

DECISION/DIRECTION NOTE

Title: Audit Committee – Terms of Reference

Date Prepared: July 15, 2019

Report To: Committee of the Whole – July 24, 2019

Councillor and Role: Councillor Dave Lane/Finance and Administration

Ward: N/A

Decision/Direction Required:

Seeking approval from Council to approve the newly developed Terms of Reference for the Audit Standing Committee.

Discussion – Background and Current Status:

At its Regular Meeting of February 5, 2018 (CD #2018-02-05/14), Council agreed to appoint a panel to review the best governance process for the City's Internal Audit function.

The subsequent report of the panel was approved by Council at its Regular Meeting of April 15, 2019 (CD#2019-04-15/1).

The report contained several recommendations, including changes to the existing Audit and Accountability Standing Committee, as noted below:

- There should be 2 public representatives on the Audit and Accountability Standing Committee of Council; one of these individuals should be the Chair of the Audit and Accountability Standing Committee.
- Specific Councillors (3) be identified and appointed to serve on the Audit and Accountability Standing Committee; the current structure has all Councillors as members of the Committee but few actively participate.
- The Audit and Accountability Standing Committee have at least 4 meetings per year.
- The Audit and Accountability Standing Committee recommend the budget allocation for the Internal Audit Division to Council and guide its approval. The budget allocation would include salary resources, professional development, travel and normal operating costs.
- The Audit and Accountability Standing Committee review special project requests outside of the work plan independently developed by the Internal Audit Division and

ST. JOHN'S

support Internal Audit in decisions taken with respect to those requests.

- The Audit and Accountability Standing Committee be responsible for hiring the City Internal Auditor.
- The Audit and Accountability Standing Committee conduct an annual performance review of the City Internal Auditor.
- The Audit and Accountability Standing Committee liaise with, and receive reports of, the external auditor.
- The Audit and Accountability Standing Committee follow up to ensure that recommendations resulting from work of the Internal Audit Division are implemented.

Based on the recommendations of the panel, the Internal Auditor, Deputy City Manager of Finance and Administration together with the City Clerk, developed a Terms of Reference for the Audit Standing Committee.

Once the Terms of Reference is approved, we will advertise for a public member to Chair the Committee.

Key Considerations/Implications:

1. Budget/Financial Implications: N/A
2. Partners or Other Stakeholders:
 - Mayor and members of Council
 - Residents of the City
3. Alignment with Strategic Directions/Adopted Plans: N/A
4. Legal or Policy Implications: N/A
5. Privacy Implications: N/A
6. Engagement and Communications Considerations:
 - Advertise for a new public member/Chair
7. Human Resource Implications: N/A
8. Procurement Implications: N/A
9. Information Technology Implications: N/A

10. Other Implications: N/A

Recommendation:

It is recommended that Council approved the newly drafted Terms of Reference for the Audit Standing Committee.

Prepared by: Elaine Henley, City Clerk

Reviewed by: Sean Janes, Internal Auditor

Approved by: Derek Coffey, Deputy City Manager/Finance and
Administration

Attachments: Draft Terms of Reference – Audit Committee

1. GENERAL INFORMATION

Standing committee name:	Audit Committee
Reporting to:	Council
Date of formation - expiration date:	
Meeting frequency:	Minimum of four times per year
Staff lead:	DCM, Finance & Administration – External Audit Matters City Internal Auditor – Internal Audit Matters
Other staff liaison:	As required

2. PURPOSE

The Audit Committee is appointed by Council to assist Council in fulfilling its oversight responsibilities with respect to:

- Financial reporting
- Internal control systems
- Risk management
- Legal and regulatory compliance
- The external audit process
- The internal audit function

The Audit Committee is a standing committee of Council, appointed by Council and makes recommendations directly to Council regarding the above noted matters.

Audit Committee Relationship to Strategic Plan:

- A Sustainable City – be financially responsible and accountable.
- An Effective City – work with our employees to improve organizational performance through effective processes and policies; and ensure accountability and good governance through transparent and open decision making.

Applicable Legislation/City Bylaws:

- N/A

Other City Plans, Guides or Strategies:

- N/A

Other Distinct Deliverables and Considerations:

- The Committee will be presented with a report of all fraud allegations received by the Office of the City Internal Auditor on an annual basis, along with the results of any investigations and any other relevant statistics.

