

# THE CORPORATION OF THE MUNICIPALITY OF PORT HOPE

## BY-LAW NO 22/2011

### *Being A By-Law To Establish and Adopt the Terms of Reference for an Audit Committee for the Corporation of the Municipality of Port Hope*

WHEREAS Section 11 of the Municipal Act 2001, S.O. 2001, c.25, as amended, in part provides that a lower-tier municipality may pass by-laws respecting the governance and structure of the municipality and its local boards;

AND WHEREAS the Council of the Corporation of the Municipality of Port Hope wishes to continue to demonstrate a high level of public accountability and to continue to provide assurance to the public that municipal services are administered in an efficient, effective and economical manner;

AND WHEREAS Council has responsibilities regarding financial and other reporting, internal control and compliance with laws, regulations and ethics;

AND WHEREAS Budget Committee on June 20, 2005 authorized the establishment of an Audit Committee;

AND WHEREAS the Council of the Corporation of the Municipality of Port Hope deems it advisable to establish by By-law, an Audit Committee for the Corporation of the Municipality of Port Hope.

NOW THEREFORE the Council of The Corporation of the Municipality of Port Hope ENACTS as follows:

1. Committee Title

That a Committee to be known as the Audit Committee is hereby established.

2. Definitions

That the definitions as outlined in the Corporation of the Municipality of Port Hope Procedural By-law shall apply.

3. Policies/Procedures

3.1 That the rules and regulations of the Corporation of the Municipality of Port Hope Procedural By-law shall govern all proceedings of the Audit Committee.

3.2 That policies, practices and procedures governing the provisions of its goods or services are consistent with the Corporation's Accessibility Standards for Customer Service Policy and Procedures as adopted in accordance with the requirements of the Accessibility for Ontarians with Disabilities Act (AODA), Customer Service Standard – Ontario Regulation 429/07.

4. Records

That the records of the Audit Committee shall be retained and preserved in accordance with the provisions of the Corporation of the Municipality of Port Hope Records Retention By-law.

5. Composition

That the Audit Committee shall consist of not more than three (3) members appointed by Council as follows:

- 2 members of Council, being the Mayor and Chairperson of General Government and Finance Committee
  - 1 member with consideration given to individuals with business background practicing in accounting or finance, who is a resident and/or ratepayer of the Municipality, being a minimum of 18 years of age and not an employee of the Municipality
- All being voting members.

Ex-officio

The Treasurer or designate and other staff as required and shall be an ex-officio member of the Committee who shall act in an advisory capacity and shall be a non-voting member.

6. Term of Office

That the member at large shall be appointed by Council for the term of Council, or until their successors is appointed. Council may reappoint the member whose term has expired and otherwise has discretion in filling any vacancy by appointment for the remainder of any applicable term. There shall be no limit on the number of terms a member may be appointed and all appointments shall be at the discretion of Council. In the event a Committee member resigns prior to the completion of their term, a replacement appointed by Council, will assume the duties to the completion of the term.

7. Mandate

That the Terms of Reference of the Audit Committee are set out in Schedule "A" attached hereto and forming part of this By-law.

That in carrying out the provisions of this By-law, the Committee shall at all times be the agent of the Municipal Corporation and while acting bona fide within the limits of the authority of this By-law neither the Committee nor any member thereof shall incur any liability by reason of anything done or left undone by the Committee; provided however, that nothing in this section contained shall authorize or empower the Committee to incur any debt, liability or obligation for which the Municipal Corporation shall become liable without having previously obtained the consent of the Council of the Municipality of Port Hope.

8. Repeal of By-laws

That By-law 04/2006 pertaining to the establishment of an Audit Committee is hereby repealed.

9. Force and Effect

That this By-law comes into force and takes effect upon the final passing thereof.

READ A FIRST, SECOND and THIRD TIME and finally passed in Open Council this 29<sup>th</sup> day of March, 2011

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Linda Thompson, Mayor

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S.C. Dawe, Municipal Clerk

SCHEDULE "A" TO BY-LAW 22/2011  
AUDIT COMMITTEE  
TERMS OF REFERENCE

**1. Objective**

The Audit Committee, as a committee of Council, will be responsible for overseeing the administrative systems regarding financial accounting, reporting, internal controls, safeguarding of corporate assets, compliance with legal, ethical and regulatory requirements and the effective and efficient use of resources.

The Audit Committee provides a focal point for communication between Council, the external auditor and management and facilitates an impartial, objective and independent review of management practices.

**2. Composition**

The Audit Committee will be comprised of three members, the Mayor and Chairperson of General Government and Finance Committee and one member of the general public, appointed by Council following a suitable application process with consideration given to individuals with business background practicing in accounting or finance.

Staff representation shall consist of the Treasurer and other staff as required.

The term of office for the Audit Committee will be the term of Council.

Quorum to be determined in accordance with the Municipality of Port Hope Procedural By-law.

**3. Meetings and Attendance**

The Audit Committee shall meet at least four times per year, with additional meetings at the call of the Chairperson in order to properly discharge its responsibilities as set out in this by-law.

Members of the Audit Committee are to be present at all meetings. It is also important, at the request of the Chairperson, that management and the external auditors, when required, attend the meetings. The Chairperson may also invite other officials of the Municipality to attend meetings to assist with discussions on any particular matter. Minutes shall be prepared for each meeting and presented to the next succeeding meeting of the Audit Committee for confirmation. The Audit Committee shall formally report to Council in accordance with the procedural by-law.

**4. Responsibilities**

Management is directly responsible for the Municipality's financial reporting, internal controls and compliance with laws and regulations. The Audit Committee is responsible to oversee and monitor how management carries out these functions. The Audit Committee must also satisfy itself that the responsibilities of the external auditor are effectively discharged. The Audit Committee will advise and make recommendations, where necessary, to Council on the following:

## 4.1 The External Audit Function

### *Oversight of the independent audit process*

- 4.1.1. Recommend appointment of the external auditor to Council for approval;
- 4.1.2. Review the terms of engagement, fees and scope of the external audit and any non-audit services provided;
- 4.1.3. Review any reports and correspondence from the external auditor relating to the Municipality, including the annual communication from the external auditor on independence matters;
- 4.1.4. Review the external auditor's findings including evaluation of accounting principles applied, significant accounting estimates, significant audit misstatements, the effectiveness of, or weaknesses in, internal controls, significant related party transactions and any difficulties encountered during completion of the audit;
- 4.1.5. Receive reports from management summarizing progress made in resolving issues raised by the external auditors;
- 4.1.6. Meet privately with the external auditors to discuss any matters that the Audit Committee or the external auditors believe should be discussed.

## 4.2 Financial and Other Reporting

### *Oversight of the financial reporting process to ensure the integrity and transparency of financial reports*

- 4.2.1 Review the annual financial statements of the Municipality and its local boards and recommend approval of these financial statements to Council;
- 4.2.2 Review financial and fiscal policies, practices and procedures (eg. accrual policies, investment policies, policies for establishing reserves, reserve funds, etc.);
- 4.2.3 Review significant accounting and reporting developments, including recent and contemplated professional and regulatory requirements and understand their impact on financial reports;
- 4.2.4 Review information used for decision making (including management reports, affirmations, etc.), as to integrity, timeliness and comprehensiveness.

## 4.3 Internal Control Systems

### *Oversight of the effectiveness of the internal control environment*

- 4.3.1 Review and understand the effectiveness of the internal control systems pertaining to the safeguarding of assets and the authorization and recording of transactions;
- 4.3.2 Review and understand the adequacy of internal controls over data processing operations and computer-accessible data;

- 4.3.3 Be satisfied that appropriate monitoring devices are in place to detect dysfunctions, including fraudulent activities;
- 4.3.4 Review the effectiveness of corporate reporting systems regarding administrative and program performance (for example, budget monitoring systems);

#### 4.4 Compliance and Business Risk Management

*Oversight of the Municipality's compliance with legal, statutory and regulatory requirements and oversight of the Municipality's risk management environment*

- 4.4.1 Review and understand how compliance with laws and regulations is achieved and the adequacy of the systems established to ensure compliance;
- 4.4.2 Review with management all legal claims and other contingencies that could have an effect on the financial position of the Municipality and the adequacy of related insurance coverages;
- 4.4.3 Review with management any significant financial risk exposures and processes in place to identify, monitor and manage these risks, including potential risks such as loss of key staff, loss of revenue sources, erroneous financial reporting, regulatory noncompliance, conflicts of interest, fraudulent activities resulting from weaknesses in internal controls.
- 4.4.4 Review by-laws and policies specifically regulating the conduct of members of council, staff, and suppliers (for example, fraud and theft policies, conflict of interest policy, purchasing by-law, budget control by-law, expense claims policies, etc.);
- 4.4.5 Review and understand procedures that are in place for communication and follow up of complaints regarding ethics, integrity, internal controls and accounting or auditing matters.

#### 4.5 Other

- 4.5.1 Review and approve the scope, terms of reference and fees of professional services retained for purposes related to the Audit Committee's responsibilities;
- 4.5.2 Provide opportunities for private discussion of sensitive matters raised by the external auditor, management relating to personnel, legal, or other matters which could be prejudicial to the corporate interest if discussed in open committee;
- 4.5.3 Ensure that Audit Committee members receive appropriate orientation regarding the work of the Committee and that training to enhance financial literacy is made available;
- 4.5.4 Complete periodic self-assessments of the effectiveness of the Audit Committee against its mandate;
- 4.5.5 Review the Audit Committee Mandate periodically and recommend modifications to Council, as necessary.