

## Municipality of the District of Lunenburg

Policy Details	
Name	Audit Committee
Number	102
Legislative Authority	MGA s.44, FRAM Regulations s. 4 and 5
Effective Date	January 28, 2025

### Purpose

- 1 The Audit Committee's mandate is to oversee all audit matters and receive the annual external audit report, thereby assisting Council in meeting its responsibilities by ensuring the adequacy and effectiveness of financial reporting, risk management and internal controls according to Section 44 of the **Municipal Government Act (MGA)** and the **Financial Reporting and Accounting Manual (FRAM)**.

### Definitions

- 2 (1) **Financially literate** means the member has the ability to read and understand a set of financial statements which present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity of the issues reasonably that can be expected to be raised by a municipal or village financial statement.

### Audit

- 3 (1) The Committee acts as an advisory body carrying out critical review functions on behalf of council and must:
  - a) Recommend the appointment of an external auditor to conduct an annual financial audit of municipal financial statements.
  - b) Discuss with the external auditor any correspondence between management and the audit firm on alternative interpretations or presentations of municipal financial information.
  - c) Review matters arising out of the audit that may appear to require further investigation.
  - d) Other matters as referred to by the Committee by Council and to fulfill legislative functions as specified in Sections 4 and 5 of the FRAM Legislation.

### Committee Membership, Terms & Procedures

- 4 (1) Membership of the Committee will consist of the whole of Council and a minimum of one person from the public and who is not an employee of the Municipality. The Municipality will advertise to recruit the member(s) from the public at least once every six months until the position is filled. Recruitment to fill a position will be undertaken at the expiration of each term. The member-at-large must be financially literate.

- (2) All applications for the member-at-large position(s) who meet the financial literacy requirement will be reviewed by the Nominating Committee. The Nominating Committee will recommend appointment(s) to Council and Council will have final approval.
- (3) At-large members will be appointed for three-year terms or until such time as their successor(s) is appointed. If two member-at-large appointments are approved, the initial appointment of at-large members will be for a one two-year term and one three-year term. Any member may re-offer for a second three-year term when their term expires, however, the member will have to reapply through the recruitment process.
- (4) The Committee will annually select a Chair and Vice Chair by secret ballot at the first meeting of the fiscal year. The sitting Chair and Vice-Chair may re-offer for the same position.
- (5) The Committee will meet a minimum of two times in each fiscal year at the call of the Chair. Once to meet with the Auditor and once to review the results of the audit or whenever circumstances demand such a meeting.
- (6) The Committee will follow the meeting procedures outlined in 001 Proceedings of Council; except where specifically noted otherwise in these terms of reference.

### **Responsibilities and Functions**

5 The functions of a municipal audit committee can be categorized as follows:

#### **Financial Reporting Function – Responsibilities Related to Financial Reporting**

- (1) The Committee will:
  - 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.

#### **External Audit Function – Responsibilities Related to the Work of the Auditor**

- (2) The Committee will:

- 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; and
- f) promote cooperation between the management and the auditor.

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

(3) The Committee will:

- 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 has implemented appropriate systems of internal controls: over the financial reporting and that these systems are operating effectively;
- e) obtain assurance the Municipality is in compliance with its policies and procedures and that these systems are operating effectively; and
- f) identify, monitor, mitigate and report significant financial or operational risk exposures and that these systems are operating effectively; and

- g) receive and review any internal reports relating to accounting procedures and internal controls.

#### **Risk Management Function – Responsibilities Related to Risk Management**

(4) The Committee will:

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

#### **Alleged Wrong-Doing Function – Responsibilities Related to Questionable Activities**

(5) The Committee will:

- 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;

#### **Statutory and Regulatory Compliance Function and Other Responsibilities**

(6) The Committee will:

- 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 Clerk/CAO 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; and
- d) review adequacy of staffing in relation to both number and competence for accounting and financial responsibilities.

### Staff Support

6 The Director of Finance will act as the primary Municipal Contact for the Committee.

### Training

7 (1) All committee members will participate in a regular training program which will include, at minimum:

- a) an introduction and overview of the functions, authority, and role of the audit committee at the beginning of every council term;
- b) training on interpreting financial documents and identifying fraud at least once per council term;
- c) ongoing training on topic-specific issues that arise or may arise in the activities of the committee; and,
- d) any training prescribed by the department of Municipal Affairs

(2) Notwithstanding the training program, it is acknowledged that committee members will continue to require expert advice from outside advisors where appropriate.

### Review of Policy

8 (1) The municipality must by January 31 immediately following a regular election review the audit committee policy as stated in Section 5(3)(a)(iii) of the FRAM legislation, and

- a) re-adopt the existing policy; or
- b) adopt an amended policy.

Policy Adoption	
Date of Original Passage	January XX, 2025
Date of Notice of Intent to Amend/Repeal/Consider	January 21, 2025
Date of Council Approval	January 28, 2025
Date of Effective Date (if different from approval date)	

**I certify that this Policy 102 Audit Committee was adopted by Municipal Council as indicated above.**

**Signature of Municipal Clerk**



**Date**

January 28, 2025

<b>Version</b>	<b>Amendment Description</b>	<b>Approval Date</b>
<b>Original V1</b>	Previously Terms of Reference Audit Standing Committee #006	March 7, 2018
<b>V2</b>	Amended	April 9, 2019
<b>V3</b>	Legislative Review – Re-adopted	January 26, 2021
<b>V4</b>	Amended to add reference for the FRAM legislation, definition of financial literacy, updated to accessible format, clear language and created as NEW policy	January 28, 2025