



## STAFF REPORT

THE CORPORATION OF THE TOWN OF COBOURG

# Corporate, Finance, and Legislative Standing Committee

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Report to: Mayor, Deputy Mayor, and Councillors  
From: Adam Giddings, Treasurer/Director of Corporate Services  
Standing Committee Date: June 6, 2024  
Report Number: COR-2024-010  
Council Meeting Date: June 26, 2024  
Subject: **Audit Committee Update**

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### 1. Recommendation:

THAT Council accept the updated Audit and Risk Committee Terms of Reference and update the Committee to the Audit and Risk Committee; and

FURTHER THAT Council direct staff to commence the recruitment process for two members to be appointed by Council to the Audit and Risk Committee.

### 2. Executive Summary:

The Audit and Risk Committee promotes an appropriate environment for the management of public funds and a high level of accountability. In essence, the Committee acts as an independent body within the municipality, providing objective oversight and ensuring that the municipality's financial practices, internal controls, and risk management procedures are sound and effective. This oversight helps protect the interests of taxpayers and enhances the credibility and reliability of the municipality's financial reporting.

As part of the increased emphasis on accountability and responsibility arising, it is considered part of emerging best practices to adopt terms of reference that delineate the responsibilities, policies, and practices of a committee.

This oversight extends to IT security and operational matters, including audit management software. Additionally, audit committees address topics such as environmental, social, and governance (ESG) reporting, risk management, fraud prevention, and internal and external audits.

Although an audit committee currently exists at the Town of Cobourg, this report updates the following:

1. Documented Terms of Reference to outline the responsibilities, role, etc.
2. Updated requirement for public members to be appointed by Council to serve on the Audit and Risk Committee.
3. Incorporate IT responsibilities within the Audit and Risk Committee.

### **3. Background**

Although there is no legislative requirement for audit committees in Ontario municipalities, the purposes served by such committees are sufficiently important to favour their use. Further, auditing firms have strongly encouraged the establishment of an audit committee and is further detailed in Canadian Auditing Standard 260.

The principal purpose of the Audit and Risk Committee is to review the Town of Cobourg's affairs, primarily by examining the audited annual financial statement prepared by management. The objectives of the Audit and Risk Committee are to:

- Help Council meet its fundamental responsibilities of protecting municipal assets and managing operations as efficiently as possible.
- Provide better communication between the auditor and Council and promote a better understanding of the audit process.
- Enhance the auditor's independent position.
- Increase the credibility and objectivity of the municipality's financial statements.
- Oversight of the effective and efficient use of resources.

#### **4. Discussion:**

The Audit and Risk Committee will assist Council in fulfilling its due diligence, fiduciary, financial reporting, and audit responsibilities and to approve, monitor, evaluate, and provide advice on matters affecting the external audit, risk management, IT, and the financial reporting and accounting control policies and practices of the Town of Cobourg.

The composition of the Audit and Risk Committee can vary considerably but should include a minimum of five members. Although membership is normally restricted to members of council, it is recommended to be complemented by the inclusion of two appointed members. Inclusion of the CAO and Treasurer is also beneficial since it would provide continuity and background.

It is interesting to note that the Sarbanes–Oxley Act (SOX) in the United States places significant emphasis on the complete independence of the audit committee from management and also requires the organization to disclose whether the audit committee includes at least one designated financial expert. As municipalities increasingly move to set up audit committees, the appointment of outside resident members may be one way of providing a degree of detachment and independent perspective.

The below (which is not exhaustive) includes many important activities that can be carried out by the Audit and Risk Committee, and which are unlikely to receive sufficient attention if they are left to be handled by council as part of its overall mandate or even to some other finance-related committee of council. Using an Audit and Risk Committee, the Town of Cobourg can:

- Create a more precise focus of responsibility within its structure for key financial and accounting activities.
- Improve the communication and reporting relationships between the municipality and the auditor.
- Improve the effectiveness of the audit and its contribution to improving municipal accounting and financial management.

Including IT oversight in the Committee's responsibilities ensures that the municipality is prepared to address the complexities and risks associated with modern technology. This holistic approach helps protect the municipality's assets, maintains regulatory compliance, and supports reliable financial reporting. With increasing cyber threats, IT plays a crucial role in protecting the municipality's data and systems. The Committee needs to ensure that robust cybersecurity measures are in place and many regulations and standards require

organizations to implement specific IT controls and practices. The Audit and Risk Committee will oversee compliance with these requirements.

## **5. Financial Impact and Budget**

There is no financial or budget impact.

## **6. Relationship to Council's Strategic Plan Priorities 2023 to 2027 and beyond:**

Thriving Community

Service Excellence

A restructured Audit and Risk Committee to include members of the public supports the strategic action to streamline communications and increase stakeholder engagement. Further, the Audit and Risk Committee can provide guidance on developing and implementing key performance indicators specifically related to audit and IT services.

Sustainability

## **7. Public Engagement:**

Public engagement will be conducted through the recruitment process.

## **8. Attachments:**

Audit and Risk Committee Terms of Reference