

Proposed Mandate for Audit Committees – OPSBA Submission

1. Application
Audit committees must be established by all 72 district school boards.
2. Composition of Audit Committees
If a board has fewer than 14 trustees, the audit committee shall consist of 3 trustees and 2 persons who are not trustees. If a board has 14 or more trustees, the audit committee shall consist of 4 trustees and 3 persons who are not trustees.
3. Appointment of Members
 - I. Trustee members shall be appointed following a district school board's by-laws on the selection process for appointing members to participate in sub-committees. Without a specific by-law, the chair of the board of trustees will appoint the trustees. Non-trustee members shall be appointed by the board from those identified by the selection committee as described under Section 5 below.
 - II. If the board fails to appoint a person to the audit committee following the process described under Section 3 (I), the Minister may appoint a person to sit on the audit committee until a replacement is appointed by the chair of the board.

Reference to "board of trustees" should read "board".

OPSBA recommends that the board be responsible for approving appointments of trustees and non-trustees to the audit committee. The mandate should omit reference to the chair of the board of trustees appointing members to the audit committee in both (I) and (II). Also in item (I) the reference to sub-committees should read committees. Item II should make clear that the replacement is appointed following the process outlined in item 3 (I).

4. Eligibility of non-trustee persons for appointment to audit committee
There are four eligibility requirements as follows:
 - I. Person has accounting, financial management or legal experience that would enable him or her to understand accounting and auditing standards applicable to the public sector;
 - II. The person is not an employee or officer of the board or of any other district school board or school authority;
 - III. The person does not have a conflict of interest that precludes the person from being a member of the audit committee;
 - IV. The person was identified by the selection committee described below under Section 5 as a potential candidate for appointment to the audit committee.

OPSBA recommends that in item (I) the eligibility requirement also include other relevant experience in addition to legal and financial experience. This would allow individuals with general business experience outside of professional accountants and lawyers to be eligible to sit on an audit committee.

5. Selection committee for Non-Trustee persons
Each board shall have a selection committee for the purpose of identifying potential candidates to participate in the audit committee. The selection committee shall be made up on the Director of Education and the Senior Business Official. Recommendations made by the selection committee shall be presented to the board for approval.

OPSBA recommends that the selection committee be composed three trustees appointed by the board. The audit committee is a committee of the board and as with any other standing committee of the board; the selection of members should be made by trustees. To preserve the independence of the audit committee all members should be selected and approved by the board.

6. Chair of audit committee

The chair of the committee shall be chosen by its members at the first meeting of the year from among the trustees appointed to the committee.

7. Term of Appointment

- 1) The term of office of a member shall be determined by the chair of the board and shall not exceed 4 years for trustee members and 3 years for members who are not trustees.

The term of office should be determined by the board not the chair of the board.

- 2) A member is eligible for reappointment if the person's performance as a member of the committee over the preceding term has been reviewed and approved by the chair of the audit committee and the chair of the board. When the term of a committee member expires, he or she continues to be a member until a successor is appointed.

Reappointment to the audit committee should be determined and approved by the board, not the chair of the audit committee and the chair of the board.

8. Vacancies

A member vacates his or her position on the audit committee if he or she:

- I. has unauthorized absences from 3 regular consecutive meetings;
- II. is convicted of an indictable offence;
- III. ceases to hold the qualifications to be an audit committee member.

The mandate should also provide for a vacancy to be created by the resignation of a member of the audit committee. Also item (I) should read "has unauthorized absences from three consecutive regular meetings;"

9. Duties of an audit committee

The audit committee has oversight duties to help the board of trustees to discharge their responsibilities. The duties are mainly in six areas:

Reference to "board of trustees" should read "board".

I. Financial Reporting Process:

- i. Review elements that could have an impact on the board's financial statements;
- ii. Review the year end external audit process, including having appropriate discussions with the external auditor and management;
- iii. Ensure that the financial statements are complete and in accordance with the Education Act subsection 230.21(1)(a);
- iv. Recommend to the board of trustees approval of the financial statements

Reference to "board of trustees" should read "board".

II. Internal Controls:

- a. Review the effectiveness of the board's internal controls;
- b. Review the scope of the internal and external auditor's review of the

- c. board's internal controls, their findings and responses from the board to those recommendations.

III. Internal Auditing:

- a. Discuss with appropriate individuals the mandate, activities, staffing and organizational structure of the internal audit function;
- b. Make recommendations to the board on the content of the internal audit plan or changes to the plan;
- c. Ensure there are no unjustified restrictions or limitations on the scope of the internal audit and make recommendations to the board on the appointment, replacement or dismissal of the internal auditor;
- d. Review the performance of the internal auditor and make recommendations to the board on the annual compensation of the internal auditor;

Annual compensation of the internal auditor will be determined by the salary classification process of the host district school board not the audit committee. The regional internal auditors are employees of the host district school board and as such their terms & conditions of employment will be determined by the internal practices of the host district school board. This would include determination of compensation.

- e. Review the effectiveness of the internal auditor in compliance with internal auditing standards;
- f. Meet with the internal auditor privately on matters that may need to be discussed;
- g. Review any changes in the planned scope of the audit plan, significant internal audit findings, recommendations and staff follow-up.

