

Audit Committee Policy

Municipalities and villages in Nova Scotia have a significant degree of public accountability. All municipalities and villages must establish an audit committee. The requirements and objectives of the audit committee are outlined in Section 44 of the *Municipal Government Act* and confirms that the duties of the audit committee can be performed by a separate committee, as outlined in this policy, the Audit Committee Policy.

1. Definition

An audit committee acts as an advisory board carrying out critical review functions on behalf of council/commission. The primary function of the audit committee is to assist the Municipality of the County of Inverness in fulfilling their oversight responsibilities related to quality and integrity of financial reporting along with ensuring the appropriate systems and controls for the proper recording of transaction and protection of assets are in place.

2. Purpose

The objectives of an audit committee are to:

- i. Help the Municipality of the County of Inverness Council meet its fundamental responsibilities of protecting the municipal assets and managing operations as efficiently as possible;
- ii. Provide better communication between the auditor and Council, and promote better understanding of the audit process;
- iii. Enhance the external auditor's independent position;
- iv. Increase the credibility and objectivity of the Municipality of the County of Inverness' financial report;
- v. Strengthen the role of Council and committee members.

3. Audit Committee Composition

- i. The audit committee will be composed of five members – the Warden, two elected Council members and two members at large.
- ii. The two members at large cannot be related to a member of Council or to an employee of the Municipality of the County of Inverness.
- iii. Where an audit committee does not include the person referred to in subsection (ii), the audit committee shall continue to meet and perform its duties and may exercise its powers; and the municipality shall advertise to recruit a person who is not a member of Council or an employee of the Municipality of the County of Inverness at least once every six months until the requirement is met.
- iv. The Warden, Councillors and members at large will serve two-year terms to maintain the

knowledge base. The two members at large will rotate off in opposite years to maintain continuity. In the first year, one of the members at large will sit for a one-year term. Council will select a member of Council as Chair at the December meeting for the next year.

- v. Audit committee members should be financially literate.
- vi. Each audit committee member must complete training as prescribed by the Municipality of the County of Inverness.
- vii. The Chief Administrative Officer and Director of Finance will provide staff support to the Audit Committee and attend all scheduled meetings.

4. Meeting Requirements

- i. An audit committee should convene whenever circumstances demand such a meeting; however, the committee must meet at least twice in each fiscal year.
- ii. It is recommended the audit committee meet at least four times, and the meeting should coincide with the stages of the audit. The following topics are recommended to be included on the audit committee's agendas:
 - a. role and responsibilities of the auditor;
 - b. review of the roles and responsibility of the audit committee;
 - c. appointment of municipal auditor;
 - d. quarterly financial information;
 - e. audited Financial Statements and auditor's work;
 - f. management or Internal Control letter and management's response;
 - g. adequacy and effectiveness of internal controls;
 - h. financial condition indicators;
 - i. financial risk management.
- iii. There is a requirement that audit committee meeting dates be specifically established and agendas developed to address its terms of reference and responsibilities.
- iv. There will on occasion, be a need for the auditor to meet with the audit committee, without any appointed officials present. This would be accommodated through a request by either the committee or the auditor to one another.

5. Audit Committee Responsibilities and Functions

The functions of the audit committee can be categorized as follows:

- i. Financial Reporting Function – Responsibilities Related to the Financial Reporting**

The Committee shall:

- a. review the audited annual financial statements in depth with management and the external auditor; if satisfied that they present fairly the financial position and results of operations, recommend their acceptance to Council;
- b. review with management any changes in accounting principles and practices followed by Municipalities;
- c. review any significant variance in comparison to prior year and/or budget;
- d. review and discuss the financial condition indicators.

ii. External Audit Function – Responsibilities Related to the Work of the Auditor

The Committee shall:

- a. discuss the extent, timing and completion of the audit including the level of materiality to be used;
- b. review estimated and final audit fee;
- c. discuss whether the terms of the letter of engagement were met;
- d. recommend to Council the change of the municipal auditor if management questions the competence of the incumbent auditor 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;
- e. review the problems and restrictions encountered by the auditor and degree of cooperation received;
- f. promote cooperation between the management and the auditor.

iii. Accounting System and Internal Controls Function – Responsibilities Related to Internal Controls.

The Committee shall:

- a. obtain and review the management and internal control letter addressed to Council;
- b. discuss with the auditor the annual evaluation of the internal control systems related to the financial reporting and the recommendations for improvements of accounting procedures and internal controls related to the financial reporting, together with management's response;
- c. discuss management's response to the recommendations and adequacy of management's action plan;
- d. obtain reasonable assurance that the Municipality of the County of Inverness has implemented appropriate systems of internal controls:

- i. Over the financial reporting and that these systems are operating effectively;
- ii. Obtain assurance the Municipality of the County of Inverness is in compliance with its policies and procedures and that these systems are operating effectively; and
- iii. Identify, monitor, mitigate and report significant financial or operational risk exposures and that these systems are operating effectively; and
- e. receive and review any internal reports relating to accounting procedures and internal controls.

iv. Risk Management Function – Responsibilities Related to Risk Management

The Committee shall:

- a. understand the risks of the Municipality of the County of Inverness;
- b. review the Municipality of the County of Inverness risk management controls and policies;
- c. obtain reasonable assurance that management's systems to eliminate or manage the risks are effective;
- d. receive reports on the management of financial risks.

v. Alleged Wrong-Doing Function – Responsibilities Related to Questionable Activities

The Committee shall:

- a. enquire fully into any activities or transactions that may be illegal, questionable or unethical, and into the Municipality's control procedures to ensure that such activities are being guarded against;
- b. 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 municipal employees;
- c. review and advise Council members with respect to complaints or allegations of wrong-doing.

vi. Statutory and Regulatory Compliance Function and Other Responsibilities

The Committee shall:

- a. review the Municipality's compliance with statutory and regulatory obligations within the Committee's area of responsibility (for example reporting compliance);
- b. review the overall reasonableness of expenses of the Chief Administrative Officer and of council members. Specifically; review the summary of

remuneration and expenses schedule for reportable individuals for reasonableness;

- c. review the annual summary hospitality expense note;
- d. review adequacy of staffing in relation to both number and competence for accounting and financial responsibilities.

6. Reporting Requirement

The audit committee must maintain minutes of its meetings and submit written reports to council or council as a committee of the whole.