**STAFF REPORT
INFORMATION ONLY**

TTC Audit Department Report – Semi-Annual Update for the Period January – June 2015

Date:	September 11, 2015
To:	TTC Audit and Risk Management Committee
From:	Head of Audit

Summary

The TTC Audit Department provides independent evaluations of the efficiency and effectiveness of control systems and operations, and recommendations for improvement. The report discusses recent audit activities. The actual reports for completed audits, including management responses are presented as individual agenda items.

Financial Summary
This report has no financial impact beyond what has been approved in the current year's budget.

Accessibility/Equity Matters
There are no accessibility/equity matters resulting from the adoption of this report.

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

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Attachment
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TORONTO TRANSIT COMMISSION

TTC AUDIT DEPARTMENT REPORT -

SEMI-ANNUAL UPDATE

FOR THE PERIOD JANUARY – JUNE 2015

TABLE OF CONTENTS

Page No.

OPENING COMMENTARY FROM THE HEAD OF AUDIT

I would like to welcome our new Committee members to our renamed TTC Audit and Risk Management Committee. I look forward to the continued support of this Committee to the TTC Audit Department in our efforts to complete the audit work plan objectives, and build a professional and progressive modern audit department.

As the TTC continues to meet the five-year corporate plan objectives, many positive changes are underway across the entire TTC organization. It is an indeed an exciting time to see the TTC evolve into a stronger, more dynamic and customer-focused entity. Of course such change may not always easy to accomplish at times. Consequently, the internal audit function must adapt and quickly respond to the new and emerging risks. Just the recent name change of this committee to the "Audit and Risk Management Committee" reflects this new approach to how we manage.

As the Head of the TTC Audit Department for almost the past four years, I see the efforts at the TTC to implement positive changes for the future. While some changes may take longer than we would like, in any case, we still push forward. Specifically, the Audit Department is an active member on our information technology (IT) steering committees for the TTC's significant investments in IT, such as the implementation of SAP and CAD/AVL. Other significant initiatives that we are also involved in include the PRESTO farecard project, and advisory services for governance and enterprise risk management. All of these activities will contribute to making the TTC a world class transit company.

A motion made at the February 2014 TTC Audit Committee meeting asked that we review the adequacy of audit resource requirements, priority settings and skills requirements. The audit staffing complement is at a departmental total of 10 employees. This is comprised of two managers, six auditors, one administrative support and Head of Audit positions. An auditor position is currently vacant and the recruitment to fulfill this vacancy is underway.

To further assist in addressing the motion, an audit strategic plan was developed and an audit management system was implemented this year to automate the internal management of time, resources and quality assurance standards. I am strongly committed to ensuring that we allocate audit resources to only those areas of high risk which requires us to maintain a close liaison with the enterprise risk management group. The monitoring of audit costs, standardization of audit working papers, scope planning and audit programs are key objectives of mine. A provision has also been budgeted for external contracted services to supplement audit resources dedicated to TTC's large dollar capital projects.

Finally, a warm welcome is given to the recently appointed Auditor General for the City of Toronto, Beverly Romeo-Beehler. I sincerely wish Beverly great success in her oversight over City resources and ensuring "value-for-money." I look forward to maintaining a strong and positive relationship with the Auditor General's office in the years ahead as we both endeavor to make the City of Toronto and the TTC more efficient in the management of the resources provided to us, whether they come from our government funding partners or the public who rely daily upon our services.

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Joseph L. Kennelly
Head of Audit

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 and Risk Management 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 action taken to minimize risks

This report covers the main audit activities from January to June 2015. Audits completed are included as TTC Audit and Risk Management Committee agenda items:

- 2015 Fare Change – Collectors' Fund Count

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							
STRATEGY AND CUSTOMER EXPERIENCE GROUP							
Presto Card User Entity Controls	Presented to Audit Committee on July 29, 2014		🟢⚫⚫	🟢⚫⚫	🟢⚫⚫	50%	

