



**For Action
with Confidential Attachment**

Audit, Risk and Compliance – Audit Plan Status Update

Date: September 11, 2024
To: 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 city or local board.

Summary

The Audit, Risk and Compliance Department (ARC) 2024 Audit Plan was presented and approved by the Audit and Risk Management Committee (ARMC) on November 14, 2023. The list of audit assurance projects identified for completion in 2024 are performed in addition to advisory or special requests subsequently put forward for ARC's consideration.

As of Q3 2024, ARC has completed all six projects initiated in 2023 as identified in the 2023 Audit Plan, originally approved by the ARMC on February 13, 2023 and subsequently updated and approved on June 1, 2023. ARC has also completed one 2024 project, and is conducting fieldwork for two 2024 projects and initiated planning for two others.

This report provides information with respect to ARC's progress on 2023 and 2024 Audit Plan items as well as details regarding the two planned assurance reviews completed in Q3 2024.

Recommendations

It is recommended that the Audit and Risk Management Committee:

1. Receive this report for information; and
2. Receive the Confidential Attachment and authorize that the information contained in the Confidential Attachment remains confidential as it relates to the security of the property of the city or local board.

Financial Summary

The implementation of the 2024 Audit Plan has no funding implications beyond the costs of the ARC department that were included in the 2024 Operating Budget approved by the TTC Board on December 20, 2023, and by the City Council on February 14, 2024.

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

Decision History

At its meeting on February 13, 2023, the Audit and Risk Management Committee approved the Audit, Risk and Compliance 2023 Audit Plan.

[Audit, Risk and Compliance \(ARC\) – 2023 Audit Plan](#)

The 2023 Audit Plan was subsequently updated by staff and approved by the Audit and Risk Management Committee on June 1, 2023.

[Audit, Risk and Compliance – Work Plan Status Update](#)

The 2024 Audit Plan was presented and approved by the Audit and Risk Management Committee on November 14, 2023.

[Audit, Risk and Compliance \(ARC\) – 2024 Audit Plan](#)

Issue Background

The Audit and Risk Management Committee assists the TTC Board in fulfilling its oversight responsibilities in several areas including: audits, a system of internal control, compliance with laws and regulations, and enterprise risk management activities.

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 their stated objectives by providing management with independent assurance or function in an advisory capacity.

Comments

Planned assurance projects are performed in accordance with ARC's annual Work Plan as approved by the ARMC. Each project is completed in three phases – Planning, Fieldwork and Reporting. Once management responses and corrective action plans to address ARC recommendations have been prepared, the full report is formally issued to the TTC Chief Executive Officer, Deputy Chief Executive Officer and all applicable internal stakeholders, and the project is considered to have been completed.

Status Update – 2023 Planned Audit Projects

ARC staff has issued a final report summarizing key observations, recommendations and agreed-upon management action plans for all six projects initiated in 2023. The final review focused on emergency preparedness and business continuity processes, and the results are included as part of this update.

Status Update – 2024 Planned Audit Projects

#	Project Name	Status
1	Actuarial Reserves	Completed
2	IT General Controls	Fieldwork
3	Elevator Maintenance	Fieldwork
4	Station Passenger Intercoms	Planning
5	Hiring, Onboarding and Retention of Non-Operators	Not Yet Started
6	Capital Expenditures – Projects (Portfolio)	Planning

ARC has completed one 2024 audit project (review of TTC Actuarial Reserves), initiated fieldwork for two 2024 audit projects (review of IT General Controls and Elevator Maintenance) and planning for two other 2024 audit projects (review of Station Passenger Intercoms and Capital Expenditures).

Finally, ARC continues to support and respond to special requests from TTC Executives and Senior Management, while balancing ARC staff capacity and value to the organization. Results are shared with applicable management, and ARC facilitates necessary discussions among all key stakeholders to support appropriate actions in response to critical observations and insights.

Completed Assurance Reviews Results – ARC High-Level Commentary

Background details and extracts from ARC's issued reports for two assurance reviews completed since our last quarterly update are provided in Confidential Attachment 1. For each of these Assurance Reviews, ARC offers the following supplementary comments:

ARC Review (issued June 2024) – Emergency Preparedness and Business Continuity Processes

Rationale for Audit: Service disruption is a significant enterprise risk and the resilience of the TTC's operations is critically dependent on effective emergency preparation and

response plans being in place. To better understand key plans, programs, and processes related to emergency preparedness and to evaluate effectiveness and efficiency of controls within the TTC's business continuity program, ARC conducted a corporate high-level assessment of current TTC emergency management (EM) and business continuity (BC) structures and processes.

