

AUDIT COMMITTEE MEETING MINUTES

TUESDAY, JULY 9, 2019 AT 12:00 P.M.

(LUNENBURG TOWN HALL)

PRESENT: Mayor Rachel Bailey
Deputy Mayor John McGee
Councillor Peter Mosher
Councillor Matt Risser
Jamie Green, Citizen Appointment

ALSO PRESENT: Lisa Dagley, Finance Director
Kathleen Rafuse, Accountant
Bea Renton, Chief Administrative Officer
Paul Belliveau, Belliveau Veinotte Inc., Chartered Professional Accountants
Jim Schwartz, Belliveau Veinotte Inc., Chartered Professional Accountants
Ahmad Shahwan, NS Department of Municipal Affairs
Jason Haughn, NS Department of Municipal Affairs
Nick Barr, NS Department of Municipal Affairs

ABSENT: Councillor Ronnie Bachman
Councillor Joseph Carnevale
Councillor Danny Croft

The Mayor called the meeting to order at 12:00 p.m.

1. Welcome and introductions

The Mayor welcomed everyone to the meeting. Introductions were made.

2. Agenda

Motion: moved by Councillor Risser, seconded by Councillor Mosher to approve the agenda. **Motion carried.**

3. Audit Committee Role and Responsibilities

- NS Department of Municipal Affairs – *Municipal Conflict of Interest Act as it relates to participation on the Audit Committee*

Messrs. Barr and Shahwan provided a presentation about the Provincial legislation (**Schedule "A"**) and relevance to the Town and audit functions.

- Belliveau Veinotte Inc. Chartered Accountants and Town Auditors – municipal auditing process

Mr. Belliveau summarized the audit process followed for the Town as required by provincial and national auditing standards (**Schedule “B”**). This includes comparing the draft financial statements against the Town budget and reviewing Council and Committee meeting minutes. In addition, they prepare a “Management Letter” and “Internal Control Letter” which highlight any financial items that need to be addressed. Mr. Schwartz and Luke Richardson worked on the Town’s 2018/19 audit along with Michael Belliveau who managed the file. During the 2018/19 audit no issues have arisen thus far.

It was noted that Town staff prepare monthly budget variance reports starting in the fall to keep Council informed of the percentage of budget expended to date. It was agreed to send future copies of the variance report to Mr. Green as well for his information.

4. Scheduling of next meeting date - next information session (one half-day) for Department of Municipal Affairs Audit Committee training

Future third Tuesday(s) of the month meeting times will be scheduled for additional Department of Municipal Affairs’ audit training sessions which the Department is developing for all NS municipalities.

5. Adjournment

Motion: moved by Councillor Risser, seconded by Councillor Mosher to adjourn the meeting. Motion carried.

The meeting was adjourned at 1:13 p.m.

Bea Renton, CAO

Municipal Conflict of Interest Act

Ethics Overview

- Elected/appointed to serve the public good
- You can be held accountable for a breach of ethics
- Not allowed to use your position to increase your personal wealth or that of your family or friends
- Intentions may not matter (objective standard)
 - Important to be aware and avoid accidental violations

Who does the *Municipal Conflict of Interest Act (MCOIA)* apply to?

- Municipalities – towns, regionals, county/district municipalities
- Local boards – any board, commission, committee, body or local authority of any kind:
 - That exercises any authority under any general or special Act with respect to the affairs or purposes of a municipality
 - To which a municipality is required to provide funds
- Specific to “pecuniary” (i.e., monetary) interests

What is a conflict of interest?

- A “conflict of interest” occurs when a matter before council/local board may result in a financial benefit to you, immediate family members, a person living with you, or an affiliated entity
- The *MCOIA* dictates the rules with respect to the who, what, when, where, and how of financial conflicts of interest
- *Municipal Government Act* speaks to conflicts of interest only with respect to municipal tax sales

Am I in a conflict of interest?

- Pecuniary (monetary) Interest
 - Could I benefit financially from a matter before council/local board?
- Indirect Pecuniary Interest
 - Could an organization that I have an interest in benefit financially from a matter before council/local board?
- Deemed Pecuniary Interest
 - Could my spouse, immediate family member, or someone I live with, benefit financially from a matter before council/local board?
- Intent to Obtain Interest
 - Could a matter before council/local board benefit me in the future?

Are there any exceptions to the rules?

- The Act does not apply to any interest in any matter that a member may have:
 - As an elector
 - By reason of receiving the same service as other residents
 - By reason of being appointed by council to another board
 - By reason of having a pecuniary interest in common with electors generally
 - By reason only of an interest that is so remote or insignificant that it cannot reasonably be regarded as likely to influence that person

What do I do if I'm in a conflict of interest?

- Disclose the interest ASAP
- Withdraw from the meeting
 - Public meeting: leave the table
 - Private meeting: leave the room
- Don't participate in consideration, debate, or vote
- Don't try to influence the decision in any way
- If you aren't at a meeting, but you have an interest in a topic discussed, you must disclose it at the next meeting
- **It's not just about voting, it's about influence!**

What happens if council loses quorum?

- The MCOIA allows for a reduced quorum if it is lost due to conflicts of interest:
 - One third of the council/local board; or,
 - Two members (whichever number is greater).
- If council/local board still lacks quorum, may apply to Supreme Court (NS) to allow the council/local board to act
- **If you are conflicted, do not participate in the matter simply because of a lack of quorum!**

Perception matters

- Actual, perceived, or potential – does it really matter?
- You could be taken to court to defend your position regardless of whether or not the interest is real
- It could sully your reputation and that of the municipality more broadly
- **When in doubt, sit it out!**

What must staff do if a conflict of interest is declared?

