

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: April 19, 2011

SUBJECT: TTC AUDIT COMMITTEE ORIENTATION MANUAL

INFORMATION ITEM

RECOMMENDATION

It is recommended that the TTC Audit Committee receive for information the "TTC Audit Committee Orientation Manual". It has been prepared to familiarize Audit Committee members with the role, responsibilities and operations of the Committee, as well as, key Internal Audit processes and practices.

BACKGROUND

At its meeting on February 2, 2011, the Commission appointed Denzil Minnan-Wong, Norm Kelly and Frank Di Giorgio as members of the TTC Audit Committee. The TTC Audit Committee Orientation Manual has been distributed to new members since its initial preparation in January 2007. In addition, on February 4, 2011, the Audit Committee requested that the Chief Auditor report back on the process used to develop the Department's Long Range Plan. Details of the process used by the Chief Auditor to develop the Internal Audit Department's Long Range Plan are outlined in Appendix C of the TTC Audit Committee Orientation Manual.

DISCUSSION

The TTC Audit Committee Orientation Manual represents a culmination of relevant information intended to accelerate the learning process of new members and provide educational support to all members. The structure and content of the TTC Audit Committee Orientation Manual is based on TTC Audit Committee past experience and practices. It also incorporates best practices and corporate governance models recommended by the Canadian Audit Committee Institute and other professional publications.

Internal Audit performs audits throughout the TTC. These audits cover all functions and activities within the TTC. Internal Audit compiles and maintains an inventory of all organizational areas that are available to be audited within the TTC. The aggregate of these auditable units is defined as the audit universe. The audit universe serves as the source from

which Internal Audit's five-year long range plan (LRP) and annual audit plans are prepared.

Internal Audit's audit cycle begins with the process of developing the LRP. This involves refining the comprehensive audit universe into potential projects. These audit projects are then analyzed and ranked based on risk. By following a risk based audit planning process, Internal Audit identifies its priorities and plans audit projects in those areas that reflect the greatest need or concern from a departmental perspective.

The risk analysis process involves three steps. First, key risk factors are identified and described. TTC Internal Audit's risk factors are comparable to those used by the City Auditor.

Second, a risk assessment is performed. This involves using input from a variety of sources, including Audit Managers and the Chief Auditor, to assign a risk value for each risk factor, for each identified entity within the audit universe. Third, a relative weight for each risk factor is applied to the assigned risk values, in order to develop a risk ranking of the audit entities.

Results of the risk analysis are assembled into a five-year plan format, with the first year representing the current year's Annual Audit Plan. The long range plan risk analysis process is repeated annually to ensure the current annual audit plan addresses the most pressing risks each year. The plan is presented to the Chief General Manager, and then to the Audit Committee for approval. Final prioritization of audits identified in the Annual Plan takes into account any Management and/or Audit Committee requests.

Richard G. Beecroft
Chief Auditor

01-23-24
Attachment – TTC Audit Committee Orientation Manual

Audit Committee Orientation Manual

April 2011

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INTRODUCTION

Audit Committees & Good Governance

In any operating environment, well-governed organizations are more effective, and more likely to be successful, than poorly governed ones. This is because good governance systems help organizations focus on the activities which contribute most to their overall objectives: to utilize their resources effectively, and ensure they are managed in the best interests of their principal stakeholders. For publicly funded organizations this is particularly important, given that most are now being asked to provide more services to more people, but with reduced resources.

Audit Committees are considered to have important governance responsibilities related to public financial reporting, internal controls, management of financial risks and the oversight of any organization's values and ethics.

Purpose of TTC Audit Committee Orientation Manual

This manual, initially prepared in January 2007, has been updated to familiarize the Toronto Transit Commission's (TTC's) Audit Committee members with the role, responsibilities and operations of the TTC Audit Committee. It is intended to accelerate the learning process of new members and provide educational support to all TTC Audit Committee members.

Acknowledgements

This manual's structure and content is based on TTC Audit Committee past experience and practices. It also draws heavily on best practices and corporate governance models recommended by the Canadian Audit Committee Institute and other professional publications.

