For Action

Audit, Risk, and Compliance – 2025 Audit Plan and Departmental Evaluation

Date: March 24, 2025
To: Audit & Risk Management Committee
From: Head of Audit, Risk, and Compliance

Summary

ARC Audit Plan

The Audit, Risk, and Compliance (ARC) Audit Plan outlines the reviews and nature of internal audit work that ARC intends to conduct in 2025. By focusing ARC internal audit resources on key areas, we aim to maximize benefits for the TTC, such as enhancing operational efficiency, ensuring regulatory compliance, and providing valuable insights for informed decision-making.

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

- Interaction and discussion with Executive Management and select Senior Management;
- Interaction and discussion with the External Auditor;
- Interaction and discussion with the Audit & Risk Management Committee (ARMC);
- An audit universe risk assessment;
- Enterprise risks; and
- External literature and news events from professional bodies and organizations.

The Proposed Audit Plan for 2025 consists of four comprehensive assurance projects and four follow-up validation projects, the results of which will be reported to the ARMC as part of regular ARC Audit Plan Status Updates (see Attachment 1). This Proposed Plan is being submitted for review and approval by the Committee.

ARC has also discussed with Senior Management a variety of topics and lines of inquiry that will be proactively pursued in an advisory and limited capacity for purposes of gaining insights and understanding of key risks. For example, ARC may explore lessons learned following major disruption incidents. While generally the outcome of such work would not require public reporting, if any major control gaps or significant observations

are identified and warrant reporting to the ARMC, details will be provided in ARC Audit Plan Status Updates. This work will be completed in addition to any ad hoc advisory work and special requests submitted to ARC throughout the year.

ARC Audit Charter

An audit charter serves as a foundational document that defines the purpose, authority, and responsibility of the internal audit function, and establishes its role within the organization.

It provides the TTC a blueprint for how internal audit will operate and explains the value of internal audit's independence in providing assurance and advisory services to the TTC.

The ARC audit charter has been updated to reflect the organizational change for the Head of ARC to report administratively to the Deputy Chief Executive Officer, instead of to the Chief Executive Officer.

The updated Audit Charter is included in Attachment 2 of this report.

Independence

Per the Institute of Internal Audit's (IIA) standards, there is a requirement to report any impairment(s) to independence of the internal audit function. ARC notes that there have not been any impairments to independence to report for 2024.

Quality Assurance and Improvement Program (QAIP)

It is mandated in the Audit Charter that ARC will maintain a QAIP. The Program covers all aspects of the ARC Internal Audit function and requires conformance with the Institute of Internal Audit's (IIA) Standards.

The Program consists of continuous oversight and review of each engagement, an annual internal assessment of conformance with the Standards, and the engagement of a qualified external party to perform an assessment of the internal audit function every five years.

An internal assessment was conducted in 2024, and efforts to address required enhancements are being pursued as part of continuous improvement efforts. Enhancements being planned/performed are as follows:

- Conducting an external assessment of the program in 2027.
- Documented a methodology to capture audit resource management and optimize the use of available resources in 2025. Complete.

- Developing processes in 2025 to encourage transparency in sharing information by management and other stakeholders (such as AG) that can guide audit coverage, including results.

Institute of Internal Audit (IIA) Standards Update

The Standards that guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of an internal audit function were updated and released on January 9, 2024. The new Standards became effective on January 9, 2025.

Before the effective date, we compared the new Standards with the 2017 version and noted that the updates primarily reflect the IIA's structural reorganization rather than fundamental changes to the Standards themselves. The goal of the new Standards is to make them easier to understand and use, while emphasizing certain areas that align with evolving business needs. Key highlights include:

- Streamlined Framework.
- New emphasis on Risks and Governance.
- Enhanced Clarity in Terminology.
- Focused Guidance on Emerging Risks (increased focus on areas, such as cybersecurity).

ARC has already implemented certain changes to align with the emphasis of the new Standards and identified further changes as part of ongoing continuous improvement efforts. These include finalizing an internal audit strategy and following new methodologies/policies to ensure new IIA standards are met.

ARC Internal Audit Strategy

The new IIA Standards state that "the chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectation of the Board, Senior Management, and other key stakeholders".

An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. It includes a vision, strategic objectives, and supporting initiatives for the internal audit function. It also helps guide the internal audit function toward the fulfillment of the internal audit mandate.

The TTC's internal audit function sets annual goals that align with its strategies. Details of ARC's Internal Audit Strategy will be reviewed with ARMC and Senior Management.

Recommendations

It is recommended that the Audit & Risk Management Committee:

1. Approve the ARC Audit Plan (2025) – attached as Attachment 1 to this report.

2. Approve the updated ARC Audit Charter – attached as Attachment 2 to this report.

Financial Summary

The implementation of the 2025 ARC Audit Plan does not require any additional funding beyond the proposed 2025 Operating Budget for the ARC Department, which is substantially consistent with the approved 2024 Operating Budget.

The Executive Director, Finance has reviewed this report and agrees with the financial impact information.

Equity/Accessibility Matters

The TTC is committed to promoting and supporting equity, diversity, inclusion and accessibility, in all corporate policies, procedures, processes, programs, and services to reflect and respond to the needs of our customers and employees. Internal Audit within the ARC Department performs independent assurance and advisory work that supports TTC leadership efforts to continuously improve controls and integrate risk management into processes that drive the achievement of corporate goals and objectives.

