



STAFF REPORT

TO: Council

FROM: Erin Hartley, Director of Corporate Services

APPROVED BY: Warren MacLeod, Chief Administrative Officer

DATE: November 9, 2022

SUBJECT: **Terms of Reference Renewal– Audit and Internal Control Committee**

ORIGIN

On October 31, 2022 the Municipality’s Terms of Reference for the following Committees required renewal:

- Planning and Development
- Economic Growth Strategy
- Audit and Internal Control

DISCUSSION

The Planning and Development Committee and the Economic Growth Strategy Committee require further review and will be brought back to a future Council meeting. This report will deal only with the Audit and Internal Control Committee Terms of Reference.

The purpose of the Audit and Internal Control Committee is to act as an advisory board carrying out critical review functions on behalf of Council. The primary function of the audit committee is to assist Council in fulfilling their oversight responsibilities related to quality and integrity of financial reporting along with ensuring the appropriate systems and controls for the proper recording of transaction and protection of assets are in place.

As noted in the Terms of Reference, appointment of members is also required by Council and is reflected in the recommendations. The recommendations reflect motions previously made by Council to appoint Council members and community members to specific committees. In this case, the two existing community members are being recommended to continue and one community member vacancy has not yet been filled; it will continue to be advertised. As applications for the vacancy are received, the recommendations will be brought to Council for approval of appointment.

RECOMMENDATION

Be it resolved that the Council of the Municipality of the District of Shelburne approve the Audit and Internal Control Committee's Terms of Reference be renewed until October 31, 2024; and

That the following members be appointed to the Audit and Internal Control Committee:

- Councillor Ron Coole
- Councillor Sherry Thorburn Irvine
- Deputy Warden Dale Richardson (alternate)
- Sandy Hood, Community Member
- Larry Pelletier, Community Member
- 1 community member vacancy

BUDGET IMPLICATIONS

There are no budget implications in relation to renewals. The vacancy will require advertising to fill; the advertising budget can absorb this cost.

ATTACHMENTS

Terms of Reference for Audit and Internal Control Committee

Municipality of the District of Shelburne
AUDIT AND INTERNAL CONTROL COMMITTEE

Terms of Reference

Purpose

The purpose of the Audit and Internal Control Committee is to act as an advisory board carrying out critical review functions on behalf of Council. The primary function of the audit committee is to assist Council in fulfilling their oversight responsibilities related to quality and integrity of financial reporting along with ensuring the appropriate systems and controls for the proper recording of transaction and protection of assets are in place.

Authority and Access

The Audit and Internal Control Committee has been granted its legal authority to oversee the financial and fiduciary process of the Municipality by virtue of being delegated this responsibility with Council's approval on November 3, 2016, of this Terms of Reference and thereafter appointing members to the Committee. Council gains its responsibility and authority for this under Sections 42-44 of the *Municipal Government Act*.

The Audit and Internal Control Committee shall have authority to delve into any affair of the Municipality, with full access to management and the auditor.

Objectives

The objectives of the Audit and Internal Control Committee are to:

1. Help council meet its fundamental responsibilities of protecting the municipal assets and managing operations as efficiently as possible;
2. Provide better communication between the auditor and Councillors, and promote better understanding of the audit process;
3. Enhance the external auditor's independent position;
4. Increase the credibility and objectivity of the Municipality's financial report; and
5. Strengthen the role of Council/Committee members.

Committee Composition

1. Membership on the Audit and Internal Control Committee shall include two elected representatives and an alternate from the Municipality of the District of Shelburne and three members of the public, duly appointed by Council annually pursuant to Section 44(1) of the *Municipal Government Act*. Members of the public appointed to this committee should have strong financial backgrounds and be able to comprehend complex financial and regulatory processes;

Member applications shall be vetted by the CAO and member appointment will be by Council motion. Members of the public can not be related to a member of Council or to an employee of the Municipality;

All appointments shall be for a two-year term, at the end of each term a Committee member may express their interest in continuing as a member or resign as a member;

Where a vacancy occurs on the Committee, the Council shall appoint a person to fill the position as soon as possible; that person shall hold office for the remainder of the term of the member in whose place that person is appointed;

Where there is a member of the public vacancy the Committee shall continue to meet and perform its duties and may exercise its powers; and the municipality shall advertise to recruit a new community member at least once every six months until the position is filled;

Each member will serve without remuneration but shall be reimbursed for such expenses as are necessarily incurred by such member in the discharge of the member's duties, with prior approval from the CAO;

Each member must complete training as prescribed by the Department of Municipal Affairs.

