

**Audit Resource Management Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0753**

Proposed New Audit Committee Bylaw

EXECUTIVE SUMMARY

A Bylaw Review Working Group (BRWG) was established to complete a review of Audit Committee Bylaw 48M2012 to determine if amendments should be undertaken. The review is now complete and a proposed new Bylaw prepared that builds on the recommendations of Audit Committee's Strategic Working Group (SWG) as well as other identified revisions. This report seeks Audit Committee approval of the proposed bylaw (Attachment 1) prior to forwarding to Council.

ADMINISTRATION RECOMMENDATION:

That Audit Committee recommends:

1. That Attachment 1, the proposed Audit Committee Bylaw, be approved; and
2. That Council give three readings to the proposed Bylaw.

And further, that the Bylaw Review Working Group be thanked for their service.

RECOMMENDATION OF THE AUDIT COMMITTEE, 2020 JULY 23:

That Council give three readings to **Proposed Bylaw 33M2020**.

And further, that the Bylaw Review Working Group be thanked for their service.

Excerpt from the Minutes of the 2020 July 23 Regular Meeting of the Audit Committee:

“Moved by Citizen Representative Lambert

That with respect to Report AC2020-0753, the following be approved:

That Attachment 1, Section 5(c), Authority of Audit Committee be amended by adding the words “and Chief Financial Officer”:

The Audit Committee is authorized to:

(c) request reports from the City Manager and **Chief Financial Officer** regarding:

- (i) matters that have a material or significant financial impact to the City; and
- (ii) The City's integrated Risk Management and corporate risks, at least twice a year.

That Attachment 1, Schedule A, 2. Regarding the City's Financial Disclosure and Accounting Practices” be amended by adding a new line (f):

(f) must meet with the Chief Financial Officer, in the absence of the External Auditor, at least quarterly.

MOTION CARRIED”

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PREVIOUS COUNCIL DIRECTION / POLICY

Audit Committee is required to review their terms of reference and mandate every three years for compliance with Schedule 'A', Section 1(m) of their Bylaw 48M2012.

The Audit Committee Bylaw 48M2012 came into force on the day of the 2013 Organizational Meeting of Council. The Bylaw was subsequently amended in 2013 (amendments to Schedule 'D' pertaining to the role of the Executive Assistant), in 2016 (amendments to quorum and number of meetings per year, as well as housekeeping amendments) and in 2017 (amendments to citizen appointment terms).

Regular review of the Audit Committee Bylaw (their mandate) reflects best practice in audit governance.

BACKGROUND

A Bylaw Review Working Group (BRWG) was established at the 2019 March 22 Regular Meeting of the Audit Committee to perform a review of Audit Committee Bylaw 48M2012. The BRWG membership is comprised of Councillor E. Woolley, Councillor J. Farkas and Citizen Member L. Caltagirone, supported by a representative from the Law Department, the City Auditor and the Executive Assistant to Audit Committee. The working group met face to face on four occasions prior to the Covid-19 pandemic and virtually three times during the pandemic.

Throughout the review process, the BRWG considered amendments recommended by Audit Committee's Strategic Working Group (Report AC2020-0082), other amendments identified and routine housekeeping matters.

Amendments to the City Auditor Bylaw 30M2004 and City Auditor Charter were considered simultaneously by the BRWG. The City Auditor intends to bring proposed amendments to Bylaw 30M2004 for Audit Committee's approval at the 2020 July 23 meeting.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Bylaw Review Working Group identified that Bylaw 48M2012 could be more user-friendly, repetition eliminated, wording streamlined, and the overall layout improved. This was the basis for developing a new bylaw versus amending the current bylaw. The text for discussion for a proposed new Audit Committee Bylaw reflecting the new format is attached (Attachment 1).

The BRWG considered the Attachment to Report AC2020-0082 entitled "Summary of Findings – Outcomes of the Audit Committee 2019 Strategic Review" (Attachment 3) and the proposed new bylaw incorporates many of the strategic objectives developed by the Audit Committee through this Strategic Working Group:

Audit Committee Strategies

1. Redefine the mandate and modernize the role of the Audit Committee
2. Set priorities for the Audit Committee so that important work is addressed first
3. Set aside time for strategic matters
4. Ensure that meeting agendas address the Audit Committee's priorities
5. Review the membership terms of Audit Committee members
6. Raise the profile of the Audit Committee with Council and Administration

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7. Test City strategies by asking good questions and making strategic recommendations

The document “Current Audit Committee Bylaw 48M2012 Comparison to Proposed New Audit Committee Bylaw” (Attachment 2) contains a side by side comparison that addresses changes; both significant and housekeeping with comments, rationale and strategies included.

Below are highlights of a few significant changes proposed for the new Audit Committee Bylaw:

Section 4 – Mandate of the Audit Committee (Strategies 1 and 6)

The BRWG developed a high-level summary statement providing broad perspective on the Audit Committee’s mandate. This mandate sets out the Committee’s major oversight responsibilities and emphasizes their role in providing independent expertise and advice to Council.

