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DATE: January 5, 2010

REPORT TITLE: **NAME CHANGE OF THE AUDIT SUBCOMMITTEE AND UPDATING THE  
AUDIT SUBCOMMITTEE TERMS OF REFERENCE**

FROM: Norma Trim, Chief Financial Officer and Commissioner of Corporate Services

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## RECOMMENDATION

**That the Audit Subcommittee be renamed the Audit Committee;**

**And further, that the former Audit Subcommittee Terms of Reference be replaced by the Audit Committee Charter as contained in Appendix II of the Report titled: "Name Change of the Audit Subcommittee and Updating the Audit Subcommittee Terms of Reference."**

## REPORT HIGHLIGHTS

- Audit Committee is the recognized naming standard.
- Changes to the Audit Committee Charter reflect the new International Internal Audit Standards and align with the new name of the Committee "Audit Committee"
- A well defined Audit Committee with a clearly defined objective, authority and roles/responsibilities helps support effective organizational governance.

## DISCUSSION

### 1. Background

The Audit Subcommittee was formed on June 8, 1995 under Resolution 95-231-56. The Subcommittee was established to fulfill the dual roles and mandates of ensuring that corporate financial reporting and the annual financial statements meet all legislative requirements and are credible and objective, and ensuring that responsibilities for sound management practice and management control are fulfilled by management and staff.

The Audit Subcommittee Terms of Reference was last revised in June 2006.

### 2. Changes and Comments

#### Audit Committee Charter

The Audit Subcommittee Terms of Reference has been renamed the Audit Subcommittee Charter. "Charter" represents language more commonly used in the public sector to describe an audit committee's purpose, authority, roles and responsibilities. The most significant changes are highlighted below:

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- An Objective and Authority section was added up front. Most bullets from the previous Purpose and Goal and Responsibilities for Internal Controls were retained but reordered. Additional bullets were added under the Objectives and Authority to expand and clarify each section.
- The Operational Requirements section was renamed Audit Committee Administrative Arrangements and moved to the back of the document. Most of the content remains the same except the suggestion for at least four meetings a year instead of three and that the Charter should be reviewed annually as to reflect better practice.
- The title of the section Operational Responsibilities was changed to Roles and Responsibilities and some of the Internal and External Audit Responsibilities were modified. Some bullets were moved between the Financial Reporting and External Audit Activity Section.
- Risk Management and Internal Controls components were moved to the Roles and Responsibilities section and expanded as these components are a major part of an audit committee's responsibilities. The key addition is the last bullet covering the Code of Conduct.
- Some statements that did not fit were either removed or consolidated with other bullets in the revised document. In these cases, other public audit committee charters were referenced to make sure all information was current and relevant.

For reference, the previous Audit Subcommittee Terms of Reference is attached as Appendix I. The new recommended Audit Committee Charter is attached as Appendix II.

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 Norma Trim  
Chief Financial Officer  
and Commissioner of Corporate Services

**Approved for Submission:**



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D. Szwarc, Chief Administrative Officer

*For further information regarding this report, please contact Paul Wallis at extension 4557 or via email at [paul.wallis@peelregion.ca](mailto:paul.wallis@peelregion.ca)*

*Authored By: P. Wallis, CMA, CIA, CISA*

c. Legislative Services

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**The Audit Subcommittee Terms of Reference – June 2006**

**1. Purpose and Goals of Audit Subcommittee**

- a) Demonstrate a high level of public accountability.
- b) Provide assurance to the public that regional services are administered in an efficient, effective, and economical manner.
- c) Ensure that responsibilities for financial and other reporting, internal control, and compliance with laws, regulations, and ethics are fulfilled.
- d) Ensure there is an impartial, objective, and independent review process for Region of Peel and Peel Housing Corporation operations, and the safeguarding of assets.
- e) Ensure that monies transferred to Region financed external organizations are cared for in ways consistent to standards of care by Regional Departments. This includes the Peel Police Services Board, Ontario Provincial Police (OPP), Conservation Authorities, Province of Ontario mandated transfers such as GO Transit, City of Toronto, the Municipal Property Assessment Corporation (MPAC) and housing corporations.