Role of the TTC Audit Committee

Mandate

The mandate of the TTC Audit Committee is to assist the Commission in fulfilling its oversight responsibilities with respect to: the Financial Reporting process; the System of Internal Control; the Audit process; and the TTC's process for monitoring compliance with Laws & Regulations, and the Code of Conduct. See Appendix A for a copy of the most recently approved TTC Audit Committee Mandate. The TTC Audit Committee's primary duties and responsibilities are to:

- Identify and monitor the management of the principal risks that could impact the financial reporting of the Toronto Transit Commission;
- Monitor the integrity of the TTC's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- Monitor the independence and performance of the TTC's external auditors and internal auditing department; and
- Provide an avenue of communication among the external auditors, management, the Internal Audit Department, and the TTC Board of Commissioners.

Composition & Structure

Members of the TTC Audit Committee are appointed by the TTC Board of Commissioners, and are not members of Management. It is advantageous if all Audit Committee Members are able to interpret and understand basic financial statements, and that the Chair of the Audit Committee have an accounting or related financial management expertise.

Fiduciary Duties

It is critical that Members of the TTC Audit Committee understand the important distinction between their roles as Commissioners and as Members of Council. See Appendix B.

Key fiduciary duties require Commissioners, and therefore, members of the TTC Audit Committee to:

- Act honestly and in good faith with a view to the best interests of the Commission in exercising their powers and discharging their duties.
- Establish and operate a transportation system to serve all of the inhabitants of the City of Toronto.
- Balance their roles as custodians of the City of Toronto's tax dollars and representatives of Council policies, with that of their fiduciary and other duties as Commissioners.
- Exercise the skills and diligence that could reasonably be expected from each Commissioner having regard to his or her knowledge and experience, and this duty includes the obligations and responsibilities with respect to integrity, conflict of interest, confidentiality and other matters.

Conflict of Interest

TTC Audit Committee Members are bound by the same Code of Conduct for Commissioners, as outlined in Appendix B, and expected to comply with the Code of Conduct for Members of Council, City of Toronto.

TTC Audit Committee Responsibilities & Duties

Overview

TTC Management is responsible for establishing and maintaining controls, procedures and processes. The TTC Audit Committee is appointed by the Board of Commissioners to oversee, review and monitor those controls, procedures and processes.

In carrying out its role, the Audit Committee has a number of specific authorities and responsibilities for:

- Financial Information & Reporting
- Risk & Control Matters
- Oversight of Internal & External Auditors
- Legislative Compliance
- Other Matters

Financial Information & Reporting

Duties performed by the TTC Audit Committee with respect to Financial Information & Reporting include the need to:

- Review the Commission's annual audited financial statements and related documents prior to filing and distribution. The review should include discussion with management and external auditors of significant issues regarding accounting principles, practices and significant management estimates and judgements.
- Annually, in consultation with management, external auditors and internal auditors, consider the integrity of the Commission's financial reporting processes and controls. Significant financial risk exposures and the steps management has taken to monitor, control and report such exposures should be discussed. Review of the significant findings prepared by the external auditors and Internal Audit Department together with management responses should be performed.
- Review the effectiveness of the overall process for identifying the principal risks affecting financial reporting and provide the Audit Committee's view to the Board of Commissioners.

Risk & Control Matters

Duties performed by the TTC Audit Committee with respect to Risk & Control Matters include the need to:

- Review and monitor the Commission's major financial risks and risk management policies, and the steps taken by management to mitigate those risks.

Oversight of Internal & External Auditors

The Chief Internal Auditor reports functionally to the TTC Audit Committee and administratively to the TTC's Chief General Manager (CGM). By adopting a cooperative, all-inclusive approach, Internal Audit works with the CGM and other senior managers to systematically bring information about risks and important business issues to the Audit Committee's attention. See Appendix C for an outline of key Internal Audit Policies and Practices as presented in the past to the Board of Commissioners. Also see Appendix D for an article identifying typical questions a Board may ask of or about Internal Audit.

Duties performed by the Audit Committee with respect to overseeing the Internal Audit Department include the need to:

- Review the mandate, budget, plan, changes in plan, activities, organizational structure, and qualifications of the Internal Audit Department, as needed.
- Review the appointment, performance, and replacement of the Chief Internal Auditor.
- Review significant reports prepared by the Internal Audit Department together with management's response and follow-up to these reports.
- Meet privately with the Chief Internal Auditor to discuss matters deemed confidential on an "as required basis", but not less than once annually.

The External Auditors are ultimately accountable to the TTC Audit Committee and the Board of Commissioners. Duties performed by the Audit

Committee with respect to overseeing the External Auditors include the need to:

- Review the independence and performance of the External Auditors and annually recommend to the Board of Commissioners the appointment of the External Auditors or approve any discharge of auditors when circumstances warrant.
- Approve the fees and other significant compensation to be paid to the External Auditors.
- Annually review and discuss with the External Auditors all significant relationships they have with the Toronto Transit Commission that could impair the External Auditors' independence.
- Review the External Auditors' audit plan, including co-ordination with the Internal Audit Department, if required, and discuss and approve audit scope and general audit approach.
- Discuss the results of the audit with the External Auditors as well as certain matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants.
- Consider the External Auditors' judgements about the quality and appropriateness of the TTC's accounting principles as applied in the financial reporting.
- Meet privately with the External Auditors to discuss matters deemed confidential on an "as required basis", but not less than once annually.

Legislative Compliance

Duties performed by the TTC Audit Committee with respect to Legislative Compliance include the need to:

- Review with TTC's General Counsel any legal matters that could have a significant impact on the TTC's financial statements, compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

- Review TTC management's monitoring of compliance with the TTC Code of Conduct, and ensure that management has the proper review system in place to ensure that the financial statements, reports and other financial information disseminated to governmental organizations and the public meet legal requirements.

Other Matters

Other responsibilities performed by the TTC Audit Committee include the need to:

- Annually assess the effectiveness of the TTC Audit Committee against its Mandate and report the results of the assessment to the Board of Commissioners.
- Perform any other activities consistent with the TTC Audit Committee's mandate, the Commission's by-laws, and governing law, as the Board of Commissioners deems necessary or appropriate.
- Maintain minutes of meetings and periodically report to the Board of Commissioners on significant results of the foregoing activities.

Other optional disclosures and activities performed by the TTC Audit Committee that demonstrate good governance include the need to:

- Periodically perform a self-assessment of the TTC Audit Committee's performance. While not required, activities could include:
 - Reviewing, discussing and assessing the TTC Audit Committee's role and responsibilities, seeking input from senior management, the full Board of Commissioners and others, if needed; and
 - Reviewing each TTC Audit Committee member's contribution to the Committee through the use of a self-assessment form, that is then evaluated by both the Chair of both the TTC Audit Committee and the Board of Commissioners.
- Review financial and accounting personnel succession planning within the Toronto Transit Commission.
- Annually review a summary of director and officers' related party transactions and potential conflicts of interest.

TTC Audit Committee Operations

Meetings

The TTC Audit Committee meets quarterly.

Agenda

The Agenda for each Audit Committee meeting is sent out from the TTC's General Secretary's Office at 1900 Yonge Street. Minutes of the previous meeting are included with the Agenda for the next meeting.

Rules of Order

TTC Audit Committee meetings are conducted in a manner consistent with the By-Law to Govern the Calling, Place and Proceedings of Meetings of Toronto Transit Commission.

Supplementary Information & Articles of Interest

- APPENDIX A: "TTC Audit Committee – Mandate & Responsibilities" – approved copy.
- APPENDIX B: "TTC Commissioner Fiduciary Duty & Other Considerations".
- APPENDIX C: "Summary – Key Internal Audit Policies & Practices"
- APPENDIX D: "20 Questions Directors Should Ask About Internal Audit" - Canadian Institute of Chartered Accountants.
- APPENDIX E: "Shaping the Canadian Audit Committee Agenda" – Audit Committee Institute, Canada.
- APPENDIX F: "Your Audit Committee – Generating Value" – Ernst & Young.

