MEETING DATE June 12, 2002

SUBJECT Staff Response to Commission Inquiry – Current Value Auditing Policies and Practices

At the Special Commission Meeting of April 25, 2002, Chair Ashton moved that the CGM report on the current value auditing policies and practices, and the work program of the TTC Auditor for 2002 and 2003; and further that the CAO and the CFO of the City of Toronto be advised of the schedule.

INTRODUCTION

Internal audits at the TTC are categorized as one of the following: Comprehensive, Capital, Information Technology, or Investigation. Comprehensive Auditing is known as value-for-money auditing in other jurisdictions, and comprises, for the most part, value auditing policies and practices. Seventy percent of TTC's available audit resources are spent on Comprehensive Audits.

TTC's Comprehensive Auditing standards and processes have been developed using the Federal and Provincial governments' value-for-money philosophy, and Auditing Standards and Requirements established by the Institute of Internal Auditors (IIA) and the Canadian Institute of Chartered Accountants (CICA). TTC Internal Audit follows a multi-disciplinary approach to comprehensive auditing, and staff responsible for conducting and/or participating in audits possess the necessary body of knowledge and experience to complete these projects.

COMPREHENSIVE AUDITING

Definition

A Comprehensive Audit is an examination that provides an objective and constructive assessment of the extent to which financial, human, and physical resources are managed with due regard to economy, efficiency, and effectiveness, and accountability relationships being reasonably served. Both financial and management controls, including information systems and reporting practices, are examined and improvements are recommended where appropriate.

Scope

Breadth of scope is the characteristic that most clearly distinguishes Comprehensive Auditing from other types of auditing. A Comprehensive Audit entails a review of the controls, processes, and systems used to manage the organization's resources: money, people, physical assets, and information. This means that the audit may embrace a variety of areas, including:

- financial planning, budgeting, accounting, and financial reporting;

- human resource planning, development, appraisal, and utilization;

- planning, acquisition, and utilization of property, equipment, plant, inventories, and other assets; and

- development and production of information necessary to plan, operate, and control an organization and to fulfil accountability obligations.

Comprehensive Auditing does not confine itself to examining the past. It uses its analysis of existing controls, information systems, and reporting practices to recommend improvements designed to result in greater economy, efficiency, and effectiveness.

Approach

Comprehensive Auditing implies a conscious and systematic process at the beginning of the audit to understand the entire organization - including its structure, key activities, and broad control needs, and the type of information that legislators, members of the governing bodies, and management have available to them. This comprehensive approach is the key to focusing audit effort on the most critical areas and issues.

Comprehensive Auditing does not imply a wall-to-wall examination of all activities, controls, and systems. Such broad audits would be costly, disruptive, difficult to control, and of doubtful effectiveness. Nor does the term "comprehensive" imply that an organization's entire structure of programs and units need be audited simultaneously. Instead, the audit can be conducted on a selective, piece-by-piece basis over a designated period of time.

Audit Planning

The major activities, systems, procedures and controls of an organization are usually examined over the course of several audits, creating an audit cycle within an organization. The actual length of the audit cycle is determined by such factors as the size and complexity of the organization, the resources devoted to audit, the amount of change the organization is experiencing, and the extent to which key systems can be relied on to ensure continuing regard for value for money.

At the planning stage, a comprehensive audit identifies all the major activities, controls, and systems of the organization and selects from among them those that are essential to

the judicious use of the organization's resources. These then are the subject of the comprehensive audit. In this regard, the process of developing Internal Audit's Long Range Plan may be considered the start of the TTC comprehensive audit cycle.

The TTC comprehensive audit universe is refined into potential projects, audit entities, which are then analyzed and matched with planned personnel resources. This planning process consists of two main elements: risk analysis and resource allocation.

The risk analysis process involves three steps:

1. Key quantitative and qualitative risk factors are identified and described;
2. Inputs from a variety of sources are used to assign a risk value to each risk factor for each entity within the audit universe; and
3. A relative weight for each risk factor is applied to the risk values to develop an overall risk ranking of the audit entities.

Input is provided by Audit Project Managers, the Chief Auditor, General Managers and the Chief General Manager. Further detailed risk analysis may also be required. For example, additional specific risk analysis is performed to address complex information technology issues.

The resource allocation process takes into consideration administrative duties, historical data, override criteria, and planned resources. Finally, a five-year plan of audit projects is produced as the Long Range Plan. This plan becomes part of the Internal Audit budget documentation and reporting process, and is presented to the Chief General Manager/Commission for approval and information.

For the current Long Rang Plan showing planned Comprehensive Audits, see Appendix "A".

Work Program

The TTC annual comprehensive work program is derived from the Long Range Plan. During the budget and planning process, minor adjustments may be made to meet environmental conditions and management requests. The revised annual work program then becomes a key performance measure for the Internal Audit Department.

