelihood of not detecting a material misstatement resulting from error, because fraud may involve collusion as well as sophisticated and carefully organized schemes designed to conceal it.

During our audit, we performed the following procedures in order to fulfill our responsibilities:

- inquired of management and others related to any knowledge of fraud or suspected fraud;
- incorporated an element of unpredictability in the selection of the nature, timing and extent of our audit procedures; and
- performed additional required procedures to address the risk of management's override of controls.

No fraud came to our attention as a result of our audit procedures.

Significant deficiencies in internal controls
A significant deficiency is defined as an internal control deficiency that we consider merits the attention of those charged with governance.

No significant internal control weaknesses were identified.

Conclusion
We trust that the foregoing comments are helpful to you. We would like to express our sincere thanks to those who have assisted us in carrying out our audit. Should you have any questions surrounding the contents of this report, please do not hesitate to contact me.

Yours very truly,

Scott Ewert

Scott Ewert
Partner
Audit and Assurance Group