



**City of Kingston
Report to Council
Report Number 21-102**

To: Mayor and Members of Council
From: Desiree Kennedy, Chief Financial Officer & City Treasurer
Resource Staff: None
Date of Meeting: March 23, 2021
Subject: Financial Oversight Responsibilities

Council Strategic Plan Alignment:

Theme: Council requests

Goal: See above

Executive Summary:

The purpose of this report is to provide Council with information and options for increasing financial oversight with respect to matters of fiscal policy.

Section 224 (e) of the *Municipal Act, 2001* states that it is the role of Council to maintain the financial integrity of the municipality. Council can delegate that oversight responsibility to a Committee that will support and assist Council in fulfilling its fiduciary due diligence with respect to selected matters. It is important to confirm the elements of financial oversight that Council wishes to maintain at the Council level and what elements Council is comfortable delegating to a Committee level.

The report provides information on the mandate of a typical Finance/Audit Committee as well as a review of the structure and mandate of Committees that are utilized in other municipalities to address the the financial oversight responsibilities of Council.

The Administrative Policies Committee mandate currently reflects a broad range of financial oversight elements. This report recommends that the Administrative Policies Committee mandate continue to be utilized to support the financial oversight responsibilities and that the role of the Committee be expanded to incorporate additional financial oversight elements that Council determines would be better suited at the Committee level.

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Recommendation:

That Council supports expanding the role of the Administrative Policies Committee to reflect additional financial oversight responsibilities; and

That staff bring a report back to the Administrative Policies Committee in June 2021 for further discussion on proposed changes to the Committee's financial oversight responsibilities based on the options laid out in Report Number 21-102.

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Authorizing Signatures:

ORIGINAL SIGNED BY CHIEF FINANCIAL
OFFICER & CITY TREASURER

**Desiree Kennedy, Chief
Financial Officer & City
Treasurer**

ORIGINAL SIGNED BY CHIEF
ADMINISTRATIVE OFFICER

**Lanie Hurdle, Chief
Administrative Officer**

Consultation with the following Members of the Corporate Management Team:

Paige Agnew, Commissioner, Community Services	Not required
Peter Huigenbos, Commissioner, Business, Environment & Projects	Not required
Brad Joyce, Commissioner, Corporate Services	
Jim Keech, President & CEO, Utilities Kingston	Not required
Sheila Kidd, Commissioner, Transportation & Public Works	Not required

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Options/Discussion:

At the City of Kingston's Council meeting held on October 20, 2020 the following motion was carried:

Whereas Kingston City Council is responsible for allocating more than \$2,000,000,000 (two billion dollars) in a given four year council term across all municipal departments and Utilities Kingston; and

Whereas Kingston City Council is responsible for monitoring the more than \$500,000,000 (five hundred million dollars) of debt and approving new debt as needs may arise; and

Whereas Kingston City Council deemed "fiscal responsibility and accountability" as a guiding principle of its Strategic Plan, including a commitment to "create efficiencies and synergies, balance tax and non-tax revenue, and manage debt effectively"; and

Whereas Kingston City Council only has two evenings a year in form of "budget meetings" to review, question, and otherwise examine such vast spending, save for quarterly updates of staffs' delegated authority spending or specific reports on debenture approvals; and

Whereas many other municipalities in Ontario, like Barrie and Belleville, have a Finance Committee to conduct a more direct, democratic, and detailed overview of public funds; and

Whereas Kingston does not have such a Finance Committee for the same purposes;

Therefore Be It Resolved That Council direct staff to report back by the end of Q1 2021 with options for increasing Council's financial oversight with respect to matters of fiscal policy, the external audit process, financial reporting, financial processes and internal controls.

Section 224 (e) of the *Municipal Act, 2001* states that it is the role of Council to maintain the financial integrity of the municipality. Council can delegate components of these responsibilities to a Committee level where it is determined that a more detailed review or enhanced opportunity for discussion would be beneficial. Council can delegate to the Committee the responsibility to support and assist Council in fulfilling its fiduciary due diligence with respect to matters such as the external audit process, financial reporting, financial processes and internal controls and other fiscal policy matters.

It is important in developing the oversight mandate of any Committee, to clearly acknowledge the difference between the oversight function of Council, the support function of the Committee and the decision-making function of management. It is also important to confirm the elements of financial oversight that Council wishes to discuss at the Council level and what elements Council is comfortable delegating to the Committee level.

The timing and frequency of Council and Committee meetings can also influence Council's decision to delegate oversight responsibility to a Committee level, particularly where there is an operational need to provide staff with direction in a routine or efficient and timely manner.

