

**AUDIT COMMITTEE TERMS OF REFERENCE**

(By-Law No. 394-2002, S.4(10))

Council, at its meeting of May 22, 2007, adopted in part:

That the appropriate notice to the public be provided in accordance with By-Law 394-2002.

**Committee of the Whole recommendation of May 14, 2007**

- 1) That the recommendation contained in the following report of Regional Councillor Rosati, dated May 14, 2007, be approved;
- 2) That the appropriate notice to the public be provided in accordance with By-Law 394-2002; and
- 3) That the following Council members be appointed to the Audit and Operational Review Committee:

Mayor Linda D. Jackson (ex-officio)  
Regional Councillor Mario F. Ferri  
Regional Councillor Gino Rosati  
Councillor Bernie Di Vona  
Councillor Sandra Yeung Racco

*Further, the Committee of the Whole recommends:*

*That the following Council members be appointed to the Official Plan Review Committee:*

*Mayor Linda D. Jackson (ex-officio)  
Regional Councillor Joyce Frustaglio  
Councillor Tony Carella  
Councillor Peter Meffe  
Councillor Alan Shefman*

**Recommendation**

Regional Councillor Gino Rosati recommends:

- 1) That the present Audit Committee be renamed as the "Audit and Operational Review Committee";
- 2) That the Committee's terms of reference be expanded to include operational reviews and more accurately reflect the current mandate of the City's Operational and Compliance Auditor;
- 3) That given the change in the Committee's mandate, Council revisit the size and composition of the Committee; and
- 4) That at the Committee's inaugural meeting staff present an expanded terms of reference and an initial work plan.

**Economic Impact**

None at present, however, it is anticipated that greater efficiencies and more streamlined activities will be achieved.

## **Communication Plan**

None at present.

## **Purpose**

To achieve effective audit function and ongoing operational reviews of current issues and improvement in efficiencies and effectiveness of all City functions.

## **Background - Analysis and Options**

The mandate of the Strategic Review Committee no longer includes operational review. As this is an important function it is appropriate to include operational review as part of the Audit Committee responsibilities.

There are many areas in which the Committee can play a role. These could include:

- 1) Performance Measurement;
- 2) Benchmarking; and
- 3) Process Improvement.

With consulting assistance as required, more specific standards can be developed in order to establish work volumes based on numbers and complexities relative to assigned resources and measured against a pre-determined standard. This would provide a more objective and effective management tool in assessing performance and resource requirements.

Existing reports such as the "Performance Measurement Results" (Oct. 2005) can be reviewed and used to form a starting point to take the overall city operation to the next level. The mandate should also include that the Committee conduct systematic reviews of all departments as well as explore all possible avenues in reducing costs (including the use of technology) and maximizing revenues.

The Committee should meet on a regular basis and report back to Council.

Essentially, a process should be established whereby the objective shall be: continuous improvement of operation and to achieve the Vaughan Vision goal of Service Excellence for our citizens.

## **Relationship to Vaughan Vision 2007**

- |             |  |
|-------------|--|
| Section A-1 | Pursue Excellence in the Delivery of Core Services – Continuous improvement in the delivery of core services to external and internal stakeholders                                       |
| Section B-1 | Ensure Short & Long-Term Financial Stability – Ensure the financial security and stability of the City, through the development and application of sound financial plans and strategies. |
| Section D-1 | Enhance Productivity & Cost Effectiveness – Develop and implement innovative solutions that increase productivity or reduce operating costs.   |
| Section D-2 | Develop Internal & External Collaborative Solutions – Develop internal and external "people connections" to solve problems and improve service delivery.                                 |

The above are consistent with this recommendation.

## **Regional Implication**

None

### **Conclusion**

The recommendation is in keeping with the goals established in the Vaughan Vision, and will provide a venue for Council to be well informed and assist in the decision making process.

### **Attachments**

Attachment 1 - Present Audit Committee structure

Attachment 2 - Sample Audit Committee Charter (CICA)

Attachment 3 - June 2005, Audit Plan and internal Auditor Charter

### **Report Prepared By**

Regional Councillor Gino Rosati

**SPECIAL PURPOSE COMMITTEES**

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**AUDIT COMMITTEE**

<b>COUNCIL MEMBERS</b>	<b>STAFF</b>
Councillor Bernie Di Vona	M. DeAngelis, City Manager
Mayor Linda D. Jackson (ex-officio)	S. Fernandes, Deputy City Clerk
Councillor Tony Carella	
Councillor Peter Meffe	
Councillor Alan Shefman	
Councillor Sandra Yeung Racco	

**MEETING DATES**

At the call of the Chair.

**TERMS OF REFERENCE**

There shall be an Audit Committee comprised of Members of Council as determined by Council from time to time, for the purpose of reviewing audited financial statements, recommending their receipt to Council, reviewing significant management letter comments and related recommendations and to recommend to Council the appointment of auditors.

**APPOINTMENT:** Item 31, CW, Report No. 46, adopted at the Council meeting of December 18, 2006.



## **The Canadian Institute of Chartered Accountants (CICA) Audit Committee Charter**

### **Mandate**

The primary function of the Audit Committee (the "Committee") is to assist the Board of Directors in fulfilling its oversight responsibilities related to the quality and integrity of financial reporting. Consistent with this function, the Audit Committee assures fair presentation of the financial position and results of operations of the CICA, in accordance with Canadian generally accepted accounting principles, and ensures that appropriate systems and controls are maintained for the proper recording of transactions and protection of assets. The Audit Committee also oversees the CICA's compliance with its legal, regulatory, and contractual obligations.

### **Authority**

The Committee is empowered to make such inquiry and investigation and require such information and explanation from management as it considers reasonably necessary; and to require management to promptly inform the Committee and the auditor of any material misstatement or error in the financial statements following discovery of such situation. The Committee has authority to engage outside advisers where appropriate.

### **Committee Composition and Member Terms**

The Board of the CICA will appoint annually from among its members a Committee that will consist of at least three members of the Board (excluding the CICA Chair or Vice Chair), one of whom shall be a Public Director. The Board will designate one member as chair of the Committee. Committee members may be reappointed; however, the maximum term of a Committee member will not exceed six consecutive years. The Chair and the President shall be nonvoting, ex officio members of the Committee except for the portions of meetings dealing with audit matters.

### **Standard of Care and Reliance on Experts**

In the discharge of their duties under the Committee's mandate, each member of the Committee shall be obliged to exercise all the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances where they are dealing with the affairs and property of another person. All members of the Committee must be financially literate, apart from which the standard of care and diligence imposed on the Committee is no more onerous or extensive than that to which all Board members are subject.

In the discharge of their duties the members of the Committee may rely in good faith upon the report and findings of any expert engaged by the committee to report upon the matter under consideration.

## **Operating Principles**

The Committee shall conduct itself in accordance with the following operating principles:

1. *Committee Values*  
The Committee and management are expected to operate in compliance with the CICA Code of Conduct and the policies, laws and regulations governing the CICA.
2. *Communications*  
The Committee members will maintain direct, open and frank communications with management, the Board, the external auditor and other key advisers as appropriate.
3. *Financial Literacy*  
All members of the Committee should be sufficiently versed in financial matters to understand the CICA's accounting practices and policies and the major judgements involved in preparing the financial statements.
4. *Information Needs and Timing*  
The Committee shall communicate its expectations to management and the external auditor with respect to the nature, timing and extent of its information needs. The Committee expects that written meeting materials will be received by the Committee members at least one week in advance of regular meeting dates.
5. *In Camera Meetings*  
The Committee members shall, when deemed appropriate, meet in private session with the external auditor; with management, and as Committee members only, to discuss matters relevant to the Committee's mandate.
6. *Committee Self-Assessment*  
The Committee shall annually review, discuss and assess the performance of the Committee and its members, and shall periodically review and consider the need for recommending amendment to this charter to the CICA Board.
7. *Bilingualism*  
The Committee is designated as English/French with accommodation.

## **Operating Procedures**

The Committee shall conduct itself in accordance with the following operating procedures:

1. *Meetings*  
Meetings may be convened at the request of any member of the Committee or at the request of the CICA's auditor but under no circumstances, less than twice each year.  
The CICA's auditor shall receive notice of all meetings of the Committee and is entitled to appear and be heard thereat. Any member of the Committee may require the attendance of the auditor at any meeting of the Committee. The Committee shall meet with the auditor at least twice each year. A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee in a timely fashion.

2. *Quorum and Decision-making*

A quorum consists of the majority of the voting members of the Committee. Each Committee member is entitled to one vote and decisions shall be made by majority vote of those present.

3. *Reporting*

The Committee shall report to the Board of the CICA as often as necessary but at least annually. Reporting shall normally be made through the Committee's chair. In the absence of the chair of the Committee, the members shall appoint one of the members to act as Chair of the meeting.

## **Responsibilities**

The Committee is responsible for:

1. *Financial Reporting*

- reviewing the quarterly and annual financial statements of the CICA, and any significant related entities, and assessing the quality and appropriateness of the generally accepted accounting principles used in preparing the statements;
- reviewing the significant estimates used in preparing the financial statements and significant variances from plans or comparable results of prior periods;
- reviewing the external auditor report, and discussing the financial statements with management and with the external auditor;
- reviewing the auditor management letter and management's response thereto, as well as the status of any significant issues reported previously;
- reviewing the report from management and the Management Discussion and Analysis (MD&A) to be included in the Annual Report and reporting its findings to the Board. The Committee shall be consulted on any other financial information presented in the Annual Report; and
- approving the quarterly financial statements and recommending the annual financial statements to the Board for its approval.

2. *Financial and Accounting Policies*

- reviewing the appropriateness of and approving changes to the financial and accounting policies and disclosures.

3. *Risk and Uncertainty*

- reviewing, at least annually, the significant risks and uncertainties that may affect CICA and determining, together with the Board, the risk tolerance. Reviewing, on an annual basis, the adequacy of the internal control system established to minimize risk; and
- reviewing the appropriateness of insurance coverage maintained by the CICA.

4. *Financial Controls and Control Deviations*

- reviewing and considering any matters relating to the adequacy of internal controls and any reports from management or others on significant control deviations or indications of fraud and the corrective action undertaken with regard thereto.
5. *Compliance with Laws and Regulations*
- reviewing, as required, reports from management and others relating to the CICA's compliance with laws and regulations that it is subject to.
6. *Relationship with External Auditor*
- recommending annually the appointment of the CICA's auditor, and reviewing and approving the associated remuneration. Reviewing and approving the overall scope and approach of the auditor annual audit plan. Reviewing and making recommendations, as appropriate on any matter relating to the external audit of the CICA's accounts. Reviewing the auditor performance, at least annually, including a review of all relationships and engagements between the auditor and the CICA for non-audit services that may reasonably be thought to bear on the independence of the auditor.
7. *Other Responsibilities*
- reviewing and making recommendations, as appropriate on:
    - the Business Plan and Budget for approval by the Board;
    - the financial implications of any significant changes to approved budgets and other major undertakings or projects that may be contemplated during the year;
    - the planned funding strategy for the employee pension plan; and
    - the banking and other financing arrangements of the institute.

### **Accountability**

The Committee is accountable to the Board of the CICA.

### **Assistance/Advice/Operations**

Staff support will be provided by the CICA.

### **Funding**

Funding for reasonable and necessary expenses for the activities of the Committee is provided from the budget of the CICA.



CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2005

Item 3, Report No. 1, of the Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2005.



3 AUDIT PLAN FOR 2005, 2006, 2007 AND AUDIT CHARTER

The Audit Committee recommends approval of the recommendation contained in the following report of the City Auditor, dated June 27, 2005:

Recommendation

The City Auditor recommends that the following be received:

- 1) Audit Plan for 2005, 2006 and 2007

Economic Impact

Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish it's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The value added by Audit has economic impact, some of which will be measurable while others will not be. Audit should have a positive impact on all areas of City activity which are audited.

Purpose

To present the Audit Plan for 2005, 2006 and 2007 to the Audit Committee.

Background - Analysis and Options

For the year ending December 31, 2005, attached is the Audit Department's work plan, and proposal for year 2006 and 2007, primarily but not necessarily based on Risk Assessment. The work plan will be reviewed and updated annually.

In the performance of Audit work, the scope (below) generally underlines the work that is performed.

The **scope** of Auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibilities. The Auditors are concerned with any phase of City activity. The scope of Auditing includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Appraising the economy and efficiency with which resources are employed.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2005

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- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Making recommendations to the City Manager and the Audit Committee regarding improvement in management practices.
- Other examination and evaluation at the discretion of the auditor.

Relationship to Vaughan Vision 2007

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Conclusion

The annual audit plan provides a plan of Audit work to be done. It is not cast in stone as it may be superceded by special projects as requested by the City Manager or Audit Committee. The discovery of information during audits, may also impact the length of time to complete audits. This will have a bearing on how many audits will be completed for the year.

Attachments

Attachment 1 – Audit Plan for 2005, 2006, 2007  
Attachment 2 – Audit Charter

Report prepared by:

Michael Tupchong, City Auditor

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

City of Vaughan  
Audit Department

AUDIT PLAN 2005, 2006, 2007

Auditable Unit	Com	2005		2006	2007
		BUDGET (000)	Audit Plan 2005		
COMMUNITY PLANNING & (POLICY AND URBAN DESIGN)-Rev	JZ	4406	X		
FIRE OPERATIONS-Exp	JS	19365			
DEVELOPMENT PLANNING-Exp	JZ	1446	X		
ROADS MAINTENANCE-Exp	BR	5387	X		
BLDG STDS- LICENSES/PERMITS-Rev	JZ	12,000		X	
BUILDING STANDARDS-Exp	JZ	8041		X	
WATER, WASTE WATER AND DRAINAGE-Exp	BR	12000	X		
WINTER CONTROL-Exp	BR	7486	X		
BY-LAW ENFORCEMENT-Rev	BS	2359		X	
BY-LAW ENFORCEMENT ADMIN-Exp	BS	2531		X	
WASTE MANAGEMENT-Exp	BR	8881		X	
PROGRAMMES ADMINISTRATION-Exp	MK	2045	X		
AQUATICS-Exp	MK	2235	X		
BLDS STDS'- PLMBG PERMITS-Rev	JZ	725		X	
RECREATION-Rev	MK	12449		X	
POLICY/URBAN DESIGN-Exp	JZ	1234		X	
CORP. COMMUNIC. ADMINIS.-Exp	FM	1051			X
ROAD CONSTRUCTION-Cap	BR	16514		X	
FIRE COMMUNICATION-Exp	JS	794			X
PROVINCIAL OFFENSES ACT-Rev	BS	699		X	
FITNESS/HEALTH/SPORT-Exp	MK	1674			X
CAMPS-Exp	MK	1670			X
PERMITS(HOCKEY SUBSIDY)-Exp	MK	1048			X
ENGINEERING AND CONSTRUCTION SERVICES-Exp	BR	2886			X
LICENSING-CLERKS-Rev	BS	740			
BLDG STDS'-SERVICE CHARGES-Rev	JZ	127		X	
FIRE PREVENTION-Exp	JS	1144			X
DEVELOP/TRAFFIC & TRANSPORT ENGINEERING -Exp	BR	2106			X
ROAD RECONSTRUCTION-Cap	BR	6590			X

3.4

		2005			
	Com	BUDGET	Audit Plan		
Auditable Unit		('000)	2005	2006	2007
TRAFFIC CALMING PROGRAM-Cap	BR	204			X
OPERATIONS-Exp	MK	5972			X
WEB AND GIS DEVELOPMENT-Exp	FM	975			
COMMUNITY CENTRE COMPLEXES Cap	MK	19303			
CIVIC CENTRE SITE PREP-Cap	MK	7462			
CHIL/PRESCHOOL PGMS-Exp	MK	862			
BLDG OPERATIONS-Exp	MK	10863			
CEMETERIES/CAPITAL PROJECTS- Exp	MK	1599			
TAXATION-Rev	CH	75889			
ENGINEERING SERVICES-Rev	BR	430			
LICENSING & SPECIAL PROJECTS- Exp	BS	393			
LEGAL SERVICES ADMIN-Exp	BS	801			
MARKETING-Exp	FM	139			
ROAD RESURFACING-Cap	BR	2043			
FIRE ADMINISTRATION-Exp	JS	840			
CITY PLAYHOUSE-Exp	MK	471			
YOUTH/ADULT/SNR PROGRAMMES Exp	MK	285			
OTHER PROGRAMMES-Exp	MK	362			
SIDEWALKS-Cap	BR	5341			
CITY MANAGER-Exp	MD	516			
PROPERTY TAX-Exp	CH	1003			
PARK DEVELOPMENT-Cap	MK	3534			
TAXATION-SUPPLEMENTALS-Rev	CH	2750			
CLERKS ADMINISTRATION-Exp	BS	763			
PUBLIC WORKS-OPERATIONS-Rev	BR	218			
EMERGENCY MANAGEMENT-Exp	JS	140			
LAND ACQUISITION-Cap	BS	597	X		

## Audit Charter

### **Mandate**

The Audit function provides independent, objective assurance and advisory services in an accurate, methodical, professional and credible manner for Management and Council so residents can have confidence in the operation of the City. They use a systematic and disciplined approach to assess risk and evaluate the effectiveness of operations and compliance with legislation, by-laws and approved policies.

### **Objectives**

1. Identify, assess, measure and develop an audit plan based on key risks faced by the City.
2. Add value to local Government by identifying opportunities for improving and streamlining City operations.
3. Develop a resourcing strategy in order to respond effectively to Council and senior management needs.

### **Authority, Responsibilities and Independence**

- a. The authority and responsibilities of the Audit department are established by Council. The auditor reports to the City Manager and the Audit Committee. The auditor reports to the Audit Committee twice a year and at other times as needed.
- b. In all of its activities, the Audit department will adhere to the Standards for Professional Practice of Internal Auditing and the Code of Ethics adopted by the Institute of Internal Auditors, as well as the City's Code of conduct.
- c. The Audit department will develop a multi-year audit work plan using an appropriate risk-based methodology, including the assessment of any risks or concerns identified by senior management, and submit that plan to the City Manager for review and approval in consultation with the Commissioner of Finance & Corporate Services. The audit work plan is recommended to the Audit Committee for approval by Council.
- d. The Audit department will implement the audit work plan, as approved, provide regular status updates and prepare final reports to the City Manager, Commissioner of Finance & Corporate Services and other members of the senior management team as appropriate. This will also include advising the Audit Committee and Council as to significant deficiencies or other substantive issues noted in the course of its activities.

3.6

- e. The Audit department has unrestricted access to all records, properties, functions and personnel necessary to effectively discharge its responsibilities. All activities of the City may be subject to review.
- f. In performing its functions, the Audit department shall have no direct responsibility or authority over any of the activities reviewed. It shall not design and install procedures, prepare records, or engage in any other activity that it would normally review and appraise and that could reasonably be construed to compromise its independence and objectivity.
- g. At least once every 3 years the Charter will be reviewed to ensure that it is up to date, effective and meets the needs of the City.

### Scope of Work

The authorized scope of Audit activities encompasses (1) Compliance with legislation, by-laws and policies (2) the quality of performance in carrying out assigned responsibilities. This can include:

- a. Ascertaining compliance with legislation, by-laws and the City's policies;
- b. Evaluating efficiency and cost effectiveness with which resources are employed; and
- c. Reviewing operations or programs to assess whether they are being carried out as planned and whether results are consistent with established objectives.

The Audit department has complete independence and, is not subject to restrictions in the scope of its work by operating units or management. However, it is recognized that senior management and Council provide general direction as to the scope of work and the activities to be audited, and may request the Audit department to carry-out special reviews or audits.