



## STAFF REPORT ACTION REQUIRED

### TTC Audit and Risk Management Committee Terms of Reference

|              |   |
|--------------|---|
| <b>Date:</b> | September 11, 2015                      |
| <b>To:</b>   | TTC Audit and Risk Management Committee |
| <b>From:</b> | Chief Executive Officer                 |

#### **Summary**

---

The TTC Audit and Risk Management Committee's (Committee) Terms of Reference (ToR) (previously referred to as TTC Audit Committee – Mandate and Responsibilities) are being brought forward to the Committee for review and approval. Upon approval, the Committee is requested to forward the ToR to the TTC Board for information.

The ToR are revised to incorporate the expanded role of the Committee for risk management oversight and to clarify the Committee's oversight over various audit functions. The revision also includes housekeeping changes to align the terms of reference with legislation.

The ToR outlines the Committee's purpose, authority and responsibilities. The composition and terms of membership of the Committee are determined by the TTC Board. The Committee meetings are conducted in a manner consistent with the TTC By-Law To Govern Commission Proceedings.

#### **Recommendation**

---

It is recommended that the TTC Audit and Risk Management Committee:

- (1) Approve the attached Terms of Reference; and
- (2) Forward the approved Terms of Reference to the TTC Board for information.

## **Implementation Points**

As a result of the TTC Board's decision at its May 27, 2015 meeting to expand the role of the Committee to oversee the TTC's risk management, the Committee will now be referred to as the TTC Audit and Risk Management Committee.

The proposed Terms of Reference will replace the existing TTC Audit Committee – Mandate and Responsibilities, which previously outlined the Committee's role and responsibilities.

The following are key revisions put forward for review and approval:

### **Assisting the Board with oversight responsibilities**

Consistent with previous responsibilities and with the newly added responsibility for oversight over the TTC's risk management program, the Committee will assist the TTC Board with oversight over the TTC's

- financial reporting process and financial statements
- enterprise risk management
- system of internal control
- audit function
- external audit of financial statements
- compliance with laws and regulations

### **Recommending appointment of the City's external auditor**

The City of Toronto Act, 2006 S. 139 requires the City to appoint an external auditor to express an opinion on the financial statements of the City and its local Boards. Therefore, the responsibility of recommending the appointment of the TTC's external auditor with respect to expressing an opinion on the financial statements of the TTC, which is currently stated in the Committee's Mandate and Responsibilities, is removed.

Oversight over the City appointed external auditor's audit plan, scope of work, reporting and performance of services with respect to the TTC's financial statements is retained.

## **Financial Summary**

There are no financial implications resulting from the adoption of this report.

## **Accessibility/Equity Matters**

There are no accessibility/ equity issues resulting from the adoption of this report.

## **Decision History**

At its May 27, 2015 meeting, the TTC Board moved and carried a motion to expand the role of the TTC's Audit Committee to incorporate enterprise risk management

The Committee last reviewed its terms of reference, namely the TTC Audit Committee – Mandate and Responsibilities at its April 19, 2011 meeting.

## **Comments**

To ensure that the terms of reference are consistent with legislation and best practice, staff reviewed relevant legislation including City of Toronto By-laws, municipal code, minutes and other guidance including –

- [Current TTC Audit Committee – Mandate and Responsibilities](#) [April, 2011]
- [Current TTC Audit Department Charter](#) [February, 2014]
- [Municipal Code II – Special Committees 1. Audit Committee](#) (Page 27-115)
- The Institute of Internal Auditors – Model Audit Committee Charter

## **Contact**

Joseph L. Kennelly, CPA/CA, CISA

Head of Audit

Phone: (416) 393-2030

E-mail: [joseph.kennelly@ttc.ca](mailto:joseph.kennelly@ttc.ca)

## **Attachment**

TTC Audit and Risk Management Committee Terms of Reference



## TTC AUDIT AND RISK MANAGEMENT COMMITTEE TERMS OF REFERENCE

---

### PURPOSE

The Committee is established as a committee of the Board of the TTC to assist the Board in fulfilling its oversight responsibilities for the:

- financial reporting process and financial statements
- enterprise risk management
- system of internal control
- audit function
- external audit of the financial statements
- compliance with laws and regulations

These Terms of Reference deal with reporting requirements to the TTC Committee.

