



For Action

Audit, Risk and Compliance (ARC) – 2023 Audit Plan

Date: February 13, 2023

To: TTC Audit and Risk Management Committee

From: Head of Audit, Risk and Compliance

Summary

ARC Audit Plan

The Audit, Risk and Compliance (ARC) Audit Plan is a plan of reviews that ARC intends to perform. Focusing ARC resources on the right areas optimizes value to the TTC.

ARC takes into consideration a variety of inputs to identify planned work for the year. These include the following:

- Interaction and discussion with Executive Management and select Senior Management;
- Interaction and discussion with the External Auditor;
- Interaction and discussion with the Audit and Risk Management Committee (ARMC) Chair; and
- External literature and news events, including professional bodies and organizations.

The ARC Audit Plan for 2023, consisting of the following projects, is being submitted for review and approval by the ARMC:

- 1) Transit Security
- 2) Business Continuity
- 3) Operator Hiring, Onboarding and Retention
- 4) Transit Control
- 5) Subway Car Maintenance Program
- 6) Capital Expenditure Projects

The ARC Audit Plan is shared with the Auditor General to help minimize any overlap in activities.

These projects are in addition to any advisory or special requests, facilitating the build of the Enterprise Risk Management program and Executive Compliance Certificate activities.

ARC Audit Charter

The ARC Audit Charter that denotes how ARC operates with respect to assurance reviews is also submitted for ARMC approval.

Recommendations

It is recommended that the Audit and Risk Management Committee:

1. Approve the ARC – 2023 Audit Plan, attached as Attachment 1 to this report.
2. Approve the ARC Audit Charter, attached as Attachment 2 to this report.

Financial Summary

The implementation of the ARC Audit Plan has no funding implications beyond the costs of the Audit, Risk and Compliance Department that were included in the 2023 Operating Budget and approved by the TTC Board on January 9, 2023 and which will be considered by City Council on February 14, 2023.

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

Equity/Accessibility Matters

The independent assurance and advisory work of the ARC Department supports TTC leadership efforts to continuously improve controls and integrate risk management into processes that drive achievement of corporate goals and objectives including accessibility, diversity and inclusion.

Decision History

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 annual audit plan.

Issue Background

While it is the responsibility of TTC business areas to formulate policies and enforce compliance with plans and strategies, ARC can support those directly accountable for ensuring such plans achieve its stated objectives by providing management with independent assurance or function in an advisory capacity.

Comments

Overview

ARC is committed to working collaboratively with TTC Leadership to provide independent assurance reviews, advisory services and special requests.

ARC has an integrated team of professionals with diverse skills and experience who currently perform these activities. However, ARC will explore the use of a co-sourcing resource model in 2023 to ensure greater flexibility in performing projects, both in terms of addressing current capacity issues and meeting subject matter expertise requirements.

Assurance reviews can cover various organizational areas, functions and/or initiatives. These reviews are risk based, where the scope, objectives, nature and extent of testing is customized accordingly. These reviews are subjected to annual planning.

Advisory and special requests are typically prompted by management for ARC to advise an area of the business based on a prescribed scope. Advisory and special requests come up throughout the year and are assessed on a number of factors prior to being accepted. Some of these factors could include items such as it being a future assurance review consideration, skillset and alignment with corporate objectives.

The COVID-19 pandemic and its impact on daily activities unexpectedly altered the risk landscape in 2020 and subsequently impacted several years. Hence, to be able to add value and support management, ARC's focus tended towards more advisory and special requests based on management need. As we slowly work our way out of the pandemic, there is a need to once again balance the completion of independent assurance reviews with the performance of advisory work and response to special requests.

ARC Planning Considerations

The Head of ARC solicits input from Executive Management, select Senior Management, the external auditor and the ARMC Chair to ensure areas considered to be of high importance are covered directly as part of the Audit Plan or the broader activities supported by ARC.

Also, knowledge gained by completing various assurance and advisory projects, as well as staying abreast of external literature, news events from professional bodies and organizations is considered by ARC for purposes of better understanding current and emerging risk areas and identifying potential areas for review.

The above sources provide a list of potential review projects. These are then considered, in conjunction with other ARC activities that need to be performed and ARC resource capacity constraints, to determine the amount and type of reviews to be conducted.

The proposed assurance reviews to be approved by the ARMC are as follows:

- 1) Transit Security
- 2) Business Continuity
- 3) Operator Hiring, Onboarding and Retention
- 4) Transit Control
- 5) Subway Car Maintenance Program
- 6) Capital Expenditure Projects

Flexibility exists to add, modify, remove or postpone assurance reviews, as appropriate, based on business circumstances. All changes will be reported to the ARMC for approval.

ARC Audit Charter

The ARC Audit Charter is a document that captures how ARC audit activities will operate within the organization. The ARC Audit Charter is reviewed and approved annually by the CEO and the ARMC. A charter has been provided to the ARMC for review and approval.

Contact

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Signature



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Head – Audit, Risk and Compliance

Attachments

Attachment 1 – ARC – 2023 Audit Plan

Attachment 2 – ARC - Audit Charter

ARC – Proposed 2023 Audit Plan – Assurance Reviews

#	Project Name	Description	Rationale
1	Transit Security	A review of process and controls over the activities of the Transit Security group and related activities to maintain safety while on the transit system.	High on radar. Customer and reputational impact.
2	Business Continuity	A review of governance, process and controls over the business continuity pilot program.	High on radar. Important to put in place.
3	Operator Hiring, Onboarding and Retention	A review of structure, governance, process and controls over hiring, onboarding and retention of Operators.	Core to business. Large portion of employee base.
4	Transit Control	A review of governance, process and controls over Transit Control.	Critical operational area.
5	Subway Car Maintenance Program	A review of governance, process and controls over subway car maintenance.	Critical operational area. Failure can have reputational and safety impact.
6	Capital Expenditure Projects	A review of the portfolio governance, process and controls for capital expenditure projects.	Significant expenditure.

Toronto Transit Commission

ARC Audit Charter

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Purpose

The purpose of Toronto Transit Commission's (TTC) Audit, Risk and Compliance (ARC) function is to provide independent, objective assurance and consulting services designed to add value and improve the TTC's operations.

Mission

The mission of ARC is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. ARC helps the TTC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

Standards for the Professional Practice of Internal Auditing

ARC will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Head of Audit, Risk and Compliance (ARC) will report periodically to the Chief Executive Officer (CEO) and the Audit and Risk Management Committee (ARMC), a Committee of the TTC Board, regarding ARCs conformance to the Code of Ethics and the Standards.

Authority

The Head of ARC will report functionally to the ARMC and administratively (i.e. day-to-day operations) to the CEO.

To establish, maintain and assure that the TTC's ARC function has sufficient authority to fulfill its duties, the ARMC will provide oversight in accordance with its terms of reference.

The Head of ARC will have unrestricted access to communicate and interact directly with the ARMC.

The ARMC authorizes ARC to:

- Have full, free and unrestricted access to all functions, records, property and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary TTC personnel as well as other specialized services from within or outside the TTC, in order to complete the engagement.

Independence and Objectivity

The Head of ARC will ensure that ARC remains free from all conditions that threaten the ability of its auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing and report content. If the

Head of ARC determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

ARC auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

ARC auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, ARC auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the TTC or its affiliates.
- Initiating or approving transactions external to ARC.
- Directing the activities of any TTC employee not employed by ARC, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Head of ARC has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. ARC auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Head of ARC will confirm to the ARMC, at least annually, the organizational independence of ARC.

The Head of ARC will disclose to the ARMC any interference and related implications in determining the scope of internal auditing, performing work and/or communicating results.

Scope of ARC Activities

The scope of ARCs activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the ARMC, management, and outside parties on the adequacy and effectiveness of the governance, risk management and control processes of the TTC. ARC assessments include evaluating whether:

- Risks relating to the achievement of the TTC's strategic objectives are appropriately identified and managed.
- The actions of the TTC's officers, directors, employees and contractors are in compliance with:
 - City of Toronto policies, procedures, and By-laws, as applicable; and

- TTC policies, procedures and applicable laws, regulations and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws and regulations that could significantly impact the TTC.
- Information and the means used to identify, measure, analyze, classify and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently and protected adequately.

The Head of ARC will report periodically to the ARMC and the CEO regarding:

- ARC function's purpose, authority and responsibility.
- ARC function's plan and performance relative to its plan.
- ARC function's conformance with the IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the ARMC.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the TTC.

The Head of ARC also co-ordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers, as needed. ARC may perform advisory activities, the nature and scope of which will be agreed with the client, provided ARC does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Head of ARC has the responsibility to:

- Submit, at least annually, to the CEO, a risk-based ARC plan for review and approval.
- Communicate to Executive management and the ARMC the impact of resource limitations on the ARC plan.
- Review and adjust the ARC plan, as necessary, in response to changes in the TTC's business, risks, operations, programs, systems and controls.
- Communicate to Executive management and the ARMC any significant interim changes to the ARC plan.
- Ensure each engagement of the ARC plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.





- Follow-up on engagement findings and corrective actions, and report periodically to Executive management and the ARMC any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality and competency are applied and upheld.
- Ensure ARC collectively possesses or obtains the knowledge, skills and other competencies needed to meet the requirements of the ARC charter.
- Ensure trends and emerging issues that could impact the TTC are considered and communicated to Executive management and the ARMC, as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide ARC.
- Ensure adherence to the TTC’s relevant policies and procedures, unless such policies and procedures conflict with the ARC charter. Any such conflicts will be resolved or otherwise communicated to senior management and the ARMC.
- Ensure conformance of the ARC function with the Standards.

Quality Assurance and Improvement Program

ARC will maintain a quality assurance and improvement program that covers all aspects of the ARC function. The program will include an evaluation of the ARC function’s conformance with the Standards and an evaluation of whether internal auditors apply the IIA’s Code of Ethics. The program will also assess the efficiency and effectiveness of the ARC function and identify opportunities for improvement.

The Head of ARC will communicate to the CEO and the ARMC on the ARC function’s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the TTC. ARC will support the ARMC in executing this activity.

Approval

Name	Title	Signature	Date
Prepared by:			
Chris Leach	Senior Director, ARC		February 1, 2023
Reviewed by:			
Viraj Chandrakanthan	Head, ARC		February 1, 2023
Approved by:			
Viraj Chandrakanthan	Head, ARC		February 1, 2023
Richard J. Leary	CEO		February 2, 2023

Revision History

Version #	Date	Author	Revision Details
1.0	31 January 2023	Chris Leach	New Charter