

TTC AUDIT COMMITTEE REPORT NO. 3(e)

MEETING DATE: May 12, 2014

SUBJECT: TTC AUDIT DEPARTMENT REPORT – QUARTERLY UPDATE
FOR THE PERIOD JANUARY – MARCH 2014

INFORMATION ITEM

RECOMMENDATION

It is recommended that the TTC Audit Committee receive for information the attached TTC Audit Department report covering the period from January – March 2014.

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 JANUARY – MARCH 2014

TTC AUDIT DEPARTMENT
Joseph L. Kennelly, Head of Audit
Phone: (416) 393-2030; E-mail: joseph.kennelly@ttc.ca

MAY 2014

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OPENING COMMENTARY FROM THE HEAD OF AUDIT

For our quarterly report to the TTC Audit Committee, we bring three audit reports that relate to control of TTC's inventory stock items stored on TTC premises. TTC holds a large inventory asset that amounts to approximately \$120 million at the December 31, 2013 balance sheet date. Thus, assurance that controls operate effectively to protect from loss remains of primary audit importance.

Other audit reports completed in this quarter include observations noted during the recent fare change. Recommendations for improvement to future fare change processes were brought to management's attention.

This year further change and opportunity for improvement are anticipated in the TTC Audit Department. Plans include a new audit management system to improve the monitoring of audit project budgets, and standardization of audit work flows, especially in the areas of documentation of audit working papers, audit scope planning and audit program approval.

We developed an audit strategic plan for the years 2014 to 2016 which will greatly assist in providing a clear direction for the TTC Audit Department's ability to focus on in the upcoming years. This plan identifies the strengths, weaknesses and skills gaps, and provides the future direction to develop the strategies to increase our strengths, thus resulting in a quality professional audit function at the TTC.

I also wish to comment on the motion raised at the February 11, 2014 TTC Audit Committee. The motion put forth by Commissioner Heisey provided us with an excellent opportunity to fully reflect on the resource needs of the TTC Audit Department, our priority settings and skills requirements. I can assure the TTC Audit Committee that I take this request seriously and a response to the TTC Audit Committee will be submitted. There are many options to consider and we need to make the right choices for the future benefit of the TTC. The TTC needs to be well served in the fulfillment of meeting its audit requirements, and I intend to work towards achieving that goal. An update on the progress relating to Commissioner Heisey's motion will be presented to the next TTC Audit Committee meeting.

In looking at our audit priorities, we will continue to align audit risk and priorities with the TTC's five-year corporate plan which supports the TTC's customer service and business operations. To accomplish this, the TTC Audit Department maintains close liaison with senior management concerning the risks as they relate to the achievement of the TTC's corporate goals and objectives.



Improvement and modernization of the TTC Audit Department continues to remain a key goal for all of us to work towards during this year.









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					100%	

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target	Trend
ON TIME AND ON TARGET							
<u>SERVICE DELIVERY GROUP</u>							
Fare Change Process	To be presented to Audit Committee on May 12, 2014				At date of next fare change	Complete	
<u>STRATEGY AND CUSTOMER EXPERIENCE GROUP</u>							
PRESTO – Review of TTC Controls	To be presented to next Audit Committee in August 2014						

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 – Construction Contracts (2014 Audit Work Plan)	Continuing audit – To be scheduled						
TYSSE – Contract Change Process	To be presented to TYSSSE in May 2014			N/A			
TYSSE – Special Request Audits and Reviews							
- Project Management and Controls Process	Audit is in progress						
Union Station New Platform Project (2014 Follow-up)	Continuing audit – To be scheduled						
Leslie Barns – LRT Program, and Maintenance and Storage Facility (2014 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:							
1) Receiving processes/quality assurance function	To be presented to Audit Committee on May 12, 2014						
2) Central Inventory Control							
3) 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	
Contract Management – Review of Information Technology Services – External Consulting Contracts	Review is in progress						
Timekeeping/Payroll – Exception Reporting	Review is in progress						
Attendance Management	Review is in progress						
Follow-up Audits/ Monitoring of Recommendation Implementation	On-going						

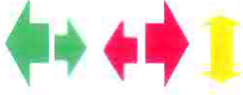
Key to Symbols



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

CURRENT AUDIT ACTIVITIES

This report covers the main audit activities from January – March 2014. In this period, the following audits were completed and are included as TTC Audit Committee agenda items:

Operational Audits

Corporate Services Group – Materials and Procurement Department – Materials Management Section:

- (1) Audit of Quality Control
- (2) Audit of Central Inventory Control
- (3) Audit of Cycle Counts and Divisional Stores Control

Investigations, Analyses and Special Reviews

- TTC Audit Report – Audit Observation of 2014 Fare Change Process, Service Delivery Group, Station Department – Collectors

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 (January – March 2014) is portrayed in the chart below:

