For Action
with Confidential Attachment

Audit, Risk and Compliance – 2025 Audit Plan Status Update

Date: September 22, 2025
To: Audit & 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 municipality or local board.

Recommendations

It is recommended that the Audit & Risk Management Committee:

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

Summary

The Audit, Risk and Compliance Department (ARC) 2025 Audit Plan was presented and approved by the Audit & Risk Management Committee (ARMC) on March 24, 2025. The list of audit assurance projects identified for completion in 2025 is performed alongside various ongoing Action Plan Follow-up initiatives.

As of this update, final reports have been issued for two projects from the 2025 Audit Plan, and fieldwork is underway for two other projects in the plan.

In parallel, ARC has finalized and issued reports for the two remaining audit projects from the 2024 Audit Plan. With these completions, all items from the 2024 Audit Plan are now closed.

This report provides information with respect to ARC's progress on 2025 Audit Plan items as well as details for the four Final Reports issued since ARC's last update.

Background and Analysis

The Audit & Risk Management Committee (ARMC) supports the TTC Board in fulfilling its oversight responsibilities across several areas, including the internal audit function. This oversight ensures 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. One of ARMC's key responsibilities is the approval of the annual internal audit work plan.

While TTC business areas are responsible for developing policies and ensuring compliance with plans and strategies, ARC supports those accountable for achieving these objectives by providing independent assurance to Management. ARC also serves in an advisory capacity, offering insights and recommendations to strengthen internal controls and risk mitigation efforts.

Planned assurance projects (audits) are executed in accordance with ARC's annual Work Plan, as approved by the ARMC. Each audit follows a three-phase approach: Planning, Fieldwork, and Reporting. Once Management responses and corrective action plans addressing ARC's recommendations are finalized, the full report is formally issued to the TTC Chief Executive Officer, Deputy Chief Executive Officer, and all relevant internal stakeholders. At that point, the audit is considered complete.

Status Update – 2025 Planned Audit Projects

#	Project Name	Status
1	MTO Driver Certification Program – Specified Procedures	Complete
2	IT – Disaster Recovery	Complete
3	Service Reliability Metrics and Communication	Fieldwork
4	Tunnel Maintenance/Rehabilitation	Fieldwork

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

Completed Assurance Reviews – ARC Summary Commentary

Background details and extracts from the audit reports issued by ARC since our last update are provided in Attachment 2 and Confidential Attachment 1, as applicable. The audit of the MTO Driver Certification Program – Specified Procedures was conducted using MTO's standard compliance audit form and does not include additional details.

<u>ARC Review (issued May 2025) – Station Passenger Intercom</u>

Rationale for Audit: The audit was initiated to assess the Passenger Assistance Intercom (PAI) system and identify continuous improvement opportunities, since the PAI system underwent a technology upgrade in 2021, and broader changes were introduced as part of the Station Transformation project.

Please see Confidential Attachment 1 for additional details on observations, recommendations and management action plans.

ARC Review (issued August 2025) – Capital Project Portfolio Review

Rationale for Audit: The TTC's Capital Program is large and complex, encompassing major construction, procurement, and technology projects, as well as ongoing state-of-good repair programs. The TTC Board and City Council approved the 2024-2033 Capital Budget and Plan totaling $12.40 billion. This audit was initiated to assess corporate-level governance processes supporting capital planning and delivery.

Overall Key ARC Observations/Recommendations: ARC's review focused on corporate level internal governance processes and identified areas of improvement for formalizing a Capital Planning Policy and finalizing Corporate Project Management Standards. ARC also noted opportunities to improve project cost performance measurement and formalize procedures to guide collaboration and communication to avoid the duplication of efforts amongst the Portfolio Management Office (PfMO), Project Management Offices (PMOs), and capital delivery teams.

Management Action Plans: Management has developed action plans to consolidate capital planning guidance and processes, and delegation policies into a formal Capital Planning Policy that outlines capital program objectives, roles and responsibilities, and project approval decision-making. The Authorization for Expenditures and Other Commitments Policy will be improved to specify its application to capital expenditures, and the terms of reference of the Project Review Board will be enhanced to reflect its oversight role.

Project Management Standards will be enhanced and finalized to address noted areas for improvement and define the roles and responsibilities of the PfMO and Group PMOs. They will also strengthen minimum standards around risk and issues management, stage-gating deliverables and oversight, and quantitative and qualitative benefits realization measurement.

Finally, Management will implement criteria and an escalation process to guide the sharing of assurance insights with the TTC Board, ensuring transparency and accountability in capital project oversight.

ARC Specified Procedures (July 2025) – MTO Driver Certification Program (DCP)

Rationale for Audit: The Driver Certification Program (DCP), administered by the Ministry of Transportation Ontario (MTO), authorizes the TTC as a Recognized Authority (RA) to deliver driver training and testing for license upgrades and renewals. The MTO delegates the authority to conduct inspections on their behalf. For this purpose, the TTC's ARC department meets the criteria to conduct the inspection. Inspection frequency is determined by the RA's compliance history and past inspection results. The TTC's inspection cycle has been every three years, as such, this review was included in ARC's 2025 Audit Plan.

Overall Key ARC Observations/Recommendations: ARC found no infractions during the audit. While one file lacked hard-copy progress and test documentation, compliance with testing expectations was supported by compensating evidence and was therefore marked as a pass. The TTC is awaiting the MTO's review and evaluation of the report and their confirmation of the next inspection due date.

ARC advised the Operations Training Centre (OTC) to enhance document handling practices and consider implementing a secure digital storage solution as a backup in case hard-copy records are misplaced.

Management Action Plans: Management is currently reviewing the prioritization of digitizing hard-copy records within OTC. This includes evaluating existing document transfer processes and identifying opportunities to strengthen them. In addition, Management is implementing periodic quality assurance checks to ensure consistency and reliability in documentation practices.

In response to a TTC enquiry in August, the MTO informed the OTC that if driver files are digitized and accessible on request, for audit, OTC will not be required to maintain hard copies as well. This change will help reduce file retention costs by eliminating the need for both hard-copy and digital duplicates, while also minimizing the risk of misfiling and document loss.

<u>ARC Review (issued August 2025) – IT Disaster Recovery</u>

Rationale for Audit: Although disaster events such as data centre failures, cyberattacks, or infrastructure outages may be rare, their potential impact on business operations, service continuity, and public confidence can be substantial. The true value of disaster recovery (DR) planning lies in fostering a state of ongoing readiness. A well-developed DR program enables the TTC to respond effectively to unexpected disruptions, minimizing downtime and data loss through maintained recovery procedures, validated infrastructure, and clearly defined responsibilities.

This review complements ARC's recent report on Emergency Preparedness and Business Continuity. That audit did not include DR planning for critical systems, as incorporating it would have significantly broadened the scope beyond what could be effectively addressed in a single engagement. To ensure this important area receives dedicated attention, ARC conducted a focused audit of the TTC's IT Disaster Recovery Planning in 2025.

Please see Confidential Attachment 1 for additional details on observations, recommendations and management action plans.

Diversity, Equity and Inclusion 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 equity, diversity, inclusion, and accessibility (EDIA).

Innovation and Sustainability Considerations

ARC's audit and advisory activities contribute to innovation and sustainability by promoting continuous improvement in governance, risk management, and internal controls. Through its assurance work, ARC helps identify opportunities for operational efficiencies, digital transformation, and process enhancements that support long-term organizational resilience.

Corporate Plan Alignment

ARC's independent assurance and advisory work supports all five strategic directions of the TTC's Corporate Plan. By strengthening governance, risk management, and internal controls, ARC contributes to building a future-ready workforce equipped to manage complex challenges. Audits of service reliability and associated performance metrics help improve transit experiences, supporting efforts to attract new riders and retain customer loyalty. The department facilitates the maturation of the Enterprise Risk Management (ERM) Program, directly advancing the TTC's transformation and modernization initiatives.

Financial Impact

The implementation of the 2025 Audit Plan has no funding implications beyond the costs of the ARC Department that were included in the 2025 Operating Budget approved by the TTC Board and City Council.

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

Contact

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Attachments

Attachment 1 – Decision History
Attachment 2 – Extract of an Issued ARC Report
Confidential Attachment 1 – Extracts of Two Issued ARC Reports

Decision History

The 2024 Audit Plan was presented and approved by the Audit & Risk Management Committee on November 14, 2023.
Audit, Risk and Compliance (ARC) – 2024 Audit Plan

The 2025 Audit Plan was presented and approved by the Audit & Risk Management Committee on March 24, 2025.
Audit, Risk and Compliance (ARC) – 2025 Audit Plan and Departmental Evaluation

Capital Project Portfolio Review (August 2025)

Overall Lead: Karen Thorburn, Executive Director, Corporate Initiatives

Background:

The TTC's capital project portfolio includes projects and programs of varying scale and complexity, ranging from major construction, procurement, and technology projects to routine ongoing state-of-good-repair programs.

City Council approved the TTC's $12.4-billion 2024-2033 Capital Budget and Plan. Capital projects and programs are managed and delivered by various TTC departments. Engineering, Construction and Expansion (EC&E), and Innovation and Sustainability groups deliver approximately 68% of the approved plan. Operations and Infrastructure, Transportation and Vehicles, Information Technology Services, Corporate Services, and Strategy and Customer Experience groups are responsible for the remaining 32% of the Approved Capital Budget and Plan.

The program is governed at the corporate level with executive level oversight through the Portfolio Review Board (PRB), which focuses on major capital projects and Category 3[1] capital projects. In addition, the TTC has various other governance processes including the TTC's capital budgeting process, Portfolio Management Office (PfMO), Project Summary Reporting, Capital Projects Assurance Function (CPAF), and group and project-level governance processes.

The TTC's PfMO (a corporate-level Project Management Office) and the CPAF report to the Executive Director – Corporate Initiatives. The TTC's capital budgeting and financial reporting process is managed by the TTC's Finance Department which reports to the Executive Director – Finance. In addition, the TTC has various other governance processes including oversight through the TTC's Portfolio Management Office (PfMO), group-level PMOs in EC&E, ISG, ITS, delivery teams in O&I and Service Delivery, the capital budgeting process, and group and project-level governance processes.

Scope:

The objectives of this review were to gain a high-level understanding of the TTC's governance framework over its capital project portfolio and to evaluate whether it supports effective oversight of capital projects. We reviewed the processes, practices, and structures used by the TTC to oversee and manage capital expenditures with a focus on corporate-level structures, policies and processes.

[1] A Category 3 project/program meets one or more of the following criteria: • Estimated Final Cost is greater than $500 million; • High level of complexity; • High interdependencies with other projects; • Major strategic and/ or high-risk profile. • External /Internal constraints (e.g. funding, regulatory, rigid sequencing) • High reputation impact to the organization

The review did not cover an in-depth review of the TTC's Capital Strategy and Budgeting process/City of Toronto Council approvals process or funding risks of the TTC's capital project portfolio*. The review* also did not include deep-dive reviews of individual projects.

Number of Observations and Ratings:

High	Medium	Low
0	9	0

Summary of Results:

Improvement Required. Medium (M) rated observations and implications, recommendations and management actions are summarized as follows:

<u>Observation 1: Capital Planning Policy (M)</u>

Observations and Implications

- The TTC's Capital Program would benefit from integrating policy direction from existing documents, such as the Corporate Plan, Capital Budget Guidelines, and the new Asset Management Policy into one overarching "Capital Planning Policy".
- There is no policy guidance that defines how the CEO's accountability and decision-making responsibility is delegated for project approval and post approval decisions.
- Absence of an overall policy may lead to inconsistencies in delivery of the program and uncertainties around roles and responsibilities.

Recommendations

- Formalize, approve, and implement a Capital Planning Policy, including goals and objectives of the capital program, definitions of capital improvement projects, programs and portfolio, governance structures, and roles and responsibilities of stakeholders.

Management Action Plans

- PfMO and Finance will develop a Capital Planning Policy that integrates guidance from existing documents into one overarching policy.
- Target Completion: Q2 2026

<u>Observation 2: Authorization for Expenditures/Other Commitments Policy (M)</u>

Observations and Implications

- The TTC's Authorization for Expenditures and Other Commitments Policy (policy) outlines the delegated authority limits for expenditures and commitments within the organization. However, it does not include a section on definition and application, which is essential to avoid ambiguity regarding its applicability to capital expenditure authorizations and project decisions prior to tender, such as changes to project scope.

Recommendations

- Management should improve the policy to define capital expenditure decisions and to set capital expenditure and commitment authorization limits, as appropriate.

Management Action Plans

- Finance will review and amend the policy to define capital expenditure authorization and commitments terms, specify authorities for project scope change decisions and set appropriate limits, as applicable.
- Target Completion: Q4 2025

<u>Observation 3: Finalizing Corporate Project Management Standards (M)</u>

Observations and Implications

- The Portfolio Management Office's (PfMO) TTC Project Management Framework (2017) is in draft and has not been formally issued.
- The program would benefit from standards that clearly define:
  - Portfolio governance model.
  - Oversight of stage gate deliverables.
  - Risk management and issue resolution processes.
  - Quantifiable project benefits.

Recommendations

- Complete and update corporate-level project management standards, frameworks, and guidelines to support and continually mature the TTC's project management capabilities.

Management Action Plans

- PfMO is updating Corporate Project Management Standards and will also address the observations and management action plans in this report. The Steering Committee has representation from Group PMOs, and Finance is providing oversight.
- Target Completion: Q4 2025

<u>Observation 4: Portfolio Review Board (PRB) Terms of Reference (TOR): (M)</u>

Observations and Implications

- To enhance the existing Portfolio Review Board's (PRB) Terms of Reference (TOR), the PRB's role and responsibilities need to be clearly outlined, and decision-making authority articulated. The TOR does not define quorum and voting rights or indicate the types of decisions that may need to be approved by the PRB.

Recommendations

- Review and revise the PRB Terms of Reference to define its mandate, roles, and responsibilities.

Management Action Plans

- The Terms of Reference for PRB is reviewed annually to confirm scope of projects reporting to PRB, and membership. Changes are being made to include voting rights, quorum, and delegated decision–making authorities.
- Completed: Q3 2025

Observation 5: PfMO and Group PMOs' Roles and Responsibilities (M)

Observations and Implications

- There is an opportunity to further enhance collaboration between the PfMO and Group PMOs to support more consistent risk management and issue resolution, reduce the potential for oversight duplication, and encourage the sharing of best practices and lessons learned.

Recommendations

- Develop a PMO roles and responsibilities framework by project type, category, and risk, and a communications and reporting protocol to guide communication and collaboration between the PfMO and group PMOs.

Management Action Plans

- Roles of Group PMOs will be outlined in Policy and Standards more clearly.
- The work of the steering committee on PM standards will be further leveraged to support the community of practice.
- Additional resources in the PfMO will be added to support increased demand for services from groups across the organization.
- Target Completion: Q1 2026

Observation 6: Capital Project Issues Management and Stage Gate Processes (M)

Observations and Implications

- Project management processes for risks and issues management, as well as stage-gating, can be improved across all projects. Documented evidence of stage gate approvals was weak or non-existent, as was evidence of proactive risk and issue management, even though risks are summarized in the Project Status Reports (PSRs).

Recommendations

- Define the roles of Group PMOs in the governance and oversight of projects in the Corporate Project Management Standards, Frameworks, and Guidelines (see Observation 3 above) in the issues management and stage-gating approval process.

Management Action Plans

- See Observation 3 above, PfMO standards will provide detailed guidance on issues escalation and stage gate process deliverables, and application.
- Target Completion: Q3 2025

Observation 7: Project Costs Performance Measurement (M)

Observations and Implications

- Project teams monitor and report the project cost information including annual and year-to-date actual costs, budgeted costs, spending rate, project scope and milestones achieved. However, the TTC does not currently have the tools to support efficient reporting of detailed project costs.
- Further, there is an opportunity to apply earned value measurement for large complex projects.

Recommendations

- Finance teams supporting projects should provide detailed project cost information by scope delivered as a minimum, and consider incremental improvements and automation of SAP project reports to support project teams.
- At the corporate level, the PfMO should evaluate and facilitate integrated reporting of project costs, scope, and schedule for effective cost and schedule control.
- Corporate project management standards outlined in Observation 3 should mandate earned value measurement requirements when a project exceeds a threshold.

Management Action Plans

- In addition to the standard monthly SAP Finance Internal Order reports, Finance teams will improve reporting of detailed project actual versus budgeted costs of project scope milestones/major project sub-components. Finance will continuously review and add to SAP Internal Order details, to facilitate automation of detailed project cost components.
- PfMO will evaluate the feasibility of supporting Group PMOs with project management application support, to streamline project data management and reduce the duplication in the reporting process.
- See Management Action for Observation 3 above, - PfMO standards will include projects where earned value measurement should be considered.
- Target Completion: Q4 2026

Observation 8: Benefits Realization Measurement (M)

Observations and Implications

- We identified gaps in both the definition and tracking of project benefits, particularly quantitative benefits, across projects. In most sample items, we were unable to locate sufficiently detailed business cases or project summaries with qualitative and quantitative benefits realization measures.

Recommendations

- Corporate project management standards outlined in Observation 3 should mandate that benefits realization metrics include both quantifiable and qualitative measures.
- All finite capital projects that exceed a specified threshold and meet certain criteria should have approved benefits realization plans.

Management Action Plans

- See Management Action for Observation 3 above, - PfMO standards will include detailed standards on benefits realization.
- Target Completion: Q4 2025

<u>Observation 9: Capital Portfolio Assurance Function (M)</u>

Observations and Implications

- The Capital Portfolio Assurance Function (CPAF) needs to formalize procedures for Board reporting of assurance results, specifically, setting thresholds for when audit results and findings need to be communicated to the Board. The TTC provides quarterly Major Project Board Updates. However, the Board also requested CPAF Audit Updates for evaluation of adherence to project management policies.

Recommendations

- Consider developing thresholds for escalating reporting of CPAF assurance results to the Board, as necessary.

Management Action Plans

- CPAF will develop and finalize procedures to define criteria and thresholds of health check audit assessments that will be reported to the Board. Reporting will be included in the Major Project Updates, as applicable.
- Target Completion: Q4 2025