

## TERMS OF REFERENCE

### AUDIT COMMITTEE

**STRATEGIC GOAL: ENHANCE THE QUALITY OF LIFE IN OUR TOWN**

**DEPARTMENTAL REPORTING: ADMINISTRATION DIVISION, CHIEF ADMINISTRATIVE OFFICER**

#### **SOLUTION STATEMENT**

**How might the Town of Pelham Create a committee of Council that is responsible for fulfilling its due diligence, fiduciary, financial reporting and audit responsibilities and approve, monitor, evaluate and provide advice on matters affecting the external audit, risk management and the financial reporting and accounting a control policies and practices of the Town?**

#### **PROBLEM DEFINITION – HOW MIGHT WE:**

- Have a solid understanding of the difference between the oversight function of the Committee and the decision making function of management?
- Establish a committee consisting of members of Council and the public who are responsible for overseeing the financial reporting, safeguarding of corporate assets, and compliance with legal ethical and regulatory requirements?
- Create an Audit Committee that provides a focal point for communication between Council, the external auditor, and management and facilitates an impartial, objective and independent review of financial reporting including financial statements?
- Make recommendations to Council regarding financial statements and other financial information, external audit function, corporate control framework and risk management?

#### **Financial Statements and Other Financial Information**

- Review and recommend for approval financial information that will be made available to the public. This includes annual audited financial statements and any other periodic financial information.
- Review and discuss with management the appropriateness of accounting or other financial policies and financial reporting practices, significant changes in financial reporting, accounting policies and practices to be adopted by the Town.
- To review any new or pending developments in accounting and reporting standards that may affect the Town.

- Review managements key estimates and judgements that may be material to financial reporting.
- Review any report which discusses the Towns financial position or operating results and accompanies the published financial statements to ensure consistency with the annual audited financial statements.

### **External Audit Function**

- Confirm and assure the independence of the external auditor, including the approval and review of all additional audit, management consulting and other fees of the external auditor.
- Recommend the selection and/or dismissal of the external auditor to Council as required including participation in the selection committee with staff, approval of the selection process and annual evaluation of the external auditor's performance.
- Review the terms of engagement, scope and performance of the external audit services provided.
- Recommend the fees for the audit to Council for approval.
- Review any matters brought to the committee's attention by the external auditor and determine the appropriate disposition.
- Review and discuss with the external auditor the management letter, agree with the management on the appropriate course of action, and make recommendations to Council where necessary.
- Discuss with the external auditor the annual evaluation of the internal control systems, if appropriate, together with any related recommendations for improvement.
- Meet with the external auditor to discuss all material issues and ensure and matter the external auditor brings forth has been given adequate attention, including any appropriate action.
- Meet with the external auditor to build an effective reporting relationship. Provide an open avenue of communication between the external auditor and the committee including the ability to meet in closed session, in the absence of town management, at audit committee meetings regarding matters deemed allowable under the Municipal Act.

### **Corporate Control Framework**

- Review and discuss with management their responsibility for:

- Reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information,
- Internal control processes and systems to ensure compliance to those policies, plans, procedures, laws and regulations having an impact on operations and reports,
- Protect corporate assets and as appropriate verifying the existence of those assets,
- Management and program performance including the efficient and effective use of resources to achieve the established goals and objectives,
- Obtain reasonable assurance the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management and the external auditor,
- Review reports related to the investigation of significant non-compliance, conflicts of interest, misconduct, or fraud and their resolution and make recommendations to Council,
- Review by-laws and policies specifically regulating the conduct of members of Council and committee, staff and suppliers (e.g. procurement, code of conduct).

### **Risk Management**

- Review and discuss with management their responsibility for assessing and managing the Town's exposure to risk.
- Review policies governing risk management.
- Review and discuss with management the Town's major risk exposures.

### **General Administrative**

- Review and update the Audit Committee Terms of Reference annually.
- Review any matter within the scope of the external auditors.
- Review and recommend the scope, terms of reference and fees of professional services retained for the purposes related to the audit committee's responsibilities.

## Membership

All members shall have voting rights, except staff who serve as a resource. Members shall be appointed by by-law by Council and the term of office shall be consistent with the Term of Council, and continue until successors have been appointed. Applications will be reviewed by Council in accordance with the Public Appointment Policy. Vacancies shall be replaced by Council appointment. Any committee member missing three (3) consecutive meetings without reasonable cause or explanation will be deemed to have resigned.

The Mayor serves as an ex-officio voting member of the committee.

The Chair and Vice Chair will be elected from the committee's membership once Council has approved the committee appointments.

It is the responsibility of Council to ensure that audit committee members are independent, financially literate and have the skills to serve as effective audit committee members:

- A general understanding of the Town's major economic, operating and financial risks.
- A broad awareness of the interrelationship of the Town's operations and financial reporting.
- Understand the difference between the oversight function of the committee and the decision making function of management.
- A willingness to challenge management, when necessary.

For members of the public the following criteria must be met to be eligible for appointment:

- Satisfactory police check (relevant fees to be paid by the Town).
- Be independent.
- Be a resident of the Town of Pelham.
- Possess a Chartered Professional Accountant (CPA) designation in good standing for a recognized post-secondary institution.
- Have an aptitude for complex organizational effectiveness and governance.
- Have a general understanding of the Town's major economic, operating and financial risks.
- Have a broad awareness of the interrelationship of the Town's operations and its financial reporting.

- Have an understanding of the difference between the oversight function of the Committee and the decision making function of management.
- Be willing to challenge management when necessary.
- Must sign a confidentiality agreement.

The following Meeting Protocols shall apply:

- Quorum for meetings of the committee shall be determined according to the Town's Procedural By-law, and declared by the chair. Approval of any motion shall require 50% plus one of the voting members in attendance at the meeting.
- If quorum is not attained within 15 minutes of the scheduled start time of the meeting, no actions or recommendations emanating from a meeting have any force or effect.
- Minutes shall be recorded and retained by the staff designate, and copies shall be forwarded to Town Council for information after committee approval.
- The Committee reports directly to the Town Council via minutes of its meetings, presentations as requested and/or as deemed necessary, and through the provision of a quarterly report to Town Council.
- The committee will appoint a chair who will serve throughout the appointment term.
- Recommendations for Council shall be forwarded in resolution form, under the signature of the Chair.
- Meeting protocols shall be conducted in accordance with the Municipal Act.
- All meetings shall be open to the public and closed session meetings shall only be permitted under the provisions of the Municipal Act, and if so convened shall not be held in the absence of the staff appointee. Meeting dates shall be posted on the Town's website.
- Sub-Committees may be formed as necessary and will determine their own meeting times and dates.