Terms of Reference

Audit, Finance and Risk Management Committee

1. Mandate

The Audit, Finance and Risk Management Committee (the “Committee”) is established as a Committee of the TTC Board (the “Board”) to:

a) assist the Board in fulfilling its oversight responsibilities related to:
   i. external audit and financial reporting oversight, including the preparation of financial statements
   ii. enterprise risk management frameworks;
   iii. enterprise asset management frameworks;
   iv. internal audit function, which includes direct oversight of the Internal Audit function and a robust system of internal controls
   v. helping to safeguard the organization’s compliance with applicable laws and regulations.

b) review significant matters involving the financial status of the TTC and make recommendations to the Board with respect to various material financial matters affecting the TTC.

c) review and report progress on the development and performance of the Memorandum of Understanding between the City of Toronto and the TTC to the Board.

2. Responsibilities

External Audit & Financial Reporting Oversight

- Review and approve the external auditors’ proposed annual audit scope and plan.
- Review the TTC’s annual financial statements and any other audit matters, with management and the external auditors, ensuring they are complete, accurate, consistent with information known to the Committee, and prepared in accordance with applicable accounting principles, and recommend the approval of the audited financial statements, and any actions to be taken in response, to the Board.
- Review the results of the external audit, including any difficulties encountered, and review all matters required to be communicated to the Committee under generally accepted auditing standards.
- Review with the external auditors and the Board any material issues relating to the quality or integrity of the financial statements and compliance with legal and regulatory reporting requirements.
- In collaboration with management and the external auditors, review significant accounting and reporting issues, including complex or unusual transactions, judgmental areas, and recent professional or regulatory pronouncements, and understand their impact on the financial statements.
- Understand the scope of internal and external auditors’ reviews of internal control over financial reporting and receive reports on significant findings, recommendations, and management’s remediation plans.
- Review other sections of the annual report prior to release, considering the accuracy and completeness of the information.

Internal Audit Function

- On an annual basis, review and approve the:
  - Internal Audit Charter
  - Audit Plan, and ensure the audit plans include budget resource requirements.
- Review reports issued by the internal auditor and management's response to these reports to ensure management has implemented any corrective action.
- Review the External Quality Assessment Plan periodically as required.
- Ensure that Internal Audits are conducted with independence and objectivity, free from Management pressures.

Audits by the City of Toronto Auditor General

Review the reports issued by the City of Toronto's Auditor General, and management's response to these reports.

- Review and approve annually, the implementation status of the Auditor General's recommendations.
- Monitor the coordination of the City of Toronto's Auditor General's involvement with the role of the TTC's external and internal auditors, as may be required.

Safety, Health and Environment (SH&E) Oversight

- Provide oversight of the TTC's Safety, Health and Environment Management System (SHEMS) through the receipt and review of assurance activities and SH&E performance information
- Review and approve the approach to the Annual Review of TTC's SHEMS recognizing it as a management assurance activity.
- Receive the results of the Annual SHEMS Review which supports Board members in fulfilling their legislative duties as corporate directors, and any external audits or reviews, and review management's response, corrective actions, and implementation status.
- Monitor significant safety, health, and environmental risks, trends, and systemic issues identified through management reporting and assurance activities.
- Obtain assurance that appropriate governance, accountabilities, and resources are in place to support effective safety, health, and environmental management across the organization.

Finance

- The Committee will regularly review matters involving the financial status of the TTC and make recommendations to the Board with respect to various material financial matters affecting the TTC, including:
  - The financial aspects of longer term operating and capital budgets and any significant variances thereon, as reported through the quarterly financial update;
  - The adequacy of financial resources and cash flow of the TTC.
- Review and advise on the TTC's non-fare revenue and fare compliance strategies.
- Review reports from management on various financial measures and reports requested by the Committee or the Board.

Real Estate

- The Committee will review, provide guidance and make recommendations with respect to the acquisition or disposition of land by the TTC
- Review the offering and management of leasing, or other business opportunities on the property of the TTC
- Provide support and guidance to the TTC in its formulation of its real estate policies and procedures.

Ethical and Legal Compliance

- Ensure oversight for ethics and integrity and preservation of the TTC's reputation by reviewing management reports on compliance with legislation, the TTC's Code of Conduct and policies.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.
- review the findings of any examinations by regulatory agencies
- obtain regular updates from management and legal counsel regarding compliance matters

Enterprise Risk Management (ERM)

- Review and recommend approval of the ERM Framework to the TTC Board, including related risk categories, policies, and controls; ensure appropriate governance structures, processes, measures, and limits are in place to identify, evaluate, measure, monitor, and manage enterprise risks.
- Review and recommend to the Board the TTC's risk appetite, risk tolerances, and related metrics defining the acceptable parameters for risk-taking, and monitor performance against the approved Risk Appetite.
- Oversee the effectiveness of the ERM program, including the identification, assessment, mitigation, and control of enterprise risks; review the enterprise risk profile regularly; and obtain reasonable assurance that risk management responses are effective and adhered to.
- Lead Board-level discussions on the Corporation's enterprise risks, including current, emerging, and strategic risks, aligned with the Corporation's annual strategic plan review.
- Review the TTC's system of internal controls, including financial, business continuity, disaster recovery, and emergency management plans and assess the overall effectiveness of internal controls and IT security.

