



# **Toolkit for Boards of Education Audit Committees**

## **The Audit Committee**

- Purpose of Audit Committees
- Sample Terms of Reference to Audit Committees

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# The Audit Committee

## Purpose of Audit Committees

An **audit committee** is a committee of the Board of Education and is responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results both internal and external. The committee assists the Board of Education to fulfil its governance and oversight responsibilities in relation to the school district's financial reporting, internal control system, risk management system, and internal and external audit functions. Its role is to provide advice and recommendations to the Board of Education within the scope of its terms of reference, but not to take over the final role of the board in overseeing the school district's finances.

Some direct responsibilities of the audit committee may include:

- Overseeing the financial reporting and disclosure processes.
- Monitoring choice of accounting policies and principles.
- Overseeing appointment, performance and independence of the external auditors.
- Oversight of regulatory compliance, ethics, and whistleblower hotlines.
- Monitoring the internal control process.
- Overseeing the performance of the internal audit function (if any).
- Discussing risk management policies and practices with management.
- Overseeing the consideration of, and possible implementation of, recommendations from outside organizations such as the Office of the Auditor General.

## Sample Terms of Reference for an Audit Committee

The audit committee may be structured to be a “committee of the whole” of all school trustees or it may be a committee of a few appointed members of the board that can also include non-voting external individuals that are independent of the Board of Education. The benefit of having an audit committee with public members is that you are normally selecting public members with specific business and accounting expertise, and can also provide another level of community engagement along with fiscal oversight.

At least one member of the audit committee can be a financial expert with relevant experience and skills. If the Board does not have a trustee with the relevant experience and skills, an independent non-voting lay expert can be a member of the committee.

Below are two sample terms of reference that may be used for the formation of a Board of Education Audit Committee.

### Sample 1:

## Terms of Reference for an Audit Committee (Committee of the Whole)

### A. Purpose and Authority

The Audit Committee (the “Committee”) is a committee of the whole of the Board of Education. The purpose of the Committee is to monitor, evaluate, advise or make recommendations, in accordance with these terms of reference or any other directions of the Board, on matters affecting the financial and operational control policies and practices relating to the

district, including external, internal or special audits thereof. The Committee has the authority to retain, at the expense of the district, outside advisors and consultants within the district's reasonable availability of financial resources.

## **B. Duties**

The primary duties of the Committee include, but are not limited to the following:

- Assessing the processes related to identification of the district's risks and effectiveness of its control environment.
- Overseeing financial reporting.
- Evaluating the district's internal control systems for financial reporting.
- Evaluating the internal and external, and any special audit processes.
- Providing an avenue of communication amongst the external auditor, management, internal audit staff, and the Board.
- Making recommendations to the Board as to potential policy or procedural changes arising out of audit recommendations.

## **C. Membership, Frequency of Meetings, Minutes**

### *Membership*

The Audit Committee shall consist of the board of the whole, the internal auditor, and the chairperson of the committee.

### ***Frequency of Meetings/Attendance***

The Committee shall meet at least three times per year and may call special meetings as required. A quorum at meetings of the Committee shall be a majority of its members, and the Committee chair shall prepare an agenda in consultation with the internal auditor.

Attendance at the Committee meetings by district personnel will be determined by the Committee, but will normally include the superintendent, the secretary treasurer, and a recording secretary.

### ***Minutes***

The minutes of the Committee meetings shall accurately record the decisions reached by the Committee. The secretary treasurer, or such other person as may be designated by the Committee (such as the internal auditor), shall keep minutes of the proceedings of all meetings of the Committee. The minutes shall be distributed to the Committee members with copies to the superintendent, the external auditor and others as directed by the Committee.

## **D. Confidentiality**

Deliberations and information received from the attendance at an audit committee meeting will be treated as private and confidential information, and shall not be published, released or disclosed in any manner to any persons other than to trustees of the board, the Superintendent, or, as determined by the Committee, or in pursuance of specified duties under the *School Act*, the district's Organizational Bylaw or the *Freedom of Information and Protection of Privacy Act*.

## **E. Audit Committee Responsibilities**

- Review and assess the adequacy of these terms of reference annually in April and submit any recommended changes to the terms of reference to the Board of Education for approval.
- Review the district's annual audited financial statements before such statements are submitted to the Board of Education for approval.
- Review should include discussion with management and the external auditors of significant issues regarding accounting principles, practices and judgements.
- Consideration should also be given as to whether they are complete and consistent with information known to Committee members.
- In consultation with management, the external auditors and the internal auditor consider the integrity of the district's financial reporting processes and controls including information technology security and control.
- Discuss significant financial risk exposures and the steps management has taken to identify, monitor, control and report such exposures.
- Review significant findings prepared by the external and the internal auditors together with management responses.
- Review the financial consent and completeness of information of the district's public disclosure documents of a financial nature which require approval by the board, before release.
- Review with management, the external auditors, and, if necessary, legal counsel any material litigation claim or other contingency that could have a material effect upon the financial situation or operation results of the district and the manner in which these will be disclosed in the financial statements.
- Monitor the appropriateness of accounting policies, especially critical accounting policies, and financial reporting used by the district to review any actual and perspective changes in financial reporting and accounting

policies and practices to be adopted by the district and to review and assess any new or proposed developments in accounting and reporting standards that may affect or impact on the district.

- Review other direct or indirect external audit reports (e.g. Office of the Auditor General) toward making recommendations to the Board for policy or procedural changes for the school district.

## **F. Risk Management Oversight**

Risk Management Oversight means identifying and analysing and managing risks that may prevent the district from achieving its objectives. The Committee's oversight responsibility for risk management is primarily concerned with financial risks that may affect financial reporting.

- Assess whether management has implemented policies ensuring that the district's financial risks are identified and that controls are adequate, in place and functioning properly.
- Assess whether management has implemented policies and controls to prevent, detect, and deter fraud.
- Review all reports concerning any significant fraud or non-compliance that occurs in the district. This review should include consideration of the internal controls that should be strengthened to reduce the risk of a similar event in the future.
- Assess compliance with specific regulations pertaining to the district.
- After Committee assessment, appropriate recommendations will be made to the board if required.

## **G. Legal Compliance**

On at least an annual basis, review with the district's appointed legal counsel any legal matters that could have a significant impact on the district's financial statements, the district's compliance with applicable laws

and regulations, and inquiries received from the regulators or government agencies.

## **H. Other**

Recommend to the board the establishment of a code of ethical conduct (the "Code"), periodically review and recommend to the Board of Education updates to the Code, and ensure that management has established a system to enforce the Code.

Additional requirements could include reviewing management's monitoring of the district's compliance with the Code, and ensuring that management has the proper review system in place to ensure that the district's financial statements, reports and other financial information disseminated to the government organizations and the public satisfy legal requirements.

- Periodically perform a self-assessment of committee performance.
- Review financial and accounting succession planning within the district.
- Perform any other activities consistent with these terms of reference, the district's bylaws and governing policies as the Committee or the Board of Education deems necessary or appropriate.
- Establish procedures for receiving, retaining and responding to complaints relating to accounting or auditing matters, on a basis that protects the confidentiality of the complainer.

## **I. Internal and External Audit Responsibilities**

### *Role of the Audit Committee with the External Auditor*

- Appointment of auditor must be in accordance with Board procurement procedures and s.158 of the *School Act*. Of particular note is



responsibility of Board in appointing the auditor and how this role is subordinate to the *Auditor General Act*.

- Review the annual appointment of the external auditor, for recommendation to the Board for approval giving consideration to matters such as :
  1. Independence and whether to retain such auditor for each fiscal year after consultation with appropriate management and the internal auditor.
  2. The fees paid to the external auditor on an annual basis and any non-auditing services performed by the external auditor.
  
- On an annual basis, review and discuss with the external auditor all significant relationships with the district that could impair such auditor's independence.
  
- Review the planning and results of the external audit, including:
  1. the auditor's engagement letter
  2. the reasonableness of the estimated audit fees
  3. the scope of the audit, including materiality, audit reports required, areas of audit risk, deadlines and coordination with internal audit staff.
  4. the post audit management letter together with management's responses, and
  5. any other matters the external auditor brings to the attention of the Committee.

