

MANAGEMENT REPORT TO METROLINX

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| Report Title: | Metrolinx Annual Report 2007 and Audited Financial Statements | | | | |
| Report Number: | CS 08-008 | Date to Board: | June 13, 2008 | Date to Committee: | May 23, 2008 |
| Report To: | <input checked="" type="checkbox"/> BOARD | <input type="checkbox"/> ADVISORY COMMITTEE <input type="checkbox"/> AUDIT COMMITTEE <input type="checkbox"/> GOVERNANCE COMMITTEE <input type="checkbox"/> HUMAN RESOURCES COMMITTEE <input type="checkbox"/> TECHNICAL ADVISORY GROUP <input type="checkbox"/> OTHER: | | | |
| Report Referred From: | Audit Committee | | | | |
| Author(s): | Kim Lambert | | Telephone: | 416-874-5905 | |
| | | | E-mail: | kim.lambert@metrolinx.com | |
| Item Class: | IN CAMERA | <input type="checkbox"/> | DECISION | <input checked="" type="checkbox"/> | INFORMATION <input type="checkbox"/> |

1.0 RECOMMENDATION:

RESOLVED:

THAT the Board approve the Metrolinx Annual Report 2007 “*On Our Way*”, which includes the Audited Financial Statements attached as Schedule A to report CS 08-008 as recommend by the Audit Committee subject to minor, immaterial changes identified by the Executive Lead, Corporate Services;

THAT the Board authorize the Chair of the Corporation to sign the Annual Report in accordance with the provisions of the *Greater Toronto Transportation Authority Act, 2006*; and

THAT the Board authorize the Chair of the Corporation to submit the Annual Report to the Ministers of Transportation and Finance in accordance with the provisions of the *Greater Toronto Transportation Authority Act 2006*.

2.0 PURPOSE & EXECUTIVE SUMMARY:

N/A

3.0 BACKGROUND:

Annual Report

The *Greater Toronto Transportation Authority Act, 2006* (GTTA Act), Section 33 (1) states that on or before July 31 in each year, or another date specified by the Minister, the Corporation shall submit to the Minister and to the Minister of Finance a report on the business and affairs of the Corporation and the business affairs of any of its subsidiary corporations for the previous fiscal year signed by the chair of the Corporation's board of directors.

Annual Financial Statements

The GTTA Act Section 25 states that the Corporation shall prepare financial statements annually for the previous fiscal year. Section 33(2) of the GTTA Act provides further that such financial statements shall be audited and provided to the Minister together with the Annual Report, and any other information that the Minister may require.

4.0 DISCUSSION:

Annual Report

The 2007 Annual Report highlights the key business achievements of Metrolinx and its financial performance over the past fiscal year.

Audit Report

The 2007 Audit was conducted by Grant Thornton in accordance with Canadian generally accepted auditing standards. The standards of the public accounting profession require the Auditors to report annually to the Corporation the findings of weaknesses or deficiencies in the internal controls of the Corporation. Grant Thornton categorized the findings as follows:

- Material weaknesses relate to items where material errors or fraud could occur and it would not be detected by the current system of internal control – **none identified**
- Significant deficiencies relate to items that are significant in nature and that management or the audit committee should consider correcting – **none identified**
- Other deficiencies and advisory comments related to items that should be pointed out to improve effectiveness – **these observations are listed below**

There are no material weaknesses reported, however, there are four observations of note.

Financial Reporting

1. Observation: The Greater Toronto Transit Authority (GO Transit) processes accounting data for GTTA, however monthly financial reporting packages have not been produced for review and approval by management of GTTA. Review of Financial Information process by GO Transit.

Recommended Course of Action: Monthly reporting packages (including a detailed trial balance) should be provided and GTTA should establish controls over the financial information processed by GO Transit. The financial statement information processed by GO Transit should be reviewed by a qualified personnel with a financial background on a timely basis.

Management Response: Management of GTTA has consulted with GO transit and agreed that there will be monthly financial statements issued to GTTA for review. Metrolinx will establish controls over the financial information processed by GO Transit by

2. Observation: There is no evidence that the accounting policies have been reviewed and assessed for reasonability by the members of the GTTA. For example, the capital assets amortization policy for leasehold improvements was set at 20 years whereas the lease is only for a 5 year period.

Recommended Course of Action: Grant Thornton recommends management approve the selection of accounting policies and review the consistent application of the accounting policies prior to release of future financial statements.

Management Response: GTTA management will undertake a review of the accounting policies and report to a future Audit Committee meeting on the result of the review.

3. Observation: There is a lack of segregation of duties in the processing of the accounting information for GTTA by GO Transit. During a majority of the year, the Financial Control Officer had responsibility to process disbursement invoices, generate payments and preparation of the bank reconciliation process.

Recommended Course of Action: Grant Thornton recommends that Management ensures the proper segregation of duties with GO Transit and action has been taken to segregate duties.

Management Response: Management has discussed the segregation of duties with GO Transit and action has been taken to segregate duties.

Governance

4. Observation: Grant Thornton observed that the audit committee charter provides the Audit Committee with the responsibility to oversee the GTTA's financial statements, financial reporting process, systems of internal control, but also for overseeing the operating and capital budgets.

Recommended Course of Action: Grant Thornton recommends that as the GTTA grows and takes on increased responsibilities and given that the organization is publicly accountable, considerations be given to establishment of a separate finance or resources committee.

Management Response: A management response will be brought forward for consideration at the Audit Committee meeting on May 23, 2008.

At the Audit Committee meeting it was decided that further work would be done on the options available to address the Auditor's observation. A report outlining the options will be presented to the Audit Committee and future Board consideration.

5.0 FINANCIAL MATTERS:

N/A

6.0 HUMAN RESOURCES MATTERS:

N/A

7.0 ENVIRONMENTAL MATTERS:

N/A

8.0 COMMUNICATION MATTERS:

The Annual Report was written in a manner that summarizes Metrolinx's accomplishments over the past year. A small distribution plan will be prepared to direct dissemination of the document in the most effective manner.

9.0 LEGAL MATTERS:

In accordance with Metrolinx's governing legislation the Annual Report and audited financial statements are to be submitted to the Ministers of Transportation and Finance by July 31 of each year, signed by the chair of the Corporation's Board of Directors.

10.0 CONCLUSION:

Staff is recommending the Board the approve the 2007 Annual Report with the Audited Financial Statements and authorize the Chair to sign and submit the Annual Report to the Ministers of Transportation and Finance.

Respectfully submitted,

Approved for Submission to the Board



Kim Lambert, Executive Lead,
Corporate Affairs



W. Michael Fern, CEO

Appendices:

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| Schedule A: Metrolinx Annual Report 2007 |
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**Staff & Others
Consulted:**

| Name | Telephone |
|--|--------------|
| Mary Martin General Counsel & Corporate Secretary | 416 874-5915 |
| Colleen Bell General Manager Service Improvement and Research | 416 874-5942 |
| Rita Scagnetti Director Service Improvement and Research | 416 874-5910 |
| Leslie Woo General Manager Planning and Policy | 416 874 5943 |
| John Howe General Manager Investment Strategy and Projects | 416 874 5912 |

Notifications:

| Name | Mailing or E-mail Address |
|------|---------------------------|
| N/A | |

Special Instructions:

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| N/A |
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