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Finance committee mandate

A Finance Committee's role is one of oversight and monitoring and in carrying out this responsibility, the committee relies on management and the external auditor to provide the information required to successfully carry out that role. A Finance Committee provides a forum for communication between Council, the external auditor and management. It facilitates an impartial, objective and independent review of financial management policies and provides an advisory panel to staff to ensure the sustainability of the City's finances.

A Finance Committee assists, advises and makes recommendations to Council regarding the fulfillment of Council's financial oversight responsibilities. The scope of that mandate can include fiscal policy, external audit requirements, financial reporting and internal controls and compliance with financial regulations. Mandates can also be expanded to include tax policy, budget, procurement, corporate investment, financial planning, asset management and information technology security.

External audit process

Section 296 (1) of the *Municipal Act, 2001*, states a municipality shall appoint an auditor licensed under the *Public Accounting Act, 2004* who is responsible for annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit. Section 296 (5) states that the auditor of a municipality shall report to the council of the municipality.

Currently the City's external auditor reports to the Administrative Policies Committee, in its capacity as Audit Committee, to present the annual audit plan in the fall of the year and an audit findings report and independent audit report in the spring. These meetings provide members of the Committee an opportunity to discuss and provide input to the auditors on matters of interest or concern to them.

The Committee's mandate with respect to the external audit process includes providing advice and recommendations to Council with respect to the scope of the external audit including:

- Recommending to Council the appointment of the external auditor;
- Meeting with the external auditor to review the annual audit planning report and provide input to the auditors with respect to the terms of the engagement, scope and performance of the external audit services provided;
- Meeting with the external auditor to review the annual audit findings report, monitor any recommendations or findings as brought to the attention of the Committee and review any proposed changes in financial reporting and accounting policies and practices to be adopted by the City;
- Meet with the external auditor to review the draft audited financial statements and recommend approval of the annual audited financial statements to Council.

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Financial reporting and the internal control framework

The role of a Finance Committee generally includes oversight of the financial reporting process and a familiarity with the financial integrity of the internal controls that management has established over the financial reporting process. Internal controls over financial transactions can include duty segregation, approval processes, information systems access and integrity, as well as controls over the safeguarding of assets.

Ensuring a comprehensive system of internal control over financial transactions rests with management. Oversight of the internal control framework involves obtaining reasonable assurance through discussions with and reports from management that internal controls are adequately designed and effectively executed and that the information technology systems are reliable and secure. The mandate for oversight of internal controls can also include compliance with policies and procedures, as well as laws and regulations.

Currently, Council and/or the Administrative Policies Committee, is provided with approximately forty periodic and annual finance related reports pertaining to budget management, taxation, financial planning and procurement. In addition to the annual audited financial statements, these reports include quarterly capital and operating reports that monitor the City's financial performance and monthly procurement delegated authority reports, as required by the Procurement By-law.

Where the need for a more comprehensive review and discussion of report information is identified, a Finance Committee mandate can include those financial reports as received from management. An example of this is the audited financial statements which, from an oversight perspective, benefits from a comprehensive discussion on the City's financial position and operations for the fiscal year by the Administrative Policies Committee.

Alternatively, financial reports can be sent to Council for information and/or recommendation purposes. A Finance Committee or Council can also request from staff, specific financial information at any point in time for additional discussion.

Budget Process

The role of a Finance Committee can include selected oversight of the budgeting process, as directed by Council. Finance Committee agendas can include:

- Review of budget policies and fiscal parameters, including tax rate targets, debt thresholds, with recommendations to Council, as required
- Overview of / input to budget engagement planning, review of feedback and recommendations to Council on budgetary impacts, as required
- Review and recommendations to Council on fees, charges, and other potential sources of revenue

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- Recommendations to Council on proposed strategies to address budget gaps
- Review of long-term capital planning and recommendations to Council on capital priorities and investment
- Selected budget reviews by group, department, program, as requested
- Agency budget reviews, presentations and updates

Currently Council as a whole maintains oversight responsibilities for budget policy and process.

Additional scope of mandate

The Finance Committee mandate could also incorporate the following matters of financial oversight:

Tax policy - recommendations to Council on tax policy matters, including tax ratios, tax capping parameters and review and approval of tax write offs as well as review of internal controls and processes related to assessment roll management and growth projections.

Asset management - periodic review of the Corporate Asset Management Policy, review of asset management plans and recommendations to Council on strategy, policy, investment, and resourcing.

Procurement - review changes to procurement by-law, delegated authority reporting, other procurement related matters, procurement statistics.

