

Item 1



For Action

Audit, Risk and Compliance Report: Flexible Work Plan (2020)

Date: February 11, 2020

To: Audit and Risk Management Committee

From: Head of Audit, Risk and Compliance

Summary

The integration in early 2019 of the TTC's Internal Audit Department and the Risk Management Office into one assimilated Group, the Audit, Risk and Compliance (ARC) Department, has greatly improved our ability to provide a variety of value-added services to the TTC Executive in an agile manner. Similarly, the inclusion of a small but highly experienced Emergency Management team within ARC continues to assist in the delivery of our expanded mandate to advance enterprise risk management and enhance organizational resiliency.

The ARC Department reports functionally to the Audit Risk Management Committee (ARMC) and administratively to the TTC's Chief Executive Officer. In this respect, ARC remains independent and objective, and able to provide audit, risk and compliance work that supports the ARMC in fulfilling its oversight responsibilities.

As the TTC's dynamic business environment grows more complex, ARC aims to strengthen the TTC's corporate Governance, Risk and Control (GRC) Framework, drive management accountability in all undertakings, and aid in the achievement of corporate objectives by focusing on top TTC risks and mitigation strategies.

The active recruitment of new talent and the pursuit of diverse skills has well-positioned ARC for consistent delivery of comprehensive assurance, advisory and data analytic services. ARC's risk-based work priorities are continuously reviewed taking into consideration changes in risk landscape while remaining responsive to management's requests for proactive reviews of emerging exposures. We are committed to following a collaborative and cohesive approach, and report transparently on the results of our work in a timely manner.

In accordance with the Audit and Risk Management Committee's Terms of Reference, ARC is submitting its Flexible Work Plan (2020) to the ARMC for approval (see Attachment 1). Although extensive, the listing is not exhaustive, and requires ARC's ongoing re-evaluation to balance competing priorities. The completion of planned activities is also dependent upon the availability of ARC resources throughout the year, results of preliminary data analytics performed and emerging issues. Approved headcount for ARC is 18, including the Head and Office Assistant positions.

Recommendations

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

1. Approve the Audit, Risk and Compliance Report: Flexible Work Plan (2020) with attachments.
2. Forward a copy of the Audit, Risk and Compliance Report: Flexible Work Plan (2020) with attachments to the TTC Board for information.

Financial Summary

The recommendations in this Report have no additional funding implications beyond the costs of the Audit, Risk and Compliance Department that were included in the 2020 Operating Budget and approved by the TTC Board on December 16, 2019.

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

Equity/Accessibility Matters

There are no accessibility or equity impacts associated with this report.

Decision History

The mandate of the Audit and Risk Management Committee (ARMC) was reaffirmed by the new TTC Board on January 10, 2019. The ARMC assists the TTC Board in fulfilling its oversight responsibilities in a number of areas, including the 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.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2019/January 10/Reports/9 TTC Board Governance and 2019 Meeting S chedule.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2019/January%2010/Reports/9%20TTC%20Board%20Governance%20and%202019%20Meeting%20Schedule.pdf)

Issue Background

The Audit, Risk and Compliance Department has prepared its Flexible Work Plan (2020) for review and approval by the Audit and Risk Management Committee.

Comments

An Agile Approach

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 supports proactive discussions and resolution of issues, promotes continuous control improvements, and provides clarity of accountability and responsibility amongst TTC staff for corrective actions. ARC has also made explicit efforts to facilitate a collaborative approach to identify the TTC's top risks, to assess root causes, interdependencies and lessons learned from known events, and to guide the development of holistic and informed risk mitigation strategies. While progress and ARC contributions to various initiatives were made in 2019, continued facilitation and receptiveness to management requests will continue to drive ARC's Flexible Work Plan (2020).

Making calculated trade-offs between the breadth and depth of ARC assignments is necessary to balance project requirements with available resources. Understanding the need to remain flexible and responsive to changes in risk landscape, as well as the practice of refining scope of work activities as ARC's comprehension of exposures unfold, is essential to appreciating the expectations embedded in ARC's Flexible Work Plan (2020). Regular, open and transparent communication with management, business risk owners and the ARMC is critical for ARC to be adaptable to changes in the TTC's risks and priorities. ARC's Flexible Work Plan (2020), therefore, reflects the assumption that we will provide support during the year to accommodate Executive Management and ARMC/Board requests.

Realizing the nuances and applying the principles of agility to our work methods allows ARC to communicate more directly and quickly with TTC management to resolve areas of concern. Exploring new methods and meaningful ways to present results of ARC's work and corrective action plans that are committed to and implemented by management will therefore be a departmental focus in 2020.

Audit and Compliance Services

Audit Assurance and Advisory

Auditing and examining control systems is a key component of an effective risk-based approach to discharging responsibilities and demonstrating due diligence. As an independent group, ARC provides audit assurance that controls are properly designed, being followed and working cost effectively. By conducting risk-based performance and compliance audits, that include testing and validation of controls, adherence to corporate policies, best practices and key legislation and regulations, ARC supports the ARMC in its oversight responsibilities and steward of public funds.

ARC staff perform planned assurance/advisory work in accordance with its risk-based Flexible Work Plan. Emerging issues and ad hoc management requests also prompt unplanned assignments to be completed.

ARC work includes completion of capital and/or operating contract reviews to assess the adequacy of controls and adherence to key terms and conditions. Contracts are selected for review based on a number of factors, including expenditures and impact on customer service and infrastructure. ARC has selected the McNicoll Garage contract for review given the TTC's use of a design-build procurement model. Operational second sourcing arrangements and realization of benefits is also a topic requiring detailed analysis. Results from these assurance activities will continue to inform management of noted contractual risk gaps and financial exposure.

Follow-up Activities

An audit or risk assessment is not a one-time activity that can be done in isolation. It is part of a cycle or a continuous process followed to ensure compliance. ARC performs follow-up reviews subsequent to the formal issuance of reports to ensure concerns and risk gaps are sufficiently addressed within a reasonable timeframe. It requires ARC to complete appropriate testing, evaluation and verification procedures. If issues are not resolved in a timely manner, or not resolved at all, the time and effort by ARC staff and involved management to complete the work is wasted, and the lack of corrective action to address noted control concerns and gaps may increase risk.

Taking a proactive and preventative approach through continuous review of the TTC's controls, and follow-up of implemented actions, is a fundamental part of a strong governance and risk management practice. Results drive management accountability for overall, effective compliance and instills confidence in management's responsiveness to deal with reported issues by governing bodies. In this respect, the TTC CEO and ARMC expressed in 2019 a need for more comprehensive reporting on the status of action plans committed to by management in response to internal and external audits, including those put forth by the City of Toronto Auditor General (AG).

In response, ARC worked to clarify expectations and current intentions of TTC management regarding AG recommendations. Results of this work informed reporting to the TTC Board and City Council on the status of high-priority audit reports as identified by the AG. ARC's efforts to support management's implementation of AG recommendations and co-ordinate update submissions directly to the AG and others will continue in 2020.

ARC has also initiated a major review of all action plans put forth by management in response to internal audit reports presented between 2013 and 2019. The intent is to synthesize past recommendations and give focus to areas where risks still need to be mitigated based on consultation with management.

Following this process, a Summary of management's assertions as to the key risks and actions still requiring management attention will be prepared. The Summary will include reaffirmed or revised target dates of when management expects to fully address/mitigate the risks and implement the committed management action plans.

ARC will also validate key management assertions as to actions taken to address identified risks, but the nature and extent of the audit verification procedures may vary.

ARC's follow-up work and the rigour being followed to transparently report results will inform ARC's ongoing evaluation and prioritization of work.

Integrated Corporate Compliance Efforts

Preventable risks arising from within the TTC that are controllable should be avoided or eliminated cost effectively via active prevention and monitoring. Failure to do so can result in incidents of unauthorized, illegal, unethical, incorrect or inappropriate employee/manager actions, as well as breakdowns in routine operational processes. Further, a complacent culture can lead to major reputational, financial and safety risks – including criminal prosecution of an organizations' leaders and Board members.

A strong Corporate Compliance Program with clear accountability is critical to the TTC. To assist the TTC in building a strong compliance culture, ARC will continue its efforts in 2020 to develop a formal Corporate Compliance Program. Working in conjunction with the TTC's Legal Department, initial focus is being given to addressing identified gaps in legal risk management. This will involve mapping legislative requirements or best practices, where there is an absence of legislation, to responsible TTC departments, and developing tools that drive Chief Officer accountability for compliance.

ARC advisory work facilitates the improvement of specific risk mitigation controls by raising control awareness and compliance consciousness. In this respect, ARC will continue to collaborate with the TTC's Investigative Services Department as they pursue the development of a Corporate Ethics Program and facilitate reporting to the ARMC the results of all special investigations and related Integrity Line activities. ARC will also supplement the provision of compliance training and awareness initiatives where appropriate, and monitor the impact of corporate ethical messaging.

In response to requests from Executive Operations management, ARC will aim to build comprehensive operations compliance programs, tailored for Vehicles and Infrastructure maintenance areas in particular, to be conducted on a cyclical basis. In this respect, efforts will be made to co-ordinate and integrate the expertise of ARC, Safety Engineering Services and internal departmental quality control groups, with consideration being given where feasible to the design of continuous controls monitoring reports.

Other ARC Initiatives and Support

Based on the historic and more recent results of our work, ARC aims to support the TTC's Interim Chief Financial Officer in her establishment of an efficient and effective commercial management function and framework. The Head of ARC has also been selected to sit on the Business Transformation Task Force, and so active support will be provided to the TTC's Business Transformation Team as they evaluate submitted ideas and transformation proposals.

In early fall 2019, ARC completed a Tapping Behaviour Study to identify changes in streetcar customer behaviour when Fare Inspectors are visible versus when they are not. Results informed the design of ARC's full 2019 Fare Evasion Study. In 2020, ARC intends to support quarterly reporting to the Board on the topic of fare evasion. Areas of

interest may include conducting narrowly scoped evaluations of key elements of evasion, monitoring compliance to performance standards and operating procedures, and measuring the impact of implemented revenue protection initiatives.

Risk Management

Top Risks, Enterprise Risk Management and Resiliency Enhancements

By conducting comprehensive risk and organizational resiliency assessments, ARC intends to support management in efforts to monitor emerging risks, improve mitigation strategies, and analyze options for achieving corporate goals and objectives. The assessments will strengthen the accountability for meeting strategic and operational performance expectations and for enforcing greater integrity and transparency in governance and decision making.

ARC facilitated individual Chief Officer and group discussions in 2019 for purposes of building consensus amongst the TTC Executive Team regarding top TTC risks (see Attachment 2 – Diagram: TTC Top Risks). As part of advancing the TTC’s enterprise risk management framework, ARC will devote attention in 2020 to reviewing corporate risk appetite and tolerance thresholds as a means of guiding holistic risk assessments and mitigation decisions.

While preventable risks may be reasonably mitigated through an integrated culture-and-compliance model, other risks arising from events outside the TTC and beyond its influence or control (i.e. natural disasters and environmental changes) require a different mitigation approach. Specifically, focus must be given to reducing the likelihood and impact(s) should such risk events occur and hinder delivery of services.

A number of the top external risks identified by the Executive Team require a deeper dive assessment, an integrated mitigation strategy review and the incorporation of resiliency measures. Emergency Management staff working within ARC will lead comprehensive risk identification and hazard analysis sessions with TTC internal parties, and serve as independent facilitators of “envisioning” exercises and scenario-planning workshops.

Given their subject-matter-expertise in emergency preparedness and resiliency assessment, Emergency Management staff will support the TTC in its change management efforts to institutionalize resilience into decision-making, partnering with the City of Toronto as appropriate. ARC staff will also ensure satisfactory performance of expectations expressed by the City Council Audit Committee to the TTC (November 12, 2019) to provide a cyber-security enterprise risk assessment by Q3 2020.

Strategic Risk Support

Certain risks may be taken to realize desired outcomes and achieve broader TTC objectives (i.e. adoption of new technology based solutions). Strategic risks are not inherently undesirable but managing them is key. ARC aims to ensure Executive Team members recognize that some risk must be assumed to achieve corporate goals, and innovation and smart risk taking needs to be encouraged, supported and approached as

a learning opportunity. To facilitate adoption of this concept, ARC is committed to engaging management in explicit dialogue and initiating interactive discussions about risks to strategic objectives.

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 2020. Specifically, one ARC staff resource has been embedded within this group to provide full-time risk management support and the Head of ARC assists in the coordination and administration of meetings involving internal TTC stakeholders.

Safety and security is a cornerstone of the TTC's Corporate Plan. Recognizing the severity of recent incidents and legal settlements, Management is challenged to reform the existing TTC safety culture and implement effective precautions to ensure the safety of all employees and customers. ARC will continue to provide analytic support that best facilitates insight into identified safety and security concerns and explore opportunities for improved protective measures.

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Signature

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Attachments

Attachment 1 – Audit, Risk and Compliance (ARC) Flexible Work Plan (2020)
Attachment 2 – Diagram: TTC Top Risks

Audit, Risk and Compliance Flexible Work Plan (2020)

Audit Services and Compliance Program

- **Risk-Based Assurance/Advisory Projects:** Provide independent assurance/advice as to the design and effectiveness of key control systems aimed to mitigate preventable risks, demonstrate managerial due diligence, and facilitate implementation of best practices in tandem with the TTC's business transformation initiatives and activities.
- **Compliance Audits:** Conduct independent reviews of select operating and capital contracts, projects and activities.
- **Commercial Management:** Collaborate with internal TTC stakeholders (CFO, Legal, Procurement and EC&E) on the improvement of key control processes and procedures.
- **Audit Follow-Up and Management Action Plans:** Review, verify and summarize management's assertions as to the status of outstanding action items put forth in response to past internal audit reports (2013-2019).
- **City Auditor General Recommendations:** Coordinate status updates, including populating the City of Toronto's Quarterly Status template.
- **Corporate Compliance and Annual Attestation Program:** Foster a compliance culture by establishing a formal Corporate Compliance Program that includes annual Attestation Certificates.
- **Corporate Ethics Program:** Support root cause analysis of select investigations and collaborate with TTC Investigative Services to support the development of a Corporate Ethics Program.
- **Special Requests:** Respond to and support the delivery of requests/inquiries put forth by the TTC Audit Risk Management Committee/Board members and Executive/Senior Management.
- **Fare Evasion:** Perform independent analyses and evaluation of implemented revenue protection measures and activities.

Risk Management

- **Top Corporate Risk Assessments:** Facilitate holistic risk identification, assessment and mitigation strategy development relative to corporate risk appetite and thresholds.
- **Emergency Management and Resiliency Program:** Lead corporate program to mitigate external threats and support the institutionalization of resiliency in decision-making.
- **City Auditor General Directives:** Support the transparent delivery of select requirements aimed at the TTC, including Cyber-Security enterprise risk assessment and Revenue Operations/Protection – Phases 1 and 2.
- **LRT Operations:** Oversee the LRT risk assessment efforts.
- **Safety/Security Risk Management:** Provide analytic support that best facilitates insight into identified safety/security concerns and explore opportunities for improved protective measures.

Diagram: TTC Top Risks

