



## Staff Report

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<b>Report To:</b>	General Government Committee		
<b>Date of Meeting:</b>	October 15, 2019	<b>Report Number:</b>	FND-027-19
<b>Submitted By:</b>	Trevor Pinn, Director of Finance/Treasurer		
<b>Reviewed By:</b>	Andrew C. Allison, CAO	<b>Resolution #:</b>	
<b>File Number:</b>		<b>By-law Number:</b>	
<b>Report Subject:</b>	Audit Committee and Value for Taxpayer Committee		

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### Recommendations:

1. That Report FND-027-19 be received;
2. That the Audit Committee composition, structure and terms of reference be updated to reflect best practices in the industry in place of establishing a separate "Value for Taxpayers Committee"; and
3. That staff be directed to report back to Committee with recommendations on a new Audit Committee structure by November 25, 2019.

## Report Overview

At the June 10, 2019 Council meeting there was a resolution “That Staff report back in October 2019 on establishing a Value for Taxpayers Committee which includes Council Representation.” It is recommended that Council consider a revision to the existing Audit Committee in place of creating a new committee and that staff report back on changes to the Audit Committee by November 2019.

## 1. Background

### Council Request for “Value for Taxpayers Committee”

- 1.1. During the discussion on report [FND-002-19](#) on the Budget Policy, Council added the following which was unanimously passed:

“That Staff report back in October 2019 on establishing a Value for Taxpayers Committee which includes Council Representation.”

- 1.2. Over the summer, staff researched similar committees in comparable municipalities. Staff found that comparable municipalities did not specifically have “Value for Taxpayers” committees. While there may not have been a specific “Value for Taxpayers” committee, it was felt that the intent was served in other committees that were in place in these comparable municipalities. Staff see an opportunity to review the Audit Committee and its composition in light of the direction from Council.

### Current Audit Committee

- 1.3. In 2005, the Audit Review Group was formalized as discussed in report [FND-019-05](#) Appointment of Audit Review Group. This Audit Review Group was established in 2002 under the Canadian Institute of Chartered Accountant’s (CICA) guidelines; these guidelines now fall under the Chartered Professional Accountants of Canada (CPA Canada). The Audit Review Group was the Mayor, Chief Administrative Officer and Treasurer. Since this time the external auditors have presented the annual financial statements to this group.
- 1.4. In 2007, our external auditors Deloitte & Touche recommended a new internal audit function. The Internal Auditor position was created in 2007. Report [FND-011-08](#) Internal Audit Charter and Blueprint for Operations was approved by Council and set up the internal audit position to report to the Audit Review Group. As per the Internal Audit Charter, “Internal Audit provides independent and objective assurance and consulting services designed to add value and improve the Municipality’s operations.”
- 1.5. Over time this group is now referred to as the Audit Committee. The Audit Committee remains composed of the Mayor, Chief Administrative Officer and the Treasurer.

- 1.6. Staff feel it is inappropriate for two members of staff to be voting members of the Committee which has been delegated authority to approve the financial statements. This is further inappropriate given that one of the voting members is legislatively responsible for the financial statements.
- 1.7. The Manager of Internal Audit does report to the Audit Committee and is an ex officio member of the Committee. The goal is to present an annual internal audit work plan to the Audit Committee and report back to the Committee. It has been the intention to have several meetings during the year. Due to a variety of reasons, such as staffing constraints in the Finance Department, this has not always occurred.
- 1.8. The Manager of Internal Audit is currently working on the 2020 Internal Audit Work Plan to be presented to this group.

## **2. Review of the Audit Committee**

### **Research on Audit Committees**

- 2.1. During the summer recess, staff conducted a survey of similar sized municipalities (by population) on their audit committees. A few municipalities did not have an audit committee but referred to other committees such as Finance, Finance and Administration or Finance and Corporate Services Committees.
- 2.2. The average audit committee size is 6 members. The Mayor sits on at least 71% of the audit committees and an average of 47% of Members of Council are represented on the audit committees. Approximately 33% of the audit committees reviewed have qualified members of the public as sitting members. It is unusual to have staff members on an audit committees. It is common to have internal audit, finance and chief administrators as ex officio members of the audit committee.
- 2.3. Staff also reached out to our external auditors Grant Thornton for information and guidance on audit committees. Grant Thornton provided the document "Audit Committee Terms of Reference: Practical advice to help you make the right decisions". There are a number of recommendations for an audit committee from purpose, membership, authority and accountability and meetings. The auditors also expressed that it is unusual to have our current structure, particularly the two members of staff sitting on the Committee.
- 2.4. Generally, an audit committee has a role in governance in that it provides oversight and recommendations on areas such as financial reporting, risk management, internal control, compliance, ethics, internal auditors and external auditors. It is important to note that an audit committee does not conduct administrative duties or review operational processes directly.

- 2.5. Staff feel that by enhancing the relationship between the internal audit function and the Committee, and restructuring the composition of the Committee, the ideals of the Value for Taxpayers Committee would be met (better Council representation, improved review of financial controls and spending).
- 2.6. A question for Council would be the involvement of members of the public on an audit committee. It is strongly suggested that any public members should be qualified and experienced financial professionals with a background in audit and financial controls.
- 2.7. It may not be necessary for members of the public to be members of the committee for several reasons. First, elected Members of Council are ultimately accountable to the taxpayer for the financial stewardship of the Municipality. Secondly, any reports or minutes from this committee could be provided to GGC through reporting processes and therefore form the public record.

### **3. Concurrence**

This report has been reviewed by the Municipal Clerk and the Manager of Internal Audit who concur with the recommendations.

### **4. Conclusion**

- 4.1. It is recommended that Council's request for a "Value for Taxpayers Committee" be met by a revision to the existing role, structure and composition of the Audit Committee. The review of the Audit Committee will cover the terms of reference and include committee purpose, composition, authority, meeting schedule and meeting process.
- 4.2. It is recommended that the terms of reference for the Audit Committee not include public participation; however if public participation is deemed appropriate Staff should review the qualifications for members of the committee to ensure proper experience in financial controls and reporting are required.
- 4.3. It is respectfully recommended that staff report back to Council on proposed revisions to the Audit Committee by January 2020.

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Attachments:  
Not Applicable

Interested Parties:  
There are no interested parties to be notified of Council's decision.