

TTC AUDIT COMMITTEE REPORT NO.

MEETING DATE: October 14, 2010

SUBJECT: INTERNAL AUDIT – 2011 DEPARTMENTAL GOALS AND OBJECTIVES

ACTION ITEM

RECOMMENDATION

It is recommended that the Audit Committee approve the Internal Audit - 2011 Departmental Goals and Objectives.

BACKGROUND

The Internal Audit 2011 Goals and Objectives details the Internal Audit Plan. As part of the Internal Audit's reporting responsibilities, it is considered appropriate that the Audit Committee be advised and approve the Internal Audit Plan. Annual approval is sought to ensure updated consideration of high risk activities.

DISCUSSION

Internal Audit independently examines and objectively appraises the adequacy and effectiveness of management, financial and operational controls, business processes, as well as providing recommendations for continuous improvements. Internal Audit has full and unrestricted access to all corporate records, property, and personnel relevant to the fulfilment of its responsibility. The process of developing the Plan is considered to be the start of the audit cycle. In order to meet Internal Audit's objectives, audits are planned and conducted under the following headings:

Comprehensive Audits

A comprehensive audit entails an examination 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. A comprehensive audit universe is refined into potential projects, which are analyzed and ranked based on risk.

The risk analysis process involves three steps. First, the key risk factors are identified and described (factors comparable to those used by the City Auditor). Second, inputs from a variety of sources are used to assign a risk value to each risk factor for each entity within the universe. Third, a relative weight for each risk factor is applied to the risk values. The results are assembled and a plan of audit projects is produced forming the current year's Plan. The planned Comprehensive Audits are listed on the attached 2011 Departmental Goals and Objectives.

Capital Audits

Audits on the Commission's capital projects are conducted on an ongoing basis.

Most of the capital project expenditures are for contracted services of external consultants and contractors, as well as utilities. A significant portion of capital audits involves, auditing of the invoices and contract changes to ensure that the terms of contracts are followed and there is adherence to relevant Commission policies, procedures and guidelines. Another purpose of these audits is to identify management control weaknesses.

Selection of capital projects for audit is determined primarily by the size of project expenditures, as well as by the results of past audits and management interest or concern. The planned Capital Audits are listed on the attached 2011 Departmental Goals and Objectives.

Subway Extension Audits

The Executive Task Force for the Toronto-York Spadina Subway Extension appointed the TTC's Internal Auditor as Independent Auditor for contract and project management audits. Selection of the audit scopes will be based on the assumption that the greater the expenditure, the greater the risk. The Director of Audit Services for the Region of York will be contacted for his input.

Transit City

Transit City is a major capital spending program initiative to extend transit services in the region. As part of this expansion, the TTC incurs significant capital expenditures in meeting this commitment.

For 2011, five audits are planned to be conducted focusing on TTC cost expenditures to ensure "value-for-money."

The planned Transit City audits are listed on the attached 2011 Departmental Goals and Objectives.

Special Requests

The Chief Auditor may receive requests from the CGM, GM's or other TTC Managers to perform special requests or reviews of contracts, legal agreements, suspected wrong-doings or to follow-up previous recommendations.

For 2011, the targeted six Special Requests are based on historical numbers.

Fare Evasion Study

Internal Audit conducts an annual Fare Evasion Study which measures the amount of change in fare evasion. To complete this study, procedures have been developed and carried out in a consistent manner year to year. Types of evasion include illegal entry, transfer abuse, POP, Metropass abuse, foreign and counterfeit media and inadequate cash payment. Internal Audit's Goals and Objectives anticipate the continuation of this study in 2011.

System Development Reviews

On an annual basis, Audit reviews the Commission’s Capital Plan to identify and rank significant IT initiatives. Audit’s participation in these projects may be extensive or limited to a review of a specific control issue. For large system development projects that deliver new or significantly modified systems, Internal Audit provides assurance that appropriate controls are addressed during the design, development and implementation phases. Security and data integrity controls within existing systems are evaluated during comprehensive audits conducted within various departments.

Based on historical involvement, it is anticipated we will be involved in five System Developments.

Follow-up Audits

As part of the Internal Audit reporting process, audit recommendations are tracked to completion. To satisfy that recommendations are completed, follow-up audit work is required. It is anticipated in the 2011 Departmental Goals and Objectives that 28 audits will need to be revisited to verify recommendations have been appropriately resolved.

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October 14, 2010
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