Decision History

The TTC Board reaffirmed the mandate of the TTC Audit & Risk Management Committee (ARMC) on November 16, 2020. The ARMC assists the TTC Board in fulfilling its oversight responsibilities across various areas, including the internal audit function. This involves ensuring that Internal Audit operates independently and effectively, aligns with the TTC's strategic objectives, and provides assurance over governance, risk management, and internal control processes. A requirement of the ARMC is to approve the annual internal audit work 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 their stated objectives by providing Management with independent assurance. ARC also acts 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. ARC can also use resources through a co-sourcing resource model 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 subject to annual planning.

Advisory and special requests are typically prompted by Management for ARC to advise on an area of the business in accordance with a prescribed scope. Advisory and special requests may be initiated throughout the year and are assessed using a number of factors prior to being accepted. Factors considered may include plans for future assurance reviews, ARC staff skill sets, and alignment with corporate objectives.

ARC Planning Considerations

The Head of ARC solicits input from Executive Management, select Senior Management, external auditors and the ARMC 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.

ARC also considers staff's collective knowledge gained over the years through the completion of various assurance and advisory projects, as well as conducts literature reviews of news events from professional bodies and organizations to better understand current and emerging risk areas.

And finally, ARC's completion of a risk assessment of the TTC audit universe with input from the Enterprise Risk Management team also supports the identification of potential review projects.

The above sources are used by ARC to generate a list of potential assurance review projects that could be performed during the year. These are then considered in conjunction with other activities that need to be performed and resource capacity constraints to determine the planned number and nature of reviews to be conducted.

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 Internal Audit Strategic Direction Considerations

As business processes increasingly rely on technology, the internal audit team must continuously develop its expertise in auditing both technology and technology-driven business processes. This includes understanding emerging technologies, evaluating system controls, and ensuring robust governance frameworks are in place.

The updated IIA Standards emphasize the critical need for the internal audit function to adopt and use technological resources. Investing in advanced tools for supporting internal audit processes will enhance efficiency, effectiveness, and accuracy.

The integration of data analytics is essential to enhancing risk identification, efficiency, and value delivery in modern internal audit functions.

Artificial Intelligence (AI) is transforming industries and job functions, including internal audit. Internal auditors must stay ahead by strategically evaluating AI's potential opportunities and risks for the company and for the internal audit functions.

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Signature

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Attachments

Attachment 1 – ARC 2025 Audit Plan
Attachment 2 – ARC Audit Charter Updated

#	Project Name	Description	Rationale
**Assurance Reviews**		
1	Service Reliability Metrics and Communications	A review of the TTC's customer-centric initiatives, performance metrics, and public reporting practices to ensure alignment with customer needs, operational best practices, and global transit standards.	• Corporate Plan (Strategic Direction 2, 3 and 4) • Recent events and external stakeholder area of concern • ARMC/Board area of interest (Jan 27/25 Board Motion – Item TTC1.10)
2	Tunnel Maintenance/Rehabilitation	A review of processes and controls over maintenance and rehabilitation of subway tunnels.	• Corporate Plan (Core Values – Safety/Security and Reliable Service) • Top Risks (Disruption, Customer/Employee Safety) • Critical infrastructure – SOGR
3	IT – Disaster Recovery	A review of processes and controls, including emergency response and business continuity plans, over IT systems.	• Corporate Plan (Core Value – Safety/Security and Reliable Service; Strategic Direction 4) • Top Risks (Cybersecurity, Disruption)
4	MTO Driver Certification Program: Specified Procedures	A review of the MTO Driver Certification Program and execution of specified procedures in accordance with MTO regulatory requirements.	• Corporate Plan (Core Value – Safety/Security and Reliable Service; Strategic Direction 1) • Top Risks (Customer/Employee Safety, Disruption) • Regulatory Compliance
**Follow-Up Validation and Other Support Work**		
5	Follow-Up – AG Audit Recommendations	Ongoing support provided to Chief Officers and Senior Management accountable for implementation of AG Recommendations. Work includes conducting validation assessments of all items put forth by the TTC as fully implemented to improve the acceptance rate of the TTC's submissions by the AG. Also, to supplement the AG's annual Follow-Up report with ARC prepared dashboards and deeper	• TTC ARMC Request

#	Project Name	Description	Rationale
		insight into actual TTC Management progress.	
6	Follow-Up – ARC Audit Recommendations	Ongoing verification of implemented internal audit recommendations and status of outstanding action items.	• ARC Compliance with IIA Standards • Enhance control environment
7	Follow-Up – Fare Compliance Action Plan Initiatives	Ongoing support provided to Chief Officers and Senior Management accountable for implementation of Fare Compliance Action Plan Initiatives. Work may be advisory in nature and/or include conducting validation assessments of items reported by TTC Management as fully implemented.	• Corporate Plan (Strategic Direction 5) • TTC Management Request
8	Follow-Up – Hatch Consultant/APTA Hydraulic Leak Investigation Recommendations	Ongoing support provided to Chief Officers and Senior Management accountable for implementation of various third-party Hydraulic Leak Investigation Recommendations. Work may require consultation with original source(s) of recommendations and conducting validation assessments of items reported by TTC Management as fully implemented.	• TTC Board Request • Corporate Plan (Core Value – Safety/Security) • Top Risks (Disruptions, Customer/Employee Safety)

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 Deputy Chief Executive Officer (DCEO) and the Audit & Risk Management Committee (ARMC), a Committee of the TTC Board, regarding ARC's 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 DCEO.

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 ARC 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 DCEO regarding:

- The purpose, authority, and responsibility of ARC.
- ARC's plan and performance relative to its plan.
- ARC'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 DCEO, 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 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 internal audit function. The Program will evaluate the internal audit function's conformance with the IIA's Standards and the auditors' compliance with the IIA's Code of Ethics. The Program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement.

The Head of ARC will communicate to the DCEO and the ARMC on the internal audit 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.