



## General Policies

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Policy Number:	2019-44
Title:	<b>AUDIT COMMITTEE POLICY</b>
Approved by Council:	September 26, 2019
Amended:	

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### 1. Purpose

- 1.1. The primary purpose of the Audit Committee is to provide advice to Council on all matters relating to audit and finance. The objectives of the Committee are to:
- a) fulfill the requirements outlined in Section 44 of the Municipal Government Act, and,
  - b) assist Council in meeting its responsibilities by assessing the adequacy and effectiveness of financial reporting, risk management and internal controls and making recommendations as deemed appropriate.

### 2. Scope

- 2.1. The Policy is applicable to all serving members of the Town of Stewiacke Audit Committee referencing the Nova Scotia Municipal Government Act (MGA) (*To be formed as per provincial requirements*)

### 3. Background

- 3.1. Municipalities are obligated to establish an audit committee, as outlined in Section 44 of the Municipal Government ACT (MGA). By establishing an audit committee, the independence of an external auditor is enhanced because there is a direct link between the auditor and the Councillors. Audit committees also facilitate communication between the auditor, the governing board and the counsellors. Furthermore, the audit committee acts as an advisory role to the governing body

because the committee is extensively informed on various matters relating to the financial statement audit.

## **4. Policy**

### **4.1 Composition**

- The Audit Committee will consist of five members – the Mayor, two Council members and two members at large.
- The Mayor will not serve as Chair of the Committee.
- The Vice Chair can be any member and will be selected by the Committee.
- A quorum is defined as 50% of the committee plus one.
- The appointment of the members at large shall follow the Citizen Appointment Process Policy which states a member can be a resident or taxpayer or a director of a company in the Town of Stewiacke.
- Independent members or member at large cannot be related to a council member or an employee of the Town of Stewiacke.
- All members will serve a four-year term to maintain the knowledge base.
- The Audit Committee council members are required to complete training as prescribed by the Department of Municipal Affairs and Housing. All committee members are encouraged to attend to attend AMANS financial management courses.
- All members shall be appointed before December 31 of a municipal election year.
- Where a member is appointed in any time period before the election the members shall serve until the election and may be reappointed following the election.
- Where the call for citizen appointments does not result in an appointment, the vacancy will be re-advertised within six months.
- A meeting of the Committee will be held at least twice per year. Additional meetings may be necessary to review items relating to the audit and will be called by the Chair.

## **5. Duties and Responsibilities**

### **5.1 Audit**

- a) Review the qualifications, independence; quality of service, performance and fees of the External Auditors, annually and recommend the appointment of an auditor to Council.
- b) Carry out the responsibilities of an Audit Committee contained in Section 44 of the Municipal Government Act.

- c) Review with Management and the External Auditor, the annual audited financial statements and recommend the approval to Council;
- d) Review with Management, the internal control management letter received from the auditors and recommend any changes to Council as required.
- e) The Audit Committee are required to review and discuss Financial Condition Indicators.
- f) The Committee will review the financial statements from the previous year as well as the current year.

## **6. 6.1 Finance and Risk Management**

- a) Review with Management the quarterly financial package to be presented to Council and recommend approval;
- b) Review with Management annually all financial policies including those used in the preparation of the external financial statements;
- c) Review with the Management the adequacy of internal controls;
- d) Review with Management annually risk management practices including insurance coverage.
- e) Audit Committee must create a process in relation to alleged wrong-doing as well as having a process established for review purposes and advising Council.
- f) The Audit Committee shall review the annual summary of remuneration and expense schedule as well as annual hospitality expenses.

## **7. 7.1 Administration**

- a) The meeting of the Committee will be held at least two times per year, more if necessary. October and January are the preferred months to meet although the meeting dates can be flexible, subject to consensus by the Committee. Additional meetings may be necessary to review items relating to the audit and will be called by the chair.
- b) The Chief Administrative Officer (CAO) and Manager of Finance will provide staff support to the Committee.

## **8. 8.1 Policy Considerations**

- a) Develop an effective audit committee terms of reference for the Town of Stewiacke.
- b) Suggestions and recommendations of the audit committee should be made available to the public.
- c) Select, orient, and update audit committee members.
- d) Influencing the overall corporate “tone” for quality financial reporting, risk controls, and ethical behaviour.

- e) Reviewing the internal and external auditors' risk assessments and overall audit plans.
- f) Risk controls – monitoring processes for management's identification and control of key corporate financial and regulatory risk.
- g) Financial reporting – monitoring the integrity and quality of annual and interim financial reporting to stakeholders.
- h) Compliance – monitoring compliance with the corporate code of conduct and regulatory requirements, and reviewing and assessing conflicts of interest and related-party transactions.
- i) Audit committee needs to ensure independent external auditors.
- j) Audit Committee should adhere to the Financial Management Capacity Building Committee (FMCBC) Recommended Practice on Audit Procurement
- k) Assessing internal and external auditor performance.
- l) Assessing audit committee performance.
- m) Committee should be subject to an evaluation.

## 9. 9.1 Elaborated Policy Considerations

### Developing an Effective Audit Committee Terms of Reference

- a) Audit committees should adopt a formal written mandate that is approved by Council members that establishes the scope of the committee's responsibilities. The terms of reference should also be made available to the public. A regular (no less than every five years) assessment of the terms of reference should be conducted and reported to the Council. The terms of reference should include a full description of the roles and responsibilities of the committee.
  - i. For example: The relationship with and expectation of the external auditor;
  - ii. The relationship with and expectation of the internal auditor function;
  - iii. Its oversight of internal control;
  - iv. Disclosure of financial and related information; and,
  - v. Any other matters that the audit committee feels are important to the terms of reference or that the Councillors choose to delegate.

### Disclosure to the Public

- a) The audit committee should make their recommendations and suggestions known and disclosed to the public. The audit committee should be transparent with their decisions and their reasons behind its decisions, which can be done by disclosing the annual report to the public.

### Selecting, Orienting, and Updating Audit Committee Members

- a) Council appoints audit committee members and the audit committee chairperson(s). Orientation may enhance the knowledge and effectiveness of an audit committee.

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### **Influencing the Overall Corporate “Tone” for Quality Financial Reporting, Risk Controls, and Ethical Behaviour**

- a) It is important for the audit committee to work closely with a municipality’s Council members. By maintaining a strong and cooperative relationship with open lines of communication, the committee can work effectively with the municipality.

### **Reviewing the Internal and External Auditors’ Risk Assessments and Overall Audit Plans**

- a) The audit committee must be aware of the internal and external auditors, and understand their assessments. For those municipalities that do not have an internal auditor, the audit committee should understand the internal audit functions.

### **Risk Controls – Monitoring Processes for Management’s Identification and Control of Key Corporate Financial and Regulatory Risk**

- a) It is important that the audit committee is aware of the government’s mandate and the specific goals that they wish to obtain. Audit committees must also be aware of the government’s risk management strategy and control mechanisms to ensure that these instruments are successful.

### **The Audit Committee Needs to Ensure Independent External Auditors**

- a) Members of the audit committee should be independent and they should not have a relationship with the external auditors. Their independence should be maintained throughout the duration of their time on the audit committee.
- b) Refer to sections 3 and 4 of the Municipal Conflict of Interest Act, and the municipality’s own conflict of interest policies.

### **Financial Reporting – Monitoring the Integrity and Quality of Annual Interim Financial Reporting to Stakeholders**

- a) The audit committee should recommend to Council any publication of financial reports, including key disclosures, changes from prior reporting periods, and important judgment questions that impact the integrity of the information.

### **Audit Committee should adhere to the FMCBC Recommended Practice on Audit Procurement**

- a) The recommended practice provides guidance on specific elements that ought to be included when selecting independent auditing services for a municipality’s financial statements.

### **Compliance – Monitoring Compliance with the Corporate Code of Conduct and Regulatory Requirements, and Reviewing and Assessing Conflicts of Interest and Related-Party Transactions**

- a) The audit committee should understand and be aware of the overall environment, laws, and regulations that affect the municipality. This provides reasonable assurance of compliance. The audit committee acts on illegal acts, reported conflicts of interest, and related-party transactions.

### **Assessing Internal and External Auditor Performance**

- a) How internal and external auditors respond to the needs and expectations of the audit committee is the basis of performance measurement (need to be developed). An external auditor's purpose is to serve the citizens and Council through the audit committee. If an internal auditor is present in a municipality, its purpose is to assist the audit committee in various areas of financial reporting.

### **Assessing Audit Committee Performance**

- a) The audit committee should periodically assess its performance. This often includes assessing the effective use of the committee's time, responsiveness to the terms of reference. This also includes an assessment of its effectiveness of relationships and communications with the external / internal auditors, the Councillors, and the users of the financial statements.

### **Evaluation**

- a) The audit committee should be subject to an evaluation. The auditor and the audit committee should also be held accountable to the Councillors.

## **10. Legal and Regulatory – Section 44 Municipal Government Act**

### **10.1 Audit Committee**

- (1) The council shall annually appoint an audit committee
- (2) The responsibilities of the audit committee include
  - i. a detailed review of the financial statements of the municipality with the auditor;
  - ii. an evaluation of internal control systems and any management letter with the auditor;
  - iii. a review of the conduct and adequacy of the audit;
  - iv. such matters arising out of the audit as may appear to the audit committee to require investigation;

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- v. such other matters as may be determined by the council to be the duties of an audit committee
- vi. any other matters as may be determined by the council.

<u>Annotation for Official Policy Book</u>	
Date of Notice to Council Members of Intent	
To Consider (Minimum 7 Days):	<u>September 27, 2019</u>
Date of Passage of Current Policy:	<u>October 8, 2019</u>
I certify that this Policy was adopted by Council as indicated above.	
_____	_____
Chief Administrative Officer	Date