Enterprise Asset Management (EAM)

- Approve the Enterprise Asset Management (EAM) Framework, including related policies, standards, plans and control principles, and recommend material changes to the Board for approval.
- Ensure the EAM Framework is aligned with the TTC's strategic plan, capital planning processes, enterprise risk management framework, and applicable legislative and regulatory requirements.
- Oversee the clarity of accountabilities and governance for enterprise assets, and obtain assurance that asset lifecycle management, from planning and acquisition through operation, renewal, and disposal, is supported by reliable asset condition, performance, criticality, and risk information that consistently informs capital investment prioritization and long-term capital plans, with material investment decisions based on defined criteria and documented trade-offs between cost, risk, performance, and service outcomes.
- Monitor management's progress in addressing significant EAM findings, recommendations, regulatory compliance and improvement initiatives, including remediation timelines and outcomes.
- Oversee management's approach to continuous improvement of EAM practices, including alignment with recognized asset management standards and leading practices.
- Review emerging asset-related risks and issues, such as technology obsolescence, supply chain constraints, climate impacts, and changes in regulatory or funding environments, and their implications for asset stewardship.

Performance and Evaluation – Head of Audit, Risk and Compliance

- Appoint the Head of Audit, Risk and Compliance, who will report functionally to Committee, and administratively to a senior executive within the TTC. The administrative reporting into Management should be at a sufficiently senior level such that the Head of Audit, Risk and Compliance has the authority to conduct audits with independence and objectivity, and has unfettered access to the Committee.
- On an annual basis, the Committee shall:
    - Review and provide feedback on the performance objectives for the Head of Audit, Risk and Compliance, and confirm that they align with the TTC's Corporate Plan and the Annual Audit Plan
    - Provide feedback into the annual performance evaluation of the Head of Audit, Risk and Compliance, and make any recommendations for improvement, as may be required.
- Recommend, if appropriate, due to the results of the ongoing performance evaluation or other factors, the dismissal of the Head of Audit, Risk and Compliance.

3. Composition and Staff Resources

The number of members of the Committee shall be determined by the Board and must not exceed a quorum of the Board. The Board shall appoint the Committee members and the Committee Chair (the "Chair"). The Committee shall select a Vice-Chair, who shall act as Chair when the Chair is absent.

Oversight of the TTC from an auditing perspective is divided into three main categories:

- City of Toronto Auditor General – has responsibilities as set out in the *City of Toronto Act*;
- TTC Audit, Risk and Compliance Department – has responsibilities depending on the review undertaken to:
    - execute the approved Internal audit plan and report back to the Committee as required; and
    - execute advisory work for management and report any significant findings to this committee, as appropriate.
- External Auditors are appointed pursuant to the City of Toronto Act and report directly to the Committee.

External third parties may be invited to provide expertise, or input on specific agenda items, at the discretion of the Chair, Committee and/or TTC staff.

A members' term on the Committee shall be concurrent with the Term of Council, or until a successor is appointed.

4. Competencies

All members appointed to the Committee shall either:

a. be financially literate upon appointment with the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity the issues that can reasonably be expected to be raised by the TTC's financial statements; or

b. undertake to become financially literate within a reasonable period of time after appointment to the Committee.

Where appropriate, Committee members will enhance their familiarity with financial, audit, accounting, risk management, safety regulatory requirements, information technology (including cybersecurity), and other areas relevant to their responsibilities by keeping abreast of trends and best practices in these areas and by participating in educational sessions or other development opportunities. The TTC and its internal and external auditors shall support Committee members in these efforts.

5. Frequency of Meetings

The Committee shall meet at least quarterly.

At least two meetings will be scheduled during an election year. Additional meetings held during an election year will be scheduled at the discretion of the Chair, based on business needs as set out by the Terms of Reference.

6. Authority

The Committee has authority from the Board to:

- resolve any disagreements between management and the external auditors regarding financial reporting
- have full, free and unrestricted access to management and its employees, the external auditors, counsel, and the Head of Audit, Risk and Compliance, as necessary
- investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the TTC. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate.
- retain external counsel, independent accountant consultants, or other service providers to advise or assist in the conduct of an investigation or to review any matter under its responsibility as may be deemed necessary to ensure its due diligence, in accordance with TTC Procurement Policy and procedures.

7. Procedural By-law

The Committee is required to adhere to the provisions outlined in the TTC's By-law to Govern Board Proceedings, as amended from time to time, and any other relevant City or TTC policies.

8. Review

The Terms of Reference shall be reviewed by the Committee at the beginning of each new Council term to ensure their relevance, clarity, and alignment with the TTC's strategic objectives and operational needs. Any proposed amendments or updates require approval by the Board.

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