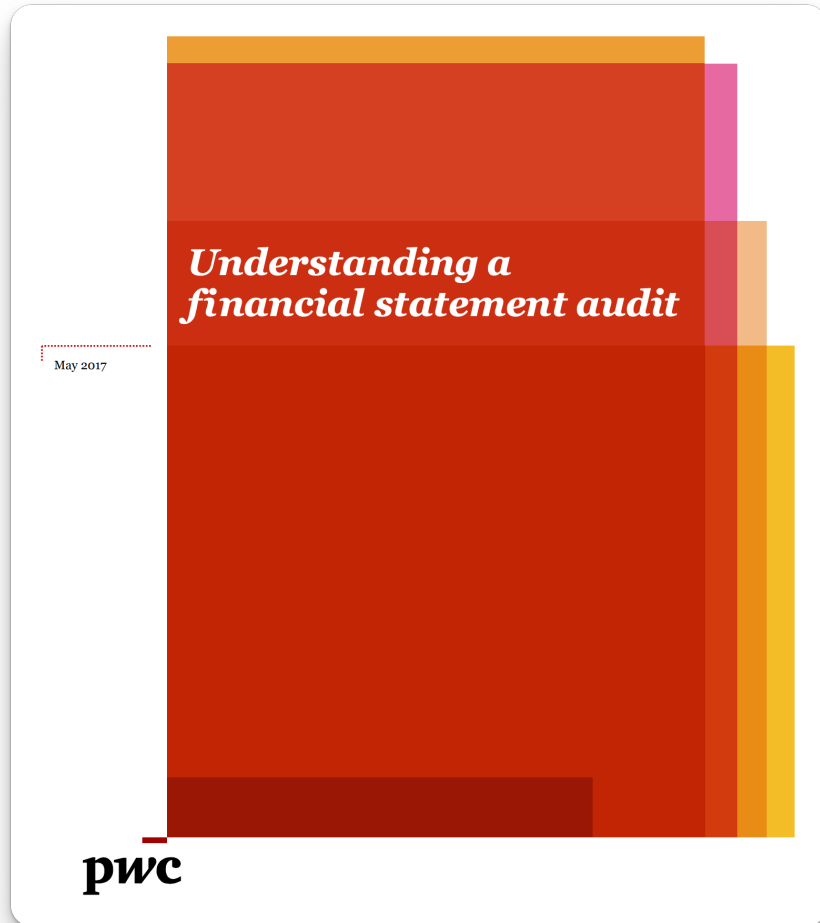


Audit Committee Resolution

December 13, 2023



What is the purpose of an Audit?



...an audit provides assurance **that management has presented a 'true and fair' view of a company's financial performance and position.**

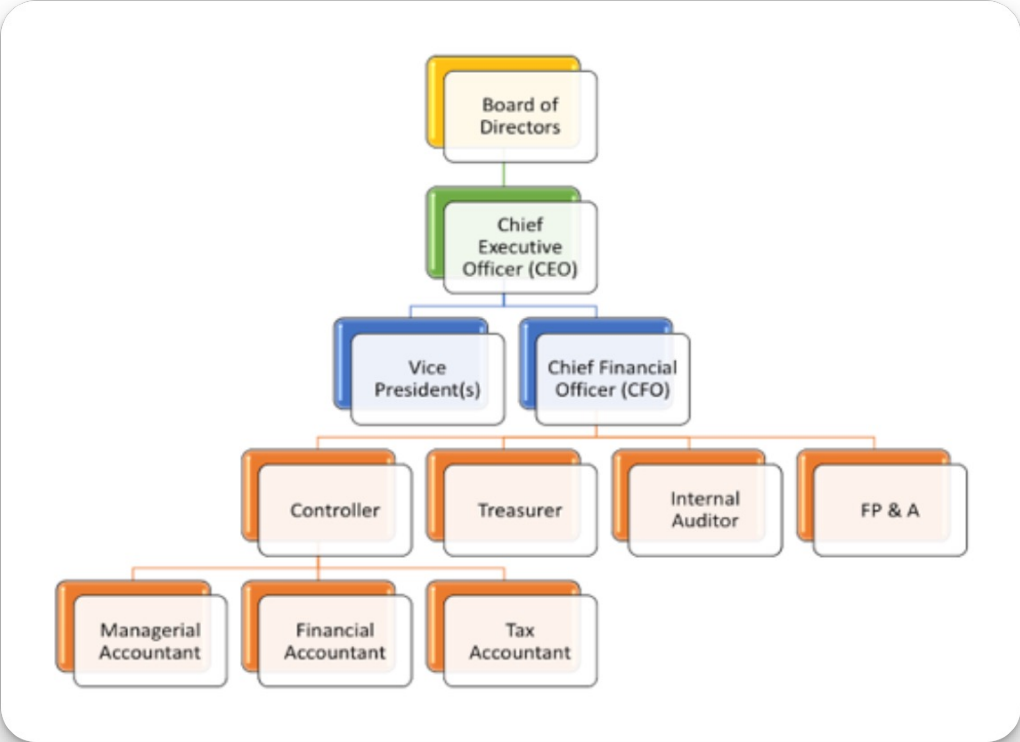
An audit underpins the trust and obligation of stewardship between those who manage a company and those who have a need for a 'true and fair' view

