

Committee of the Whole (2) Report

DATE: Wednesday, October 14, 2020

WARD(S): ALL

**TITLE: INTERNAL AUDIT REPORT – OPTIONS FOR ESTABLISHING
AN AUDIT COMMITTEE**

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: DECISION

Purpose

To provide the results of Internal Audit's jurisdictional scan of the frameworks used by comparable municipalities in Ontario for dealing with audit related matters, and to recommend options for establishing an Audit Committee at the City.

Report Highlights

- At the Council Meeting on June 29th, 2020, Council requested that the Director of Internal Auditor prepare a report for CW2 comparing and contrasting the different approaches for dealing with audit related matters, namely a separate Audit Committee versus a Committee of the Whole structure.
- The results of the jurisdictional scan confirm that Audit Committees are prevalent in Ontario municipalities with Internal Audit departments.
- Audit Committees consisting of both elected officials and qualified independent members is becoming more prominent within Ontario municipalities and the broader public sector.
- It is recommended that the City establish an Audit Committee based on one of the two options contained in this report.
- Establishing an Audit Committee would support public accountability, transparency and integrity while supporting the Term of Council Priority of Good Governance.

Recommendation

1. That Council provide direction with respect to implementation of either Option 1 or Option 2, as contained in this report.

Background

At the Council Meeting held on June 12, 2019, Council approved the recommendations from a staff report entitled, "Committee Structure Review", which was included as part of the June 5, 2019 CW Working Session agenda. This report included the recommendation to adopt a Dual Committee of the Whole (CW) meeting structure. With the approval of this recommendation, the Finance, Administration and Audit Committee (FA&A) would no longer exist. The final FA&A meeting took place on June 5, 2019.

Since the inception of the dual CW meeting structure in September 2019, the CW1 agenda has predominantly consisted of Planning and Growth Management items, while the CW2 agenda has consisted of items that used to be considered by FA&A, CW Working Session and the Priorities and Key Initiatives Committee. Planning and Growth Management items also appear on the CW2 agenda to help ensure compliance with the Planning Act regarding timing of decisions on development applications.

Another new feature for CW2 was the adoption of a consent agenda. This means that Committee members, staff and public identify the items called for discussion. Items not called for discussion are approved through a single motion. Under the previous FA&A model, every agenda item was called for discussion.

The City's Procedure By-Law 7-2011 establishes the principles and rules to be used for Council meetings, for the Committees that report to it directly or indirectly, and for its local boards which have not adopted separate rules of procedure. While the Procedure By-Law provides guidance with respect to the administrative aspects of Committee governance, it did not formally define the roles and responsibilities of either FA&A or CW with respect to oversight over audit related matters.

In the 2018 Internal Audit Annual Report, presented by the Director of Internal Audit to FA&A on May 6, 2019, it was identified that the City should adopt a formal Charter that sets out the authority of the Committee of the Whole with respect to audit related matters. The FA&A Committee had also operated without a charter.

At the Council Meeting on June 29th, 2020, Council approved the Committee of the Whole Charter for Audit Related Matters as presented by the Director of Internal Audit to CW2 on June 16, 2020. The approved Committee Charter for Audit Related Matters provides guidance to the members of the Committee of the Whole on carrying out their governance, accountability and controllership responsibilities, while providing the mandate of the Committee of the Whole with respect to audit related matters and:

- Outlines roles and responsibilities of the Committee and its members.
- Establishes authority to obtain information and required resources.

- Outlines respective roles and responsibilities of internal and external stakeholders who have an obligation to interact with the Committee of the Whole with respect to audit related matters.
- Outlines the process for developing, reviewing, and updating the Charter and the frequency of review.

At the Council Meeting on June 29th, 2020, Council also requested that the Director of Internal Audit prepare for review to the Committee of the Whole, a report comparing and contrasting different approaches to the municipal audit function, namely, a separate Audit Committee composed of some or all Members of Council versus a Committee of the Whole with an audit charter being a framework for the dealing of audit issues within the context of the Committee of the Whole.

Previous Reports/Authority

[Committee Structure Review](#)

[Internal Audit Policy & Committee Charter for Audit Related Matters](#)

Analysis and Options

In 2014, the Institute of Internal Auditors (IIA) released a publication entitled, “Global Public Sector Insight: Independent Audit Committees in Public Sector Organizations”¹. This publication presents leading practices that have proven to be important in strengthening public sector audit committees and offers several benefits that public sector audit committees can provide, including:

- Improving and providing transparency around governance, risk management, and internal control practices, by providing an independent oversight and advisory role.
- Being a key component of an organization’s governance structure, including facilitating decision making, implementing a system of risk oversight and management, and ensuring high-quality internal and external reporting.
- Strengthening the independence of the audit activity through the functional reporting of the Chief Audit Executive to the audit committee.
- A committee’s composition that includes a majority of external members. The chair and members should demonstrate inquisitiveness, outspokenness, and courageousness.
- Adapting to the organization’s unique circumstances while respecting the principles of accountability and transparency.

¹ The IIA publication can be found at the following link: [IIA Global Public Sector Insight: Independent Audit Committees in Public Sector Organizations](#)

Public sector audit committee responsibilities typically include oversight of risks associated with financial statements, internal control, audit activity services, external assurance providers, and compliance. In general, the roles and responsibilities of the City's previous FA&A and the current CW2, as it relates to audit related matters, aligns with this IIA guidance. However, opportunities exist to further strengthen the City's governance structure by establishing an Audit Committee.

Audit Committees are prevalent in Ontario municipalities with Internal Audit Departments

Internal Audit conducted a jurisdictional scan to determine whether municipalities with internal audit functions use a Committee of the Whole approach versus a standalone Audit Committee for addressing audit related matters. Of the eight municipalities we examined, seven of them (the Regions of York and Peel and the Cities of Mississauga, Brampton, Hamilton, Burlington and Thunder Bay) have adopted an Audit Committee structure. The only exception was the City of Barrie, where audit related matters are submitted to their Finance & Corporate Services Committee then approved by their General Committee and finally by their Council.

The Cities of Toronto, Ottawa and Sudbury are the only three municipalities in Ontario with an in-house Auditor General model. All three have adopted an Audit Committee structure.

Attachment 1 provides a summary of our jurisdictional scan, including the mandate of other municipal audit committees, their committee structures, meeting frequency and qualifications of independent public members.

Audit Committees consisting of both elected officials and qualified independent members is becoming more prominent within Ontario municipalities and the broader public sector

The key to an audit committee's effectiveness is having members with an appropriate mix of skills and experience relevant to the organization's responsibilities. According to the IIA Audit Executive Center's Knowledge Report from 2009, "Audit Committee Trends and Activities", audit committee members should collectively be knowledgeable, or have expertise in, finance and accounting, industry specific and overall business knowledge, internal and external auditing, risk management, regulatory compliance, legal, and IT and information security.

In the past, municipal audit committees have been comprised solely of elected officials. However, audit committees made up exclusively of elected officials may not always possess the collective skills described above. To address the potential skills gap, audit committees consisting of both elected officials and qualified independent members is becoming more prominent within the public sector.

Of the eight municipalities we examined with internal audit departments, four (the Region of Peel and the Cities of Brampton, Burlington and Thunder Bay) have transitioned away from an audit committee comprised solely of elected officials by adding qualified members of the public to their audit committees.

In addition to these municipalities, the Ontario Ministry of Education requires that each individual school board's audit committee include volunteer community members. These audit committees are typically comprised of three elected trustees plus two volunteer committee representatives. The audit committees of the Toronto Transit Commission and the Office of the Privacy Commissioner also includes members of the public on their audit committees.

Based on the results of the jurisdictional scan, Internal Audit proposes the following two options for consideration:

Option #1: Establishing an Audit Committee with members consisting of elected officials and qualified independent members of the public. Under this scenario, it is recommended that the City's Audit Committee be composed of a maximum of 4 Members of Council, with the option of one of these positions being filled by the Mayor as an ex-officio voting member, plus a maximum of 2 qualified independent members of the public. All audit committee members would have full voting privileges. The recommended eligibility for qualified independent members of the public and the recruitment process for the appointment to the Audit Committee is based on our jurisdictional scan and is included in Attachment 2.

Option #2: Establishing an Audit Committee with members consisting of elected officials only. Under this scenario, it is recommended that the City's Audit Committee be composed of a maximum of 4 Members of Council, with the option of one of these positions being filled by the Mayor as an ex-officio voting member. All audit committee members would have full voting privileges.

Research and conversations conducted through our jurisdictional scan identified opportunities and potential risks if the City were to adopt an Audit Committee structure that included elected officials and qualified public members

Some of the opportunities include:

- Specific skills, knowledge and expertise that may be absent can be identified and added to the collective knowledge of the audit committee.
- It may provide an opportunity to enhance the quality of discussions at audit committee meetings as qualified public members may have different viewpoints or questions based on their specialized expertise.
- It would enhance public accountability, transparency and integrity while supporting the Term of Council Priority of Good Governance.

- This initiative would be in line with the current trend of enhanced audit committee governance. The City would be viewed as a leader in this practice among Ontario municipalities and the broader public sector.

Some of the risks include:

- The pool of qualified independent candidates residing in or owning a business within the City may be limited.
- There may be minimal interest shown by qualified independent candidates due to the commitment required for this volunteer position.
- Reputational risk to the City if the selected public members were subsequently determined to be not independent or otherwise not impartial.
- Defining the authority of the role of an independent member may be difficult to agree on.
- There may be a learning curve for new members to get accustomed to the City's Procedural By-Law and the mandate, scope and roles and responsibilities of the audit committee and its members.