IV. External Auditing:

- a. Review the external auditor's audit plan;
- b. Review the performance of the external auditor and make recommendations to the board on the appointment, discharge and compensation of the external auditor;
- c. Confirm the independence of the external auditor;
- d. Meet with the external auditor privately on matters that may need to be discussed;
- e. Resolve disagreements between management and the external auditor on financial reporting matters;
- f. Recommend to the board and oversee a policy designating permissible services that the external auditor may perform for the board.

V. Compliance Matters

- a. Review the board's systems for monitoring compliance, noting instances of non-compliance and actions taken by the board to address the non-compliance;
- b. Review the findings of any examinations by regulatory agencies;
- c. Review the process for communicating the codes of conduct and the process for monitoring compliance with the codes;

Should read "codes of conduct for staff".

- d. Obtain regular updates from individuals regarding compliance matters.

VI. Risk Management

- a. Inquire about significant risks, review the board's policies for risk assessment and risk management, and assess the steps taken to control such risks;
- b. Oversee special investigations where necessary.

VII. Other

- a. Perform other activities as requested by the board;
- b. Annually report to the board on the committee's discharge of its duties;
- c. Obtain confirmation that the board has met all statutory filings and requirements.

10. Powers of an audit committee

Audit committees have 6 key powers:

- I. Retain counsel, accountants or other professionals to advise the committee or assist in the conduct of any investigation needed to carry out any of its duties;
- II. Meet with or require the attendance of anyone at meetings of the committee, and require from such persons any information and explanation that in the audit committee's opinion may be necessary to enable the audit committee to carry out its duties;
- III. Meet with the board's internal and external auditors without the presence of the board's officers or trustees, other than those trustees who are members of the committee;
- IV. Require the external auditor or the internal auditor to provide reports to the committee;
- V. Have access, at all reasonable hours, to all records of the board;
- VI. Require any person to give evidence on oath or affirmation for the purposes of the audit and, for the purposes of the testimony, the audit committee has the powers of a commission under Part II of the Public Inquiries Act and that Part applies as if the audit committee were conducting an inquiry under that Act.

OPSBA has significant concern with the investigative powers that are set out in this section. The involvement of trustees in a commission under Part II of the Public Inquiries Act creates an adversarial process where the trustees could be at odd with the board in which they are an elected member. This situation is exacerbated by the fact that the audit committee may have its own legal counsel for such purpose and the Board could be separately represented by the usual board legal counsel. This is inherently inappropriate.

In addition, this is not consistent with the philosophy of Bill 177 and in particular s.218.1(f) "entrust the day to day management of the board to its staff through the board's director of education".

Since the Board's external auditor already has the power to conduct a commission of inquiry, it is not clear why the Audit Committee should also require such power.

OPSBA recommends that item (VI) omit any reference to commission under Part II of the Public Inquiries Act and that any counsel, accountants or other professional retained by the audit committee per item (I) must first be approved by the board.

11. Meetings

The audit committee shall meet at least three times per year at the call of the chair, and at such other times and places as the chair considers advisable. A majority of the members of the committee constitutes a quorum for meetings of the committee. The chair of the committee shall ensure that minutes are taken at each meeting and provided to the members of the committee before its next meeting. The meetings will be closed to the public in accordance with the Education Act subsection 207 (2) (a) & (b) as the matters discussed could involve the security of the property of the board or could contain the disclosure of intimate, personal and financial information in respect of a member of the board or committee, an employee of the board or a pupil.

Meetings of the audit committee should not be automatically closed to the public. As with other committees of the board, the meetings should only be closed for specific agenda items that are in accordance with the Education Act subsection 207 (2).

12. Declaration of conflicts

- I. Upon appointment and at the first meeting of each year, every member of an audit committee shall submit a written declaration to the chair of the committee declaring whether he or she has any conflicts of interest. At any time subsequent to their appointment, every member of an audit committee shall immediately, upon becoming aware that he or she has a conflict, disclose the conflict in writing.
- II. If a member of the committee or his or her parent, child or spouse could derive any financial benefits relating to an item on the agenda for a meeting, the member shall declare his or her interest at the start of the meeting and shall withdraw from the meeting during the discussion of the matter. If a conflict of interest is declared, details of the conflict shall be recorded in the minutes of the meeting.

Section 4 (III) precludes a non-trustee person from being a member of the audit committee if they have a conflict of interest and section 12 seems to allow a member of the audit committee to disclose a conflict of interest but continue to serve on the audit committee. These two sections should be reviewed to ensure that there is not a contradiction in the mandate.

13. Reporting

The audit committee shall submit an annual report to the board including:

- a. The annual or multi-year audit plan of the board's internal auditor;
- b. A description of any changes made to the annual or multi-year audit plan since the last report;
- c. A summary of the work performed by the internal auditor since the last report.

The report shall then be submitted by the board to the Ministry of Education, on or before a date specified by the Minister.

The audit committee shall submit an annual report to the board including:

- a. a summary of the work the committee performed to fully discharge its responsibilities during the preceding year;
- b. an assessment by the audit committee of the board's progress in addressing any findings and recommendations made by the internal and external auditor;
- c. a summary of the matters addressed by the committee at its meetings;
- d. the attendance record of members of the committee;
- e. any other matter that the committee considers relevant.