

TTC AUDIT COMMITTEE REPORT NO. 3(c)

MEETING DATE: February 19, 2013

SUBJECT: TTC AUDIT DEPARTMENT REPORT – QUARTERLY UPDATE
FOR THE PERIOD OCTOBER TO DECEMBER 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 October to December 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.

February 19, 2013

01-27

Attachments – Audit Reports



TORONTO TRANSIT COMMISSION

TTC AUDIT DEPARTMENT REPORT

QUARTERLY UPDATE

FOR THE PERIOD OCTOBER TO DECEMBER 2012

TTC AUDIT DEPARTMENT
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FEBRUARY 2013

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OPENING COMMENTARY FROM THE HEAD OF AUDIT

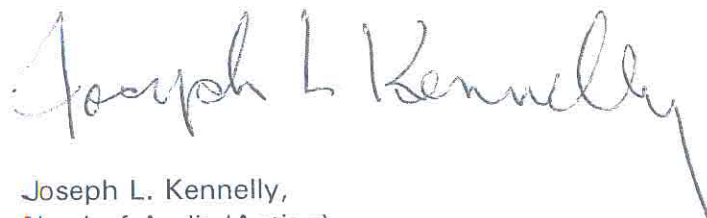
With 2012 now behind us, the TTC Audit Department looks forward to 2013 in continuing our efforts to implement improvements to the Department's audit processes and procedures. While significant achievements were made in 2012, such as the establishing of new audit processes and work flows, updating the audit risk assessment factors, and developing a new scorecard report for the monitoring of the implementation of audit recommendations, much more work remains to be done in this new year.

Also in 2012, working with TTC's Chief Executive Officer Andy Byford, the Department developed a risk-based approach for the planning of the annual audits, thereby providing greater contribution to the strengthening of the TTC's management and operational controls. At today's TTC Audit Committee meeting, the risk-based 2013 Audit Work Plan is being presented for approval. To ensure the relevancy of the annual Audit Work Plan, the Plan will be reviewed within six months to determine whether updates are required as a result of any significant changes in the TTC's control risk exposures.

As we go forward in 2013, we will continue to improve the Department's audit processes and methodology in order to provide professional quality audit services to the TTC. In the upcoming year, a new TTC Audit Department Charter and Mission Statement will be developed for presentation to the TTC Audit Committee. New departmental guidelines will be issued to strengthen the quality of audit staff training ensuring that core audit skills are maintained and enhanced. In addition, a strong emphasis will be placed on continuing professional development for all staff. Further refinements to the development of the audit universe and Departmental management information reporting system are also underway.

There was also a time of sadness in 2012 at seeing the Department's budget reduced from a staffing of eighteen to ten, and eight of our fellow audit staff members had to leave the Department due to these budget restrictions. We wish the staff members who retired great happiness in their current pursuits; and for the staff members that acquired new job employment, we wish them all the best success in their new careers.

Finally, I extend to our TTC Audit Committee members and TTC Chair the very best wishes for the New Year.















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 Complete	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						
Station Operations / Collectors	To be presented to Audit Committee February 19, 2013						
Rail Infrastructure – (1) Maintenance Engineering/ Subway and SRT Track, and (2) Streetcar Way	Audits are in Progress						
Revenue Operations – Vault Management	Audit is in Progress						
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							
<u>ENGINEERING, CONSTRUCTION AND EXPANSION GROUP</u>							
TYSSE – Consultant Contracts	Presented to Executive Task Force on November 26, 2012						
TYSSE – Construction Contracts	Audit is in Progress						
Capital Project – Union Station New Platform Project	Audit is in Progress						
Capital Project – Streetcar Network Upgrade for LRV	To be presented to Audit Committee February 19, 2013						
Capital Project – LRT Program, and Maintenance and Storage Facility	Audit is in Progress						

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						
Materials and Procurement Department – Inventory Management	Presented to Audit Committee October 26, 2012					100%	
Capital Project – Y-U-S ATC Resignaling	Presented to Audit Committee October 26, 2012					100%	

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 October to December 2012. In this period, the following audits were completed and are included as TTC Audit Committee Agenda Items:

Operational Audits:

- **Audit of Station Operations/Collectors Division**

Capital Audits:

- **Streetcar Network Upgrades for LRT Project**

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 (October – December 2012) is portrayed in the chart below:

