

CL-35-21, Appendix B

Audit Committee Terms of Reference

NAME: Audit Committee
 CLERK: Committee Clerk
 MOST RECENT AMENDMENT: December 2021 (Report CL-35-21)

OTHER ITEMS OF REFERENCE:

PURPOSE

The Audit Committee has responsibility to Council to assist Council in fulfilling its due diligence, fiduciary, financial reporting and audit responsibilities and to approve, monitor, evaluate and provide advice on matters affecting the external audit, internal audit, risk management and the financial reporting and accounting control policies and practices of the City.

COMMITTEE RESPONSIBILITIES

The Audit Committee shall be responsible for making recommendations directly to Council regarding the following:

- i. Financial Statements
- ii. External Audit Function
- iii. Internal Audit Function (City Auditor)
- iv. Corporate Control Framework
- v. Risk Management
- vi. General and Administrative

i. Financial Statements

- Review and recommend for approval the annual audited consolidated financial statements
- Review quarterly actual financial performance.
- Review and discuss with management:
 - the appropriateness of accounting or other financial policies and financial reporting practices
 - any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the City
 - any new or pending developments in accounting and reporting standards that may affect the City and
 - Management's key estimates and judgments that may be material to financial reporting.

ii. 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.

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- 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.
- Approve the fees for the audit.
- Review any matters brought to the committee's attention by the external auditor and determine the appropriate disposition thereof.
- Review and discuss with the external auditor the Management Letter, agree with 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 any matter the external auditor brings forth has been given adequate attention, including any appropriate action.
- Meet regularly with the external auditors to build an effective reporting relationship. Provide an open avenue of communication between the external auditor and Committee including ability to meet in closed session, in the absence of City management, at Audit Committee meetings regarding matters deemed allowable under the Municipal Act 2001, c.25.

iii. **Internal Audit Function (City Auditor)**

- Confirm and assure the independence of the City Auditor
- Review and approve the annual audit work plan, and subsequent significant changes, as recommended by the City Auditor. Ensure the City Auditor's annual audit plan is risk-based and addresses the City's corporate strategic objectives
- Monitor and annually evaluate the performance of the City Auditor in carrying out the approved audit work plan and other established goals. When the Chair or Vice-Chair is an elected member of Council, they will be responsible for facilitating the annual performance evaluation. When the Chair and Vice-Chair are citizen representatives, then a Council member will be selected to facilitate this process
- Review audit reports issued and, where required, recommend the acceptance, amendment or rejection of the report recommendations.
- Review the adequacy of management responses to audit concerns in relation to the risks and costs involved.
- Review reports from the City Auditor on the status and implementation of approved audit recommendations.
- Bi-annually review the mandate and resourcing for the City Auditor position and ensure that the position is adequately meeting the City's internal audit needs.
- Provide an open avenue of communication between the City Auditor and Committee including ability to meet in closed session, in the absence of City management, at Audit Committee meetings regarding matters deemed allowable under the Municipal Act 2001, c.25.

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iv. **Corporate Control Framework**

- 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.

v. **Risk Management**

- Review and discuss with management their responsibility for assessing and managing the City's exposure to risk
- Review policies governing risk management including the Enterprise Risk Management program
- Review and discuss with management the City's major emerging risk exposures and their implications on achieving the City's Strategic Plans, operating plans and service business plans

vi. **General and Administrative**

- Review and update the Audit Committee Terms of Reference bi-annually.
- Participate in the selection of a City Auditor and, pursuant to by-law 132-1991, City Council would consider recommendations for disciplinary suspension or dismissal of the City Auditor.
- Review any other matter within the scope of the auditors, either internal or external.
- Review and recommend the scope, terms of reference and fees of professional services retained for purposes related to the Audit Committee's responsibilities.
- Bi-annually conduct an evaluation of the Audit Committee's effectiveness.
- Develop an annual committee calendar to reflect the responsibilities of the committee, the staff area responsible for providing information or materials to the committee, and the specific meeting of the committee at which the topic will be reviewed.

COMMITTEE COMPOSITION

The Committee is comprised of up to eight members, casting one vote per member:

- Three members of council
- A minimum of two and up to four citizen representatives (community volunteers)
- Mayor, an ex-officio voting member of the Committee.

The Chair and Vice-Chair will be elected from the committee's membership for a 2-year term commencing as soon as possible after the day of the inaugural meeting of Council and/or in November of the second year for the remaining two years of the Council term. When possible, the Committee would benefit from returning council members for first 2-year term.

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 City's major economic, operating, and financial risks,
- a broad awareness of the interrelationship of the City's operations, its financial reporting, and strategic objectives
- understand the difference between the oversight function of the Committee and the decision-making function of management, and
- a willingness to challenge management, when necessary.

TERM OF OFFICE

Council stipulates the appointment of Council members for a two to four year term, or until their successors are appointed, with consideration given to the member's stated interest or desire to be on the committee.

Citizen Representatives shall be appointed at the discretion of Council, based on the term of office for council (four years), or until their successors are appointed. Where a member ceases to be a member before the expiration of their term, Council will appoint another eligible person for the remainder of the term.

MEETINGS

The Committee is expected to meet at least four times per year. Where necessary, additional committee meetings may be called by the Chair or Vice Chair as required.

Audit Committee minutes will be shared with Council and Audit Committee's citizen members through Council agendas and minutes.

The Committee Clerk will prepare the Order of Business, in keeping with the City's Procedure By-law.

Closed Session items will be considered in accordance with the City's Procedure By-law and with the Municipal Act 2001. The City Manager may act as Clerk during closed session portions of Audit Committee meetings upon the request of the Audit Committee, as outlined in the Procedure By-law.

Electronic meetings will be considered in accordance with the City's Procedural By-law. Members, staff, residents and other stakeholders will be afforded the opportunity to participate in these electronic meetings virtually.

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Quorum is constituted by the attendance of four members, at least one of whom is a citizen member and at least one of whom is an elected member of Council other than the Mayor (who sits ex-officio).

BUDGET CONSIDERATIONS

The fiscal year of the Committee will be January 1 to December 31 annually. Any budget request will be presented within the relevant capital or current budget submission.

COMMUNICATIONS

The Committee Clerk will work with Finance Department staff and the City Auditor to complete the necessary advertising.

REQUIREMENTS AND CRITERIA FOR CITIZEN APPOINTEES TO THE AUDIT COMMITTEE

- Satisfactory police check paid for by the City
- Be independent
- Be a resident of the City of Burlington
- Be financially literate (the ability to read and understand basic financial statements)
- Have an aptitude for complex organizational effectiveness and governance
- Have a general understanding of the City's major economic, operating, and financial risks
- Have a broad awareness of the interrelationship of the City'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
- Preferably a member of a professional accounting association.

TERMS OF REFERENCE REVIEW DATE: Dec 2021 Next review by December 2023.

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