2. The Chairperson is ultimately responsible for organizing, chairing and facilitating all meetings, ensuring that appropriate research, directions and recommendations are given to the Committee, including the provision for adoption of work plans, policy directions, strategies, financial commitments, human resource management, as well as all other items incidental to the effective financial oversight of the Municipality.
3. A Vice Chairperson shall be appointed and act in the place of the Chairperson during absences, unavailability or conflicts on interest of the Chairperson.
4. Municipal Auditor's role is to conduct the yearly financial audit of the Municipality's accounts and funds in order to provide an independent opinion on the financial condition of the Municipality, including confirmation that the funds and accounts of the Municipality clearly represent the financial position of the Municipality on a given date. The Auditor will meet with the Committee at least twice annually to review the engagement and audit process, materiality limits, timetable and proposed fees at the outset, followed by a review of the draft financial statements, management letter and Financial Information Return after the audit.
5. The Audit and Internal Control Committee shall report directly to the Council of the Municipality of the District of Shelburne and indirectly to the Chief Administrative Officer for operational and administrative support.

The Audit and Internal Control Committee must maintain minutes of its meetings and submit written reports to Council or Committee of the Whole.

6. The mandate of the Audit and Internal Control Committee shall be from November 1, 2016 to October 31, 2018, and is subject to renewal each two years thereafter according to Section 44(1) of the MGA and at the discretion of Council.

The duration of the role of Chairperson and Vice-Chairperson shall be one-year. Annually, in November or the next scheduled meeting, an Election of Officers by Committee shall take place appointing a Chairperson and Vice-Chairperson.

7. It is expected that all members of the Audit and Internal Control Committee will adhere to the *Municipal Conflict of Interest Act*, disclosing any pecuniary or indirect pecuniary interest in any matter before the Committee and refraining from taking part in, or trying to influence either before or after the meeting, any directions or decisions respecting such matters. Any breach of this guideline will require the Chairperson to ask Council to remove that member and appoint another member in their stead. If the breach is by the Chairperson, this shall be reported to Council by the Vice Chairperson.
8. All meetings of the Audit and Internal Control Committee are considered public, except those matters deemed to be private and confidential in nature and subject to Section 22 of the Municipal Government Act. Minutes and subsequent resolutions of such meetings shall be recorded and publicly available upon approval by the Committee. Information and reports of the Committee shall be subject to normal Freedom of Information and Protection of Privacy (FOIPOP) regulations
9. All communications and messaging from the Audit and Internal Control Committee's work and activities shall come solely from the Chairperson or their designate. It is expected that all decisions of the Committee will be supported by all members of the committee upon ratification. This does not limit the ability of individual member's from speaking freely with the media, but in all such cases the individual committee member should be clear that it is their personal opinion and not that of the Audit and Internal Control Committee.

Meeting Requirements

1. Meetings of the Audit and Internal Control Committee shall be held whenever circumstances demand such a meeting, however the Committee must meet at least two times per fiscal year. The Committee will generally meet on the third Tuesday of the month at 10:00 am. Additional meetings may be held, or the above meetings date and times changed, when agreed to by consensus of the Committee and prior notification is provided to Committee members;
2. It is recommended that the Committee meet at least four times, and the meeting should coincide with the stages of the audit. The following topics should be included on the Committee's agenda:
 - a. Role and responsibilities of the auditor;
 - b. Review of the roles and responsibility of the Committee;
 - c. Appointment of municipal auditor;
 - d. Quarterly financial information;
 - e. Audited Financial Statements and auditor's work;
 - f. Management or Internal Control letter and management's response;

- g. Adequacy and effectiveness of internal controls;
 - h. Financial condition indicators; and
 - i. Financial risk management.
3. No decisions may be made at any Audit and Internal Control Committee meeting unless at least one elected representative and two community representatives are present; this will constitute a quorum. All decisions of the Audit and Internal Control Committee shall be made by majority vote of committee members. Where a majority is not forthcoming, the vote shall be determined in the negative.
4. Agendas will be developed to address its terms of reference and responsibilities; and
5. There will on occasion, be a need for the auditor to meet with the Committee, without any appointed officials present. The would be accommodated through a request by either the Committee or the auditor to one another.

