

**Audit Committee Structure and Mandate Considerations****Audit Committee  
Structure and Mandate Considerations****Introduction**

At its meeting of May 21, 2002, Executive Committee (when dealing with audit matters) reviewed materials provided by the Office of the City Auditor (OCA) regarding emerging roles of audit committees in the publicly-traded firms and potential applications to public sector organizations. In the aftermath of widely publicized accounting scandals, the governance roles of boards of directors and audit committees have been the focus of significant attention in the media. However, because of significant differences in operating environments of publicly traded corporations and municipal governments, application of the emerging recommendations to municipal governments is not entirely straight forward.

Audit committees in both private and public sector organizations are increasingly being recognized as leading practice initiatives throughout Canada, the United States, the United Kingdom, Australia and other jurisdictions. In many jurisdictions (including Canada), publicly traded companies are required by governing bodies to have audit committees that meet specified expertise and independence conditions. Broadly speaking, the overall purpose of audit committees is to provide the governing boards with oversight of their organizations' operations.

Municipal governments operate in a somewhat different environment than do publicly traded companies. Municipal governments are generally entrusted with providing services within approved budget amounts in an environment of transparency, accountability, and responsibility rather than being held accountable for profits. In addition, municipal councils consist of members elected directly by the citizens, thus guaranteeing a degree of independence beyond that often seen in private sector companies. These and other differences require examination and evaluation of the principles underlying recent recommendations made to private sector audit committee. In Canada, those recommendations have been directed not only to the Toronto Stock Exchange, Canadian Venture Exchange, and Canadian Institute of Chartered Accountants as the sponsors of the report, "...but also to all directors, boards, and CEOs."<sup>1</sup>

On May 28, 2002, City Council passed the recommendation from Executive Committee that the City Auditor in cooperation with the Administration bring forward a report in response to the four-part motion (referenced in the report as Council motion – part a through part d). This report presents the results of the resulting reviews and

---

<sup>1</sup> Saucier, Guylaine, et al, *Beyond Compliance: Building a Governance Culture*, November 2001. The Canadian Institute of Chartered Accountants, the Canadian Venture Exchange, and the Toronto Stock Exchange jointly sponsored the report. The full text of the final report is available at the following website: <http://www.jointcomgov.com>.

## Audit Committee Structure and Mandate Considerations

considerations of this matter by the Administration and the Office of the City Auditor in consultation with KPMG LLP (the City's external auditor).

## History

During the year 2000, the audit governance structure of the City of Edmonton underwent change following an external review of the function of the OCA in which several recommendations were presented to Council. Council agreed with the primary emphasis of the consultants' report and established structures designed to enhance the role of the OCA within the City's overall governance structure. Those structural changes resulted in increased communication between members of Council and both the external and internal auditors as a result of the regularly scheduled special meetings of Executive Committee to deal with audit matters.

In the opinion of the OCA, the current structure has been working quite well with regard to internal audit issues, but there are a few opportunities to further enhance the structure – especially in relation to the work of the external auditor. Suggested enhancements are incorporated into the proposed terms of reference presented in Appendix C. The Saucier report<sup>2</sup> and other recent literature has clearly highlighted the need for organizations to increase the common level of awareness of “bigger picture” issues (such as strategic and business risk, financial practices, etc.) at the level of corporate audit committees and boards of directors. The literature has been heavily slanted toward the corporate world, but many of the principles can be applied in the public sector environment.

## Methodology and Scope

The OCA worked closely with the Office of the City Clerk (OCC) and Law Branch to respond to Council's motion. The OCA conducted a leading practice review of Canadian municipalities to determine what leading practice elements are in place in Canadian municipal environments. Although there are many similarities between Canadian and US municipalities, it is not infrequent for City Auditors in the US to be elected officials. None of the Canadian jurisdictions surveyed follow that model. Limited survey results and information were obtained from several US jurisdictions to determine the degree of comparability between Canadian and US municipal practices regarding the use of audit committees. The OCA has concluded that the results of the Canadian survey are generally in synchronization with common practices in the US.

Literature and other sources of information about national and international audit practice were also referenced to identify a range of structure and methodology options for consideration. The OCA conducted a gap analysis to identify opportunities for improvement coming out of recent recommendations from commissions and governing

---

<sup>2</sup> Saucier, Guylaine, et al. A summary of the recommendations of the Joint Committee are contained in Appendix D with statements regarding how the proposals of this report address each of the recommendations.

## Audit Committee Structure and Mandate Considerations

bodies representing public accountability organizations. Reports and recent publications from the Securities and Exchange Commission, the Toronto Stock Exchange, the Joint Commission on Corporate Governance, the Canadian Institute of Chartered Accountants, the Institute of Internal Auditors, Pricewaterhouse Coopers, KPMG, Ernst & Young, other government organizations in Canada, Australia, the United Kingdom, the USA, etc. were included in the review. (See Appendix A for a selected bibliography of resources used.)

## Responses to the Motion

### ***Current structure (Council motion – part a)***

- a) The Executive Committee's role in the audit function.

City Council at its August 29, 2000 meeting gave the Executive Committee responsibility to perform the role of an audit committee. At the same meeting, City Council directed the City Auditor to report to City Council through the Executive Committee. Bylaw 12300, Procedures and Committees, Part XIV, Division 4.1, sections 165.1 to 165.3 define the duties of the Executive Committee when dealing with audit matters. In its current structure, the City of Edmonton has not established a standing Audit Committee, but has delegated this role to Executive Committee in special session. In those special sessions, Executive Committee functions as the City's Audit Committee.

The duties of the Executive Committee when dealing with audit matters are:

- With respect to an external auditor, the Executive Committee has the duty to review and make recommendations to Council about the selection, appointment or dismissal, fees, annual work plan and reports of the External Auditor.
- The Executive Committee is responsible to review and make recommendations to City Council on the annual audited Financial Statements of the City.
- With respect to the City Auditor, the Executive Committee has the duty to review and make recommendations to City Council on the City Auditor's long term audit plan and annual work plan, quarterly reports, annual report and budget. With input from all Councillors, the Executive Committee makes recommendations to City Council on the performance review of the City Auditor.
- Under the terms of Bylaw 12300, Procedures and Committees, Part VI, Division 1, section 41 (1.1), Administrative Inquiries of the City Auditor are not allowed; rather, provision is made in Bylaw 12424, City Auditor, for City Council to direct the City Auditor to undertake Special Projects.

Council schedules special Executive Committee meetings four times a year for the purpose of dealing with audit issues. When Executive Committee performs its audit functions, it only has the power to receive a report for information or to make a recommendation to Council. Reports received for information do not have to be

## **Audit Committee Structure and Mandate Considerations**

forwarded to Council. The Executive Committee can submit audit matters to Council without recommendation.

The OCA believes that this forum has been an effective means for communicating internal audit issues, facilitating understanding of internal audit reports, and obtaining feedback from the Administration regarding implementation of recommendations made by the internal auditors. There are opportunities, however, to enhance the functioning of the Committee with regard to the financial audit reports received from the external auditor. Based on the results of the OCA's leading practice review, we believe that modifications of the current state would be needed to improve the functioning of the City's audit committee structure. Potential changes are discussed more fully below in the responses to Council motion – parts c) and d) and in Appendix C.

### ***Fiduciary Role (Council motion – part b)***

- b) Is there a fiduciary role that the Executive Committee by their actions creates by being a part of an Audit Committee?

Executive Committee performing an audit function is not attracting any additional liability for Councillors. Elected officials in general are an agent or trustee accountable to the municipality, therefore their normal duties are of a fiduciary nature. This means that they are not permitted to enter into transactions:

- in which they may have a personal interest or may be in conflict, or
- from which they may profit.

It would be a breach of an elected official's fiduciary duty to the municipality if they did either of the above.

### ***Audit Committee Roles (Council motion – parts c and d)***

- c) Define the role of an Audit Committee  
 d) Is there a need for additional independent advice to the Audit Committee?

### **Survey of Canadian Municipalities**

The current structure at the City reflects that of other Canadian jurisdictions. Survey responses were received from fifteen Canadian municipalities (see Appendix B). One of those municipalities (Montreal) does not have an audit committee in place; rather the internal audit department provides annual reports to the whole of Council. Two municipalities (Windsor and Calgary) currently have external representatives on their audit committees with specific financial or audit expertise required (in both of those municipalities, the audit office operationally reports to management); the other twelve committees are made up exclusively of elected members of Council. Eleven municipalities have a dual reporting relationship for their internal auditors (audit reports are submitted to Audit Committee and/or Council; administratively, internal audit reports

## Audit Committee Structure and Mandate Considerations

to the Administration). One municipality's internal audit group reports to the CAO with the CAO reporting functional outcomes to the audit committee. The other three report directly to Council through an audit committee. The current structure at the City of Edmonton with the City Auditor reporting to Council is in line with current practice in Toronto, Montreal, and Winnipeg. Windsor is reportedly reconsidering their entire audit structure including whether or not to maintain external membership on their audit committee. In addition to the survey results, some literature indicates that matters such as independence and willingness to ask informed questions may be better measures of the effectiveness of audit committees than is their financial or audit expertise. Appendix C and Recommendation 2 address the need to introduce appropriate training that will assist the Committee by enhancing fundamental financial literacy, maintaining ongoing awareness of emerging issues, and interpreting the manner in which accounting interpretations and practices impact the City's operations.

The audit committees in nine of the jurisdictions have authority only to recommend actions to their Councils. In two jurisdictions, their authority extends to providing "limited guidance" to auditors and administration. In the other four jurisdictions, the authority of audit committees ranges from being limited to approving work plans for internal and external auditors to a very comprehensive authority including approving work plans, audit mandates, audit budgets (internal and external), directing special studies/investigations, and approving financial reports. As noted in the response to Council motion – part a) above, the level of authority delegated to the City's Executive Committee for dealing with audit matters is the same as that of nine of the fifteen jurisdictions surveyed.

In all jurisdictions surveyed, a committee of Council receives audit reports in some form. In most cases, the committee is referred to as an audit committee or audit subcommittee. In some jurisdictions, the audit committee membership is the same as that of another standing committee. It is common practice (not universal) to refer to the committee that deals with audit matters in a Canadian municipal environment as an audit committee whether or not at least one member has specific financial or audit expertise as is now required for publicly traded companies. The proposed terms of reference in Appendix C contain a recommended means of providing appropriate input to the Committee without fundamentally restructuring its membership.

No Canadian jurisdictions have yet initiated measures to specifically address the governance issues arising from the Saucier report, but at least three jurisdictions are re-evaluating their entire internal and external audit structures based on specific control and governance issues they have recently encountered.

### Gap analysis

In the following paragraphs, applicable discussions and recommendations from private sector rule makers are presented along with a discussion of the degree of fit with current practice at the City of Edmonton.

## **Audit Committee Structure and Mandate Considerations**

Fully implementing current leading practice recommendations regarding private sector audit committees would mean that the City's audit committee would require appointment of external members. Rather than continuing to be the Executive Committee of Council meeting in special sessions to deal with audit matters (which could be called Audit Committee), it would need to become a formal audit committee with a specific mandate and minimum membership qualifications. However, the OCA does not believe that there are pressing needs to fully adopt those recommendations. Rather, the principles driving those recommendations can be accommodated with some adjustments to the existing structure. Those adjustments (discussed below and in Appendix C) would require amendments to Bylaw 12300, Procedures and Committees.

### ***External Auditor Reporting Relationship***

External auditors are typically hired by and report to the board of directors through the audit committee. Currently, Council receives recommendations from the Administration regarding the hiring and/or termination of the external auditor. Reports from the external auditor are presented to Council through Executive Committee. Presently, the Administration conducts the contracting process for the City's external auditor with the City Auditor sitting as Council's representative on the evaluation and selection committee. The current statements in the Procedures and Committees Bylaw regarding Executive Committee's role in relationship with the external auditor are reflective of best practice, but could be strengthened. Further clarifying the relationships between the external auditor, Council, the City Auditor, and the Administration (as described in Appendix C) could enhance the external auditor's reporting relationship with Council.

### ***Financial and/or Audit Input***

Leading practices for public entities require audit committees to have at least one member with financial and/or audit expertise and for all members to have some degree of financial literacy. These requirements are designed to ensure that audit committees have sufficient expertise to provide a reasonable degree of oversight of the work of the external auditors as they conduct financial attest audits. The risk is that, without that internal expertise, the audit committee could misunderstand or be unaware of significant financial adjustments, policies, or treatments.

Two of the Canadian jurisdictions surveyed have external members sitting on their audit committees. In both cases, the external members are required to have financial and/or audit expertise. This option was suggested during the best practice review of the City's Office of the Auditor General in the early part of 2000, but was not accepted by Council at that time. The OCA and the Administration believe that the objective of bringing independent financial expertise to Executive Committee can be achieved through enhancing the role of the City Auditor with regard to the external auditor as described in Appendix C.

It is KPMG's belief that in order for the City to fully address best practices for public entities, the City should consider establishing a standing audit committee that would

## **Audit Committee Structure and Mandate Considerations**

include outside members who have the required skills to ensure that the financial governance responsibilities of Council are fully met.

### ***Auditor Independence***

One of the most significant positions taken by regulatory agencies and others writing about recent events in the corporate world is that auditor independence needs not only to be real, but to be perceived by independent observers as being real. Without a clear perception of independence, an auditor's work will be tainted in the public mind. The Saucier report and other publications have presented recommendations intended to establish transparency regarding any relationships between a company's auditor and the company that could be seen as compromising independence.

As discussed in the OCA's 2001 Annual Report, the amount of consulting work conducted by the City's external auditor (KPMG LLP) is relatively small. There is no indication that consulting at present levels would be likely to compromise their independence either in reality or in perception. To avoid any such perceptions or realities developing in the future, however, the City should adopt clear independence guidelines that would specify acceptable degrees of separation between external audit and consulting work conducted by the same or beneficially related firms. The guidelines should also require independence between representatives of the external auditor, members of Council, and City staff. These guidelines will be adopted jointly by the City Auditor and the Chief Financial Officer in consultation with the City's external auditor.

### ***Informal Discussions***

Current research identifies regularly scheduled in private meetings between audit committees and those who report to them as a key element in establishing an environment in which informal discussions can lead to a fuller understanding of emerging issues that would be unlikely to be revealed in an open forum. The leading practice approach is to hold private discussions at least annually between the audit committee and each group reporting to it (internal audit, external audit, and/or management) as regularly scheduled agenda items. These meetings provide a forum for each group to confidentially discuss emerging issues that could impact the operational or financial efficiency or effectiveness of the organization and to discuss the quality of financial management and reporting decisions. They also provide a forum for confidential discussion of any impediments or emerging impediments to a group's work with others and means of improving those relationships.

In a municipal environment, in-private meetings are sometimes frowned upon as indicators that something is being unfairly concealed from the public. However, failure to conduct such meetings could result in an unwillingness to discuss emerging issues in a pro-active manner that creates an initial awareness and may result in pre-emptive action, rather than waiting until the issue has developed and requires remedial action. The OCA believes that establishing these meetings as regular agenda items could be beneficial to the overall health of the City.

## Audit Committee Structure and Mandate Considerations

### *Training and Awareness*

Leading practice organizations have designed information and training packages to help the members of their audit committees familiarize themselves with the organizational structure, basic financial skill sets, and the roles and responsibilities of audit committee members in the context of their organization. Following each election, Council members are provided briefing binders that introduce them to the organizational structure and mandate of each City Department and the Office of the City Auditor. Council members and their assistants are then given opportunities to meet with representatives of each group for briefing sessions. This existing practice provides the organizational awareness element of leading practices.

At present, there is no formal documentation or training beyond the City Auditor Bylaw and the Procedures and Committee Bylaw that provides guidance to members of Executive Committee in how they can more effectively approach and respond to audit matters, including analysis of financial audit reports. Implementation of such measures could facilitate further improvement in the effectiveness of Executive Committee as it deals with audit matters.

## Conclusion and Recommendations

As has been stated, the OCA believes that the current model for dealing with audit matters at the City of Edmonton has been working reasonably well. The above observations are related to areas in which the OCA believes that the effectiveness of the current structure can be further enhanced. The proposed Audit Committee of City Council Terms of Reference (Appendix C) introduces the following enhancements to current practice:

- an increased role for the City Auditor in providing input to Audit Committee regarding financial matters,
- a fuller definition of the roles and responsibilities of an audit committee,
- allows the Audit Committee authority to approve modifications to the annual work plans of the internal and external auditors and to evaluate the results of reviews of the Office of the City Auditor,
- encourages regular in-private meetings with the internal auditor, external auditor, and management (subject to the provisions of the Municipal Government Act), and
- explicitly defines the role and responsibility of the Audit Committee with regard to oversight of corporate governance matters.

The OCA recommends:

1. That Administration be directed to bring forward amendments to the Procedures and Committees Bylaw 12300 to establish a separate standing committee called the "Audit Committee," incorporating the Terms of Reference in Appendix C of the September 18, 2002, Office of the City Auditor report; and



**Audit Committee Structure and Mandate Considerations**

2. That the OCA, with input from the external auditor and the Administration, develop a training and awareness package for members of the Audit Committee to facilitate a more comprehensive ongoing awareness of audit committee roles and responsibilities and of emerging issues that impact audit committees.

The City's external auditor (KPMG) has reviewed this report and, except for their position relating to creation of a standing audit committee with outside membership, their suggestions have been incorporated. KPMG also encourages the adoption of regular private discussions (subject to the provisions of the Municipal Government Act) with the audit committee for the internal and external auditors and for management. The OCA appreciates the assistance and input it received from the Administration and the City's external auditor in preparing this report.

## Audit Committee Structure and Mandate Considerations

### Appendix A – Selected Bibliography

- Australian National Audit Office, *Better Practice Guides: Audit Committees*, June 1997.
- Blue Ribbon Committee, *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Sponsored by the New York Stock Exchange and National Association of Securities Dealers, 1999.
- Braiotta, Louis Jr., *et al*, *The Audit Committee Handbook*, 3<sup>rd</sup> Edition, John Wiley & Sons, Inc.: New York, NY, 1999.
- Cowper-Smith, G. Blair, *et al*, *Lessons from Enron: Questions for Audit Committee Members*, CCH Canada: LegalWorks, pp. 1-5, No. 93, May 2002.
- Ernst & Young, *Audit Committee Toolkit*, Ernst & Young LLP, 2000.
- Ernst & Young, *Audit Committees: Implementing the New Rules*, Ernst & Young, LLP, January 2000.
- KPMG, *KPMG Analysis of the Interim Report of the Joint Committee on Corporate Governance*, Audit Committee Institute: KPMG LLP, 2001.
- KPMG, *KPMG's Audit Committee Quarterly, Winter 2002*, Audit Committee Institute – Canada, KPMG LLP, 2002.
- KPMG, *KPMG's Audit Committee Update, Spring 2002*, Audit Committee Institute – Canada, KPMG LLP, 2002.
- KPMG, *Shaping the Canadian Audit Committee Agenda*, Audit Committee Institute – Canada: KPMG LLP, 2002.
- Mayer, Jane, *The Accountants' War*, The New Yorker, pp. 64-71, April 22 & 29, 2002.
- McKinnon, Bill, *Audits, Independence and Accountability: Let's Get It Right*, Paper presented to the Empire Club of Canada, April 18, 2002.
- Pricewaterhouse Coopers, *Current Developments for Audit Committees 2002 Supplement*, Pricewaterhouse Coopers LLP, February 2002.
- Public Oversight Board, *The Panel on Audit Effectiveness Report and Recommendations*, SEC Public Oversight Board: Stamford, CT, August 31, 2000.
- Queensland Treasury, *Audit Committee Guidelines*, January 2000.
- Saucier, Guylaine, *et al*, *Beyond Compliance: Building a Corporate Governance Culture*, Joint Committee on Corporate Governance, November 2001.
- Steinberg, Richard M. and Catherine L. Bromilow, *Audit Committee Effectiveness – What Works Best*, 2<sup>nd</sup> Edition, The Institute of Internal Auditors Research Foundation: Altamonte Springs, FL, 2000.
- Steinberg, Richard M. and Catherine L. Bromilow, *Corporate Governance and the Board – What Works Best*, The Institute of Internal Auditors Research Foundation: Altamonte Springs, FL, 2000.
- The Institute of Internal Auditors and National Association of Corporate Directors, *After Enron: A Survey*, The Institute of Internal Auditors: Altamonte Springs, FL, January 31, 2002.

### **Audit Committee Structure and Mandate Considerations**

Verschoor, Curtis C., *Audit Committee Briefing – 2001: Facilitating New Audit Committee Responsibilities*, The Institute of Internal Auditors: Altamonte Springs, FL, 2001.

Verschoor, Curtis C., *Audit Committee Briefing: Understanding the 21<sup>st</sup> Century Audit Committee and Its Governance Roles*, The Institute of Internal Auditors: Altamonte Springs, FL, 2000.

Walker, David M., *Government Auditing Standards: Answers to Independence Standard Questions*, letter from the Comptroller General of the United States to the Chairman of the Senate Committee on Banking, Housing, and Urban Affairs, General Accounting Office: Washington, DC, GAO-02-870G, July 2002.

## Audit Committee Structure and Mandate Considerations

## Appendix B – Survey of Audit Committees in Canadian Municipalities

City	Internal Audit Reports to	Audit Comm. is a Committee of Council	External members	Extent of Approval authority	Term of appointment
Edmonton	Council through Executive Committee	Yes 5 members – Mayor, 4 Councillors	No	recommend all actions	annual except the Mayor
Brampton	Council through Administration and Finance Committee through Audit Sub-Committee; administratively to City Manager	Yes 4 members – Mayor, 3 Councillors	No	recommend all actions	term of Council
Burlington	Council through Audit Committee; administratively to Director of Finance	Yes 7 members – Mayor, 6 Councillors	No	recommend all actions	term of Council
Calgary	Council through Audit Committee; administratively to CEO	Yes 10 members – Mayor, 7 Councillors, 2 citizens	Yes 2 members with audit-related background	recommend all actions	annual except the Mayor
Halifax	CAO through Director, Finance; CAO reports outcomes to Audit Committee	Yes 5 Councillors	No	recommend all actions; consulted on internal audit priorities and mandate	annual
Hamilton	Council through Audit Sub-Committee; administratively to Executive Director	Yes 7 members – Mayor, 6 Councillors	No	audit mandate, budget, work plan, requests special studies; recommend other actions	term of Council
London	Council through Board of Control; administratively to City Manager	Yes 4 Councillors	No	provides limited guidance to auditors and administration; recommends other actions	term of Council
Mississauga	Council through Audit Committee; administratively to City Manager	Yes 4 members – Mayor; 3 Councillors	No	recommend all actions	annual except the Mayor
Montreal	Annual report to City Council through Finance & Human Resources Committee	No reports are submitted to full Council	not applicable	not applicable	not applicable

### Audit Committee Structure and Mandate Considerations

City	Internal Audit Reports to	Audit Comm. is a Committee of Council	External members	Extent of Approval authority	Term of appointment
Ottawa	Council through Audit Committee; administratively to City Manager	Yes 7 members – Mayor plus 6 Councillors	No	recommends all actions	term of Council
Region of Peel	Council through Audit Subcommittee; administratively to Commissioner of Finance	Yes 4 members – Regional Chair, 3 Councillors	No	audit mandate, budget, work plan, requests special studies; recommend other actions	18 months
Region of York	Council through Audit Committee; administratively to CAO	Yes 5 members – 1 Regional Council Chair, 3 Mayors, 1 Regional Councillor	No	internal work plan, external work plan and fees, financial statements, all audit reports; recommend other actions	annual
Surrey	Council through Audit Committee; administratively to Manager, Financial Services (within Finance, Technology and HR Department)	Yes 3 Councillors	No	recommend all actions	annual
Toronto	Council through Audit Committee	Yes 5 Councillors	No	recommend all actions	18 months
Windsor	Council through Audit Committee; administratively to CAO	Yes 5 members – 3 Councillors plus 2 external members	2 members with financial, audit, or accounting background	recommend all actions	annual
Winnipeg	Council through Executive Policy Committee	Yes 7 members – Mayor plus 6 Councillors	No	external: scope of audit; internal: annual work plan; recommend other actions	annual except the Mayor

**Audit Committee Structure and Mandate Considerations****Appendix C – Recommended Audit Committee Terms of Reference**

---

**Audit Committee of City Council  
Proposed Terms of Reference****Purpose**

To assist City Council in fulfilling its responsibilities to oversee the City's systems of financial reporting, internal controls, and corporate governance.

**Membership**

The Audit Committee will be a standing committee of City Council and shall consist of the Mayor and four members of City Council. The membership, chair, and terms of appointment to the Committee will be the same as that of Executive Committee. In the conduct of its meetings, the Committee will follow the terms of Bylaw 12300, Procedures and Committees.

**Authority**

In general, the Audit Committee has direct authority to decide to receive reports and other items that come before it as information or to refer them to City Council with or without associated recommendations. If reports or other matters are received as information, they will not normally be referred on to City Council. Receiving reports for information implies that the Committee will satisfy itself that the reports adequately and appropriately reflect the findings of the auditors and that any management responses are acceptable. In addition, the Committee has authority to approve modifications to work plans for the internal and external auditor and to evaluate the results of reviews of the Office of the City Auditor.

In exercising its authority, the Audit Committee will normally rely on the work of the City Auditor and the City's external auditor to form its conclusions regarding the:

- effectiveness and efficiency of City operations including internal control systems,
- adequacy and appropriateness of the City's governance policies and practices, and
- adequacy and appropriateness of the City's financial policies and practices.

The Audit Committee has the direct authority to:

- receive reports for information,

## Audit Committee Structure and Mandate Considerations

- interact with the City Auditor, the external auditor, and the Administration to satisfy itself that audit recommendations and management action plans are reasonable responses to observed conditions
- review the selection process for the external auditor,
- review and analyze the City's financial statements,
- approve modifications to the annual work plans of the City Auditor and the external auditor,
- solicit and coordinate input from all Councillors regarding the performance review of the City Auditor,
- review and evaluate the results of periodic peer reviews of the Office of the City Auditor,
- conduct an annual review of these Terms of Reference to ensure that it continues to be an effective governance instrument, and
- make recommendations to Council regarding any further actions or decisions the Committee deems appropriate.

The Audit Committee may choose to refer any of these items forward to City Council for additional consideration or action if, in its judgement, the items warrant more comprehensive consideration.

The Committee has the authority and responsibility to recommend to City Council:

- the annual work plans of the City Auditor and external auditor,
- the City Auditor's annual budget request,
- evaluation of the performance of the City Auditor and appropriate compensation adjustments,
- the appointment, reappointment, or dismissal and the fees of the external auditor,
- the City Auditor's annual report and long term work plan,
- the external auditor's annual report related to the City's audited financial statements,
- any action, investigation, or analysis it wishes the City Auditor to undertake,
- changes to corporate governance documents and practices as appropriate, and
- any changes to these Terms of Reference.

## Meetings

Meetings of the Audit Committee will be scheduled each quarter to deal with audit matters. The City Auditor and the City Manager will establish the agendas for all Audit Committee meetings. Audit matters requiring immediate attention may be addressed by either:

- calling a special meeting of the Audit Committee in accordance with section 17 of Bylaw 12300, Procedures and Committees, or

## Audit Committee Structure and Mandate Considerations

- by taking the matter directly to City Council.

## Roles and Responsibilities

The Committee functions as the representative of Council in its interactions with the City Auditor, the external auditor, and the Administration. Audit work in the City is conducted under either a guardian role or an agent of change role or a combination of both, depending on the nature of the project. Under the guardian role, projects are conducted that focus on financial reporting, control systems, and protection of City assets. Under the agent of change role, projects are focussed on improving the efficiency and effectiveness of operations. There are significant differences in the manners in which guardian and agent of change projects are conducted, but the desired outcome for both is improvement of the overall operation of the City. One of the primary functions of audit committee members is to be prepared to ask questions of both the auditors and the Administration to clarify the implications of audit observations and recommendations and of responses from the Administration.

### *Annual Review*

The Committee will conduct an annual review of these Terms of Reference and submit recommendations for changes as appropriate to City Council for approval. During this review, the Committee will also conduct an evaluation of the effectiveness of its performance with the intent of identifying means of enhancing its overall effectiveness.

### *Financial Reporting*

The Committee's role is to provide assurance to Council that financial disclosures made by the Administration fairly present the City's financial condition, results of operations in accordance with Generally Accepted Accounting Principles (GAAP), and long-term commitments. In carrying out this primarily guardian responsibility, the Committee's role includes:

- reviewing and evaluating the City's accounting policies and policy decisions,
- examining the City's financial statements (including variance reports, auditor's opinions and management letters, and other related reports),
- reviewing the selection process for the external auditor to ensure ongoing independence, fairness, value-for-money, and adequacy of the selection criteria,
- recommending, in consultation with the Administration, the appointment or reappointment and fees of the external auditor, and
- overseeing the external auditor's annual work plan.

To ensure that the Committee has access to the required financial and audit skill sets for this oversight role, the following provisions will be implemented:

- The CFO will serve as the Committee's primary contact with the external auditor.



