

The Village of Greenwood

Audit Committee Policy

Section 1 - Authority and Requirement for Policy

As per Amendments to Part II, Section 44 of the Municipal Government Act (MGA) through Bill 10, The Village of Greenwood (henceforth called “The Village”) is required to establish an audit committee. An audit committee acts as an advisory carrying out critical financial review functions on behalf of The Village Commission. As per Section 5(3) (a) (iii) of The Nova Scotia Financial Reporting and Accounting Manual (FRAM), The Village must adopt an audit committee policy or audit committee terms of reference.

Section 2 - Audit Committee Purpose

The objectives of the Audit Committee are to:

- (i) help The Village Commission meet its fundamental responsibilities of protecting The Village assets and managing operations as efficiently as possible;
- (ii) provide better communication between the auditor and The Village Commission, and promote better understanding of the audit process;
- (iii) enhance the external auditor's independent position;
- (iv) increase the credibility and objectivity of The Village’s financial report; and
- (v) strengthen the role of The Village Commission and committee members.

Section 3 - Composition Of The Audit Committee

3.1 The Audit Committee will be composed of a minimum of three members. The audit committee membership may have elected members from The Village Commission. However, the Audit Committee must include a minimum of one person who is not a member of The Village Commission or an employee of The Village. This person cannot be related to a member of The Village Commission or to an employee of The Village.

NOTE: Where the Audit Committee does not include the independent person referred to above the Audit Committee shall continue to meet and perform its duties and may exercise its powers; and The Village shall, until the requirement is met, advertise at least once every six months to recruit a person who is not a member of The Village Commission or an employee of The Village.

- 3.2 Audit Committee members should be financially literate. It is recommended that at least one of the Committee members should have a financial designation or relevant financial management expertise.
- 3.3 Each Audit Committee member must complete any training as prescribed by The Village, as delivered by the Province of Nova Scotia.

Section 4 – Membership Terms For Independent Members

- 4.1 To maintain continuity, one independent member of the **inaugural** Audit Committee will be appointed for a one year term. All other independent members of the inaugural Audit Committee, and subsequent independent members, will serve a term of two years. An incumbent independent member may submit their name for further membership three months before their present term expires.
- 4.2 The independent person(s) will perform their duties on the Audit Committee on a volunteer basis. However, when required to travel outside of The Village boundary, appropriate compensation will be provided in accordance with standard Village reimbursement policy.

Section 5 – Meeting Requirements.

- 5.1 A quorum, or minimum number of Audit Committee members, required to be present at a Committee meeting in order to validly conduct business shall be deemed to be 50+1% of the total Audit Committee membership (e.g. two members of a three-member Committee, three members of a five-member Committee) and such quorum shall be comprised of at least one independent member of the Committee).
- 5.2 The Audit Committee will meet at least four times a fiscal year or more often if deemed necessary and coincide with the stages of the audit. Meetings will be conducted:
 - (i) before the commencement of the annual audit to:
 - a. appoint the chair of the Audit Committee,
 - b. review the roles and responsibility of the Audit Committee,
 - c. establish the role and responsibilities of The Village Auditor and,
 - d. to appointment The Village Auditor.
 - (ii) on receipt of the audited Financial Statements and The Village Auditor's work including any Internal Control letter, reports regarding the Auditor's or

management's responsibilities; and appropriate Notes to the Audited Financial Statements, and

- (iii) in June and October for financial requirements meetings to ensure adequacy and effectiveness of any internal controls, review of any financial condition indicators and financial risk management.

Section 6 - Audit Committee Responsibilities and Functions

The functions of a The Village Audit Committee can be categorized as follows:

6.1 Responsibilities Related to the Financial Reporting - The Committee shall:

- (i) 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 The Village Commission;
- (ii) review with management any changes in accounting principles and practices followed by The Village Commission;
- (iii) review any significant variance in comparison to prior year and/or budget; and
- (iv) review and discuss the financial condition indicators.

6.2 Responsibilities Related to the Work of the Auditor - The Committee shall:

- (i) discuss the extent, timing and completion of the audit including the level of materiality to be used;
- (ii) review estimated and final audit fee;
- (iii) discuss whether the terms of the letter of engagement were met;
- (iv) recommend to The Village Commission the change of The Village 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;
- (v) review the problems and restrictions encountered by the auditor and degree of cooperation received; and
- (vi) promote cooperation between The Village Commission and the auditor.

6.3 Responsibilities Related to Internal Controls - The Committee shall:

- (i) obtain and review the management and internal control letter addressed to The Village Commission;
- (ii) 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 The Village Commission's response;
- (iii) discuss any Village management's response to the recommendations and adequacy of management's action plan;
- (iv) obtain reasonable assurance that The Village has implemented appropriate systems of internal controls:
 - a. Over the financial reporting and that these systems are operating effectively;
 - b. Obtain assurance The Village is in compliance with its policies and procedures and that these systems are operating effectively; and
 - c. Identify, monitor, mitigate and report significant financial or operational risk exposures and that these systems are operating effectively; and
- (v) receive and review any internal reports relating to accounting procedures and internal controls.

6.4 Responsibilities Related to Risk Management - The Committee shall:

- (i) understand the risks of The Village;
- (ii) review The Village risk management controls and policies;
- (iii) obtain reasonable assurance that management's systems to eliminate or manage the risks are effective; and
- (iv) receive reports on the management of financial risks.

NOTE These functions could be prepared by The Village Commission; however, the Audit Committee should be aware and understand the risks to the Village.

6.5 Responsibilities Related to Questionable Activities - The Committee shall:

- (i) enquire fully into any activities or transactions that may be illegal, questionable or unethical, and into The Village's control procedures to ensure that such activities are being guarded against;

- (ii) 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 Village employees; and
- (iii) review and advise The Village Commission members with respect to complaints or allegations of wrong-doing.

6.6 Statutory and Regulatory Compliance Function and Other Responsibilities - The Committee shall:

- (i) review The Village's compliance with statutory and regulatory obligations within the Committee's area of responsibility (for example reporting compliance);
- (ii) review the overall reasonableness of expenses of the Village Clerk/Treasurer and of The Village Commission members. Specifically; review the summary of remuneration and expenses schedule for reportable individuals for rationality;
- (iii) review if applicable, the annual summary hospitality expense note; and
- (iv) review adequacy of staffing in relation to both number and competence for accounting and financial responsibilities.