Responsibilities and Functions

The functions of the Audit and Internal Control Committee are categorized as follows:

1. Financial Reporting Function – Responsibilities Related to the Financial Reporting

The Committee shall:

- a. Review the audited annual financial statements in depth with management and external auditor; if satisfied that they present fairly the financial position and results of operations, recommend their acceptance to Council;
- b. Review with management any changes in accounting principles and practices followed by the Municipality;
- c. Review any significant variance in comparison to prior year and/or budget; and
- d. Review and discuss the financial condition indicators.

2. External Audit Function – Responsibilities Related to the Work of the Auditor

The Committee shall:

- a. Discuss the extent, timing and completion of the audit including the level of materiality to be used;
- b. Review estimated and final audit fee;
- c. Discuss whether the terms of the letter of engagement were met;
- d. Recommend to Council the change of the municipal auditor if management questions the competence of the incumbent auditor and the Committee confirms the view; the recommendation to appoint a new auditor would follow an adequate inquiry into the auditor's competence and reputation;
- e. Review the problems and restrictions encountered by the auditor and degree of cooperation received; and
- f. Promote cooperation between management and the auditor.

3. Accounting System and Internal Controls Function – Responsibilities Related to Internal Controls

The Committee shall:

- a. Obtain and review the management and internal control letter addressed to Council;
- b. Discuss with the auditor the annual evaluation of the internal control system related to the financial reporting and the recommendations for improvements of accounting procedures and internal controls related to the financial reporting, together with management's response;
- c. Discuss management's response to the recommendations and adequacy of management's action plan;
- d. Obtain reasonable assurance that the municipality has implemented appropriate systems of internal controls:
 - i. Over the financial reporting and that these systems are operating effectively;
 - ii. Obtain assurance the Municipality is in compliance with its policies and procedures and that these systems are operating effectively; and
 - iii. Identify, monitor, mitigate and report significant financial or operational risk exposures and that these systems are operating effectively; and
- e. Receive and review any internal reports relating to accounting procedures and internal controls.

4. Risk Management Function – Responsibilities Related to Risk Management

The Committee shall:

- a. Understand the risks of the Municipality;
- b. Review the Municipality's risk management controls and policies;
- c. Obtain reasonable assurance that management's systems to eliminate or manage the risks are effective; and
- d. Receive reports on the management of financial risks.

5. Alleged Wrong-Doing Function – Responsibilities Related to Questionable Activities

The Committee shall:

- a. Enquire fully into any activities or transactions that may be illegal, questionable or unethical, and into the Municipality's control procedures to ensure that such activities are being guarded against;
- b. Ensure management has implemented a policy and/or process to review and respond to complaints or allegations of wrong-doing or questionable acts by elected officials, or municipal employees; and
- c. Review and advise Council members with respect to complaints or allegations of wrong-doing.

6. Statutory and Regulatory Compliance Function and Other Responsibilities

The Committee shall:

- a. Review the Municipality's compliance with statutory and regulatory obligations within the Committee's area of responsibility;
- b. Review the overall reasonableness of expense of the CAO and Council members. Specifically review the summary of remuneration and expenses schedule for reasonableness;

- c. Review the annual summary hospitality expense note; and
- d. Review adequacy of staffing in relation to both number and competence for accounting and financial responsibilities.

Approved by Council: November 3, 2016

Amended by Council: October 22, 2018

Amended by Council: May 27, 2019 (Amended to reflect new legislation requirements)

Amended by Council: November 23, 2020 (Amended to reflect the addition of an alternate Council member)