The following is the budgeted 2002 and proposed 2003 Annual Comprehensive Work Programs:

2002

1. Subway – Signals/Electrical/Communications Department: Signals/Signals Engineering
2. Wheel-Trans Operations: Customer Service & Administration
3. Finance: Revenue Operations
4. Human Resources Department: Budgets & Office Administration/Employee Benefits, Policy & Administration/Occupational Health & Claims Management
5. Marketing & Public Affairs Department: Marketing/Public Affairs
6. Subway – Plant Maintenance Department: Station/Tunnel/Building Equipment
7. Subway – Signals/Electrical/Communications Department: Communications/Communications Engineering/Special Projects
8. Engineering Department: Project Management
9. General Secretary's Office
10. Materials & Procurement Department: Project Procurement

2003

1. Human Resources Department: Compensation and Organizational Design/Placement Services/Planning and Development
2. Subway Rail Cars and Shops Department: Wilson/Greenwood/McCowan/ Carhouses/Standard Practices & Procedures/Equipment Control Desk (ECD) – Subway Line Mechanics/Maintenance Engineering/T1 – Project – Vehicle Engineering
3. Human Resources Department: Employee Relations
4. Operations Training Department
5. Subway - Plant Maintenance: Elevators and Escalators and Maintenance Engineering
6. Subway – Signals/Electrical/Communications: Electrical
7. Streetcars: Streetcar Technical Services
8. Finance: Capital Accounting
9. Information Technology Services: Client Services/Applications
10. Property Development: Property Services
11. Safety: Quality Assurance and Engineering

Audit Process

TTC Internal Audit follows a structured process comprised of three phases when completing a Comprehensive Audit: Survey Phase; Conducting Phase; and Reporting Phase.

The Survey Phase is meant to define the planned audit scope, including establishing specific criteria for key controls and determining the extent to which the criteria is met; and to follow-up previous audit issues and solicit management's concerns. The phase

begins with the preparation of the Overview & Survey Plan, and concludes with the Survey Report and Audit Plan. These documents are designed to ensure appropriate approvals are obtained, to keep auditee management informed, and to encourage auditee participation and concurrence.

The Conducting Phase covers the actual completion of the detailed audit work and identification of Audit Findings. This phase begins with the preparation of Audit Programs designed to test the key control areas identified in the Survey Phase as being at risk. Required audit work as outlined in these programs is then completed and documented. The phase ends with the compilation of a Deficiency List and its discussion with the audited area manager.

The Reporting Phase is the final phase of the process. Reports convey the purpose, scope and results of the audit, and are prepared in accordance with standards and guidelines provided by the IIA. The phase begins with the preparation of the Draft Audit Report; is followed by a Peer Review; and is then discussed at an Exit Meeting with the Departmental Manager and the General Manager. At this time, Management is invited to provide responses to the Audit Findings. When responses have been prepared, the Departmental Manager and General Manager, along with the Chief Auditor, present the Audit Report, including Management's responses to the Chief General Manager.

The audit results are then reported to the Audit Committee and all audit recommendations are tracked to completion.

Details on completing these phases are shown on attached Appendix "B", an excerpt from the Internal Audit Manual.

Internal Audit Staff

The broad scope of comprehensive auditing requires audit personnel to possess a variety of skills and disciplines. Staff with diverse backgrounds and experience has been assembled within TTC Internal Audit to ensure the varied and complex environments and activities of the Commission are properly assessed and evaluated.

Internal Audit is comprised of a professional, multi-disciplinary staff with extensive experience in government value-for-money auditing, external financial attest auditing, and operational internal control auditing. Staff have brought with them professional designations in Finance, Engineering and Information Systems Auditing, and must adhere to performance standards, ethical codes of conduct, and continuing education requirements established by applicable governing bodies. All Internal Audit Staff have a detailed knowledge of TTC finance, engineering and technical operations areas, including critical Commission policies, procedures and information systems. Long-term Internal Audit Staff are also able to bring a historical perspective to their work.

CONCLUSION

The specific techniques used in conducting comprehensive audits vary from one audit to another. When conducting TTC audits, Internal Audit staff adhere to Commission policy, departmental procedures and professional standards as dictated by such governing bodies as the Institute of Internal Auditors (IIA), the Canadian Institute of Chartered Accountants (CICA), and the Information Systems Audit and Control Association (ISACA).

Management cooperates with Internal Audit throughout the comprehensive audit process, from planning through to making whatever improvements are warranted. On-going dialogue between Internal Audit, Management, and the Audit Committee ensures the primary benefits of Comprehensive Auditing are realized for the TTC. Specifically:

- The provision of an objective assessment of the extent to which the organization is currently pursuing economy, efficiency and effectiveness;
- The identification of major deficiencies in management and control practices;
- Recommendations designed to help obtain better value for money in the future; and
- Information and recommendations that can lead to better internal and public accountability.

As requested, a copy of this report will be forwarded to the CAO and the CFO of the City of Toronto.

Chief General Manager

01-23-24

Attachments