Based on the conversations Internal Audit had with the internal audit departments in Peel, Burlington and Brampton, these risks can be easily mitigated by establishing clear recruitment selection criteria, ensuring compliance by all members to the defined mandate and scope of the audit committee as per the City's Committee Charter for Audit Related Matters and the development of an onboarding and training program for the new qualified public members.

It should also be noted that the benchmarked organizations had well established audit committees in place prior to appointing qualified members of the public to serve on their audit committees. Although appointing qualified members of the public would be a positive step for the City, option 2 would allow the City to establish an Audit Committee first. The requirements for adding additional expertise, if warranted, could be evaluated at the beginning of each new Term of Council.

Generally, audit committees have between three and eight members with the typical audit committee having four or five

According to the IIA, the ideal composition of the audit committee and attributes of its members depends on a variety of factors such as the organization's size, complexity, and responsibilities. Generally, audit committees have between three and eight members with the typical audit committee having four or five. The minimum number of members for an effective audit committee is three. This ensures that a sufficient range of skills and experience is available. Based on our jurisdictional scan, the number of members on municipal audit committees ranges between five and ten. This represents between 23% to 58% of the entire composition of these municipalities' Councils.

The IIA guidance also stress the importance of audit committees maintaining institutional memory while providing new perspectives and fresh insights. Audit committee members should, therefore, be appointed to terms long enough to maintain continuity but not so long that an individual becomes vested in the organization's current policies and direction. Generally, terms less than two years are too short. Terms of greater than eight years may be too long. If length is restricted, terms should be staggered to achieve the greatest continuity.

Based on our jurisdictional scan, the term for audit committee members is generally the Term of Council.

The Audit Committee should meet as often as its role and responsibilities require

Based on our jurisdictional scan, the number of annual meetings held by municipal audit committees ranges between two and ten. For the City of Vaughan, Internal Audit would recommend no fewer than five meetings in a year in order to continue to provide Council with timely information. The proposed months when the Audit Committee would meet would be January, April, June, September and November. The effective date of the Audit Committee would depend on which option Council selects.

Additional Audit Committee meetings could be added at the recommendation of the Director of Internal Audit, the External Auditor, by call of the Audit Committee Chairperson or the City Clerk.

As with other Committees of Council, in the event that there are no agenda items for a given audit committee meeting, the City Clerk would cancel the meeting as per current committee meeting cancellation protocols.

The Audit Committee would also have the ability to meet in closed session, regarding matters deemed allowable under the Municipal Act.

Should Council endorse the establishment of an Audit Committee, the City's Procedural By-Law 7-2011 and the Committee Charter for Audit Related Matters would need to be amended

At minimum, section 1.3(2) of the City's Procedural By-Law 7-2011 would need to be amended to reflect the section above, including adding sections for the audit committee mandate, reporting, chair, meetings, and agenda.

In general, an Audit Committee Charter documents information about the audit committee's mandate, membership, authority, responsibilities, and processes for developing, reviewing, and updating the charter. Based on best practices and our jurisdictional scan, these audit committee charters are similar in nature to the City's Committee Charter for Audit Related Matters. If the City were to adopt an audit committee structure, the existing Committee Charter for Audit Related Matters would still be required and would be renamed the "Audit Committee Charter".

The recruitment process and criteria for the appointment of qualified public members would also need to be included in the Audit Committee Charter, if option 1 were to be approved.

Based on Council's decision, the corresponding updates will be incorporated into the City's Procedural By-Law and the Audit Committee Charter. Both documents will be brought back to a future Committee meeting for approval, prior to the effective date of the Audit Committee.

Financial Impact

There are no direct economic impacts associated with this report.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

Based on the jurisdictional scan conducted by Internal Audit, Audit Committees are the most prevalent structure for dealing with audit related matters in Ontario municipalities. Audit committees consisting of both elected officials and qualified independent members is also becoming more prominent within Ontario municipalities and the broader public sector.

Based on the jurisdictional scan and the best practices published by the Institute of Internal Auditors, it is recommended that the City of Vaughan establish an Audit Committee based on one of the two options contained in this report.

Adopting this approach would support public accountability, transparency and integrity while supporting the Term of Council Priority of Good Governance.

For more information, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

1. Jurisdictional Scan – Audit Committee vs Committee of the Whole
2. Eligibility & Recruitment Process

Prepared by

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Approved by

A handwritten signature in black ink, consisting of a large, stylized 'K' followed by a cursive 'S' and a long horizontal flourish extending to the right.

Kevin Shapiro, Director of Internal Audit