Section 5 - Authority of Audit Committee (Strategies 1, 2, 3 and 4)

The BRWG created a new section, “Authority of Audit Committee” grouping together matters where Council have delegated authority to Audit Committee.

Section 5(c) provides for Audit Committee to request reports from the City Manager on matters that have material or significant financial impact to The City. This recommendation by the SWG ensures Audit Committee has opportunity to preview any matter with material or significant financial or risk related impact to The City. This shifts from a traditional forensic role to one that includes impartial input before and during important decisions about finance and risk. This proactive approach allows the Committee to be informed of emerging issues before other decisions constrain The City and allows prioritization of issues based on reporting from City Manager.

Section 5(d) provides for Audit Committee to link reporting from Administration and civic entities to strategic decisions made each year on matters they wish to focus on as reflected in their annual work plan. Formerly the bylaw was very prescriptive on areas the Audit Committee should receive reporting. This prescriptive approach encouraged annual routine reporting rather than providing for emerging or strategic issues.

Section 5(f) provides that Audit Committee must pre-approve all audit or non-audit services performed by the External Auditor. This is comparable to the current bylaw; however, the Chair’s pre-approval limit has been increased from \$25k to \$50k and a limit established on the amount of additional services the External Auditor can provide to The City. The Chair’s pre-approval limit has been increased to more closely reflect average fees that may be levied for audit services. The limit for additional services has been set to not exceed the total audit fees approved to ensure the independence of the External Auditor is not compromised.

Section 7, Terms of Appointment (Strategy 5)

Under the current bylaw members of the public are appointed by Council for two year staggered terms and Members of Council serve for one term. The SWG recommended, and the BRWG agreed, that Members of Council serve two year terms beginning in 2021 to provide additional continuity and effectiveness to the Audit Committee.

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Section 10, Quorum (Strategy 1)

The quorum of Audit Committee meetings under the current bylaw is four members; two Councillors and two Electors. There have been challenges ensuring quorum is met. The BRWG agreed that quorum of four members of the Committee was appropriate, however, changed the composition to four members, of which only one must be a Member of the Public. The requirement for only one Member of the Public to be present to achieve quorum still maintains both council and public representation at meetings.

Section 11, Appointment of Chair and Vice-Chair (Strategy 5)

On the advice of the City Clerk, the BRWG recommend that appointments of the Chair and Vice-Chair are made at the Organizational Meeting of Council. This permits the Chair (and the Vice-Chair as an alternate) to sit as a member of the Priorities and Finance Committee (PFC) immediately. In the past PFC have waited for the appointment of these positions (to be made at the first Audit Committee meeting following the Organizational Meeting) to determine the representative from Audit Committee. The delay in appointing a Chair and Vice-Chair of Audit left PFC with one member appointment outstanding; sometimes for several meetings.

Schedule A (Strategies 1, 2 and 4)

The most significant change proposed to Schedule A is that Section 6, Regarding Administration's Compliance and Ethics, has been deleted. The BRWG believe the Audit Committee's annual work plan allows the Committee flexibility to determine whether compliance with policies and legislation or ethics should be included for oversight in any given year. Ethics are also included through the work of the City Auditor and the External Auditor. This moves the Audit Committee away from the more prescriptive approach used in the current bylaw.

Stakeholder Engagement, Research and Communication

In developing the new Audit Committee Bylaw, the Bylaw Review Working Group engaged with Administration, the City Auditor, the Law Department, the External Auditor (Deloitte LLP) and Audit Committee's Strategic Working Group.

Strategic Alignment

Council Priority: A well-run City: Calgary has a modern and efficient municipal government that is focused on resilience and continuous improvement to make life better every day for Calgarians by learning from citizens, partners, and others.

Social, Environmental, Economic (External)

No social, environmental or external economic impacts were identified.

Financial Capacity

Current and Future Operating Budget:

There are no operating budget implications.

Current and Future Capital Budget:

Not applicable.

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Risk Assessment

Modernization of the Audit Committee Bylaw reflects continuous improvement in governance and provides the Audit Committee with the flexibility to address emerging issues of significant risk or financial impact to The City. The Audit Committee is committed to providing Council with high level financial expertise and advice and the proposed bylaw will assist them in moving forward with a more strategic view.

REASON(S) FOR RECOMMENDATION(S):

Pursuant to Bylaw 48M2012 the Audit Committee is required to review their bylaw every three years. This report contains the details with respect to a proposed new Audit Committee bylaw developed for consideration by Audit Committee and Council. This review formed part of the 2019 Audit Committee Work Plan.

ATTACHMENT(S)

1. **Proposed Bylaw 33M2020**
2. Audit Committee Bylaw 48M2012 Comparison to Proposed New Audit Committee Bylaw
3. Summary of Findings – Outcomes of the Audit Committee 2019 Strategic Review
4. Bylaw 48M2012, Audit Committee Bylaw (Current Version)