



MUNICIPAL PROPERTY ASSESSMENT CORPORATION

## AUDIT COMMITTEE TERMS OF REFERENCE

### Purpose

The Audit Committee of the Municipal Property Assessment Corporation (MPAC) is established by the Board of Directors (Board) to enable the Board to fulfill its oversight responsibilities in relation to:

- The integrity of MPAC's financial statements and financial reporting processes;
- The effectiveness of MPAC's internal control framework and information systems;
- The oversight of MPAC's Internal and External Auditors;
- The oversight of the assessment and stewardship of enterprise risks; and
- The oversight of significant legal and litigation activity facing MPAC.

### Composition

1. The Audit Committee shall consist of a minimum of five (5) and a maximum of eight (8) directors of the Board. The Chair and the Vice-Chair may (but are not required to) serve on the Audit Committee.
2. Members of the Audit Committee shall not be drawn solely from any one municipal, taxpayer or provincial representative group.
3. The Board shall select Audit Committee members based on member qualifications and these Terms of Reference.
4. Each member of the Audit Committee shall serve at the pleasure of the Board, and only so long as the member is a Director.
5. The Audit Committee shall annually elect, from among its members, a Chair to preside over the meetings and fulfill the Position Description of Audit Committee Chair.

6. Whenever possible, at least two (2) members of the Audit Committee shall possess financial expertise. All of the members of the Audit Committee shall be financially literate, or acquire such financial literacy within a reasonable period of time. Financial literacy is defined as having the ability to read and understand financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised in MPAC's financial statements.
7. MPAC shall provide a Corporate Secretary (Executive Director, Board Governance) to, among other responsibilities, take minutes at Audit Committee meetings, and shall provide any other resources to the Audit Committee that the Committee deems appropriate in order to fulfill the Committee's Terms of Reference.

## Meetings

8. The Audit Committee shall meet at least four (4) times per year.
9. A majority of the members of the Audit Committee shall constitute a quorum for the meetings of the Audit Committee.
10. The Audit Committee shall maintain minutes of its meetings in which shall be recorded all actions taken by the Committee. Such minutes shall be forwarded to the Board and inserted in the Minute Book of MPAC.
11. Meetings of the Audit Committee shall be held at the Pickering Office of MPAC or at any other place in Ontario as specified in the notice calling the meeting.
12. At each regularly scheduled meeting of the Audit Committee, members shall meet in a Closed session with, in no particular order, the Chief Financial Officer, the Director, Enterprise Risk Management, and the Director, Internal Audit Services. At every other meeting of the Audit Committee, members shall meet in a Closed session with the External Auditor.

## Responsibilities

The Audit Committee shall have the major responsibility of overseeing MPAC's Financial Statements, External Audit, Internal Audit, Risk Management, and select other practices. Specifically, the Audit Committee shall have the following responsibilities.

## Financial Statements

13. The Audit Committee shall be responsible for reviewing all financial statements including the investment results, annual and interim, intended for circulation among members or in published reports, and shall report thereon to the Board for consideration and approval.
14. The Audit Committee shall meet at least twice a year with MPAC's External Auditors to review MPAC's financial statements, audit opinion and management letter, together with any significant audit findings identified by the External Auditors. The Audit Committee shall report thereon to the Board.
15. The Audit Committee shall review annually, with each of Management, the External Auditor and the Director, Internal Audit Services, the adequacy of MPAC's accounting systems, internal controls and management information systems, and make inquiries about significant control weaknesses that may materially impact MPAC.
16. The Audit Committee shall review and, in the Audit Committee's discretion, recommend to the Board for consideration, confidential and anonymous submissions, concerns or complaints brought forward by employees or other stakeholders and received directly by MPAC, or indirectly via an independent firm retained by MPAC, regarding questionable accounting practices, quality assurance, internal controls, or financial auditing, core business or compliance-related matters. The Audit Committee, in consultation with another Board Committee as necessary, shall review the results of the investigation and treatment of these complaints, and, in the Audit Committee's discretion, shall recommend any course of action that the Audit Committee deems appropriate to the Board for consideration and approval.

## External Audit

17. The Audit Committee shall annually review the qualifications, independence, effectiveness and tenure of the External Auditors, and report on the results of this review if, or when, recommending the appointment of the External Auditors to the Board.

18. The Audit Committee shall review significant accounting judgments and reporting principles, practices and procedures applied by MPAC in preparing its financial statements, including any newly adopted accounting policies and the reasons for their adoption.
19. The Audit Committee shall meet with the External Auditor prior to the audit to review the scope and general extent of the External Auditor's annual audit including:
  - a. the planning and staffing of the audit; and,
  - b. an explanation from the External Auditor of the factors considered in determining the audit scope, including the major risk factors.
20. The Audit Committee shall require the External Auditor to provide a timely report setting out:
  - a. all critical accounting policies, significant accounting judgments and practices to be used;
  - b. all alternative treatments of financial information within Generally Accepted Accounting Principles (GAAP) that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the External Auditor; and,
  - c. other material written communications between the External Auditor and Management.
21. The Audit Committee shall make a recommendation to the Board on the appointment of the External Auditors including their annual base audit fee. The recommendation will encompass the External Auditors' audit responsibilities, Management's responsibilities, other communications arising from the audit, coordination of the audit fees, and standard terms and conditions.
22. The Audit Committee shall annually review the Audit Engagement Letter with the External Auditors. This review shall include a discussion of any specific risk areas identified by the External Auditors, the Audit Committee, Management, or the Board.

23. The Audit Committee shall take all reasonable steps to ensure that Executive Management and Directors of MPAC, or persons acting under their direction, are aware that they are prohibited from coercing, manipulating, misleading or fraudulently influencing the External Auditor when the person knew or should have known that the action could result in rendering the financial statements materially misleading.
24. The Audit Committee shall resolve any disagreements between the External Auditors and Management.
25. The Audit Committee shall be apprised of any non-financial audit services provided by MPAC's External Auditors.
26. The Audit Committee shall review with the External Auditor the quality of MPAC's accounting personnel.
27. The Audit Committee shall review with Management the responsiveness of the External Auditor to MPAC's needs.

#### Internal Audit

28. The Audit Committee shall review an annual risk-based Work Plan for Internal Audit Services and make recommendations to the Board for consideration and approval of the Internal Audit Plan.
29. The scope of the Internal Audit Work Plan shall not be restricted. Without limiting the unrestricted assurance purview and prerogative of Internal Audit Services, the Director, Internal Audit Services and the Quality Service Commissioner shall take all reasonable steps to ensure coordinated assurance over risks, governance and internal control testing across the Internal Audit Work Plan and the Quality Service Commissioner Work Plan, respectively. The Director, Internal Audit Services shall present such coordinated assurance to the Audit Committee.
30. Upon the review and recommendation of the Audit Committee, the Board shall consider and approve the mandate, resources (amount and type) and budget of the Director, Internal Audit Services, and shall approve the appointment, performance review and compensation of the Director, Internal Audit Services.

31. The Audit Committee shall receive periodic reports from the Director, Internal Audit Services addressing:
  - a. department responsibilities and staffing;
  - b. whether Internal Audit has had full access to MPAC's books, records and personnel;
  - c. progress on the Internal Audit Plan, including any significant changes to it;
  - d. significant internal audit findings, including issues as to the adequacy of internal controls and any procedures implemented in light of significant control deficiencies;
  - e. any significant internal fraud issues; and,
  - f. the performance and independence of the Internal Audit including conformance with The Institute of Internal Auditors' Code of Ethics.
32. The Audit Committee shall review any appointment or dismissal of the Director, Internal Audit Services.
33. The Audit Committee, with the approval of the Board, may request Internal Auditors to perform special studies, investigations, or other services in matters of interest or concern to the Audit Committee and the Board.
34. The Audit Committee shall receive, review, and recommend to the Board for review and discussion all findings and reports produced by Internal Audit Services. Such reports shall identify findings, results of tests of internal controls, and recommendations. Where action plans are required to mitigate risks and strengthen internal controls identified by Internal Audit processes, such action plans and their implementation by senior and operating Management are to be reviewed by and reported to the Audit Committee at each regularly scheduled meeting.
35. The Audit Committee shall resolve any disagreements between the Director, Internal Audit Services and Management.

