



# CITY OF VAUGHAN

## CORPORATE POLICY

**POLICY TITLE:** AUDIT COMMITTEE CHARTER

**POLICY NO.:** 02.C.08

|                                       |                               |  |                               |
|---------------------------------------|-------------------------------|--|-------------------------------|
| <b>Section:</b>                       | Accountability & Transparency |  |                               |
| <b>Effective Date:</b>                | Click or tap to enter a date. | <b>Date of Last Review:</b>                      | Click or tap to enter a date. |
| <b>Approval Authority:</b><br>Council |                               | <b>Policy Owner:</b><br>Director, Internal Audit |                               |

### POLICY STATEMENT

The Audit Committee is a decision-making committee who performs oversight of the City's governance, risk management and internal control practices.

### PURPOSE

The purpose of this document is to assist the Audit Committee in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the City's process of monitoring compliance with laws, regulations and the City's code of conduct.

### SCOPE

The objective of the Audit Committee is to assist Council in the discharge of governance, accountability and controllership responsibilities by ensuring risks are being appropriately addressed through strong governance, a risk/control and compliance framework, appropriate stewardship and an effective internal audit activity.

This includes reviewing and advising on:

1. The integrity, quality and transparency of the City's financial, management and operational information.
2. The effectiveness of the financial and management reporting processes.
3. The effectiveness of risk management and control processes and practices.

4. The performance of the Internal Audit activity and assessing the effectiveness of the External Audit function.
5. Ethical business conduct and compliance with the City of Vaughan's Employee Code of Conduct.

## LEGISLATIVE REQUIREMENTS

1. Municipal Freedom of Information and Protection of Privacy Act, R.S.O. 1990.
2. *Municipal Act, 2001*, as amended.

## DEFINITIONS

1. **Assurance:** An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization and that the results can be relied upon for supporting informed decision making.
2. **Compliance:** Conformity and adherence to policies, plans, procedures, laws, regulations, contracts or other requirements.
3. **Control Environment:** The attitude and actions of the Board/Council and Management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:
  - 3.1. Integrity and ethical values.
  - 3.2. Management's philosophy and operating style.
  - 3.3. Organizational structure.
  - 3.4. Assignment of authority and responsibility.
  - 3.5. Human resource policies and practices.
  - 3.6. Competence of personnel.
4. **Engagement:** A specific Internal Audit assignment, task or review activity, such as an internal audit, control self-assessment review, fraud examination or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.
5. **Ethics:** Conception of what is right and fair conduct or behaviour. Ethics can also be equated with the concept of morals; one's ability to choose between right and wrong, good and bad, acceptable and unacceptable.
6. **Fraud:** Any illegal acts characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services, to avoid payment or loss of services, or to secure personal or business advantage.

- 7. Governance:** The combination of processes and structures implemented by the governing body in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.
- 8. Independence:** The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.
- 9. Objectivity:** An unbiased mental attitude that allows Internal Auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires Internal Auditors not to subordinate their judgment on audit matters to that of others.
- 10. Risk:** The possibility that events will occur and affect the achievement of strategy and business objectives.
- 11. Stewardship:** To hold something in trust for another. The activity or job of protecting and being responsible for something.

## **POLICY**

### **1. Authority**

The Audit Committee acts as a forum for communication among Council, Management, Internal Audit and the External Auditors. The Audit Committee, within the scope of its roles and responsibilities, is authorized to:

- 1.1. Authorize investigations into any matters it deems necessary.
- 1.2. Obtain any information it needs from Internal Audit, the External Auditor and Management.
- 1.3. Request the attendance of any employee or external party at Audit Committee meetings.
- 1.4. Discuss any matters with the Director, Internal Audit.

### **2. Composition & Election of Chair and Vice-Chair**

The Audit Committee shall be comprised of a maximum of 4 Members of Council. All Audit Committee members will have full voting privileges. Audit Committee members shall be appointed by Council, based on the Term of Council, or until successors are appointed. If an Audit Committee member ceases to be a member before the expiration of their term, Council will appoint another eligible person for the remainder of the term.

Audit Committee members are expected to gain familiarity with the City's Audit Committee Charter, Internal Audit Policy and the City's Procedure By-law. Members will be expected to contribute their expertise actively during meetings of the Audit Committee.

The Audit Committee will elect from its members a Chair and Vice-Chair. The election will be held at the Audit Committee's first meeting of a new term. In the event that neither the Chair or Vice-Chair is in attendance at a meeting, the members in attendance shall elect a Chair for that meeting.

The majority of members, including the Chair, shall constitute quorum.

### **3. Meetings**

The Audit Committee will be scheduled to meet a minimum of five times each year in order to provide Council with timely information. Audit Committee meetings will be scheduled in January, April, June, September and November. Additional Audit Committee meetings may be held at the recommendation of the Director of Internal Audit, the External Auditor, or by call of the Audit Committee Chairperson or the City Clerk.

Meetings are to be open to the public in accordance with the *Municipal Act, 2001*.

For the consideration of confidential matters, the Audit Committee has the authority under the City's Procedure By-Law and the *Municipal Act, 2001* to go into closed session.

### **4. Roles and Responsibilities**

The responsibilities of the Audit Committee may be revised by Council resolution. In each of its specific areas of responsibility, the Audit Committee, through Internal Audit or other means, has a responsibility to receive and evaluate information related to areas of risk or vulnerability within the City of Vaughan and the agreed upon management actions to effect change.

4.1. The Audit Committee will carry out the following Internal Audit Activities:

- 4.1.1. Review and approve the Internal Audit policy (02.C.07) and discuss if the appropriate authority access and reporting arrangements are in place.
- 4.1.2. Approve the risk based Internal Audit Work Plan recommended by the Director of Internal Audit.

- 4.1.3. Receive audit reports identifying key issues and the actions taken to address the issues.
- 4.1.4. Review the status of management action plans.
- 4.1.5. Review audit plan status.
- 4.1.6. Review the results of the annual client satisfaction survey report.
- 4.1.7. Review the results from the Anonymous Reporting System annual report.
- 4.1.8. Review the results of significant fraud allegations and investigations.
- 4.1.9. In conjunction with the Director, Internal Audit, review Internal Audit's compliance with the Standards for the Professional Practice of Internal Auditing, including adequate quality assurance practices, appropriate staffing and effective operational management.
- 4.1.10. Review the adequacy of resources to allow Internal Audit to carry out its responsibilities, including completion of the annual and longer-term audit plans.
- 4.1.11. Ensure clear and independent communication reporting lines exist between the Director, Internal Audit and the Audit Committee. This includes the ability to meet in closed session with the Director, Internal Audit, in the absence of management, regarding matters deemed allowable under the *Municipal Act, 2001*.

4.2. The Audit Committee will carry out the following External Audit Activities:

- 4.2.1. Provide approval for the appointment of the External Auditor for Financial Reporting.
- 4.2.2. Provide approval of the terms of engagement and the fees of the External Auditor.
- 4.2.3. Review the External Auditor's proposed audit scope and approach, including coordination of efforts with Internal Audit.
- 4.2.4. Review the independence of the External Auditor and confirm there are no conflict of interest issues for auditing and non-auditing services.
- 4.2.5. Consider the External Auditor's judgements about the quality and appropriateness of the City's accounting principles.

- 4.2.6. Respond to any inquiries the External Auditor may have as it relates to the Committee's view of fraud, fraud allegations and the Committee's role in the City's fraud program.
- 4.2.7. Confirm that the vendor performance evaluation of the external auditor, performed on a contractual basis, does not contain any nonconformance or other related issues.
- 4.3. The Audit Committee will provide oversight over the following Risk Management and Control Activities:
  - 4.3.1. Review and discuss with management their responsibility for assessing and managing the City's exposure to risk.
  - 4.3.2. Review policies governing risk management.
  - 4.3.3. Review and discuss with management the City's major emerging risk exposures.
  - 4.3.4. Review and discuss with management their responsibility for maintaining an efficient and effective control environment, including the use and management of third parties, to ensure it is comprehensive and effective.
  - 4.3.5. Review processes to determine if the City has relevant policies and procedures in place and whether these are periodically reviewed, updated and complied with.
  - 4.3.6. Review with management that they have embedded a culture which is committed to ethical and legal behavior, including compliance with laws, legislation and regulation.
  - 4.3.7. Review with management the administration of and compliance with the City's Employee Code of Conduct including the processes for educating and communicating the Code to City staff.
  - 4.3.8. Review and discuss with management their responsibility for safeguarding of corporate assets.
- 4.4. The Audit Committee Charter will be reviewed each year. Suggested changes will be reported to the Audit Committee for consideration and approval.

## **ADMINISTRATION**

*Administered by the Office of the City Clerk.*

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| <b>Review Schedule:</b>       | SELECT<br>If other, specify here | <b>Next Review Date:</b> | Click or tap to enter a date. |
| <b>Related Policy(ies):</b>   |                                  |                          |                               |
| <b>Related By-Law(s):</b>     |                                  |                          |                               |
| <b>Procedural Document:</b>   |                                  |                          |                               |
| <b>Revision History</b>       |                                  |                          |                               |
| <b>Date:</b>                  | <b>Description:</b>              |                          |                               |
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