Overall Key ARC Observations/Recommendations: In 2022, the Safety and Environment Department developed corporate frameworks for emergency management and business continuity based on established Corporate Standards. The corporate emergency management and business continuity programs at the TTC are at various stages of development, and overall improvement is needed to better enable the organization to prepare, navigate, and recover from major disruptive events. Attention is especially required to enhance and implement an emergency management program in accordance with the Emergency Management Corporate Standard. Specifically:

- Emergency preparedness policies and processes should be enhanced and embedded into operational practices through designated and documented responsibilities, procedures, and ongoing training. In the long run, the TTC would benefit from integrating processes across departments to enhance overall organizational resilience.
- The current emergency management program includes core elements that enable the TTC to manage and co-ordinate response and recovery from disruptions. In recent years, Emergency Management focused efforts on responding to management requests, such as conducting an emergency evacuation exercise and drafting a corporate emergency exercise training plan. However, efforts to further build and implement the emergency management corporate framework is required to advance the corporate program. For example, work is required to establish a process for preparing, reviewing and communicating the results of: corporate Hazard Identification and Risk Assessments; a corporate exercise program; and corporate and business unit level emergency response plans that include training considerations. A Roadmap that outlines the target timelines to deliver these and other critical EM activities would also enhance Management's ability to monitor progress and achievement of broader organizational emergency preparedness and resiliency goals and objectives.

The business continuity program is still being developed, and evidence of a good foundation being in place to deliver on its goals and objectives was noted (i.e. program deliverables have been identified and guidelines have been established). Specifically, a multi-year plan to implement the full requirements of the program by 2027 has been established, a successful pilot to support business continuity plan preparation was completed in 2023, and work performed by the Business Continuity Team continues to inform ongoing program implementation and enhancement. Once all of the systems, processes, and people are in place to navigate, respond and recover from disruptions, the success of the business continuity program can be assessed.

Management Action Plans: It is ARC's understanding that management intends to streamline emergency preparedness and business continuity processes based on industry standards and best practices. In 2025, the Emergency Management Team will develop a project plan that outlines specific deliverables (i.e. Hazard Identification and Risk Assessment processes, training strategies, exercise plans, etc.), timelines and required resources necessary to move key emergency preparedness initiatives forward. A review and update of both the Emergency Operations Plan (EOP) and Emergency Management Corporate Standard is also to be completed. Management considers the successful completion of the project plan to be dependent upon the adequacy of resources dedicated to this matter and the ability to manage unforeseen and competing priorities.

Emergency Management also plans to provide additional training, templates, guidance and advice to TTC business units as to their roles and responsibilities in the EOP, and for developing appropriate business unit emergency response plans. This will include the creation of an Emergency Procedures Committee (EPC) and a Resilience Working Group (RWG). The purpose of the EPC will be to review emergency policy, plans, procedures and protocols, and to establish training curriculum as appropriate. It will also comprise of key TTC operational stakeholders and external agencies. The RWG will co-ordinate planning and preparedness activities across TTC departments.

ARC Review (issued July 2024) – Actuarial Reserves – Claims Review

Rationale for Audit: The total of the TTC's unsettled accident claims liability as at December 31, 2023 was \$141 million, and total accident claim expenses were \$16 million. Given ARC had not reviewed related processes in recent years, the high dollar value of the liability and the measurement uncertainty that could impact budgeted cash flows, ARC included a review of the claims reserving process in the 2024 ARC work plan.

Overall Key ARC Observations/Recommendations: The results of our review indicate that internal controls over the Actuarial Reserving – Claims process are generally satisfactory and being followed. Specifically:

- Management oversees and supervises the reserving process through daily controls over the setup and initiation of claims and review of the daily transmittal log of payments.
- Management uses monthly checks over the reserves balances to ensure reasonability.
- Quarterly and annual reconciliations of data ensure completeness of the data sent to the Appointed Actuary (AA).
- TTC Insurance Company Limited (TTCICL) appoints the AA using a competitive process that evaluates qualitative factors of corporate qualifications, work methodology, and approach.

However, ARC observed control gaps in some areas where improvements will increase overall efficiencies and quality of the claims reserving process. For example, prior to our review, Management acknowledged the need for comprehensive written policies and

procedures to guide the reserving process. Management is now working on drafting policies and procedures to support the established processes and practices within the section. Other areas for improvement noted by ARC include improving controls to adjust claim reserves and close files on a timely basis, and to strengthen access controls in the claims management application. Also, ARC recommends that Management use the opportunity for a formal presentation of actuarial results by the AA to be given, and to have all internal stakeholders involved in the process attend to ensure broader understanding.