36. The Audit Committee shall review the Terms of Reference for any internal audit assignment not contained in the annual Internal Audit Work Plan. Full reports, resulting from any such internal audit assignments, will be reviewed by the Audit Committee. Such reports will include any specific findings and recommendations of a significant nature, together with any action plans required to mitigate identified risks, internal controls, or other issues.
37. The Audit Committee shall, every four (4) years, oversee an independent external review of the operations and effectiveness of the Internal Audit function to ensure conformance with The Institute of Internal Auditors' Definition of Internal Auditing<sup>1</sup>, Code of Ethics and the Standards for Professional Practice of Internal Auditing.

### Risk Management

38. The Audit Committee shall review and recommend to the Board for consideration and approval the adequacy of MPAC's Enterprise Risk Management Policy, with regard to the identification of MPAC's principal financial and non-financial risks. MPAC's risk tolerance and the adequacy of the design and implementation of appropriate systems and controls to mitigate and manage these material risks will be included in separate quarterly progress reports from each of Management, the Director, Enterprise Risk Management, and Director, Internal Audit Services to the Audit Committee and Board of Directors.
39. At least one (1) Director will be a member of each of the Audit Committee and the Quality Assurance Committee.
40. The Audit Committee will review the status of any and all action plans related to mitigation of significant risks or issues identified by any External or Internal audit work or reports.

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Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.<sup>1</sup>

41. Upon the review and recommendation of the Audit Committee, the Board shall consider and approve the mandate, resources (amount and type) and budget of the Enterprise Risk Management Branch, and shall approve the appointment, performance review and compensation of the Director, Enterprise Risk Management.
42. The Audit Committee shall review annually the independence of the Director, Enterprise Risk Management and staff, and clarify if there is any ambiguity or question.
43. The Audit Committee shall receive annually a report demonstrating that: the Enterprise Risk Management staff acts with integrity and courage at all times; the Enterprise Risk Management Branch follows the standards of practice reflected in ISO 31000 and leading Enterprise Risk Management practices; and the Director, Enterprise Risk Management maintains certification in good standing with CPA Canada.
44. The Audit Committee shall receive annually a report from the Director, Enterprise Risk Management demonstrating a regular assessment of the skills required to conduct the work needed, and whether the Enterprise Risk Management Branch budget is sufficient to allow the recruitment and retention of staff with the expertise and experience necessary to provide effective support consistent with the Enterprise Risk Management Branch Charter.

#### Other Responsibilities

45. The Audit Committee shall annually review the following financial, risk and fiscal policies and the internal controls associated with each over compliance, documented by Management and tested by Internal Audit Services. The Audit Committee shall review any materials change(s) to a policy at its next regularly scheduled meeting, and recommend such change(s) to the Board for consideration and approval. Any administrative change(s) only to these policies shall be implemented immediately, summarized, and reported annually to the Audit Committee for information.



- a. Accounts Receivable Policy;
  - b. Delegation of Authority Policy;
  - c. Enterprise Risk Management Policy;
  - d. Investment Policy;
  - e. MPAC Code of Conduct;
  - f. Procurement Policy;
  - g. Fraud and Other Irregularities Policy; and,
  - h. Such other policy matters as the Audit Committee or Board may determine.
46. With the Board Chair, the Audit Committee shall respond to employee conflict of interest situations.
  47. The Audit Committee shall review the foregoing Investment Policy and make suggested recommendations or changes to the Board for consideration and approval. An Investment Policy Ad Hoc Committee may be reconstituted when the Investment Policy comes forward for renewal if there is a significant change in the Corporation's strategic direction and the Board recommends a separate Committee review. The Audit Committee shall review investment performance and compliance annually; review the performance of the Investment Manager annually; and recommend to the Board for approval changes to the investment strategy.
  48. The Audit Committee shall review, immediately, any submission from the President and Chief Administrative Officer, or the Director, Internal Audit Services, concerning any actual or suspected fraudulent or illegal acts with respect to MPAC's statutory responsibilities under the *Assessment Act*, or any other Act, and the Audit Committee shall oversee any such action taken to resolve or mitigate such fraudulent or illegal acts.
  49. The Audit Committee shall review significant legal events and litigation in which MPAC is a party, and shall report to the Board in this regard.
  50. The Audit Committee shall review annually the Directors' and Officers' Insurance and the Indemnification of Directors and Officers and Employees, and in the Audit Committee's discretion, recommend the foregoing to the Board for consideration and approval.