**2. Responsibilities for Internal Controls and Risk Assessment**

- a) Review the effectiveness of the Risk Based Work Plans provided by the Director of Internal Audit and the external auditors.
- b) Review the effectiveness or weaknesses of the Region of Peel and Peel Housing Corporation internal controls including the status of and adequacy of information systems and security.
- c) Consider and review significant findings and recommendations of the external auditors and the internal auditors together with Management's responses including the timetable for implementation of recommendations to correct weaknesses in internal controls.
- d) Instruct the external/internal auditors to communicate directly to the Audit Subcommittee any serious difficulties or disputes with Management.

**3. Operational Requirements**

**a) Reporting Function**

The Audit Subcommittee will serve in an advisory capacity by making recommendations to General Committee and Peel Housing Corporation Board. The Audit Subcommittee will be required to report after each meeting to the next regular meeting of Council (Management Section of General Committee or Regional Council) and the Peel Housing Corporation Board, as required.

**b) Membership**

The Audit Subcommittee is comprised of the Regional Chair (ex-officio), the Chair and Vice-Chair of the Management Section of General Committee and must include at least one member from each area municipality. Concurrent representation from the Peel Housing Corporation Board shall be included in the membership.

**NAME CHANGE OF THE AUDIT SUBCOMMITTEE TO THE AUDIT COMMITTEE AND RENAMING/UPDATING THE AUDIT SUBCOMMITTEE TERMS OF REFERENCE TO THE AUDIT COMMITTEE CHARTER****c) Term of Appointment**

The term of appointment of Audit Subcommittee members will be for a period of 24 months, which coincides with the term of appointment of the Management Section of General Committee Chair and Vice-Chair. Regional Council will ensure each area municipality and the Peel Housing Corporation Board is represented by appointing an additional member(s) not represented by the Chair and Vice-Chair of the Management Section of General Committee.

**d) Election of Chair and Vice-Chair**

The Audit Subcommittee will elect from among its members a Chair and Vice-Chair, and this election will be held at the Audit Subcommittee's first meeting of a new term. There are two 24 month terms during the 48 month municipal election term, therefore the election of Chair and Vice-Chair will be held twice.

**e) Quorum**

Quorum shall comprise a majority of the members of the Audit Subcommittee. All Regional Councillors and Peel Housing Corporation Board members will be invited to attend Audit Subcommittee meetings.

**f) Meetings**

The Audit Subcommittee will be required to meet three times each year, and at other times as needed, or at the call of the Subcommittee Chair. The agendas for the meetings will be distributed to the Regional Chair, all Regional Councillors, all members of Peel Housing Corporation Board, executive management, both the internal and external auditors, and other internal and external subscribers as appropriate.

The Audit Subcommittee meetings will be open meetings, and all reports and minutes will be available to the public. For the consideration of confidential matters, the Audit Subcommittee has the authority under Resolution 2000-426 to go In Camera.

**g) Audit Subcommittee Resources**

Audit Subcommittee resources will be provided by the Chief Administrative Officer, the Treasurer and Commissioner of Finance, the Regional Clerk, the Director, Internal Audit and external auditors. A designate of the Regional Clerk will serve as the secretary to the Audit Subcommittee and provide administrative support.

**h) Review of Terms of Reference**

The Terms of Reference will be reviewed at least every four years or more often if necessary. The review will be timed to be presented to the Audit Subcommittee prior to each new election. Suggested changes will be reported to the Audit Subcommittee for their consideration.

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AUDIT COMMITTEE CHARTER****4. Operational Responsibilities****a) Financial and Management Reporting and Financial Statements**

Provide assurance to General Committee and Peel Housing Corporation Board that information reported by management at the Region of Peel and Peel Housing Corporation reasonably portrays the financial condition, results of operations, plans and long-term commitments of those organizations.

Review all Region of Peel and Peel Housing Corporation financial statements to be published which require approval and make recommendations to General Committee and Peel Housing Corporation Board (for example Annual Financial Statements).

Review any report of management which accompanies published financial statements.

Review with management and external audit the results of the audit, including any difficulties encountered.

Review any qualifications to the Audit Opinion Report.

Review the annual management letters and incidents of fraud reported by the external auditors and make recommendations to General Committee and Peel Housing Corporation Board where necessary.

Review any litigation in consultation with the Region of Peel and Peel Housing Corporation Solicitor which may have an impact on financial position and operating results and the reporting of the impact.

**b) External Audit Activities**

Recommend appointment of external auditor for the Region of Peel and Peel Housing Corporation.

Review the terms of engagement, fees, and scope of the audit and any non-audit services provided.

Review the external auditor's audit planning report and make recommendations to General Committee and Peel Housing Corporation Board where necessary.

Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the external auditors, the Region of Peel and Peel Housing Corporation, including non-audit services.

Review matters brought forward that in the external auditor's professional judgment may have a bearing on independence.

Review performance of the external auditor and recommend dismissal if necessary.

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Consider the external auditor's judgments about the quality and appropriateness of the Region's accounting principles as applied in the Region of Peel and Peel Housing Corporation financial reporting.

**c) Internal Audit Activities**

Review and approve the Internal Audit Charter.

Review the Internal Audit Risk Based Work Plan recommended by the Director of Internal Audit and approved by the Chief Administrative Officer.

Consider and review with management any difficulties encountered in the course of the audit such as restrictions on the scope of work or access to information.

Ensure well controlled and managed programs and systems by Region Departments, Peel Housing Corporation and Region financed external organizations through reviewing Internal Audit reports and making recommendations to General Committee and Peel Housing Corporation Board where necessary.

Ensure that Internal Audit recommendations are implemented by reviewing the annual Status of Management Action Plans report of the Director of Internal Audit.

Ensure that external audit recommendations are implemented by reviewing the annual Current Status of Actions Taken As A Result of External Audit Management Letters report of the Director of Internal Audit.

Review the results of the Audit Effectiveness Survey from the annual summary of survey results reported by the Director of Internal Audit.

Review the results of formal quality assurance reviews of the Internal Audit function.

Review the Internal Audit Work Plan Budget vs. Actual Time Report.

May request Internal Audit to perform special studies, investigations, or other audit services in matters of interest or concern to the committee.

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AUDIT COMMITTEE CHARTER****1. AUDIT COMMITTEE CHARTER****1.1 OBJECTIVE**

The objective of the Audit Committee (ASC) is to assist Regional Council and associated Boards and Agencies in the discharge their governance, accountability and controllership responsibilities by advising that risks are being appropriately addressed through strong governance, risk, control and compliance framework, appropriate stewardship and an effective internal audit function.

This includes reviewing and advising on:

- The integrity, quality and transparency of the Region's financial information.
- The adequacy of the financial reporting process.
- The adequacy of risk management and internal control processes and practices.
- The performance of the internal audit function and assessing the effectiveness of the external audit function.
- Ethical business conduct and compliance with the Region of Peel's Code of Conduct.
- Funds transferred to Region financed external organizations are cared for in ways consistent to standards of care by Regional Departments. This includes the Peel Police Services Board, Ontario Provincial Police (OPP), Conservation Authorities, Province of Ontario mandated transfers such as GO Transit, City of Toronto, the Municipal Property Assessment Corporation (MPAC) and housing corporations.

**1.2 AUTHORITY**

The ASC receives its authority to exercise its responsibilities under resolution from Regional Council. The ASC acts as forum for communication among Regional Council, senior management and the external/internal auditors. The ASC, within the scope of its roles and responsibilities is authorized to:

- Authorize investigations into any matters it deems necessary.
- Obtain any information it needs from internal/external audit and management.
- Request the attendance of any employee or external party at ASC meetings.
- Discuss any matters with the Director, Internal Audit.

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The responsibilities of the ASC may be revised by council resolution. In each of its specific areas of responsibility, the ASC, through internal audit or other means, has a responsibility to receive and evaluate information related to areas of risk or vulnerability within the Region of Peel that requires change and support the agreed action to effect change in these areas.

**Risk Management and Internal Controls**

Based on information provided by Internal Audit and other regional business functions:

- Review and evaluate policies and procedures for assessing significant risks or exposures and steps taken to monitor risks.
- Review identified critical risks, the potential impact and related control or mitigation strategies.
- Review follow-up procedures on significant findings and action plans. Review explanations for overdue action plans.
- Review processes to determine if the organization has in place relevant policies and procedures and whether these are periodically reviewed and updated and that they are complied with.
- Review information and reports that assess key themes and issues affecting internal control from an organizational (Region) perspective.
- Review administration of and compliance with the Region's Code of Conduct including the processes for educating and communicating the Code to regional personnel.

**Internal Audit Activities**

- Review and approve the Internal Audit Risk Based Work Plan recommended by the Director of Internal Audit.
- Receive audit or engagement reports and summaries of the key issues identified in the reports and the actions taken on issues raised, including identifying and recommending better practice.
- Ensure that internal audit recommendations are implemented by reviewing the Status of Management Action Plans report.
- Review and approve the Internal Audit Charter and discuss if the appropriate authority, access and reporting arrangements are in place.
- Review audit plan status at least twice annually.
- Review results of audit effectiveness surveys from the results provided by the Director, Internal Audit.

## APPENDIX II

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- In conjunction with the Director, Internal Audit, review internal audit's compliance with the Standards of Professional Practice of Internal Auditing, including adequate quality assurance practices, appropriate staffing and effective operational management.
- Review the adequacy of resources to allow internal audit to carry out its responsibilities, including completion of the annual and longer term audit plans.
- Ensure clear communication and reporting lines exist between the Director, Internal Audit and the Audit Committee.

**External Audit Activities**

- Recommend appointment of the external auditor for the Region of Peel and Peel Housing Corporation.
- Review the terms of engagement, fees and scope of the audit and any non-audit services provided.
- Review the independence and qualifications of the external auditor.
- Review the scope and approach of the annual audit plan.
- Review matters brought forward that in the external auditor's professional judgment may have a bearing on independence.
- Review the annual management letters by the external auditors and make recommendations to Regional Council and Peel Housing Corporation Board where necessary.
- Consider the external auditor's judgments about the quality and appropriateness of the Region's accounting principles as applied in the Region of Peel and Peel Housing Corporation financial reporting.
- Overseeing the coordination of the internal and external audit functions.

**Financial and Management Reporting and Financial Statements**

- Provide assurance to Regional Council and Peel Housing Corporation Board that information reported by management at the Region of Peel and Peel Housing Corporation reasonably portrays the financial condition, results of operations, plans and long-term commitments of those organizations.
- Review all Region of Peel and Peel Housing Corporation financial statements to be published which require approval and make recommendations to Regional Council and Peel Housing Corporation Board (for example Annual Financial Statements).

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- Review any report of management which accompanies published financial statements.
- Review with management and external audit the results of the audit, including any difficulties encountered.
- Review any qualifications to the Audit Opinion Report.
- Review any litigation in consultation with the Region of Peel and Peel Housing Corporation Solicitor which may have an impact on financial position and operating results and the reporting of the impact.

**1.4 AUDIT COMMITTEE ADMINISTRATIVE ARRANGEMENTS****Reporting Function**

The Audit Committee will serve in an advisory capacity by making recommendations to Regional Council and Peel Housing Corporation Board. The Audit Committee will be required to report after each meeting to the next regular meeting of Council (Management Section of General Committee or Regional Council) and the Peel Housing Corporation Board, as required.

**Membership**

The Audit Committee is comprised of the Regional Chair (ex-officio), the Chair and Vice-Chair of the Management Section of General Committee and must include at least one member from each area municipality. Concurrent representation from the Peel Housing Corporation Board shall be included in the membership.

**Term of Appointment**

The term of appointment of Audit Committee members will be for a period of 24 months, which coincides with the term of appointment of the Management Section of General Committee Chair and Vice-Chair. Regional Council will ensure each area municipality and the Peel Housing Corporation Board is represented by appointing an additional member(s) not represented by the Chair and Vice-Chair of the Management Section of General Committee.

**Election of Chair and Vice-Chair**

The Audit Committee will elect from among its members a Chair and Vice-Chair, and this election will be held at the Audit Committee's first meeting of a new term. There are two 24 month terms during the 48 month municipal election term, therefore the election of Chair and Vice-Chair will be held twice.

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**Quorum**

Quorum shall comprise a majority of the members of the Audit Committee. All Regional Councilors and Peel Housing Corporation Board members will be invited to attend Audit Committee meetings.

**Meetings**

The ASC will be required to meet four times each year, and at other times as needed, or at the call of the Committee Chair. The agendas for the meetings will be distributed to the Regional Chair, all Regional Councilors, all members of Peel Housing Corporation Board, executive management, both the internal and external auditors, and other internal and external subscribers as appropriate.

The ASC meetings will be open meetings, and all reports and minutes will be available to the public. For the consideration of confidential matters, the Audit Committee has the authority under Resolution 2000-426 to go In Camera.

**Audit Committee Resources**

ASC resources will be provided by the Commissioner of Corporate Services and Chief Financial Officer, Chief Administrative Officer, the Regional Clerk, the Director, Internal Audit and external auditors. A designate of the Regional Clerk will serve as the secretary to the Audit Committee and provide administrative support.

**Review of Charter**

The Charter will be reviewed every year. Suggested changes will be reported to the Audit Committee for their consideration.