

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: February 11, 2014

SUBJECT: TTC AUDIT DEPARTMENT REPORT – QUARTERLY UPDATE
FOR THE PERIOD OCTOBER – DECEMBER 2013

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 – December 2013.

FUNDING

This report has no effect on the TTC's operating or capital budgets.

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.



TORONTO TRANSIT COMMISSION

TTC AUDIT DEPARTMENT REPORT

QUARTERLY UPDATE

FOR THE PERIOD OCTOBER – DECEMBER 2013

TTC AUDIT DEPARTMENT
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FEBRUARY 2014

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OPENING COMMENTARY FROM THE HEAD OF AUDIT

At today's TTC Audit committee meeting we are submitting for approval our proposed 2014 audit work plan. The significant change to this year's plan over that of 2013 is the continual alignment of audit risk and priorities with the TTC's five-year corporate plan for 2013 to 2017 which supports the TTC's customer service and business operations.

Consequently, the allocation of audit resources will revolve around the seven strategic objectives that form the core foundation of the five-year corporate plan. These objectives are summarized under the following categories:

- Safety
- Customer
- People
- Assets
- Growth
- Financial Sustainability
- Reputation

Another key highlight of the 2014 audit work plan is a stronger emphasis on enterprise risk management and governance control processes. In addition, audit services to be provided similar to past services will include audit observation of the annual fare change process and a revitalized fare evasion study review which will take into consideration the new technologies impacting the revenue collection process, such as PRESTO farecard payments and the new streetcar fleet configuration.

With the 2013 year now ended, it is worthwhile to reflect upon some of the TTC Audit Department's accomplishments. In the past year, the department's organizational structure has been stabilized as budgets cuts and downsizing are now behind us. A complete review of the department's audit procedures manual has also been performed and updated to bring the department's audit policies and procedures to a state of best practices. The updated procedures will be embedded in our everyday work flows as the department commences implementation of an audit management software application that will assist in the planning, controlling and monitoring of all audit activities and projects. Much has been accomplished in 2013, but there still remains much work ahead. Continual improvement and modernization is a never-ending endeavor.

An objective for the year that I am personally pleased to lead is the development of an audit strategic plan for the years 2014 to 2016. This plan not only will identify the department's strengths, weaknesses and skills gaps, but will provide the direction forward to develop the strategies to increase our strengths resulting in a quality professional audit function at the TTC.

Finally, I would like to wish our TTC Audit Committee members best wishes and success in 2014 in meeting the challenges that lie ahead, not only for each member but also for the challenges facing the TTC on its journey towards improving customer satisfaction and business operations.



Joseph L. Kennelly
Head of Audit



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 GROUP</u>							
Communications Bus and Rail, and Communications Engineering	Presented to Audit Committee July 26, 2012					50%	
Rail Infrastructure – (1) Maintenance Engineering/ Subway and SRT Track, and (2) Streetcar Way	Presented to Audit Committee on October 25, 2013						

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
ON TIME AND ON TARGET						Complete	
<u>SERVICE DELIVERY GROUP</u>							
Fare Media Sales	To be scheduled in late 2014						

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
ON TIME AND ON TARGET							
ENGINEERING, CONSTRUCTION AND EXPANSION GROUP							
TYSSE – Construction Contracts (2012 Audit Work Plan)	Presented to TYSSE Executive Task Force May 22, 2013			N/A		Follow-up audit to be scheduled.	
TYSSE – Construction Contracts (2013 Audit Work Plan)	Continuing audit – To be scheduled						
TYSSE – Contract Change Process	Audit is in progress						
TYSSE – Special Request Audits and Reviews	Audits are in progress			N/A		Presented to ETF Meeting September 30, 2013	
(1) Quality Assurance							
(2) Project Management and Controls Processing							
Union Station New Platform Project	Presented to Audit Committee on October 25, 2013		N/A		N/A	Additional Information to be provided to TTC Audit Committee.	

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
ON TIME AND ON TARGET							
Union Station New Platform Project (2013 Follow-up)	Continuing audit – To be scheduled					Complete	
Leslie Barns – LRT Program, and Maintenance and Storage Facility	Presented to Audit Committee on October 25, 2013					100%	
Leslie Barns – LRT Program, and Maintenance and Storage Facility (2013 Follow-up)	Continuing audit – 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							
Inventory Control Processes:	Audits are in progress						
1) Receiving processes/quality assurance function							
2) Cycle count procedures and distributed stores controls							
Capital Project – Purchase of Subway Cars	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							
INVESTIGATIONS, ANALYSES AND SPECIAL REVIEWS							
Contract Management (Part 1)	Presented to Audit Committee on October 25, 2013		N/A			Complete	
Video Surveillance – Privacy Practices	Presented to Audit Committee on October 25, 2013						
Follow-up of Video Surveillance – Privacy Practices	Follow-up review to be scheduled						
Timekeeping/Payroll – Exception Reporting	Review is in progress						
Attendance Management	Review is in progress						
Follow-up Audits/ Monitoring of Recommendation Implementation	On-going						

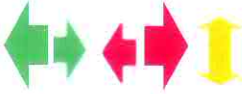
Key to Symbols



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 as defined by the Institute of Internal Auditors (IIA) ***“is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization. It assists the organization in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization’s risk management, control, and governance processes.”*** 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 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 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

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, two Audit Managers, six Auditors, and one Administrative Assistant. The distribution of audit resources for the current reporting period (October – December 2013) is portrayed in the chart below:

