

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: October 26, 2012

SUBJECT: TTC AUDIT DEPARTMENT REPORT – QUARTERLY UPDATE
FOR THE PERIOD JULY TO SEPTEMBER 2012

INFORMATION ITEM

RECOMMENDATION

It is recommended that the TTC Audit Committee receive for information the attached TTC Audit Department Report covering the period from July to September 2012.

BACKGROUND

The TTC Audit Department provides independent evaluations of the efficiency and effectiveness of control systems and operations, and recommendations for improvement.

DISCUSSION

The report discusses recent Audit activities. The actual reports for completed audits, including Management responses, are presented as individual agenda items.

JUSTIFICATION

This report is provided for information.

October 26, 2012
01-27
Attachments – Audit Reports



TORONTO TRANSIT COMMISSION

TTC AUDIT DEPARTMENT REPORT

QUARTERLY UPDATE

FOR THE PERIOD JULY TO SEPTEMBER 2012

TTC AUDIT DEPARTMENT
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OCTOBER 2012

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OPENING COMMENTARY FROM THE HEAD OF AUDIT

Since the last TTC Audit Committee, the TTC Audit Department has continued to update the departmental audit processes and establish new performance benchmarks. Our efforts to establish a trusted and valued audit function for the TTC have included the researching of best practices and audit models from not only the City of Toronto, but also the City of Los Angeles Controller's Office, City of Detroit Office of the Auditor General, Transport for London (UK) Internal Audit and the Texas State Auditor's Office, just to name a few.

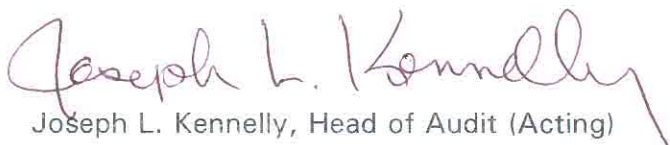
One of the accomplishments in this quarter is the development of the new "TTC Audit Recommendation Performance Scorecard Report" that is to be presented to the October 26, 2012 TTC Audit Committee. The report is designed to proactively monitor the progress of the implementation of audit recommendations. In particular, recommendations with a target implementation date due within six months of the report period end are tracked using "traffic light" symbols, e.g., red, green and yellow. For the initial report all the current outstanding recommendations have been reviewed and updated for the nine months period of January to September 2012; future reports will be issued semi-annually covering a six month reporting period.

The risk assessment factors used to prioritize audit projects have also been updated to more appropriately reflect current risks facing the TTC, risks impacting on customer service and accessibility, as well as including TTC Management's assessment of corporate risk priorities. These factors form the basis of establishing a risk-based audit work plan to prioritize audit assignments and allocate audit resources to areas of greatest risk exposure.

During the past quarter the audit work activities and resource allocation have focused on completing the audits identified on our 2012 Audit Work Plan. Other departmental activities where audit resources have been required relate to participation in the City of Toronto's KPMG Shared Services Review, and the cataloguing of the various types of audits conducted at TTC. The cataloguing of these audits provides valuable information in avoiding duplication of audit services, and provides more effective audit planning and follow-up review.

While we continue to improve our audit processes and methodology, there is still much more that needs to be done. In the upcoming year, a 2013 Audit Work Plan and a new TTC Audit Department Charter and Mission Statement will be presented to the TTC Audit Committee for approval. New departmental guidelines will also be issued to improve the quality of audit training undertaken annually by the audit staff to ensure that core audit skills are maintained and enhanced, with an emphasis on continuing professional development for all staff. Further refinements to the development of the audit universe are also underway.

As always, we will continue to identify areas for improvement in the quality of our audit services and communication protocols within the TTC and TTC Audit Committee.



Joseph L. Kennelly, Head of Audit (Acting)





AUDIT PERFORMANCE – STATUS OF CURRENT AUDITS

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
ON TIME AND ON TARGET							
<u>OPERATIONS AND SAFETY GROUP</u>							
Communications Bus and Rail, and Communications Engineering	Presented to Audit Committee July 26, 2012					Complete	
Plant Maintenance – Elevators and Escalators	Presented to Audit Committee July 26, 2012						
Rail Cars and Shops – Subway Carhouses	Presented to Audit Committee July 26, 2012						
Streetcar Divisions	Presented to Audit Committee April 30, 2012						
Station Operations / Collectors	Audit is completed; to be presented to next Audit Committee in 2013						

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
Rail Infrastructure – Maintenance Engineering/ Subway and SRT Track/ Streetcar Way	Audit is in Progress					Complete	
Revenue Operations – Vault Management	Not assigned – to be scheduled						