51. The Audit Committee shall oversee the Board Chair's expenses in accordance with the Board Remuneration and Expense Policy to resolve any dispute between the Chair of the Audit Committee and the Board Chair.
52. The Audit Committee may be delegated other responsibilities by the Board.

### Resources

53. Members of the Executive or senior Management may be asked to attend meetings of the Audit Committee as the Committee deems appropriate.
54. In no particular order, the Chief Financial Officer, Director, Internal Audit Services, External Auditor, and the Director, Enterprise Risk Management shall have direct communication with the Audit Committee Chair at any time, and shall attend all Audit Committee meetings, as necessary.
55. The Audit Committee shall review the need for any resources beyond those identified above. Such additional resources shall be provided by MPAC as deemed appropriate by the Audit Committee in fulfilling these Terms of Reference.

### Committee Operations

56. The Audit Committee shall evaluate at least every two (2) or three (3) years the adequacy of these Terms of Reference and recommend any proposed changes to the Governance and Human Resources Committee for consideration and recommendation to the Board of Directors for approval.
57. The Audit Committee shall prepare annually an Audit Committee Work Plan to ensure that the foregoing responsibilities and priorities are scheduled and fully addressed. The Work Plan shall be presented to the Board for consideration and approval.
58. The Audit Committee shall, at least annually, review its compliance with these Terms of Reference and evaluate its own effectiveness.
59. Following each Audit Committee meeting, the Audit Committee Chair shall report to the Board on the activities, findings, due diligence, and any recommendations of the Audit Committee.

## Procedures

60. Subject to any restrictions imposed by the Board or MPAC's By-laws, the Audit Committee may periodically fix its own rules of procedure.
61. That Audit Committee shall meet in separate, non-management Closed sessions with internal personnel or outside advisors, as needed or appropriate.
62. The Audit Committee shall meet in separate, non-management In Camera sessions at each regularly scheduled meeting.
63. The Audit Committee shall have sole authority to retain, oversee, compensate and terminate independent advisors to assist the Committee in its activities.
64. The Audit Committee shall receive adequate funding from MPAC for independent advisors and ordinary administrative expenses that are needed or appropriate for the Committee to carry out its duties.
65. The Audit Committee shall, in consultation with the Board Chair, retain, oversee, compensate and terminate, as appropriate, independent advisors to assist any individual Audit Committee member, as necessary.
66. The Audit Committee shall carry out any other appropriate duties and responsibilities assigned by the Board.

To honour the spirit and intent of applicable law as it evolves, the authority to make minor technical amendments to these Terms of Reference is delegated to the Executive Director, Board Governance, who shall summarize and report any minor amendments to the Governance and Human Resources Committee annually for information. The Governance and Human Resources Committee shall review any material change(s) to these Terms of Reference at its next regularly scheduled meeting, and recommend such change(s) to the Board for consideration and approval.

For Reference:

**Closed session:** A session with Board members only and internal personnel or outside advisors, as needed or appropriate.

**In Camera session:** A session with Board members only.

A **material** change to a governance document is a substantive or fundamental change. It includes, but is not limited to: a proposed change to a role, right, responsibility, or reporting relationship.

An **administrative** change to a governance document is non-substantive. It includes, but is not limited to: a definition, the use of adjectives, an elaboration, a footnote, the use of examples, consolidation of an administrative change in another document for consistency, or the use of technical or clarifying language.

An administrative change does not fundamentally alter any existing role, right, responsibility or reporting relationship.

## HISTORY

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Board Received Date:	December 12-13, 2018 (Administrative Amendments)
Committee Review Date:	November 6, 2018 (Governance and Human Resources Committee)
Board Approval Dates:	June 20-21, 2017   December 10, 2015   June 11, 2015   December 12, 2013   November 29, 2012   May 4, 2012   January 28, 2011   March 26, 2010   September 16, 2009   December 3, 2004