## **Audit Committee Structure and Mandate Considerations**

- The City Auditor will:
  - work closely with the CFO and the Audit Committee in selecting the external auditor and in monitoring their activities,
  - represent the Committee in its guardian role, and
  - report appropriate observations and recommendations to the Committee and provide input to the Committee regarding issues for it to discuss with the Administration relating to matters identified by the external auditor.

The external auditor is ultimately responsible to City Council through Audit Committee.

## ***Internal Controls***

The Committee's role is to provide assurance to Council through exercise of its agent of change and guardian functions that the City's key strategic business risk areas, systems of internal controls, and financial reporting processes and policies are functioning properly. The primary responsibility for implementing and maintaining systems of internal controls lies with the Administration. The Committee will monitor these areas primarily through the work of the City Auditor. In accordance with the provisions of Bylaw 12424, City Auditor, the City Auditor will provide the Committee with regular reports designed to assist the Committee in evaluating:

- the City's exposure to and management of strategic, business, and operational risks,
- the efficiency and effectiveness of internal control systems,
- the efficiency and effectiveness of City operations,
- the level of operational commitment to the principles of continuous improvement, and
- other internal control issues as appropriate.

## ***Corporate Governance***

The Committee's role is to provide assurance to Council through exercise of its guardian and agent of change functions that the City is in compliance with pertinent laws and regulations, is conducting its affairs ethically, and is maintaining effective controls against conflict of interest and fraud. The Committee will monitor these areas primarily through the work of the City Auditor. The City Auditor will provide the Committee with periodic reports related to:

- assessments of the adequacy and effectiveness of corporate policies related to compliance with laws, regulations, ethics, and conflict of interest,
- investigation of employee conflict of interest, misconduct, or fraud in accordance with Policy A1100C, Code of Conduct or Policy A1431, Conduct of Examinations into Allegations or Suspicions of Fraudulent Acts (as applicable),

### **Audit Committee Structure and Mandate Considerations**

- evaluation and improvements of the process through which organizational values and goals are established and communicated,
- evaluation of the extent to which operations and programs produce results consistent with their established goals and objectives,
- evaluation of performance monitoring and reporting by operational areas, and
- other governance issues as appropriate.

### **In-Private Meetings**

Subject to the provisions of the Municipal Government Act, the Committee may choose to schedule regular in-private sessions during the regular Committee meetings with the auditor(s) and without senior managers present and vice versa. The purpose of such meetings would be to hear any informal comments the auditor(s) and/or senior managers may wish to make regarding reported audit observations and to speak candidly on emergent issues that aren't appropriately discussed in a public forum.

## Audit Committee Structure and Mandate Considerations

### Appendix D – Saucier Commission Recommendations

The table below contains summaries of the recommendations of the Saucier report that relate to audit committees. Recommendations that do not relate to audit committee functions or structural considerations have not been referenced.

Saucier Recommendation	City Direction
Recommends that audit committees be composed solely of “unrelated directors” and that boards of directors define “unrelated” for their organizations.	The proposed terms of reference call for Audit Committee to be made up entirely of Councillors. As publicly elected individuals, independence is at a high level.
Recommends that boards of directors take steps to ensure the financial literacy of audit committee members.	Addressed by the proposed terms of reference for the Audit Committee of City Council.
Recommends that audit committees have formal written mandates to guide their activities and that the mandates be reviewed annually.	Addressed by the proposed terms of reference for the Audit Committee of City Council; Bylaw 12300, Procedures and Committees; and Bylaw 12424, City Auditor.
Recommends that accountability of the external auditor to the board of directors and audit committee, not management be emphasized, and that audit committees need to meet regularly with the external auditor to build effective relationships.	Addressed by the proposed terms of reference for the Audit Committee of City Council.
Recommends that: “The audit committee should periodically request from management a review of the need for an internal audit function and, on the basis of this review, determine whether such a function should be instituted.”	City Council has established the Office of the City Auditor through enactment of Bylaw 12424, City Auditor. The function is supported by the Administration.
Recommends that audit committees and boards ask their external auditors to review financial reports and documents prior to any public disclosure of that information.	Addressed by the proposed terms of reference for the Audit Committee of City Council.
Recommends that ongoing efforts in training and raising awareness of audit issues with and for audit committees and boards of directors be undertaken.	Addressed by the recommendation that the OCA and Administration work with the external auditor to develop an awareness and training program for members of Audit Committee.