

Audit Committee Effectiveness Workshop Summary

Background

The focus of the 2017 assessment was on the committee's technical requirements, as well as, its effectiveness as a team (i.e. how members interact with each other/staff, are engaged in the process, etc.). The technical requirements are in keeping with the six key areas of responsibility as outlined in the Terms of Reference: Financial Statements, External Audit Function, Internal Audit Function (City Auditor), Corporate Control Framework, Risk Management, and General and Administrative matters.

Survey Summary

A survey was used to capture the feedback of Audit Committee members and specific members of management and staff. There were 9 respondents: 3 members of Council, 3 citizen representatives and 3 management/staff. For disclosure, there were 5 incomplete responses; meaning the survey was not completed to submission and the responses were not captured.

To recap, there is:

- 100% satisfaction with financial statements and external audit responsibilities and use of the audit committee calendar.
- 89% satisfaction with internal audit responsibilities.
- 83% satisfaction with interaction between audit committee members.
- 67% satisfaction with corporate control framework responsibilities, administration of the audit committee and interaction between audit committee members and management.
- 56% satisfaction with frequency and timing of audit committee meetings and continuing education/professional development received.
- 44% satisfaction with risk management responsibilities.

Workshop Discussion

Further discussion of the areas where there was less than 75% satisfaction occurred in a workshop forum held on April 5, 2017 and attended by 7 Audit Committee members and 3 management/staff. A recap of the discussion follows.

Technical Requirements – Terms of Reference Summary

(a) Risk Management

The Audit Committee terms of reference include:

- Review and discuss with management their responsibility for assessing and managing the City's exposure to risk
- Review policies governing risk management

- Review and discuss with management the City's major emerging risk exposures

Discussion Summary

There was considerable discussion related to risk management ranging from depth of awareness of risk in the City to what enterprise risk management (ERM) is and what role the Audit Committee has in ERM.

With respect to risk management and ERM, the Audit Committee:

- expressed the desire for accelerated discussion of the top 10 risks including how the risk was quantified, what action is being taken to mitigate the risks, who is accountable for such actions, and how senior management ensures the top 10 risks are being considered by management/staff when they make decisions throughout the year;
- would appreciate receiving continued education/professional development on ERM (e.g. ERM 101) for Audit Committee members to develop a base level of knowledge and understanding;
- expressed the need for a better understanding of the City's ERM process including how risks are identified, quantified and mitigated; consistency in terminology in use within the City; and
- concluded it is management's responsibility to set the level of risk and Audit Committee's responsibility to endorse and recommend for Council approval. Such endorsement and approval would make the risk appetite visible to staff and the public.

Recommendations

1. City Manager bring a high-level ERM process to the Audit Committee including how it's been implemented within organization level; giving consideration to using 1 or 2 examples to demonstrate the depth of assessment.
2. City Manager incorporate a regular report of ERM process and activity (frequency to be determined) to Audit Committee (to be added to the audit committee calendar in collaboration with the Committee Clerk).

(b) Corporate Control Framework

The Audit Committee terms of reference include:

- Review and discuss with management their responsibility for:
 - Reliability and integrity of financial and operating information and the processes to identify, measure, classify and report such information.
 - Internal control processes and systems to ensure compliance with policies, plans, procedures, laws and regulations.
 - Safeguarding City assets and, as appropriate, verifying the existence of those assets.
- Obtain reasonable assurance on an annual basis, the information technology (IT) systems are reliable and secure and the systems of internal controls are properly

designed and effectively implemented through discussions with and reports from management.

- Review and discuss reports related to the investigation of significant non-compliance, conflicts of interest, misconduct, or fraud and their resolution and make recommendations to Council thereon. Receive from the City Manager on an annual basis, a listing of matters investigated or being investigated, or a nil report if appropriate.
- Review and discuss by-laws and policies specifically regulating the conduct of members of council and committees, staff, and suppliers (e.g. purchasing by-law, code of conduct, etc.)

Discussion Summary

There was significant discussion related to the corporate control framework given the wide scope and not well defined topic. A key theme of the discussion included understanding of processes and how controls are embedded in those processes.

With respect to corporate control framework, the Audit Committee:

- recognized the importance of a system of controls and the need for management to have a process in place to satisfy themselves that the operation is functioning as it should;
- agreed their responsibility is not to know the intricate details of the controls; rather, it is to obtain from management a high-level understanding of the controls including how management satisfy themselves that the operation is functioning as it should (e.g. monitoring and oversight practices, key controls, etc.); and
- expressed the need for a better understanding of what control frameworks exist and what these may offer the City as a foundation for a system of internal controls.

Recommendations

3. City Auditor research existing control frameworks (e.g. COSO, CoCo, etc.) including how they are implemented and share results with Audit Committee and management in a workshop forum. The objective is to create awareness of control frameworks and how they are used. With this understanding, management can determine if there is an appetite for use of a control framework within the City as a means of identifying potential gaps at the entity level. Any consideration of implementing a control framework must include practicality, ease of understanding and ease of use for operational level staff.

Effectiveness as a Team Summary

There were 2 areas, Administration and Frequency & Timing of Meetings, discussed in parallel. These areas dealt with: sufficiency of time for discussion of agenda items, questions and significant or emerging issues to fulfill Audit Committee duties; number of meetings; and timing of the meetings. The remaining area influencing effectiveness is Continued Education/Professional Development.

Discussion Summary

There was good discussion about the ability for open dialogue and formality of meetings among the members providing the different perspectives of council and citizen representatives. Council members are well versed in the public nature and formality of meetings and the agenda process; whereas citizen representatives find the formality of the meetings and agenda process may constrain open dialogue. The frequency and timing of meetings and continued education/professional development conversations flowed easily.

With respect to Administration and Frequency & Timing of Meetings, the Audit Committee:

- concluded the need for 5 meetings a year, same start time (3:30 p.m.) and a different week/day than the current schedule provides. As a suggestion, in 2018, Audit Committee meetings could move to the Tuesday of Regional Committee week;
- concluded the need for a standing agenda item; that is, Other Items for Discussion, after the confidential items and before procedural motions, as well as, the opportunity to discuss a verbal update on their work-plan (described as the committee calendar). The purpose of this standing agenda item is to introduce topics for conversation only; that is, items that may be of interest to the committee yet will not require a committee decision other than a staff direction. The verbal update on the work-plan could be accommodated through committee remarks;
- recognized the benefit of contacting report authors, in advance of the meeting, should Committee members have any questions about the report and sharing any such questions and responses with all committee members;
- understand the benefit of advising management/staff, in advance of the meeting, should Committee members wish to pull a “consent item” for discussion. Advance notice provides management/staff with sufficient time to have the relevant staff available to respond to questions; and
- recognized the benefit in the future recruitment of a citizen representative with an IT background, in addition to the financial background currently sought.

Recommendations

4. Committee Clerk include additional meeting (i.e. 5 meetings/year) and different week/day timing of meetings for Audit Committee in future standing committee/council calendar planning for 2018 and future years.
5. Based on outcome of week/day timing of meeting change request, Committee Clerk determine feasibility of issuing Audit Committee agendas at the same time as other standing committee agendas (even though Audit Committee meeting may be one week later than other standing committee meetings).
6. Committee Clerk provide citizen representatives with brief summary of the agenda setting process including key timing for inclusion of items prior to the meeting.

7. Committee Clerk update Requirements and Criteria for Citizen Appointees to the Audit Committee section of the Terms of Reference to reflect need for strong IT background and experience.

With respect to Continuing Education/Professional Development, the Audit Committee:

- expressed the desire to have access to audit committee best practices including top risks other audit committees are focusing on (e.g. cyber security); and
- opportunities for education/awareness of these practices and risks.

Recommendations

1. City Auditor bring topics to Audit Committee members to consider for continuing education/professional development.
2. City Auditor provide a list of audit committee-specific websites to Audit Committee members for their reference.