Oversight of the TTC from an auditing perspective is divided into three main categories:

1. City of Toronto Auditor General – has responsibilities as set out in the *City of Toronto Act*;
2. TTC Audit – has responsibilities depending on the review undertaken to:
  - a. execute the approved Committee audit plan and report back to the Committee as required; and
  - b. execute TTC management review plan and report back to the TTC CEO on management reviews;
3. External Auditors as appointed pursuant to the *City of Toronto Act* and report directly to the Committee.

### AUTHORITY

The Committee has authority from the Board to:

- resolve any disagreements between management and the external auditors regarding financial reporting
- have full, free and unrestricted access to management and its employees, the external auditors, counsel, and the Head of Audit, as necessary
- retain counsel, accountants, or other service providers to advise or assist in the conduct of an investigation as may be deemed necessary to ensure its due diligence, in accordance with TTC procurement policy and procedures



## TTC AUDIT AND RISK MANAGEMENT COMMITTEE TERMS OF REFERENCE

---

### COMPOSITION

The number of members shall be determined by the Board. The Board shall appoint the Committee members and Chair.

### TERMS OF MEMBERSHIP

The term of the members of the Committee shall be determined by the Board, and are subject to change.

### MEETINGS AND QUORUM

The TTC's By-Law To Govern Commission Proceedings shall apply to meetings of the Audit and Risk Management Committee. Management, auditors and/or others may be invited to attend meetings and provide pertinent information, as necessary. Meeting agendas are to be provided in advance to members, along with appropriate briefing materials. Minutes will be prepared for all meetings held.

Meetings will be held in public other than matters to be dealt with in closed session in accordance with section 190 of the *City of Toronto Act, 2006*, which may include:

- the security of the property of the TTC
- personal matters about an identifiable individual, including a TTC employee
- a proposed or pending acquisition or disposition of land by the TTC
- labour relations or employee negotiations
- litigation or potential litigation, including matters before administrative tribunals, affecting the TTC
- advice that is subject to solicitor-client privilege, including communications necessary for that purpose
- a matter in respect of which the TTC may hold a closed meeting under the *City of Toronto Act, 2006* or any other Act
- for training and education purposes



## TTC AUDIT AND RISK MANAGEMENT COMMITTEE TERMS OF REFERENCE

---

### RESPONSIBILITIES

The Committee will carry out the following responsibilities:

#### ***Financial Reporting Process and Financial Statements***

- review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements
- review with management and the external auditors the results of the audit, including any difficulties encountered
- review the annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles
- review other sections of the annual report before release and consider the accuracy and completeness of the information
- review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards
- recommend an action to be taken by the Board, when deemed appropriate

#### ***Enterprise Risk Management***

- review and endorse the TTC's risk appetite statement and related metrics used to define risk tolerances
- ensure the TTC maintains a robust Enterprise Risk Management ("ERM") framework to identify, assess and mitigate enterprise risks
- monitor compliance to the ERM framework and its effectiveness for managing risk
- review the risk profile and support mitigation plans for the top enterprise risks
- review the system of controls including the establishment and maintenance of business continuity, disaster recovery, and emergency management plans

#### ***System of Internal Control***

- consider the effectiveness of the TTC's internal control system, including information technology security and control
- understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses



## TTC AUDIT AND RISK MANAGEMENT COMMITTEE TERMS OF REFERENCE

---

### ***Audit Function***

- review with management and the Head of Audit the audit department charter, activities, staffing and organizational structure of the TTC's audit function
- jointly with the CEO, approve decisions regarding the performance evaluation of the Head of Audit
- review and approve the annual Committee audit work plan and any major changes to the plan
- ensure there are no unjustified restrictions or limitations on the performance of the Committee approved audit work plan
- on a regular basis meet with the Head of Audit to discuss any applicable matter

### ***External Audit of the Financial Statements***

- review the external auditors' proposed annual financial audit scope and plan
- review the performance of the external auditors
- review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the TTC, including non-audit services
- on a regular basis, but not less than once annually meet with the external auditors

### ***Compliance with Laws and Regulations***

- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance
- review the findings of any examinations by regulatory agencies, and any auditor observations
- obtain regular updates from management and legal counsel regarding compliance matters

### ***Other Responsibilities***

- the Committee shall review any other reports on TTC matters that relate to Committee responsibilities
- periodically review and assess the adequacy of the Committee terms of reference and confirm to the Board annually that all responsibilities outlined have been carried out

## **COMMUNICATIONS**

The Committee shall:

- communicate with the Board concerning the Committee's activities, issues, and related recommendations, as required
- provide an open avenue of communication among the TTC Audit Department, the external auditors and the Board