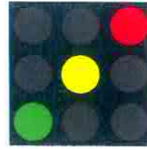
Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
ON TIME AND ON TARGET							
<u>ENGINEERING, CONSTRUCTION AND EXPANSION GROUP</u>							
Engineering Department	Presented to Audit Committee July 26, 2012					Complete	
Construction Department	Presented to Audit Committee April 30, 2012						
Capital Project – Fire Ventilation	Presented to Audit Committee July 26, 2012						
TYSE – Consultant Contracts							
TYSE – Construction Contracts							
Capital Project – Union Station New Platform Project	To be scheduled						

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
Capital Project – Streetcar Network Upgrade for LRV							
Capital Project – LRT Program, and Maintenance and Storage Facility							
Capital Project – Purchase of Subway Cars	To be scheduled						

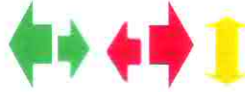
Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
ON TIME AND ON TARGET							
CORPORATE SERVICES GROUP							
ITS Department – Client Services	Presented to Audit Committee April 30, 2012					Complete	
Materials and Procurement Department – Inventory Management	To be presented to Audit Committee October 26, 2012						
Finance Department – Capital Accounting	Presented to Audit Committee April 30, 2012						
Capital Project – Y-U-S ATC Resignaling	To be presented to Audit Committee October 26, 2012						

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
ON TIME AND ON TARGET							
INVESTIGATIONS, ANALYSES AND SPECIAL REVIEWS							
Contract Management	Audit is in Progress						
Video Surveillance – Privacy Practices	Follow-up review is in progress.						
Timekeeping/Payroll – Exception Reporting	Not assigned – to be scheduled						
Attendance Management	Audit is in Progress						
Follow-up Audits/ Monitoring of Recommendation Implementation	Monitoring of Recommendation Implementation Status						

Key to Symbols



On target
 Target at risk at current trend
 Off target



Positive up from last
 Positive down from last
 Negative up from last
 Negative down from last
 No change from last

INTRODUCTION

Internal Auditing is defined by the Institute of Internal Auditors (IIA) as *“an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”* In accordance with its Role and Mandate, the TTC’s Audit Department provides the TTC with independent evaluations of risk, and assessments on the effectiveness of control systems, quality of performance, and efficiency of operations.

In order to meet professional audit standards, audits are planned using a risk-based evaluation to determine where audit resources should be allocated. The risk factors used to calculate the priority level have been updated and now include: (1) impact on safety and security, (2) impact on customer service and accessibility, (3) potential liability or reputational publicity, (4) assets at risk, including liquidity of assets and informational assets, (5) organizational stability and maturity level of operating procedures, (6) legislation and regulation requirements, (7) dollar value of transactions, (8) complexity of operations and technology, (9) Management’s assessment of corporate risk, and (10) a “Wildcard risk” to reflect new and emerging risks. The results of the risk assessment are documented by means of the Audit Work Plan which is approved by the TTC Audit Committee.

The TTC Audit Department performs the following types of assignments:

- Operational Audits – to assess control systems and the achievement of “value-for-money” in operational areas following a risk-based evaluation to establish audit priorities
- Capital Audits – to review major construction project expenditures to verify the accuracy of amounts claimed for work completed
- Financial – to assess whether internal control processes over financial reporting and/or safeguarding of assets are suitably designed and implemented to achieve control objectives
- Investigations, Analyses and Special Reviews – to address areas of immediate concern or exposure as identified by Management’s request
- System Development Reviews – to provide audit support to major computer system development and other technology projects
- Follow-up Audits – to determine the progress that Management has made to comply with audit report recommendations and to assess the effectiveness of the action taken to minimize risks

CURRENT AUDIT ACTIVITIES

This report covers the main audit activities from July to September 2012. In this period, the following audits were completed and are included as TTC Audit Committee Agenda Items:

Operational Audits:

- **Audit of Materials and Procurement Department – Inventory Management**

Capital Audits:

- **Yonge-University-Spadina ATC Resignaling**

AUDIT RESOURCES

The provision of professional audit services requires an audit team with a diverse range of skills, experience and the ability to apply those skills throughout the audit process. By the application of these skills and compliance with professional auditing standards, the TTC Audit Department provides Management with meaningful audit reports containing practical recommendations to reduce control risks, and/or identify areas for improvement in the effectiveness and efficiency of the controls in place.

The current approved staffing level of ten positions includes the Head of Audit, three Audit Managers, five Auditors, and one Administrative Assistant. The distribution of audit resources for the current reporting period (July – September 2012) is portrayed in the chart below:

