



Audit, Risk and Compliance Report: Flexible Work Plan (2021)

Date: December 15, 2020

To: TTC Audit and Risk Management Committee

From: Audit, Risk and Compliance Officer

Summary

The COVID-19 pandemic and its impact on daily activities unexpectedly altered the TTC's risk landscape in 2020 and prompted the immediate need for action. The direct and indirect risks associated with the pandemic caused abrupt disruption to the TTC. And as the coronavirus pandemic surges into 2021, the TTC must continue to work in an unprecedented environment of uncertainty and constant change.

As issues unfold, it is paramount to understand that problems may be interconnected and cannot be fully appreciated in isolation. As such, a full spectrum of risks must be considered to develop comprehensive mitigation plans, as decisions made today will ultimately impact the TTC's ability to achieve its long-term goals, maintain reputational integrity and improve operational resiliency.

To add value and support management during these exceptionally trying times, the Audit, Risk and Compliance Department (ARC) must remain agile and responsive to changes in the TTC's risk landscape. We must also avail ourselves to management who are increasingly reaching out proactively for our assistance to address known issues. By giving focus to heightened or emerging risks arising from the pandemic, ARC aims to promote integrated risk management, as well as drive accountability and transparency of critical mitigation activities and continuous improvement of governance, risk management and control systems.

The ARC Department reports directly to the TTC's Chief Executive Officer (CEO), as well as to the TTC Audit and Risk Management Committee (ARMC). In this respect, ARC remains independent and objective, and able to provide audit, risk and compliance work that meets the immediate needs of the CEO and supports the ARMC in fulfilling its oversight responsibilities. In accordance with the ARMC's Terms of Reference, ARC is submitting its Flexible Work Plan (2021) to the ARMC for approval.

Recommendations

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

1. Approve the Audit, Risk and Compliance Report: Flexible Work Plan (2021) with attachment.
2. Forward a copy of the Audit, Risk and Compliance Report: Flexible Work Plan (2021) with attachment to the TTC Board for information.

Financial Summary

The recommendations in this report have no incremental funding implications. The 2021 budget for the Audit, Risk and Compliance Department will be substantially consistent with the 2020 budget approved by the TTC Board on December 16, 2019 and City Council on February 19, 2020.

The Interim Chief Financial Officer has reviewed this report and agrees with the financial summary information.

Equity/Accessibility Matters

The TTC is committed to promoting and supporting equity in all corporate policies, procedures and processes to reflect and respond to the needs of our customers and employees. This includes the TTC's response to the pandemic and efforts to mitigate the potential equity impacts of COVID-19 to customers. Navigating successfully through pandemic uncertainty requires a strategy that focuses on continuous and integrated risk management, and so ARC's planned activities for 2021 will give focus to reviewing mitigation activities associated with heightened and/or emerging pandemic-related risks. The independent oversight work of the ARC Department assures that processes and strategies introduced or revised to address the impact of pandemic risks are reasonable, well-designed and working as intended.

Decision History

The TTC Board reaffirmed the mandate of the TTC Audit and Risk Management Committee (ARMC) on November 16, 2020. The ARMC assists the TTC Board in fulfilling its oversight responsibilities in a number of areas, including: audit function, regulatory audits, system of internal control, compliance with laws and regulations, enterprise risk management and internal special investigation activities. A requirement of the ARMC is to approve the Audit, Risk and Compliance Department's annual Work Plan.

[https://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2020/November 16/Reports/6 Appointment of a TTC Board Member to the ARMC.pdf](https://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2020/November%2016/Reports/6%20Appointment%20of%20a%20TTC%20Board%20Member%20to%20the%20ARMC.pdf)

Issue Background

While it is not the ARC Department's responsibility to formulate policies or enforce compliance to plans and strategies, we can support those directly accountable and responsible for ensuring such plans achieve stated objectives by offering a different perspective. In this respect, ARC can provide assurance that processes and strategies introduced or revised to address the impact of pandemic risks are reasonable, well-designed and working as intended.

Comments

An Agile Approach

ARC is committed to working collaboratively with TTC leadership to provide both independent assurance and advisory services. As an integrated team of audit, risk and compliance professionals who possess diverse skills and experience, the evolution of ARC has been to intentionally increase its interaction with internal stakeholders. In this manner, ARC progresses its mission to promote integrated risk management and continuous controls improvement.

Regular, open and transparent communication with management, risk owners and the ARMC is critical for ARC to be adaptable to changes in risks and priorities. And making calculated trade-offs between the breadth and depth of ARC assignments is necessary to balance project requirements with available resources. By adopting a dynamic approach, ARC is able to facilitate proactive discussions and resolution of issues, support business process refinement, and provide clarity of accountability and responsibility amongst TTC staff for corrective actions.

ARC was able to advance certain planned initiatives in 2020 despite interruptions due to COVID-19, but receptiveness to management requests, and the need to complete unplanned priority assignments, will drive ARC's Flexible Work Plan (2021). ARC's planned activities for 2021 will give focus to reviewing mitigation activities associated with heightened and/or emerging pandemic-related risks with particular attention on new or revised processes implemented in response to COVID-19.

Pandemic Risk Focus

Emerging risks, by their nature, are difficult to predict and should be continually monitored using key risk indicator measures; and adjusting to the post-pandemic world requires being open to transformation and applying effective change management principles. Specifically, making connections between customer and employee behaviour and their reactions to uncertainty is fundamental to mitigating the impact of pandemic risks on TTC service. Navigating successfully through pandemic uncertainty requires a strategy that focuses on continuous and integrated risk management.

Continuous dialogue with TTC management and ongoing research of the COVID-19 experience on public transit positions ARC well to assist TTC leaders and managers in

making informed mitigation decisions. Therefore, in 2021, ARC intends to focus its assurance and advisory efforts on reviewing pandemic response and mitigation strategies for high-priority risks, including:

Health and Safety Risks

Increased safety and security concerns will influence the TTC's ridership recovery, service demands and financial sustainability. Similarly, transitioning people back to the workplace after months of working from home, and preparing employees to meet new expectations and customer demands in a post-pandemic environment, will be challenging.

A robust safety assurance and audit program that monitors whether COVID-19-related efforts, and other safety strategies, intended to protect individuals are fully implemented is critical to building TTC customer and employee confidence. Therefore, a review of compliance testing and monitoring conducted by frontline and support functions, as well as potential targeted and independent assurance work, will be a key ARC activity in 2021.

Financial Risks

Research suggests organizations are recognizing the risk of potential financial losses due to fraud and error has increased amid the coronavirus pandemic. This is because supervision might be less as employees work remotely; processes revised to accommodate new working environments may have unduly compromised segregation of duty and other critical controls; and workers might feel emotional and financial pressure from economic and other uncertainty which gives rise to unethical behaviour or lack of due diligence in exercising their responsibilities. Cybersecurity threats have also escalated financial loss exposure. Given this context, areas of particular focus for ARC will include reviewing procurement, payment and payroll activities, including the internal reporting of incidents, as well as the monitoring of corrective actions and implemented security measures.

The pandemic significantly impacted the TTC's financial outlook and sustainability. Strategies to immediately reduce and contain costs were pursued and additional commitments for relief funding must be secured. Areas of interest to ARC include understanding the impact of the pandemic on funding assumptions and the TTC's ability to meet both new- and long-standing funding arrangement requirements.

Service Disruption Risk

The unprecedented impact of COVID-19 has revealed just how disruptive events can be on "business as usual" and has emphasized the need for the TTC to examine its capabilities and interdependencies. This, in turn, serves as an opportunity to strengthen the TTC's crisis response and business continuity plans, as well as to build resiliency into critical activities. As such, follow-up of management actions to remediate business continuity shortcomings will be an area of focused review for ARC.

Strategic Risks

Strategic risks are not inherently undesirable, but managing them along with adapting to new challenges and recognizing change opportunities is key. ARC aims to ensure Executive Team members recognize that some risk must be assumed to achieve corporate goals, and innovation and sensible risk taking needs to be actioned. As part of advancing integrated risk management principles, ARC will devote attention in 2021 to reviewing the corporate risk appetite and risk tolerance thresholds as a means of guiding strategic decisions.

Adhering to physical distancing requirements as a COVID-19 safety measure fundamentally altered the way we do business. In order to adapt, new business models have been and continue to be developed, including those that better align TTC goals with broader City objectives (e.g., priority bus lanes). Changes in the working environment have also emphasized the need to automate long-standing manual processes and address informational gaps in order to progress TTC modernization. As such, investment in new technologies and digitalization is a critical enabler of strategic business transformation.

Strategies that clearly outline how investments in technology will enhance the customer experience, streamline operations and drive process efficiencies must guide innovative changes in the way the TTC delivers service and achieves digital transformation. Management must demonstrate due diligence to ensure selected courses of action over others are justified, well-documented and based on the best information available at the time.

ARC's review of various initiatives will allow us to better identify technology and digitalization investment criteria, and the extent to which historical and real-time data has been leveraged to guide decision making. Additionally, ARC's review of the processes followed by the TTC to formulate strategies will assist in understanding the due diligence being exercised to establish strategic relevance, define and monitor execution and measure effectiveness of implemented strategies.