Management Action Plans: Management agrees with the observations and recommendations in the internal audit review report, and intends to complete a number of corrective actions. For example, Management will finalize a Claims Handling Guidebook, which will include a comprehensive reserving procedure. The Guidebook will outline the purpose, scope and application of procedures, including roles and responsibilities, applicable regulation(s), and requirements for periodic review and updates of the Guidebook. It will also address the processes to ensure timely updates to claims reserves, where necessary. In addition, as part of the implementation of the new Claims Management System, management will enhance access and security controls.

Auditor General Recommendations – Proposed ARC “Sign-Off” Process

In response to the ARMC’s request for the ARC Department to play a role that increases the acceptance rate of Management’s Fully Implemented (FI) submissions by the City of Toronto’s Auditor General (AG), and reduce the overall number of outstanding recommendations, ARC senior staff met with the AG to discuss and establish ARC’s going forward recommendation “sign-off” process. Specifically:

- For past AG audits, ARC will complete a preliminary assessment of the adequacy and sufficiency of supporting evidence put forth for the AG’s review when an accountable Chief contends that an applicable AG recommendation has been fully implemented. If required, ARC will request and facilitate a discussion between the AG and appropriate TTC Management to gain clarity of the AG’s expectations and the expected timing of actual AG verification work.
- For new AG audits, as part of the AG’s report vetting process, ARC will be provided with draft audit reports along with relevant TTC Management. ARC will ensure Management fully understands the intent of all the AG’s observations and recommendations, and facilitate discussion, if necessary. ARC will also support Management’s effort to provide responses to the AG within requested turnaround timelines that are supported by practical action plans with realistic timelines.

Details of ARC’s proposed going forward approach are expanded upon in Attachment 2. Work is underway in accordance with this defined process on a pilot basis, with particular attention on supporting the efforts of the Chief Transportation and Vehicles Officer to bring clarity and closure to the six remaining recommendations for which he is responsible and were identified as high-priority items in the AG’s Follow-Up report issued in June 2024.

Status of Auditor General Recommendations – Enhanced Reporting

The AG issued her most recent annual follow-up report and presented the results to TTC's ARMC and Board in June 2024. ARC has subsequently worked with applicable management to ensure the AG's recommendation tracking tool, TeamMate, is updated and reflects the actual outcome of the AG's completed work to date.

Since the inception of TeamMate, 82 TTC-specific recommendations have been fully implemented and another 10 have been deemed no longer applicable as confirmed by the AG. This leaves 100 recommendations from a total of 17 AG reports to be addressed. Of these 100 recommendations, Management has tentatively identified 33 as being fully implemented based on their understanding and interpretation of the AG's original observations and recommendations. Essentially, all of these recommendations have been deemed as high priority by the AG based on their criteria of five years or more having lapsed since their original reporting. Potential cost savings may be realized upon implementation and/or associated health/safety issues have been highlighted.

To date, ARC staff has initiated discussion with accountable Management to challenge their 'fully implemented status position' and to assess the quality of submitted supporting documentation for 16 of these 33 recommendations. This work requires ARC staff to extensively review all original reports issued by the AG as well as all additional expectations outlined by AG staff in their subsequent follow-up reports to secure a sound understanding of the observations and assess the potential for closure of the given items by the AG. This work is particularly challenging when there has been turnover both within the TTC and the AG's Office.

ARC will continue to work with relevant TTC Management to address outstanding action items deemed high priority by the AG as well as to provide greater insight as to work completed and remaining via dashboard reporting of all management action plans still in progress. This requires foundational work to first be completed to define and apply a common understanding among TTC Management of assessed 'in-progress percentage of completion' thresholds with input from the AG.

