



For Action with Confidential Attachment

Audit, Risk and Compliance Report: Flexible Work Plan (2022)

Date: December 2, 2021
To: TTC Audit and Risk Management Committee
From: Head of Audit, Risk and Compliance

Reason for Confidential Information

This report contains information related to the security of the property of the municipality or local board.

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. As the pandemic surged into 2021, the TTC continued to work in an unprecedented environment of uncertainty and constant change. And while the recent cybersecurity incident on October 29, 2021 did not impact the TTC's service delivery, it did disrupt the ability for normal day-to-day activities and functions to be performed by TTC employees.

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 enhance operational resiliency.

To add value and support management during these exceptionally challenging times, the Audit, Risk and Compliance Department (ARC) must remain agile and responsive to changes in the TTC's risk landscape. We must also continue to avail ourselves to management who are increasingly reaching out to ARC to address issues or identify potential concerns on matters of importance. By giving focus to heightened or emerging risks arising from the pandemic and other major business disruptions, 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 (2022) 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 (2022) and forward a copy to the TTC Board for information.
2. Receive the confidential information as set out in Confidential Attachment 1 – Audit, Risk and Compliance Report: Flexible Work Plan, noting that it is to remain confidential in its entirety as it involves the security of the property of the municipality or local board.

Financial Summary

The recommendations in this report have no incremental funding implications. The 2022 budget for the Audit, Risk and Compliance Department will be substantially consistent with the 2021 budget approved by the TTC Board on December 21, 2020 and City Council on February 18, 2021. 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 and recovery from the pandemic and major disruption events, and efforts to mitigate the potential equity impacts of such matters to customers and employees.

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://ttc-cdn.azureedge.net/-/media/Project/TTC/DevProto/Documents/Home/Public-Meetings/Board/2020/November_16/Reports/6_Appointment_of_a_TTC_Board_Member_to_the_ARMC.pdf?rev=dde038c181404468a77188ebc4e0e0a2&hash=32B92464C9E2891E53DD1FA8B1C88322

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Issue Background

While it is the responsibility of TTC business areas to formulate policies and enforce compliance to plans and strategies, ARC can support those directly accountable for ensuring such plans achieve its stated objectives by offering a different perspective and assistance in whatever capacity is feasible. In this respect, ARC will continue to provide independent oversight and assurance that new and/or revised strategies and processes to address the impact of heightened or emerging 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 risk-based 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 control improvements.

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 work 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 priorities, and provide clarity of accountability and responsibility amongst TTC staff for corrective actions.

While ARC was able to advance certain planned initiatives in 2021 despite interruptions due to the pandemic and other major events, receptiveness to management requests and the need to provide support via a variety of ad-hoc priority assignments continues to drive ARC's Flexible Work Plan for 2022.

ARC Planning Considerations

ARC takes into consideration a variety of risk factors to identify planned work, including similar criteria used by the City of Toronto Auditor General (AG) to conduct city-wide risk assessment and reflected in the AG's annual Work Plans. Specifically:

1. Cybersecurity and Information and Technology Exposure
2. Legal Exposure (including Environmental, Regulatory, Litigation)
3. Susceptibility to Fraud, Other Wrongdoing or Waste
4. Complexity and Significant Changes in Operations and Service Delivery
5. Alignment of Strategic/Business/Service Planning
6. Staffing Levels and Organization Competence
7. Financial Exposure (Materiality and Impact)

8. Contractual Exposure
9. Adequacy of Policies, Procedures, Processes and Controls
10. Public and Political Interest (including Adverse Publicity)

While ARC makes efforts to avoid duplication of the AG's planned TTC-related work, we may be requested to support TTC Management as they address and implement corrective actions in response to AG recommendations. In so doing, ARC engages TTC staff as they comply with AG requirements to update management responses using the AG's action tracking software (TeamMate) and ensures accountable Executives drive closure of outstanding recommendations. In 2022, ARC will continue to support the development of protocols aimed at addressing internal challenges and interdependencies that in the past have hindered timely implementation of AG-related action items.

The Head of ARC also solicits input from ARMC members and the TTC CEO to ensure areas considered to be of high importance are covered either directly by ARC's work plan or addressed by accountable management, and presented to the ARMC/Board as supported by ARC. As well, continuous monitoring by ARC of transit-specific risks and events that pose a threat or opportunity for the TTC ensures deliverables are relevant and value added.

ARC recognizes that COVID-19 and the resulting implementation of a mandatory vaccination policy, as well as the recent cybersecurity incident, required the TTC to re-examine its mission-critical capabilities and interdependencies, and effectively served as an opportunity to strengthen crisis response and business continuity plans. As such, ARC's planned activities for 2022 will give focus to reviewing mitigation activities, resiliency measures and emergency preparedness associated with heightened and/or emerging risks.

Adjusting to the post-pandemic world requires being open to transformation and applying effective change management principles. Assessing incident scenarios and making connections between customer and employee behaviour, and their reactions to uncertainty, is fundamental in mitigating the impact of disruptive events and rebuilding confidence amongst these groups as part of the TTC's work recovery and stabilization plans. Therefore, ARC will continue to actively monitor the TTC's response and recovery plans related to COVID-19 and other major business disruptions, as well as support the development of strategies that focus on customer and employee safety, employee engagement, performance management, and digital transformation and technology investment decision making.

Successfully navigating through major disruption and uncertainty requires a strategy that focuses on integrating risk management and continuous control improvements. Given the inherent volatility, complexity and ambiguity of public transit and the TTC's working environment, it is ARC's intent to support informed risk decision-making by promoting the integration of corporate strategy development and execution with risk management to best position the TTC to consistently create and enhance sustainable value.

As such, ARC will make efforts to assess the current state of integration between the TTC's corporate strategy and risk management through facilitated discussion and education sessions, and identify opportunities to successfully execute strategies by adopting one coherent and cohesive framework. These critical conversations will require collaboration amongst various stakeholders and understanding of enterprise risk/resiliency management acumen, including corporate risk objectives and risk appetite, and use of technology to measure and monitor actionable risk mitigation.

Potential Areas of ARC Focus

Taking into account a variety of factors, including noted risks, results of past ARC work, status of AG recommendation implementation and impacts of recent events, ARC has identified topics of particular interest to guide and prioritize 2022 planned work initiatives. While this list is not exhaustive and completion of noted items is contingent upon ARC resources and availability of TTC Executive/Senior Management to effectively work with ARC staff, it does signal areas where focus and priority will be given. TTC staff awareness of ARC's potential projects and lines of inquiry may then prompt stakeholder self-assessments and proactive sharing of information with ARC prior to any formal initiation of independent work.

As further expanded upon in Appendix 1, potential areas of ARC focus in 2022 include the following:

- Cybersecurity Incident (October 29, 2021)
- IT Security and Incident Management
- Fraud/Misconduct, Waste and Ethics Culture
- Executive Compliance Certification
- Digital Transformation and Innovation
- Financial Accounting/Reporting Developments
- Enterprise Risk and Resiliency Management
- Follow-Up Activities and Management Action Item Implementation

Contact

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Signature

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Attachments

Attachment 1 – Potential Areas of ARC Focus (2022)

Confidential Attachment 1 – Audit, Risk and Compliance Report: Flexible Work Plan

Potential Areas of ARC Focus (2022)
Assurance/Advisory Projects and Accountability Initiatives

- *Cybersecurity Incident (Oct. 29/2021)*: Review root cause analysis and investigation of recent cybersecurity incident on the TTC, and support identification of lessons learned and implementation of corrective action items. Consider actual data breach and cybersecurity insurance claim management, as well as management of key contracts for related professional services and identity theft insurance.
- *IT Security and Incident Management*: Review protection, detection, response and recovery plans/protocols. Consider technical controls (e.g., privileged access management, penetration/resiliency testing, cloud security, and patch and vulnerability management) and non-technical controls (e.g., employee awareness campaigns/targeted user phishing testing, simulation and tabletop exercises/after-action reports, performance and recovery metrics, governance, and exposure reporting (e.g., dashboards)).
- *Fraud/Misconduct, Waste and Ethics Culture*: Review the identification, assessment, monitoring and reporting of wrongdoing and/or conflicts of interest in accordance with TTC policies, and City By-laws; and continue to support root cause analysis of select investigations and collaborate with TTC Investigative Services regarding their development of a Corporate Ethics Program. Consider the impact of remote/flexible work arrangements due to the pandemic and other major disruptive events on potential increased exposure for fraud/error/waste, as well as the potential impact of return-to-office requirements and/or adoption of a hybrid working model on employee behaviours, motivation and ability to comply with corporate rules and system of internal controls.
- *Executive Compliance Certification*: Identify and assess adequacy of policies and procedures attested to by TTC Executives in their inaugural certifications as being critical to ensuring their compliance with key legislative requirements; and apply lessons learned to improve the certification sign-off process accordingly.
- *Digital Transformation and Innovation*: Review digital transformation strategies, technology investment criteria and decision-making processes that demonstrate TTC Executive oversight and due diligence for business modernization and the advancement of innovative changes (e.g., in the way the TTC delivers services, enhances customer experience, streamlines operations and drives process efficiencies). May initially consider data protection controls (e.g., employee personal information, including vaccination status).

- *Financial Accounting/Reporting Developments:* Review the TTC's financial and operational plans to ensure future compliance with the new public sector accounting standard, Asset Retirement Obligations (ARO), effective for the TTC's fiscal year ending December 31, 2023. The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use; and will result in retirement costs being recognized as an integral cost of owning and operating tangible capital assets. Compliance will require extensive collaboration, in particular between Finance, Operations and Legal, and review of legal documents, government directives and legislation to identify AROs and obtain information to estimate the value of potential AROs. Inquiries and potential effects of this new reporting requirement will need to be reviewed in conjunction with actions being taken by the TTC to prepare an asset management policy and plans for all infrastructure in accordance with Ontario Reg. 588/17 Asset Management Planning for Municipal Infrastructure, arising from the Infrastructure for Jobs and Prosperity Act, 2015.
- *Enterprise Risk and Resiliency Management:* Update and align the list of 'TTC Top Risks' identified prior to the pandemic with current TTC Executive/Board priorities, overlaying environment, social and governance (ESG) initiatives with other corporate and business transformation objectives, where feasible. Consider strategic planning, execution and success measures for critical initiatives to ensure corporate readiness for the expansion of the TTC's e-Bus Program, the implementation of the TTC's 10-Point Diversity and Inclusion Action Plan, and the operation of the Eglinton Crosstown LRT (Line 5) in accordance with new business model agreements.
- *Follow-Up Activities and Management Action Plan Implementation:* Review select ARC past observations and confirm actions taken in response by Management to mitigate highlighted risks, improve internal controls and/or enhance operational resiliency and emergency preparedness. ARC follow-up activities will take into consideration ARMC/Board member status inquiries, including: Fare Evasion dashboard development, flood risk and other external hazard mitigation/crisis response plans, and capital/operating project management, contract management and related performance monitoring in anticipation of ARC supporting the TTC's newly formed capital project assurance function.