Accountability Initiatives

Executive Compliance Certificate-Legislation and Compliance Mapping

In collaboration with TTC Legal, ARC has developed an *Executive Compliance Certificate-Legislation* to be signed off by all Executive Management (July 1, 2021). This initiative was originally prompted by an ARMC request for the primary purpose of supporting the ARMC in fulfilling its oversight responsibilities; and in turn, will provide the CEO and ARMC a formal mechanism for reporting Executive compliance assertions and demonstrating accountability.

ARC now intends to undertake a systematic approach to mapping the identified statutes and regulations to operational activities and programs for purposes of informing our compliance-testing program. As a first step, ARC will identify functions and programs within the TTC that provide support, analytics and compliance assurance to frontline

management. We will begin with a detailed review of the Occupational Health and Safety Act, as failure to comply can have far-reaching consequences beyond fines and penalties.

Follow-up Activities and Management Action Item Tracking

Taking a proactive approach through continuous review of the TTC's controls, and follow-up of implemented corrective actions, is fundamental for strong governance and risk management practice. Results drive management accountability for overall compliance, instills confidence in management's responsiveness to deal with reported issues by governing bodies, and reiterates the importance of continuous improvement, oversight and an effective control environment.

Internal ARC Action Items: In 2020, ARC completed a comprehensive review of all assurance work completed by the department over the past seven years. The purpose of this extensive initiative was to summarize past audit observations, synthesize identified risks, and based on management's assertions, assess progress made to address risks and identify areas where further mitigation may be pursued. While it was noted that progress was made in a majority of areas, work needs to continue. Audit assurance and advisory work that aims to validate management's assertions will be considered and prioritized accordingly in 2021.

City of Toronto Auditor General Action Items: In late 2020, ARC initiated actions to ensure updated management responses to outstanding City of Toronto Auditor General (AG) recommendations are submitted using the AG's new action tracking software (TeamMate), as required. Expectations for applicable Executive Management to review and approve all updates prior to submission were emphasized, and communication strategies with AG staff outlined. ARC will continue to provide support and supplementary analytics to TTC management regarding the status of AG recommendations as put forth by management versus items confirmed to be fully implemented by AG staff so as to target efforts and resolve differences in expectations.

City of Toronto Auditor General Recommendation Themes: In 2020, the AG issued a report to City Council that identified three common themes based on a summary compilation of past audit recommendations. The report specifically noted the need to focus on achieving outcomes, ensuring accountability and using data. These themes are consistent with those identified by ARC and will effectively be assessed in conjunction with planned ARC work and targeted inquiries.

ARC Staff Redeployment

The LRT operating model and agreement being forged between the TTC and Metrolinx are precedent setting. Efforts initiated in 2019 to support the LRT Operations Department will continue into 2021. Specifically, one ARC staff resource has been embedded within this group to provide full-time risk management support.

Another four ARC staff were temporarily redeployed in 2020 for varying periods of time to support TTC efforts to respond to COVID-19 and address critical staffing shortfalls in key departments. Specifically, one staff participated in the Staff Stations Ambassador

Program, another supported Finance part-time during the transition to new external auditors, and two have been working full-time within Accounts Payable to provide support and progress implementation of AG recommendations.

The decision to redeploy ARC staff in 2021 to those areas significantly impacted by the pandemic will continue to be weighted against the risk of impacting ARC work priorities.

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Attachments

Attachment 1 – Audit, Risk and Compliance (ARC) Flexible Work Plan (2021)

Pandemic Risks – Potential Assurance/Advisory Focus

- **Health and Safety Risks:** Review of inspection, assurance and audit programs to ensure COVID-19 related and other safety strategies intended to protect customers, employees, contractors and the general public are fully implemented.
- **Financial Risks:** Review of procurement, payment and payroll activities in light of revised processes and working environment limitations; internal reporting of incidents and the monitoring of corrective actions/security measures; and the impact of the pandemic on funding assumptions and the TTC's expected ability to meet both new and long standing funding arrangement requirements.
- **Service Disruption Risks:** Review of select emergency preparedness and resiliency measures, as well as business continuity mitigation action items.
- **Strategic Risks:** Review of the corporate risk appetite and risk tolerance thresholds; technology and digitalization investment criteria; and the extent to which historical and real-time data is being leveraged to guide decision making.

Accountability Initiatives

- **Executive Compliance Certificate - Legislation:** Coordinate the inaugural submission to the ARMC of signed Executive Compliance Certificates.
- **Legislative Compliance Mapping Exercise:** Identify TTC functions and programs that provide support, analytics and compliance assurance to front-line management.
- **Audit Follow-up and Action Item Tracking:** Assurance/advisory work aimed to validate management's assertions regarding the status of implementation of ARC and AG recommendations will be considered and prioritized accordingly.
- **City of Toronto Auditor General Report Themes:** The relevance of the three themes (i.e., the need to focus on achieving outcomes, ensuring accountability and using data) reported by the AG will be assessed in conjunction with planned ARC work and targeted inquiries.