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AUDIT COMMITTEE CHARTER REVIEW

The Audit Committee recommends the adoption of the recommendation contained in the following report dated May 3, 2012, from the Director of Audit Services.

1. RECOMMENDATION

It is recommended that:

1. No changes be made to the terms of reference for the Audit Committee as defined in the *Audit Committee Charter* as outlined in this report.

2. PURPOSE

The *Audit Committee Charter* terms of reference are required to be reviewed by the Audit Committee every 4 years. Additionally, the Institute of Internal Auditors *International Professional Practise Framework* requires the review of the *Audit Committee Charter* on a periodic basis.

3. BACKGROUND

The Audit Committee was established through Clause No. 6 embodied in Report No. 5 of the Finance & Administration Committee at its meeting on April 9, 1998. The terms of reference adopted at that time did not incorporate the responsibilities that the Audit Committee is currently executing with regards to the development of the Audit Services Branch. The Branch was established through the Report of the Chief Administrative Officer to the Audit Committee on October 11, 2000. During the fall of 2006, the Audit Services Branch undertook a Peer Review to ensure compliance with the *Institute of Internal Auditors Standards of Professional Practises*. The results of the review were reported to the Audit Committee on June 7, 2007 in Report 3 - *Compliance with Institute of Internal Auditors Professional Practises Standards*. The Audit Services Branch was deemed in compliance with the Standards, with one recommendation being that the *Audit Committee Charter* be updated.

The updated Charter was presented to the Audit Committee in Report 4 Clause 3 on November 1, 2007, Regional Council approval was received on November 15, 2007. One new obligation of the updated *Audit Committee Charter*, found in Section 5.8, requires the Audit Committee to:

- Review and assess the adequacy of the Audit Committee Charter every 4 years, (coinciding with municipal elections), requesting Regional Council approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

4. ANALYSIS AND OPTIONS

The existing terms of reference for the Audit Committee as defined in the *Audit Committee Charter, Attachment 1* remains unchanged. The terms were found to be in compliance with the Institute of Internal Auditors *International Professional Practise Framework* Attribute Standard 1000 – Purpose, Authority and Responsibility.

Attribute Standard 1000 states that: "The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval."

5. FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

6. LOCAL MUNICIPAL IMPACT

Through the Audit Committee's terms of reference, Regional Council is demonstrating its effective discharge of it oversight responsibilities for financial reporting processes, the systems of internal controls, and the internal and external audit functions.

7. CONCLUSION

The terms of reference for the Audit Committee reconfirm the practises currently being exercised by the Audit Committee are adequate. These practises include oversight responsibilities of the financial reporting processes, the systems of controls, and internal and external audit functions.

For more information on this report, please contact Paul Duggan, Director Audit Services at Ext.1205.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause is attached to this report.)

The Regional Municipality of York

Audit Committee Charter

1. PURPOSE

To assist Regional Council in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Region's process for monitoring compliance with laws and regulations and the Code of Conduct.

2. AUTHORITY

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing and non-audit services.
- Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation.
- Seek any information it requires from employees—all of whom are directed to cooperate with the Committee's requests—or external parties.
- Meet with the Region's Management team, external auditors, or outside counsel, as necessary.

3. COMPOSITION

The Audit Committee will consist of The Regional Chair (ex-officio) and at least three and no more than five members of Regional Council. The Regional Chair will recommend to Regional Council the Committee members and Regional Council will appoint the members to the Audit Committee. The Audit Committee will elect from among its members a Chair and Vice-Chair.

4. MEETINGS

The Audit Committee will meet at least two times a year, with authority to convene additional meetings, as circumstances require. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

5. RESPONSIBILITIES

The Committee will carry out the following responsibilities:

5.1 Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Recommend to Regional Council the approval of the annual financial statements.
- Review with management and the external auditors all matters required to be communicated to the Committee under Generally Accepted Auditing Standards.

5.2 Internal Control

- Consider the effectiveness of the Region's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses and the timing of the disposition of significant findings.

5.3 Audit Services Branch

- Review with management and the Director, Audit Services, the charter, plans, activities, staffing, and organizational structure of the Audit Services Branch.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Director, Audit Services.
- Review the effectiveness of the Audit Services Branch, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing.*

5.4 External Audit

- Review the external auditors' proposed audit scope and approach, including co-ordination of audit effort with Audit Services.
- Review the performance of the external auditors, and recommend to Regional Council the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Region, including non-audit services, and discussing the relationships with the auditors.

5.5 Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the Code of Conduct to Regional personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and the Region's legal counsel regarding compliance matters.

5.6 Reporting Responsibilities

- Regularly report to Regional Council about Audit Committee activities, issues, and related recommendations.
- Provide an open avenue of communication between Audit Services, the external auditors, and Regional Council.
- Review any other reports the Region issues that relate to Audit Committee responsibilities.

5.7 Adequacy of Region's Resources

- Review the nature of evolving or developing businesses managed by the Region, including those changes occasioned by business or process redesign.
- As new businesses and ventures are embarked on by the Region, the Committee would carry out a review in order to gain comfort that all appropriate processes have been put in place to evaluate feasibility of the new business, and to ensure proper resources, both human and financial, have been provided.

5.8 Other Responsibilities

- Perform other activities related to this Charter as requested by Regional Council.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the Committee Charter ever 4 years, (coinciding with the Municipal elections), requesting Regional Council approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.