Investments, reserve funds and debt - review annual investment reports, discuss investment strategy with investment managers, review and make recommendations to Council on investments, reserve fund, debt policies and grant reporting.

Best practice review

Staff reviewed the use of Finance and Audit Committee structures for addressing the financial oversight responsibilities of Council, in eighteen Ontario municipalities, varying in size and location.

Out of the eighteen municipalities investigated, ten had specific standing committees which dealt with financial matters. A trend was noted in the municipalities that used standing committees, that most had committee mandates that were broader than just finance, similar to the City's Administrative Policies Committee.

The remaining eight used a committee of the whole system with Council maintaining oversight responsibilities for the majority of fiscal policy related matters however half of the eight municipalities had a separate audit committee to oversee the external audit process and meet with the external audit team. Of the total eighteen municipalities, seven of them had a separate audit committee that performed very specific audit oversight functions. It was also noted that

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three municipalities, who previously had some form of a finance standing committee or audit committee, have since disbanded those committees in lieu of a different structure.

Exhibit A provides a summary of the information including comparisons with respect to committee structure and mandate.

Financial Oversight by Council and Administrative Policies Committee

The current mandate/terms of reference of the Administrative Policies Committee, as outlined in the Committee By-Law 2010-205, was developed to incorporate Finance Committee responsibilities.

Committee By-Law 2010-205 references the following with respect to financial oversight matters:

- Accounting; audits; purchasing, including tenders, requests for information and requests for proposals; financial policy; tax collection.
- Delegated the responsibility of public meetings in accordance with Municipal Act requirements with respect to applications for cancellation, reduction or refund of taxes as permitted under Section 357, Subsection 1, of the Municipal Act, and following the public meetings shall make recommendations to Council with regard to the proposed cancellations, reductions and/or refunds; (Note: budget process and approvals are dealt with at Committee of the Whole, not Administrative Policy)
- Business processes, including performance measurement

Currently, the Administrative Policies Committee oversees several items that align with its mandate. Acting as an Audit Committee, the Administrative Policies Committee oversees the external audit process and meets with the external auditors twice a year to review and discuss audit plans, audit findings and the audited financial statements. The Committee also deals with tax policy and tax write offs as well as procurement policy matters.

Historically, Council has chosen to maintain oversight responsibilities for most financial reporting matters including quarterly operating and capital budget monitoring reports, monthly and periodic procurement reports, and reporting of reserve funds and debt. Council has delegated the review of annual audited financial statements to the Administrative Policies Committee as part of the external audit oversight. In addition, Council has maintained oversight responsibilities for the budgeting process including related policy matters and setting fiscal parameters.

While Council may wish to maintain some of its current financial oversight functions, there may also be opportunity to delegate additional responsibilities to a Committee level, allowing for expanded review and discussion.

Because the Administrative Policies Committee mandate already provides for a significant component of what would make up a typical Finance Committee's agenda, staff are

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recommending that the Administrative Policies Committee mandate continue to be utilized to support financial oversight responsibilities that Council determines are better suited at a Committee level.

Council may also wish to expand the role of the Administrative Policies Committee to reflect additional oversight responsibilities, based on their current or an amended mandate. This could be accomplished by dedicating a part of the Administrative Policies Committee regular agenda to financial oversight matters and, if required, schedule additional meetings at the call of the Chair.

Next steps

Staff are recommending that a report be brought to the Administrative Policies Committee in June to support further discussion on expanding the Committee's financial oversight role based on the options laid out in this report.

Existing Policy/By-Law:

Municipal Act, 2001, as amended

Notice Provisions:

None

Accessibility Considerations:

None

Financial Considerations:

None

Contacts:

None

Other City of Kingston Staff Consulted:

John Bolognone, City Clerk

Exhibits Attached:

Exhibit A: Research Briefing - Summary of Municipal Finance/Audit Committees

Research Briefing - Summary of Municipal Finance/Audit Committees

The following table and briefing details the structure, composition and other important information on the financial/audit committees in several other major municipalities in Ontario. In all, 18 municipalities were examined: Toronto, Ottawa, London, Hamilton, Burlington, Pickering, Whitby, Oshawa, Peterborough, Belleville, Kitchener, Guelph, Sudbury, Thunder Bay, Chatham-Kent, Brantford, Barrie, and Windsor. A summary is included at the end of the table.

