

TOWN OF LOCKEPORT
POLICY STATEMENT

L-010

Audit Committee Terms of
Reference and Policy

Effective Date:
June 24, 2019

Revision Date:

Objective

The purpose of the Audit Committee is to provide advice to Council on matters relating to audit and finance of the municipality. The Committee fulfills the legislative requirements as outlined in Section 44 of the *Municipal Government Act (MGA)*.

The Committee increases both the reliability and credibility of financial reporting, enhances the independence of external auditors, and influences the overall corporate “tone” for quality financial reporting, risk controls, and ethical behaviour.

Composition

The Committee will consist of between five and seven members, at least two of whom are town residents or from the surrounding area and not elected or employed by the Town.

Committee members shall possess or acquire accounting, auditing, financial reporting and/or finance expertise. In instances in which qualified town residents cannot be found, other qualified applicants will be considered.

Staff will provide support to the Committee but will not be voting members. Staff should liaise through the Clerk Treasurer and/or designate. There may be an occasional need for the auditor to meet with the Committee without staff present. This can be initiated by either party.

Council shall annually appoint the Committee. The Committee will elect a chairperson.

All Committee members will serve without pay.

Duties and Responsibilities

The following list represents the duties and responsibilities of the Audit Committee. However, the Committee may be assigned such other matters as determined by Council to be the duties of the Audit Committee.

Financial Statements

- Review audited financial statements in depth with management and the external auditor. If satisfied they fairly present the financial position and results of operations, recommend approval by Council.
- Review any potential changes in accounting principles and practices.
- Review any significant variance in comparison to prior year and/or budget.
- Review and discuss the financial condition indicators.

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Audit

- Procure the audit in accordance with the requirements on procurement.
 - The scope of the audit should include fair basic financial statements, individual funds, and component units. The audit contract should stipulate that the auditor conforms to generally accepted auditing standards found in the CPA Handbook. Enter into multiyear agreements with independent auditors (at least five years). Undergo a full competitive process in selecting the independent auditor. The auditor's ability to perform a quality audit should be the principal decision-making factor.
 - Recommend to Council the change of the municipal auditor if management questions the competence of the incumbent and the committee confirms the view. The recommendation to appoint a new auditor would follow an adequate inquiry into the auditor's competence and reputation.
- At an initial meeting, the Committee should discuss the roles and responsibilities of the auditor and the Committee, as well as the auditing procedure to avoid misunderstandings later. Committee members should be educated regarding their role and responsibilities.
- Review the auditors' risk assessments and overall audit plans.
- Discuss the extent, timing and completion of the audit including the level of materiality to be used.
- Review estimated and final audit fee.
- Promote cooperation between management and the auditor. Review the problems and restrictions encountered by the auditor and degree of cooperation received.
- Discuss whether a letter of engagement and/or a letter of representation exist as part of the audit file.
- Promote cooperation between the management and the auditor.
- Oversee the resolution of audit findings.

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- Assess the auditors' performance.

Alleged Wrong-doing

- Enquire fully into activities or transactions that may be illegal, questionable or unethical, and into the Town's control procedures that such activities are being guarded against.
- Ensure management has implemented a policy and/or process to review and respond to complaints or allegations of wrong-doing or questionable acts by elected officials, or Town employees.
- Review and advise Council with respect to complaints or allegations of wrong-doing.

Statutory and Regulatory Compliance

- Review the Town's compliance with statutory and regulatory obligations within the Committee's responsibility.
- Review the overall reasonableness of expenses of the Clerk Treasurer and of Council members.
- Review the annual summary hospitality note.
- Review the adequacy of staffing in relation to both number and competence for accounting and financial responsibilities.

System of Internal Control

- Obtain and review the management and internal control letters addressed to Council.
- Discuss with the auditor the internal control systems and any recommendations for improvements; obtain and review a management letter; obtain management response to the recommendations from prior years.
- Discuss management's response to the recommendations and adequacy of management's action plan.

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- Obtain reasonable assurance that the Town has implemented appropriate systems of internal controls:
 - over the financial reporting and that these systems are operating effectively;
 - obtain assurance the town follows its policies and procedures and that these systems are operating effectively;
 - identify, monitor, and report significant financial or operational risk exposures and that these systems are operating effectively.
 - Receive and review any internal reports relating to accounting procedures and internal controls.

Risk Management

- Understand the risks of the Town
- Review the Town risk management controls and policies
- Obtain reasonable assurance that management's systems to eliminate or manage risks are effective.
- Receive reports on the management of financial risks.
- Monitor processes for management's identification and control of key corporate financial and regulatory risk.
- Monitor compliance with the corporate code of conduct and regulatory requirements.

General administration

Audit Committee meetings are open to the public and suggestions and recommendations of the Committee are made available to the public.

The Committee has unrestricted and complete authority to delve into any affair of the municipality. It has full access to staff reports and full access to management and the auditor.

The Committee must maintain minutes of meetings and annually report to Council on how the committee has performed its duties and met its responsibilities.

Audit Committee meetings will coincide with the stages of the audit:

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- The first meeting should be before the commencement of the audit. The Committee will review the program and the estimated fee.
 - The second meeting should take place after the completion of the audit. The Committee will review the annual finance report and management or internal control letter.

However, there will be no limit to the number of meetings; the Committee shall convene whenever circumstances demand.

The Committee reports to Council.

Town Clerk/Treasurer's Annotation for Official Policy Book

Date of Passage of Current Policy: June 24, 2019

I certify that this Policy was adopted by Council as indicated above.

Town Clerk/Treasurer

June 25, 2019
Date