3. MEMBERSHIP AND COMPOSITION**3.1 COMPOSITION**

The Audit Committee will be comprised of a minimum of 5 members from the following stakeholder groups:

3.1.1 Public Members**Committee Chair**

The Audit Committee will be chaired by a member of the public. The position of Chair will be advertised and will be selected by Council upon recommendation of staff drawing from the available candidates. The public member chairing the Committee will have responsibility for ensuring the Committee carries out its work as per the terms of reference.

Public Members

The Committee will be comprised of 2 residents serving as public members (1 serving as Chair). Public members are volunteers and will receive no compensation for participation. Preference will be given to residents of St. John's. Public members must have an accounting and/or an auditing designation, have experience in the public sector, either directly or indirectly as a finance professional, auditor or consultant, and/or have demonstrated expertise and experience in matters of municipal finance and auditing.

Council Members

A minimum of 3 Council members shall be appointed to the Committee.

3.1.2 Staff and Council Members (Ex-Officio Members)**Lead Staff**

The City Internal Auditor will act as Lead Staff for the Audit Committee for all internal audit related matters while the Deputy City Manager of Finance & Administration will appoint a staff member to be Lead Staff on all external audit related matters. Other staff support/attendance may be requested by the Lead Staff where required.

City Clerk

The City Clerk will provide legislative and governance support to the committee.

Council

The Committee will have three members of Council while all other Council members are considered ex-officio.

3.2 LENGTH OF TERM

Public Member Experts

Unless otherwise indicated, Audit Committee members term of appointment is four years. Recognizing the value of experience and the need for continuity, incumbents who are willing to seek reappointment may signify their intent to serve an additional two years, for a total of six years. In some cases, members may be encouraged to provide guidance, expertise and attend in a bridging capacity following the end of their term.

Cooling-off Period (Former City Staff and Council)

There will be a cooling-off period of two years for Council and Staff once they are no longer associated with the City. Setting term lengths with a cooling-off period will promote gradual turnover, ensuring a constant balance between new members and former staff or council.

Additional Considerations:

- Midterm Appointments: When an appointment is made which does not coincide with the beginning of a term (i.e. to fill a vacancy) the partial term (i.e. less than two years) shall not count towards the maximum length of service or number of terms on the Committee for the appointee.

Exceptions to the above terms are as follows: when an insufficient number of applications have been received; if a particular area of expertise is indispensable and there are no other suitable replacements; if the Committee would suffer from a lack of continuity (i.e. more than half of all members are replaced at once); if directly related to the Committee's purpose as defined in its Terms of Reference.

4. ROLES, RESPONSIBILITIES AND REPORTING

4.1 ROLES AND RESPONSIBILITIES

As a municipal standing committee, roles include:

- Making recommendations to Council in a manner that will support City strategic directions and goals.
- Providing expertise specific to the mandate of the Committee.
- Working within given resources.

Shared Member Responsibilities

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and/or regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Review other sections of the annual report before release and consider the accuracy and completeness of the information. Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.

- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and consider whether they are complete and consistent with the information known to Committee members.

Internal Control

- Consider the effectiveness of the City's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

- Review with management and the City Internal Auditor the charter, activities, staffing, and organizational structure of the internal audit function.
- Review and recommend approval of the annual audit plan and all major changes to the plan.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the City Internal Auditor.
- At least once per year, review the performance of the City Internal Auditor.
- Review the effectiveness of the internal audit function.
- On a regular basis, meet separately with the City Internal Auditor to discuss any matters that the Committee or internal audit believes should be discussed privately.

External Audit

- To satisfy itself as to the existence and terms of an Engagement Letter from the external auditors.
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit, including the materiality limits incorporated into the audit.
- Review the performance of the external auditors and recommend approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the City, including non-audit services, and discussing the relationships with the auditors.
- To review the auditor's report and audited financial statements and to satisfy itself that these financial statements present fairly the financial position and results of operations and that the external auditors have no reservations about them and to make such recommendations thereon to Council as deemed necessary by the Committee.
- To satisfy itself that there are no unresolved issues between management and the external auditors, which could affect the financial statements and that generally, there is a good working relationship between management and the auditors.
- To review the external auditors' management letter together with the implementation plans as advised by management.
- On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to City personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and City legal counsel regarding compliance matters.

Risk Management

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

Reporting Responsibilities

- Regularly report to Council about Committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, the senior management team and Council.
- Review any other reports the City issues that relate to committee responsibilities.

Other Responsibilities

- Perform other activities related to this mandate as requested by Council.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the Audit Charter annually, requesting Council approval for proposed changes.
- Confirm annually that responsibilities outlined in this mandate have been carried out.

Conduct

Members shall strive to serve the public interest by upholding Federal, Provincial and Municipal laws and policies. Members are to be transparent in their duties to promote public confidence. Members are to respect the rights and opinions of other committee members.

Preparation

Meeting agenda and accompanying materials will be circulated electronically one week prior to all meetings; members are expected to review all distributed materials prior to meetings. Alternate material distribution methods to be made available upon request.

Agendas

- Agendas to require focus with clear parameters for content and alignment with terms of reference/purpose.
- Agendas will be finalized one week before meetings.
- Items and accompanying material that are received after the agenda has been prepared and distributed (but prior to the meeting) will be moved to the following meeting's agenda at the discretion of the City Clerk.

Attendance and Participation

Active participation in meetings is expected of all public members. "Active participation" may refer to both meeting attendance and/or engagement. An effort should be made to attend meetings in person or remotely. If a member declines three consecutive attempts to schedule a meeting or is unable to attend three consecutive scheduled meetings without justified absence, that member may be retired from the committee at the discretion of the City Clerk

Members who wish to request a leave of absence for an extended period of time (3+ months) may submit such a request to the City Clerk. Previously submitted applications may be used to fill temporary vacancies created by approved leaves of absence.

Quorum – a quorum for meetings is considered to be 50% + 1 members in attendance.

Voting

City Staff and non-appointed council members are ex-officio and therefore non-voting.

4.2 MEMBER ROLES AND RESPONSIBILITIES**4.2.1 City Staff****Lead Staff**

- To act as a liaison between the Committee and the City; linking across departments on issues relevant to the work of the Committee.
- Lead staff will attend the Regular Meeting of Council when reports of the Audit Committee are included in the agenda and when requested by the Chair or Council.
- Ensure the Committee is informed about City policy, procedure and available resources in reference to specific agenda items and provide procedural and/or technical advice to assist the committee where appropriate.
- Request additional staff support/attendance at meetings as needed.
- To develop agendas in cooperation with the Chair and City Clerk's Office for distribution.
- Incorporate input from the Committee into ongoing City work where appropriate (e.g. projects, staff updates, publications).

Other Staff Liaison

- The work of Other Staff Liaisons intersects the purpose of the Committee and therefore they may be required to participate.

City Clerk

- To be responsible for legislative functions related to the Committee's operation, establishment, review, and term amendments. This includes leading or supporting day-to-day committee activities such as the co-ordination of meeting schedules and the external/internal distribution/posting of committee agendas and meeting reports
- Facilitate and support the recruitment and appointment process through assisting in the development of "Notice of Vacancy" while ensuring all relevant forms and supporting documentation are completed and received.
- In adherence with the terms of reference, the Office of City Clerk and Lead Staff oversee committee selection with input from relevant departments.

- The Office of the City Clerk will work with Lead Staff members to ensure new members receive orientation.

4.2.2 Public Members

Chair

- The presiding officer of the Audit Committee will be referred to as "Chair." A Committee member shall not serve as a Chair for more than four consecutive years except in extenuating circumstances (see Term Limits).
- Uphold Committee processes and functions in accordance with all terms presented, maintaining productivity and focus. This includes ensuring committee members' conduct themselves in a professional manner.
- If appropriate, with support from the City Clerk and Lead Staff, the Chair will help build and coordinate a work plan for the committee.
- Prepare and submit agenda items and accompanying materials to the City Clerk (i.e. act as a conduit for all communications between public members and the City Clerk).
- Where appropriate, support the Lead Staff and/or City Clerk in fulfilling the Committee requirements related to reporting processes (annual presentations, written reports, FAQ's etc.).
- Assist in the development of content for Notice of Vacancy documents.
- Review the Audit Committee's Terms of Reference with the City Clerk and Lead Staff at the end of each term and be prepared to propose amendments as needed.

Public Members

Public members are expected to provide advice to support City decision making; applying knowledge and experience related to the mandate of the committee in carrying out functions commensurate with its defined purpose. Roles to include active participation in meetings; representing professional designation to which they belong in the community and engaging experts when appropriate.

4.2.3 Council

The Audit Committee reports to Council.

In cases where an item of Committee business (as detailed in a given meeting agenda) would benefit from having additional members of council attend, it will be the responsibility of the Chair and/or Lead Staff to inform Council.

4.3 REPORTING

The Audit Committee shall report through Council.

Standardized Reporting Process:

- The Committee Lead Staff, Chair and City Clerk will work to complete a report for referral to Council.
- Following reporting to Council, the report will be posted to the City of St. John's website, if appropriate.

5. COMMITTEE RECRUITMENT AND SELECTION**5.1 RECRUITMENT, VACANCIES, AND APPLICATIONS**

Recruitment practices will be consistent for all standing committees. When new members are required a "Notice of Vacancy" will be prepared by the City Clerk and distributed through City communication channels. Additional communications opportunities may be identified by relevant departments/committee members. This document will include general information regarding committee purpose, the terms of reference and a link to the Application Form.

A vacancy on a committee occurs when a member resigns, vacates a position, or when their resignation is requested by the Chair. Vacancies may occur at: the date of resignation; the date the member ceases to be qualified; the date the Chair declares the position vacant due to lack of attendance or incapacitation.

All applicants must complete an Application Form which may be downloaded from the City website or obtained by visiting/calling Access 311. Applications will be made available in large print format upon request and may be submitted electronically, via mail, by phone, or in person to the attention of the City Clerk's Office.

5.2 ELIGIBILITY AND SELECTION**Eligibility**

Appointments to the City of St. John's Audit Committee will follow Section 3. Membership and Composition.

Selection Criteria

In addition to eligibility requirements, an applicant's specific skills and experience will be important factors in committee selection. While all who meet the Eligibility Requirements outlined are encouraged to apply, applicants with demonstrated participation in groups or initiatives with goals relevant to the committee's purpose will be preferred. Some other considerations pertaining to general selection criteria include: past professional and volunteer experience, ability to perform required tasks, and complementary skills, or competencies possessed. Those who are selected to serve on the City's Audit Committee will be notified by email.

6 PUBLIC ENGAGEMENT

The City of St. John's recognizes that engagement between the City and its citizens is an essential component of an effective municipal government. The City views public engagement as a process – one that facilitates dialogue with the right people, using the right tools, at the right time, on subject areas of mutual interest.

In accordance with the City of St. John's [Engage! Policy](#), the role of the Audit Committee in the spectrum of engagement will fall within the realm of "consultation." As such, City of St. John's Audit Committee will be based on the principles of commitment, accountability, clear and timely information, and inclusiveness.

Standing committees are only one of the ways to engage with the City. Where applicable the City will consider the use of other tools to gather perspectives and input. For more information on public engagement in the City of St. John's or to find out how to get involved or learn about what's coming up, check out the engagement page on the City's website. You can also check out the City's [Engage! St. John's](#) online engagement platform and connect with us on [Twitter](#) and [Facebook](#).

7 OTHER GOVERNANCE

7.1 REVIEW OF TERMS

Taking into account recommendations from the Committee Chair, Council, the City Clerk and Lead Staff, the Committee will, at the first meeting of each year, review the Audit Committee Terms of Reference document. The purpose of this review will be to ensure that the operations and function of the Committee are still aligned with its defined purpose. Through this review process, amendments to the Terms of Reference may be proposed and recommended to council.

7.2 MEETING AND SCHEDULES

The Audit Committee will meet a minimum of four times per year as agenda items are determined. The exact frequency of Audit Committee meetings will be determined by the Chair, Lead Staff, and City Clerk.

Unless otherwise specified (generally one week prior to a meeting) Audit Committee meetings shall be held at City Hall and shall generally be open to the public. In-camera sessions (closed to the public) may be held at the request of the Chair or Lead Staff to deal with privileged matters.

7.3 CONFLICTS OF INTEREST AND CONFIDENTIALITY

Conflicts of Interest

A conflict of interest refers to situations in which personal, occupational or financial considerations may affect or appear to affect the objectivity or fairness of decisions related to the committee's activities. A conflict of interest may be real, potential or perceived in nature. Conflict of Interest may occur when a committee member participates in discussion or decision-making about a matter which may financially benefit that Member or a member of his/her family, or someone with whom the committee member has a close personal relationship, directly or indirectly, regardless of the size of the benefit.

In cases where the committee agenda or discussions present a conflict of interest for a member, that member is required to declare such conflict; to abstain from discussion; and remove himself/herself from the meeting room until the agenda item has been dealt with by the Committee.

Confidentiality:

All committee members are required to refrain from the use or transmission of any confidential or privileged information while serving with the Audit Committee.

STANDING COMMITTEE TERMS OF REFERENCE

Staff Liaison Name:

Signature: _____

Date: _____

Chair Name:

Signature: _____

Date: _____

City Clerk Name:

Signature: _____

Date: _____