Contact

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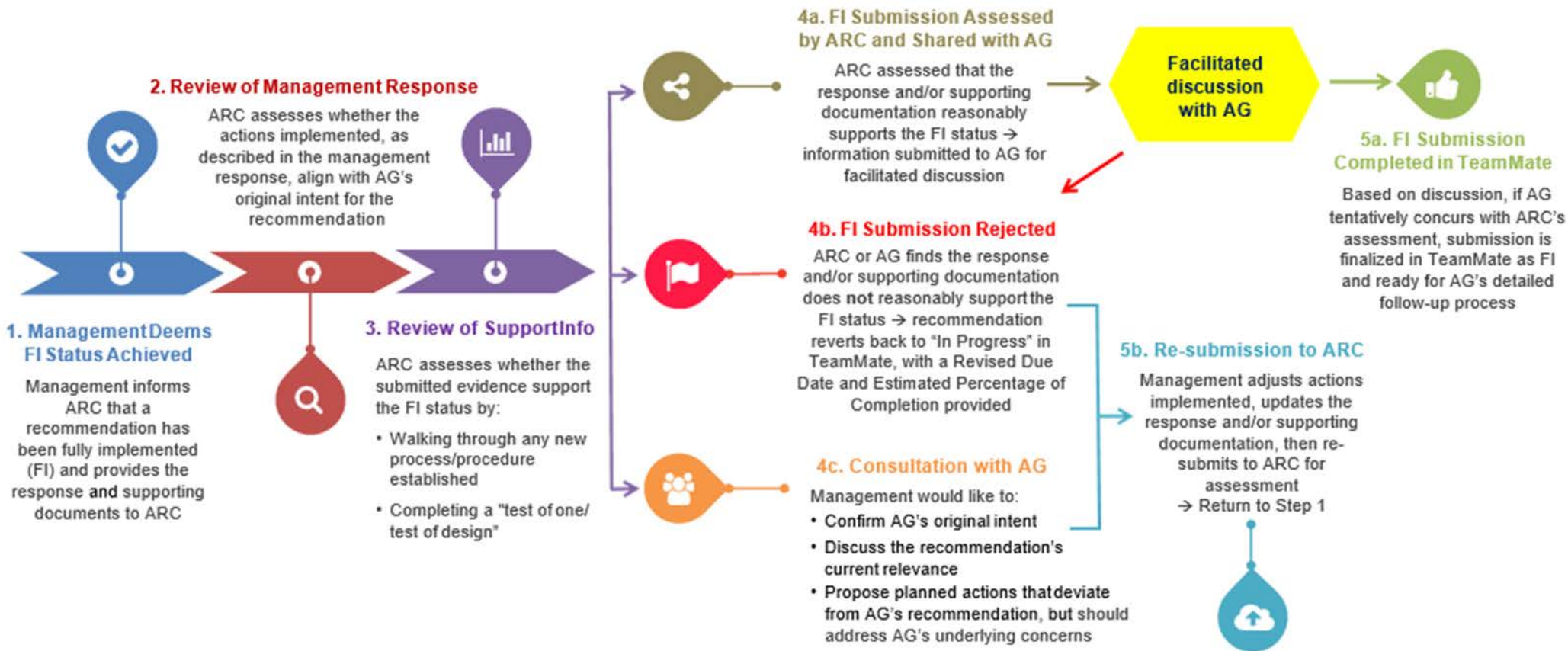
Attachments

Confidential Attachment 1 - ARC – Extracts of Issued ARC Reports

Attachment 2 – AG Recommendations – Proposed ARC “Sign-Off” Process

AG Recommendations – Proposed ARC “Sign-Off” Process

Proposed ARC Facilitation – Fully Implemented Recommendations Pending AG’s Review

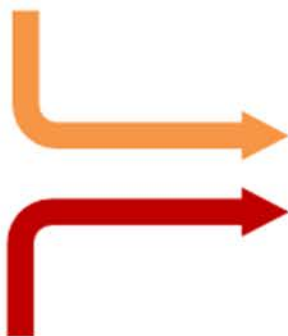


AG Recommendations – Proposed ARC “Sign-Off” Process

Proposed ARC Facilitation – In Progress and New AG Recommendations

In Progress Recommendations from Issued AG Reports

Recommendations deemed by Management to be still “In Progress” (not fully implemented)



Proposed Recommendations from Draft AG Report

Recommendations from any draft report shared by AG for vetting with Management



Understand AG’s Intent

Ensure Management and ARC have aligned understanding of AG’s original intent and observations underlying a recommendation



Facilitated Discussions with AG’s Office

ARC could facilitate discussions with AG’s Office to:

- Confirm Management and ARC’s understanding of AG’s original intent and/or observations
- Obtain AG’s feedback on Management’s planned actions
- Discuss potential actions that deviate from AG’s recommendation while addressing AG’s underlying concerns
- Escalate discussions/queries up to the AG, where necessary



Understand Management’s Implementation Plans, Progress and Timelines

For **in-progress** recommendations:

- Actions taken to date
- Other actions planned
- Projected completion date
- Percentage of completion
- Challenges and causes of delay



Reporting to the ARMC

Update the TTC Audit Risk and Management Committee (ARMC) periodically on Management’s progress to implement AG’s recommendations

For **proposed** recommendations:

- If a recommendation is achievable
- Anticipated challenges
- Any immediate feedback for the AG
- Implementation timeline
- Accountable Chief/Owner identified