Municipality	Name of Committee Responsible	Separate Audit Committee? Type?	Make-Up of Committee	Specific Functions Allocated
Toronto	Budget Committee	Yes, Audit Committee (Standing)	Budget: 6 Councillors, no Mayor Audit: 5 Councillors	Budget committee co-ordinates the preparation of the Operating and Capital Budgets for the year. Audit conducts all related functions.
Ottawa	Finance and Economic Development Committee	Yes, Audit Committee (Standing)	Finance: 12 Councillors, Mayor as chair Audit: 6 Councillors, Mayor ex-officio	Finance and Economic Development committee has other duties besides financial oversight, including matters from Clerk's and City Manager's Offices, Economic Development, and Real Estate. Also tasked with accessibility and bilingualism matters.
Hamilton	Audit, Finance and Administration Committee	No	8 Councillors	Covers all financial and audit duties, as well as programs related to Accessibility, Human Resources, Customer Service, IS&T, Legislative Services, Records, and Legal Services.
London	No Specific Committee: Corporate Services & Strategic Priorities and Policy Committees both handle financial matters	Yes, Audit Committee (Special)	Corporate: 5 Councillors, Mayor ex-officio	Corporate deals with development charges, banking, debenture issuance, financial monitoring, reserve funds, and taxation.

Municipality	Name of Committee Responsible	Separate Audit Committee? Type?	Make-Up of Committee	Specific Functions Allocated
			<p>Strategic: Committee of the Whole</p> <p>Audit: 4 Councillors, 1 Citizen Appointee</p>	<p>Strategic deals with budgets and long-term financial / strategic planning (London uses Multi-Year Budgeting with the first year taking more meetings than the next 3 updates)</p> <p>Audit citizen appointee must be a Chartered Accountant</p>
Burlington	Audit Committee	No	3 Councillors, 2-4 Citizen Appointees	<p>Audit Committee is a standing committee of Council, and tasked with financial reporting, accounting policies and practices, annual financial statements, external and internal audit affairs.</p> <p>Citizen appointees appointed for 4-year term, should have financial literacy but not required.</p>
Pickering	No Specific Committee*	No	All committees are Committees of the Whole (6 Members plus Mayor)	<p>*All audit and financial matters go, with most other reports, to the Executive Committee.</p> <p>Used to have a Finance Committee but this has been discontinued.</p>
Whitby	No Specific Committee*	No	Council only functions either as Council or as a Committee of the Whole (9 Members)	<p>*All financial matters are considered by the whole Council at a meeting of the Committee of the Whole.</p> <p>Budget is brought to a Special Meeting of Council, similar to Kingston.</p> <p>Used to have an Operations Committee for this purpose, but this has been discontinued.</p>

Municipality	Name of Committee Responsible	Separate Audit Committee? Type?	Make-Up of Committee	Specific Functions Allocated
Oshawa	Finance Committee	No	5 Councillors, Mayor ex-officio	The Finance Committee is responsible for all matters under the authority of the Finance Department including audit matters and outside agencies reporting to Council on financial matters.
Peterborough	No Specific Committee*	No	*Council only meets as Council, no standing committees (10 Councillors and Mayor)	*Council meets three times monthly, twice as a "General Meeting", where reports are discussed, and once as Council to bind resolutions. Council meets as the Financial Committee through the year as needed, typically in the winter/fall, and once in June and July.
Belleville	Finance Committee	No	3 Council Members, Mayor, 4 Members of Staff (CAO, City Treasurer, Manager of Finance, and Accounting Coordinator)	<p>This committee conducts financial oversight, audit requirements, asset management, internal controls, and compliance with financial regulations.</p> <p>Reviews capital projects on a bi-monthly basis.</p> <p>Reviews, as the Budget Working Group (which includes more members of Executive Management) the draft Operating and Capital budget documents before Council Agenda package is finalized.</p>
Kitchener	No Specific Committee	Yes, Audit Committee (Standing)	Finance: All members of Council (10 Councillors & Mayor)	The Finance Committee considers all operational issues in the finance and corporate services department, budget matters, and