Toronto Transit Commission
Long Range Plan
Risk Analysis Assumptions

HIGH RISK (.90)

NEUTRAL OR NOT KNOWN (.50)

LOW RISK (.10)

	RISK FACTOR	RISK
1.	Safety and Security <ul style="list-style-type: none"> • Vulnerable • Secure 	High Low
2.	Assets at Risk <ul style="list-style-type: none"> • High value/liquidity of assets under control • Low value of assets under control 	High Low
3.	Quality of Internal Control System <ul style="list-style-type: none"> • Poor past audits (numerous findings, poor response) • Good audits (some findings, good response) 	High Low
4.	Potential Liability/Adverse Publicity <ul style="list-style-type: none"> • Significant liability or impact on service • Internal effect only 	High Low
5.	Business Process Change and Complexity of Operations <ul style="list-style-type: none"> • Major changes in operations/management/collective agreement • No changes 	High Low
6.	Adequacy of Policies and Procedures <ul style="list-style-type: none"> • Few documented policies and procedures • Complete and documented policies ad procedures 	High Low
7.	Technological Change and Complexity of Technology <ul style="list-style-type: none"> • Critical system or application that supports delivery of revenue service • Non-critical system or application 	High Low
8.	Department Budget <ul style="list-style-type: none"> • Large budgets (labour/expenditure) • Small budgets 	High Low
9.	Dollar Value <ul style="list-style-type: none"> • Large dollar amount transactions • Low dollar amount transactions 	High Low

TORONTO TRANSIT COMMISSION
RISK FACTORS AND WEIGHTS
BY BUSINESS UNIT

FACTOR NUMBER	RISK FACTOR	WEIGHT
Business Unit: COMPREHENSIVE		
1	SAFETY AND SECURITY	1.000
2	ASSETS AT RISK	0.900
3	QUALITY OF INTERNAL CONTROL SYSTEM	0.800
4	POTENTIAL LIABILITY/ADVERSE PUBLICITY	0.800
5	BUSINESS PROCESS CHANGE	0.800
6	ADEQUACY POLICIES/PROCEDURES	0.700
7	TECHNOLOGICAL CHANGE	0.700
8	DEPARTMENTAL BUDGET	0.600
9	DOLLAR VALUE	0.500

TTC AUDIT COMMITTEE

Mandate and Responsibilities

Mandate

To assist the Commission in fulfilling its oversight responsibilities for the Financial Reporting process; the System of Internal Control; the Audit process; and the TTC's process for monitoring compliance with Laws and Regulations, and the Code of Conduct.

Composition

The members of the Audit Committee shall be appointed by the Commission. The members of the Audit Committee shall be independent and not be members of Management. It would be advisable for the Chair of the Audit Committee to have an accounting or related financial management expertise.

Responsibilities

The Committee will carry out the following responsibilities:

Financial Statements

- Review with staff and the External Auditors the results of the audits, including any significant accounting and reporting issues, and the reasonableness of any significant estimates;
- Review the annual Financial Statements and consider whether they are complete and consistent with information known to Committee members;
- Review other sections of the Annual Report and consider the accuracy and completeness of information; and
- Recommend an action to be taken by the Commission.

Internal Control

- Review the major financial risk exposures and the steps Management has taken to monitor and control such exposures.

Internal Audit

- Review and approve the Internal Audit Charter, Organization and Plans;
- Review the effectiveness of the Internal Audit function and ensure there are no restrictions or limitations;
- Receive and review quarterly reports from Internal Audit noting any changes in plans, recommendations, Management's responses and follow-up;
- Oversee periodic Peer Reviews of the Internal Audit function; and
- On an "as required basis" but not less than once annually, meet privately with the Chief Internal Auditor to discuss matters deemed confidential.

External Audit

- Review the External Auditors' proposed plan, including co-ordination with Internal Audit;
- Review the performance of the External Auditors and recommend approval of the appointment or discharge of the Auditors;
- Review the External Auditors' Management Letter and Management's responses;
- Approve the annual audit fee and expenses;
- On an "as required basis" but not less than once annually, meet privately with the External Auditors to discuss matters deemed confidential; and
- Receive periodic reports from the External Auditor regarding the Auditors' independence, discuss such reports with the Auditor, consider whether the provision of non-audit services is compatible with maintaining the Auditors' independence.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations;
- Review the findings of any examinations by regulatory agencies;
- Review processes for communicating and monitoring the TTC Code of Conduct; and
- Obtain regular updates from staff regarding compliance matters.

Reporting Responsibilities

- Regularly report to the Commission about the Committee's activities and related recommendations;
- Provide an open avenue of communication between Internal Audit, the External Auditors and the Commission; and
- Review any other reports issued by the TTC that relate to the Committee's responsibilities.