- Meet with the external auditor at least annually and preferably at each Committee meeting or as requested by the auditor (internal or external) without management representatives present.
- Receive and review all follow up action or status reports relating to the recommendations of the external auditor and internal auditor.

### *Role of the Audit Committee with the Internal Auditor*

- The internal auditor shall have a direct reporting relationship to the Committee through the Chairperson of the Board.
- Annually review the budget and independence of the internal auditor function.
- Review the significant reports prepared by the internal auditor function together with management's response, including target dates for implementation of recommendations, and the identification of individuals responsible to action.
- Meet with the internal auditor at least annually and preferably at each Committee meeting or as requested by the auditor (internal or external) without management representatives present.

#### **Sample 2:**

### **Board Committee Terms of Reference Audit Committee that includes Public Members**

1. To ensure compliance with the financial provisions of the *School Act* and Regulations , and provide independent oversight to the Board of Education in the areas of:
  - a) Financial reporting
  - b) External Audit Process
  - c) Risk Management and Internal Controls
  - d) Compliance Matters

## Membership

2. The Audit Committee will be comprised of the following members:
  - a) Three Trustees who are appointed by the Chair of the Board of Education
  - b) Two External community members recommended by the selection committee.
  
3. External community members are identified by a selection committee as potential candidates for appointment to the Audit Committee. The selection committee shall be comprised of at least:
  - a) Chair of the Board of Education or Trustee designated by the Chair
  - b) Superintendent
  - c) Associate Superintendent and Secretary-Treasurer or designated alternate.

The selection committee shall recommend to the Board of Education the external community members as potential candidates. The Board of Education approves the appointment of the external community members.

4. An external community member appointed to the Audit Committee must:
  - a) Be an objective advisor with expertise in financial matters, or other relevant expertise
  - b) Not be an employee or officer of the school district
  - c) Not have a parent, child or spouse employed or be an officer of the school district

- d) Support the values of the school system
5. External community members are volunteers and will not receive any remuneration. Any incidental expenses (mileage, parking, etc.) will be reimbursed in accordance with Board processes.
  6. The term of office of a Trustee who is a member of the audit committee shall be determined by the Board, but must be reviewed on an annual basis and shall not exceed four years. The term of office of an external community member shall be a period of two years. External community members may be reappointed no more than two terms unless:
    - a) Advertised the position for at least 30 days, and
    - b) After 30 days, the selection committee did not identify any potential candidates.

When the term of an external community member expires, they continue to be a member of the audit committee until a successor is appointed or the external community member is reappointed.

7. At the first meeting of the audit committee in each fiscal year, the Audit Committee shall elect the Chair of the committee from the board members appointed to the committee. If at any meeting of the audit committee the Chair is not present, the members present may elect a trustee Chair for that meeting. The Chairperson will set the agenda of the meetings based on the work plan developed by the Audit Committee.
8. The secretary treasurer, reporting directly to the Audit Committee *for audit matters*, will act as its primary resource. The Superintendent or an appointed Associate Superintendent can also be a resource to the Audit Committee, when required.

9. Any vacancy of a member of the Audit Committee shall be filled as soon as possible in accordance with the Audit Committee Terms of Reference. A person who is appointed to fill a vacancy shall hold the position for the remainder of the term of the member whose position became vacant.

## **Responsibilities**

### *Financial Reporting*

10. Review the Board's annual financial statements, quarterly financial reports, and all other financial monitoring reports required by the Board, Ministry of Education, or other agencies.
11. Recommend to the Board, if the Audit Committee considers it appropriate to do so, that the Board approve the annual audited financial statements and any other financial monitoring report.

### *External Audit Process*

12. Recommend to the Board the appointment of the external auditor for a term not exceeding three years. The selection process must also be in accordance with Board procurement procedures and s.158 of the *School Act*. Of particular note is responsibility of Board in appointing the auditor and how this role is subordinate to the *Auditor General Act*.
13. Review the external auditor's audit plan and audit findings, including:
  - a) The external auditor's engagement letter and independence letter.
  - b) Any management representations made to the external auditor and those representations not obtained from management, if any.