Municipality	Name of Committee Responsible	Separate Audit Committee? Type?	Make-Up of Committee	Specific Functions Allocated
			<p>Audit: All members of Council (10 Councillors & Mayor)</p>	<p>other services related to the Municipal Code, like licensing</p> <p>Audit meets 4 times per year, and only deals with Audit-related matters.</p>
<p>Guelph</p>	<p>No Specific Committee*</p>	<p>No</p>	<p>*Guelph does not have standing committees. Instead, it meets as a Committee of the Whole which is divided into "Service Areas" for specific meetings. (12 Councillors + Mayor)</p>	<p>*Audit committee is responsible for external and internal audits, annual financial statements, financial compliance, and auditor performance reviews, and ensuring that the City's finances are healthy.</p>
<p>Sudbury</p>	<p>No Specific Committee</p>	<p>Yes, Audit Committee (Standing)</p>	<p>Finance and Admin: All 12 Councillors + Mayor</p> <p>Audit: 7 Councillors</p>	<p>Finance and Admin deals with reports and correspondence from Financial Services, Human Resources, and Administrative Services. It is also responsible for the budget and budget process.</p> <p>Audit is responsible for reviewing both the external auditor's workplan and reports and conduct a review of that office.</p>
<p>Thunder Bay</p>	<p>No Specific Committee</p>	<p>Yes, Audit Committee (Advisory)</p>	<p>*Thunder Bay does not have standing committees, instead meeting as a Committee of the Whole (14 Councillors + Mayor)</p> <p>Audit: 3 Councillors and 2 citizen members</p>	<p>Admin Services Section deals with all matters related to Human Resources, IS&T, Finance and Accounting, Purchasing, Legal Services, Corporate Admin, and local Boards.</p> <p>Budget is handled by a special Committee of the Whole meeting in January.</p>

Municipality	Name of Committee Responsible	Separate Audit Committee? Type?	Make-Up of Committee	Specific Functions Allocated
				<p>Audit meets as required and handles internal and external matters.</p>
<p>Chatham-Kent</p>	<p>No Specific Committee*</p>	<p>Yes, Audit Committee (Standing)</p>	<p>Budget: A Committee of the <u>Whole</u> (17 Councillors + Mayor) Audit: 4 Councillors + Mayor</p>	<p>*Budget meets only to discuss the budget and recommends it to Council. Audit conducts all audit-related matters. Reports twice a year. Other financial matters are referred to Council or other Boards / Advisory Committees</p>
<p>Brantford</p>	<p>Finance Committee</p>	<p>No</p>	<p>5 Councillors + Mayor</p>	<p>This committee covers all matters regarding finances, including the long term financial strategic plan, internal and external audits, budget policy and monitoring, tax policies, and policy direction. It also reports to Council regarding future Capital and Operating Budgets.</p>
<p>Barrie</p>	<p>Finance and Corporate Services Committee</p>	<p>No</p>	<p>5 Councillors, Mayor ex-officio</p>	<p>This committee covers all financial matters, including audit functions, and budgets, as well as: Legal, Real Estate, IS&T, Human Resources, Accessibility, Communications, Facilities Management, Health and Wellness, Fire Prevention, Licensing, History & Archives, Recreation, By-Law enforcement, and customer service.</p>
<p>Windsor</p>	<p>Corporate Services Standing Committee*</p>	<p>No</p>	<p>This committee has 10 Councillors and is chaired by the Mayor</p>	<p>*Corporate Services is the renamed Executive Committee and deals with “all policy matters</p>

Municipality	Name of Committee Responsible	Separate Audit Committee? Type?	Make-Up of Committee	Specific Functions Allocated
				of a strategic nature”, with most items coming from the CAO. Budgets are handled by special Budget meetings of Council. Used to have an Audit Committee, but this was disbanded in 2011. External auditor PwC now conducts all services and reports go to Corporate Services Committee and Council.

Summary:

Out of the eighteen municipalities investigated, ten had specific standing committees which dealt with financial matters, with the remaining eight either using a committee of the whole system instead of standing committees or spreading the responsibility around several committees. A trend was discovered in those that use standing committees where many municipalities will have extra functions or duties added to these finance committees, so that they cover more than one group/division. For instance, four municipalities use their finance committee to deal with human resource matters, and Ottawa uses theirs for matters and issues regarding bilingualism in the city.

Three municipalities, Windsor, Pickering, and Whitby used to have some form of financial standing committee or audit committee but have since disbanded these committees to use a different structure.

Seven of the municipalities had separate audit committees that performed only specific functions. Guelph was unique in only having an audit committee as a form of committee of the whole (as Guelph does not use standing committees) and giving this committee more tasks. Burlington took this concept a bit differently, terming their financial standing committee as an “Audit Committee” but having it cover all aspects of the city’s finances.

Only three municipalities - Burlington, Thunder Bay, and London - had citizen appointees, with Thunder Bay and London having appointees to their separate Audit Committees, and Burlington having citizen appointees in their unique Audit Committee. Burlington was also unique in having citizen appointees in a formal standing committee of Council. Of these, London had the strictest requirements, requiring that the appointee be a Registered Accountant. Burlington gave a list of

criteria for their citizen appointments but did not expressly require the appointees to have an accounting designation. Thunder Bay's requirements were not located.

Belleville's Finance Committee was also unique among the eighteen municipalities, in having staff members as voting members of the committee. As stated above in the table, this committee expands as a "Budget Working Group" to have all members of the executive management on it, which was also unique.