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
ENGINEERING, CONSTRUCTION AND EXPANSION GROUP							
TYSSE – Contract Change Process	Presented to TYSSE on May 26, 2014	🟢⚫⚫	🟢⚫⚫	N/A	To be followed up as part of TYSSE Audit		
TYSSE – Special Request Audits and Reviews: Project Management – Cost Controls	Presented to TYSSE on February 6, 2015	🟢⚫⚫	🟢⚫⚫	N/A	N/A		
TYSSE- Special Request Audits and Reviews: Follow up on Audit Recommendations	Presented to TYSSE on July 28, 2014	🟢⚫⚫	🟢⚫⚫	N/A	N/A		
TYSSE – Advisory Report – Financing Arrangements	In-Progress	🟢⚫⚫					
Leslie Barns – LRT Program, and Maintenance and Storage Facility (Follow-up)	In-Progress	🟢⚫⚫					

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
ENGINEERING, CONSTRUCTION AND EXPANSION GROUP							
Dufferin/Pape Station Modernization	Presented to Audit Committee on February 19, 2015	🟢⚫⚫	N/A	🟢⚫⚫	N/A		
Union Station New Platform Project (Follow-up)	In Progress	🟢⚫⚫					

| Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
<u>**CORPORATE SERVICE GROUP**</u>							
Tools Inventory Controls and Usage	Draft Report	🟢⚫⚫					
Capital Project – Purchase of Subway Cars	Presented to Audit Committee on February 19, 2015	⚫🟡⚫	🟢⚫⚫	🟢⚫⚫	N/A	N/A	
Payments Control Audit	In-Progress	🟢⚫⚫					
Contract Management (Part 1)	Presented to Audit Committee on October 25, 2013	🟢⚫⚫	N/A	🟢⚫⚫	🟢⚫⚫	100%	
Transit Enforcement Unit	In-Progress	🟢⚫⚫					

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
INVESTIGATIONS, ANALYSES AND SPECIAL REVIEWS							
Disposal of Surplus Computers, Servers and Digital Photocopiers and Removal of Data from the Hard Drive	Presented to Audit Committee on February 19, 2015	🟢⚫⚫	N/A	🟢⚫⚫	🟢⚫⚫	50%	
Contract Management – Review of ITS – External Consulting Contracts	Presented to Audit Committee on February 19, 2015	🟢⚫⚫	🟢⚫⚫	🟢⚫⚫	🟢⚫⚫	100%	
Payroll Exception Reporting	Presented to Audit Committee on July 29, 2014	🟢⚫⚫	🟢⚫⚫	🟢⚫⚫	🟢⚫⚫	90%	
Attendance Management	Presented to Audit Committee on February 19, 2015	⚫🟡⚫	🟢⚫⚫	🟢⚫⚫	🟢⚫⚫		
Internal Controls Governance Process	Completed					100%	
Follow-up Audits/Monitoring of Recommendations Implementation	Ongoing	🟢⚫⚫					

Key Performance Indicator	Comments	Audit Work Plan Progress	Management Response	Audit Committee	Recommendation Implementation	Target Complete	Trend
ON TIME AND ON TARGET							
SERVICE DELIVERY GROUP							
2015 Fare Change – Collectors' Fund Count	Presented to the Audit Committee on September 11, 2015	🟢⚫⚫	N/A	🟢⚫⚫	N/A	100%	
Fare Media Sales	In-Progress	🟢⚫⚫					
Business Intelligence – Key Performance Indicator (KPIs)	In-Progress	🟢⚫⚫					

Key to Symbols
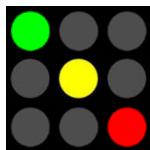
|			
🟢	On target	⬆ (green)	Positive up from last
🟡	Target at risk at current trend	⬇ (green)	Positive down from last
🔴	Off target	⬆ (red)	Negative up from last
		⬇ (red)	Negative down from last
		↔ (orange)	No change from last

AUDIT RESOURCES AND STAFF DEVELOPMENT

The providing of professional audit services requires a staff possessing 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's objective is to provide management with meaningful audit reports and practical recommendations for improving the effectiveness and efficiency of the business operations.