14. Meet on a regular basis with the external auditor to discuss any matters that the audit committee or the external auditor believes should be discussed.
15. Review, at least once in every fiscal year, the performance of the external auditor and make recommendations to the Board on the appointment, replacement or dismissal of the external auditor, and on the fee and fee adjustment for the external auditor.
16. Work to resolve any disagreements between management and the external auditor about financial reporting.
17. Recommend to the Board the pre-approval of all audit and non-audit services to be performed by the external auditor.
18. Review other direct or indirect external audit reports (e.g. Office of the Auditor General) toward making recommendations to the Board for policy or procedural changes for the school district.

### ***Risk Management & Internal Controls***

19. As the primary resource to the Audit Committee, the Internal Audit Officer shall ensure the Audit Committee:
  - a) Reviews the overall effectiveness of the Board's internal controls.
  - b) Understands the inherent risk of fraud and error in the Board.
  - c) Understands the Board's significant risks, the internal controls that mitigate these risks, and management's policies for risk assessment and risk management and to assess the steps management have taken to manage such risks, including the adequacy of insurance for those risks.

- d) Understands the accounting policies used in the preparation of the annual financial statements.
20. Review and recommend to the Board the content of the annual Internal Audit Plan as prepared by the Internal Audit Officer.
21. Review at least once in each fiscal year the performance of the internal auditor and provide the Board with comments regarding his or her performance.
22. Meet on a regular basis with the internal auditor and management to discuss any matters that the audit committee or internal auditor believes should be discussed, including:
- a) Significant findings and recommendations by the Internal Audit Officer and responses of management.
  - b) Any significant changes the internal auditor made to the audit plan in response to issues that were identified during the audit.
  - c) Any difficulties encountered in the course of the internal auditor's work, including any restrictions or limitations on the scope of the internal auditor's work or on the internal auditor's access to required information.

### *Compliance Matters*

23. Review the effectiveness of the Board's system for monitoring compliance with legislative requirements and with the Board's policies and procedures, and where there have been instances of non-compliance, to review any investigation or action taken by management to address the non-compliance.



24. Review any significant findings of regulatory entities, and any observations of the Internal Audit Officer or external auditor related to those findings.
25. Review the Board's process for communicating any codes of conduct that apply to Board members or staff of the Board to those individuals and the Board's process for administering those codes of conduct.
26. Obtain regular updates from management and legal counsel regarding compliance matters.
27. Obtain confirmation by management that all statutory requirements have been met.

## **Meetings**

28. The Audit Committee will meet at least three times per year. Additional meetings may be scheduled at the call of the Chairperson if deemed necessary to carry out its responsibilities effectively and efficiently.
29. Minutes will be taken at each meeting and will be presented to the Board of Education as part of a consent agenda.
30. Quorum is achieved when a majority of the members of the Audit Committee are present, one of which must be an external community member. At least one staff member shall be present for each meeting.
31. Each Audit Committee member who is an elected Trustee has one vote, unless a member has declared a direct or indirect pecuniary interest in an agenda item. In the event of a tie vote, the Chairperson is entitled to cast a second vote.

## Reporting & Communication

32. The Audit Committee is accountable to the Board of Education representing the interests of all stakeholders.
33. Maintain an effective communications policy, including disclosure of the Audit Committee's Terms of Reference.
34. Annually, the Audit Committee will report to the Board of Education an evaluation of the performance of the Audit Committee's duties.
35. The Audit Committee shall submit to the Board of Education an annual report that includes:
  - a) The annual Internal Audit Plan prepared by the Internal Audit Officer.
  - b) Description of any changes made to an Internal Audit Plan since the last report of the Audit Committee.
  - c) A summary of the work performed by the Internal Audit Officer since the last annual report of the Audit Committee, together with a summary of the work the auditor expected to perform during the period.
  - d) A summary of risks identified and findings made by the Internal Audit Officer.

**The above are examples of terms of reference for audit committees. Each school district will need to tailor the audit committee terms of reference to align with governance policies and to address fiduciary responsibilities of the Board of Education.**