- Record the declared conflict and the nature thereof in the minutes
- Record the declared conflict in a central record of disclosure which must be available to electors to view for free anytime they'd like (within reason)

What is the process for determining a violation under the *MCOIA*?

- Two separate and distinct processes
- AG or an Elector may apply to the Supreme Court (NS)
- Right of appeal to Court of Appeal (NS)
- Council/local board may, by resolution, request an Inquiry
- AG shall appoint a Judge or “other suitable person”
- A Board of Inquiry *may not* be able to impose penalties

Who is responsible for costs? How long does it take?

- AG pays the expenses for the person hearing the Inquiry
- Judges may order costs against the losing party
- Parties responsible for their own legal costs... *may* be covered by insurance
- Board of Inquiry shall begin with “all convenient promptitude” (?)
- Applications shorter than Actions (i.e., trials)
- “Flexible and speedy alternative” – months versus years

What can I do if I suspect that another councillor is in a conflict of interest?

- As a council/local board collectively
 - Request an inquiry (by resolution)
 - Attorney General will appoint someone to make the inquiry
- As an individual councillor/board member
 - Same options as any other resident
 - You can go to court where a judge will determine whether the councillor has contravened the *MCOIA*
- You cannot declare a fellow councillor/board member in conflict

What can an elector do if they suspect that a councillor is in a conflict of interest?

- Their options are the same as those you have as an individual councillor/board member
- They can go to court and a judge will determine if there has been a contravention of the *MCOIA*
- You could table an issue at a council/local board meeting and determine if there is interest to request an inquiry (as a council)

What are the penalties?

- Fine of up to \$25k or imprisonment for up to a year (in default of payment)
- May result in forfeiture of office
- Disqualification from office for up to 10 years
- Restitution for any personal financial gain
- Councillors in Nova Scotia have had to finance their own defense even when found not to be in violation of Act
 - Warden Dauphinee, West Hants, said on record his defence cost him \$43,183.31

Disclaimer

- This presentation, and the related discussions, are **not legal advice nor a substitute for same**
- If Councillor/LBM concerned → independent legal advice
- If Council/LB as a whole concerned → municipal solicitor
- Ultimately, only a Judge or Board of Inquiry can decide
- Remember, only you can prevent conflicts of interest.



Questions?



Scenarios

- Your daughter's landscaping company has been doing work in your town for the past ten years. The contract is up for renewal. Can your daughter's company respond to the Town's RFP? Can you be part of the decision to award the tender?
- Council is making a decision about a grant to a local fire department so they can purchase new breathing apparatuses. You're a volunteer firefighter with the town. Can you participate in the decision to grant funds? Three other members of council are also volunteer firefighters, you'll lose quorum if you all excuse yourselves. What should you do?
- You want to buy land in a tax sale. Can you?

Scenarios (continued)

- Construction of a new water treatment facility requires that the town purchase a parcel of land that you own. Can the municipality acquire the land? What decisions would you want to avoid being part of?
- Your wife is an auditor with the audit firm that does the municipality's annual audit. Can your wife's company be retained? Can you sit on the audit committee? Finances touch many decisions that council makes, how would you strike a balance between participating in difficult decision making and avoiding a conflict?

Town of Lunenburg

Audit Committee Training

Audit Risk

Audit goal is to reduce the level of audit risk to an acceptable level of risk of material misstatements

- ▶ Control Risk
 - ▶ Risk that potential material misstatements would not be detected or prevented by a client's control system
- ▶ Detection Risk
 - ▶ Risk that the audit procedures used are not capable of detecting material misstatements
- ▶ Inherent Risk
 - ▶ Risk that a client's financial statements are susceptible to material misstatements

Materiality

- ▶ Misstatements including omissions, are considered to be material if, individually or in aggregate, they are reasonably expected to influence the economic decisions of users based on the financial statements.
- ▶ Materiality in audit comprises both quantitative and qualitative aspects.
- ▶ Quantitative
 - ▶ Percentage of revenues
 - ▶ Percentage of assets
 - ▶ By statement line if applicable
- ▶ Qualitative considerations
 - ▶ Covenants
 - ▶ Contingent liabilities

Audit Procedures

Throughout the audit we use varying audit tools to reduce risk to an acceptable level

- ▶ Reliance on Controls
 - ▶ Select a sample of transactions and walkthrough that the procedures and policies are in place and being performed correctly
 - ▶ Generally used for payroll
- ▶ Confirmations
 - ▶ For significant balances or revenues or expenditures it is efficient to send a confirmation letter to the third party to confirm the amounts
 - ▶ Bank confirmations, long term debt, revenues from the Province, payments to the Province.
- ▶ Substantive Procedures
 - ▶ Vouch transactions in specific accounts directly to invoice and payment. Review AR or AP for subsequent payment to year end.
 - ▶ Repairs and maintenance, capital additions, AR, AP

Final Package

- ▶ Consolidated Financial Statements
 - ▶ Only the consolidated financial statements are audited, Section B in the statements has a breakdown or General, Water, Electric and Cemetery but technically is not audited
- ▶ Management Letter
 - ▶ Letter from the auditor to the audit committee identifying any thing of note during the audit results wise, difficulties, whether fraud or errors were identified
- ▶ Internal Control Letter
 - ▶ The auditors document and evaluate internal controls and weaknesses identified are brought to the committees attention