The TTC Audit Department operates with an approved staffing of ten positions – Head of Audit, two managers, six auditors, and an administrative assistant. At the present time, there is one auditor vacancy in which recruitment for a replacement is underway. The position is anticipated to be filled before the year end. The distribution of audit resources for the current reporting period (January – June 2015) is shown in the chart below:
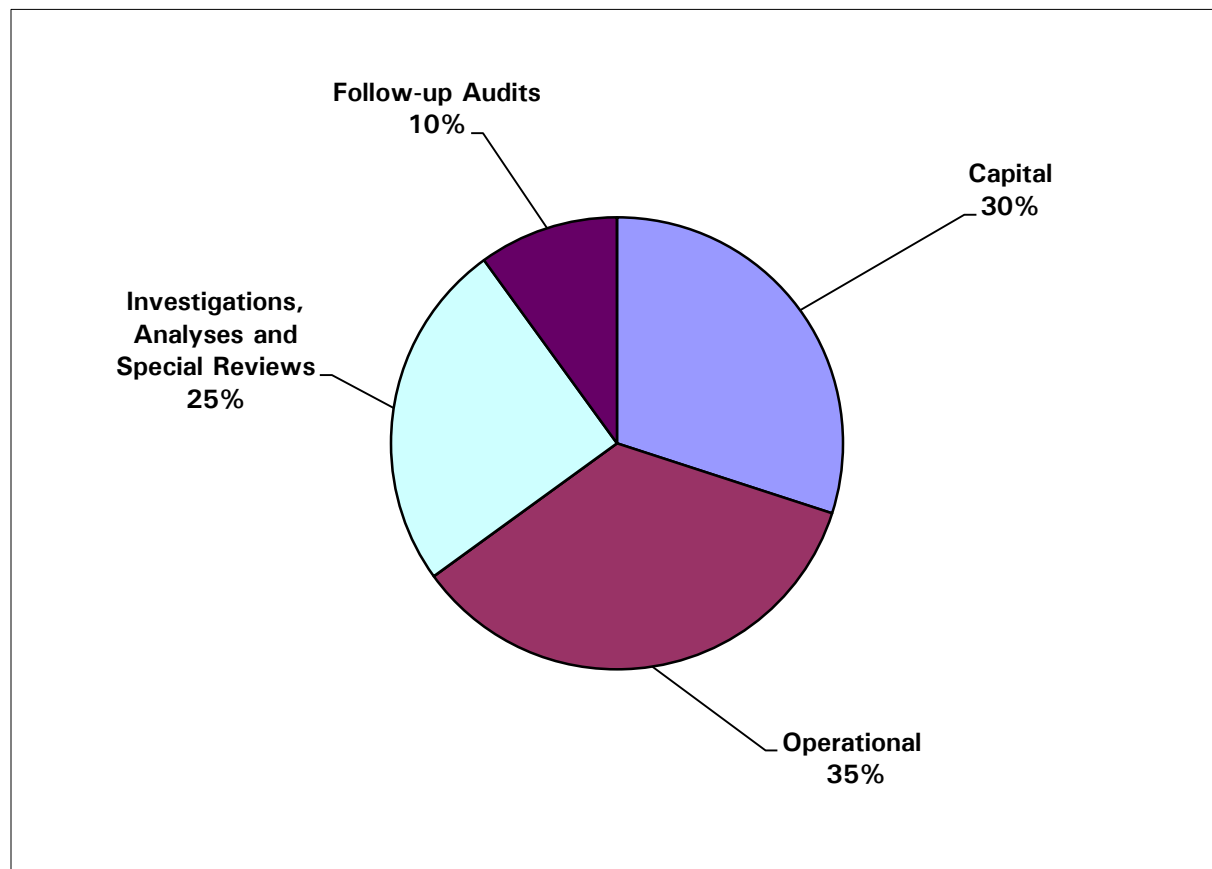
Also, the TTC has recently conducted an employee engagement survey. The objective of the research was to increase the level of employee engagement by identifying specific aspects of the employee experience requiring improvement to increase employee engagement. The results of the survey showed that the TTC Audit Department had a positive rating of 7.8 out of a maximum of 10.

While a 7.8 rating is quite good, the results indicated several areas where improvement can be made to increase employee satisfaction and engagement, such as relationship building, information sharing, and more meaningful reward and recognition to employees. Consequently, the TTC Audit Department is developing an action plan to increase the level of employee engagement. Action items include but are not limited to the following:

- Communication and promotion of the audit function, roles and responsibilities to the entire TTC by means of an updated departmental intranet web-site

- Regular staff meetings, at least quarterly, to improve internal staff communication and information sharing and recognition of staff milestones and successes

- Presentations to TTC management and leadership group, at least annually, highlighting the Department's key activities, accomplishments and contributions to the TTC; and, communicating changes, if any, to the Department's roles and responsibilities

Combined with the above action items and an on-going emphasis on continuing professional development and audit quality, the framework for a sound succession plan will evolve, along with a highly skilled and engaged audit workforce.