An Audit often includes

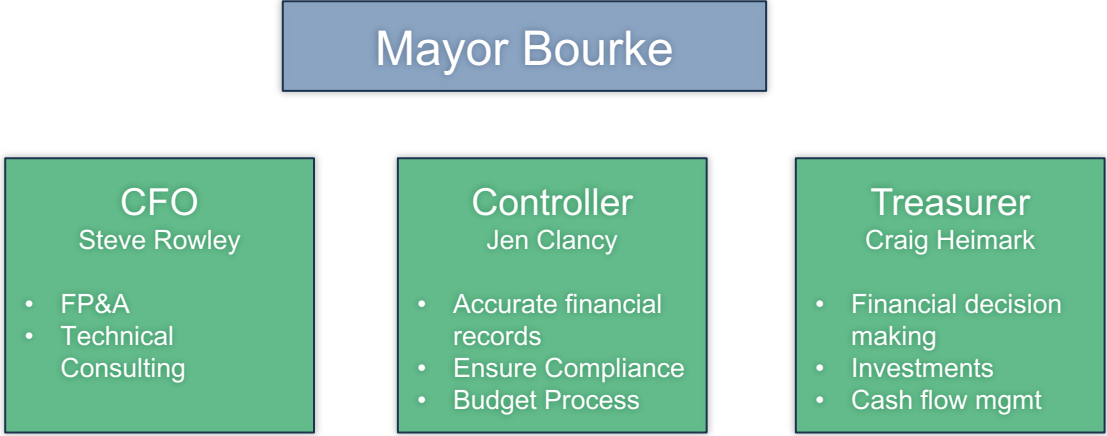
- Audit of financial statements
- Audit of internal control over financial reporting
- Compliance audit

ToA Financial Structure

Typical



ToA



“The controller is all about maintaining accurate financial records and ensuring compliance, while the treasurer's focus is on cash flow management, investments and financial decision-making”

An Audit Committee mitigates the conflict of interest between management and the auditors



Martin Wolf

Chief Economist Financial Times

*“Auditing is a still bigger problem. The practice of letting companies **choose and pay their own auditors is corrupt**. Listed companies [auditors] should be paid by the stock markets out of listing fees.”*



Paul Munter

Chief Accountant SEC

*“An effective audit committee enhances the accountant’s independence by, among other things, **providing a forum apart from management** where the accountants may discuss their concerns. An effective audit committee also enhances auditor independence from management by **exercising its responsibilities in appointing, compensating and overseeing the work of the independent auditors**. It facilitates communications among the board of directors, management, internal auditors and independent auditors.”*

What are the responsibilities of the Audit Committee?

The State of Utah Outlines Four Major Responsibilities

Management develops and enforces systems that ensure the entity accomplishes its mission effectively and efficiently while complying with laws and regulations.

- We already do many/most of the recommendations in this category – like the recent ethics statement, or review of policies with employees on a periodic basis
- What we don't do is a yearly top down (driven by the Council or Audit Committee) review of such procedures

The internal audit function objectively assesses the effectiveness of management's internal control program.

- Only large towns can afford a full time internal auditor. Smaller entities can opt to hire a part time person for periodic reviews or have that function handled directly by the Audit Committee

Financial statement audits are performed by a qualified, independent accounting firm and issues identified during those audits are reviewed and resolved as appropriate.

- The hiring and firing of the audit firm is one of the more important functions of the audit committee (to ensure there is no collusion between mgmt and outside auditor).
- Staff still does the work, but the actual hiring decision is by the Audit Committee

Hotline complaints are investigated, and findings are addressed by the governing body

- Requires setting up an email or voice line that is outside of the control of management

What are the benefits to ToA of an Audit Committee?

State of Utah Highly Recommends an Audit Committee

- If we do not have an audit committee then the prescribed functions fall to the Town Council – not to the staff!
- We already do many of the recommended practices, but it is driven by management not systematically by the Council

It Will Lower Our Fraud Risk Score

- This is an easy step to take to lower our risk score
- Its not perfect, but moves us to the generally recognized US best practice

Certain Responsibilities are difficult to execute at the Town Council level

- Investigating a whistle blower report of suspected fraud cannot be discussed in an open forum
- Same with a report on management from an external auditor



Membership Process and Considerations

Who decides membership of the committee

- Suggest the Mayor proposes, which must include at least one financial expert, to be ratified by Town Council
- Term to be coterminous with Mayor

Committee design

- Limited to two council members to make investigations confidential
- Chair to run
- Could include a number of paid or volunteer members/experts
- As a small Town, at any give time, we may or may not have the required “independent expert” on our Council, but the meeting schedule is limited and hence a paid professional should not be expensive to recruit

Will need an approved budget

- Expense of the audit is under committee control
- Major decision on expense will be the breadth of the audit. i.e. strictly limited to financials or to include financial or compliance control



Why Create An Audit Committee Now

Our auditor contract expires in December

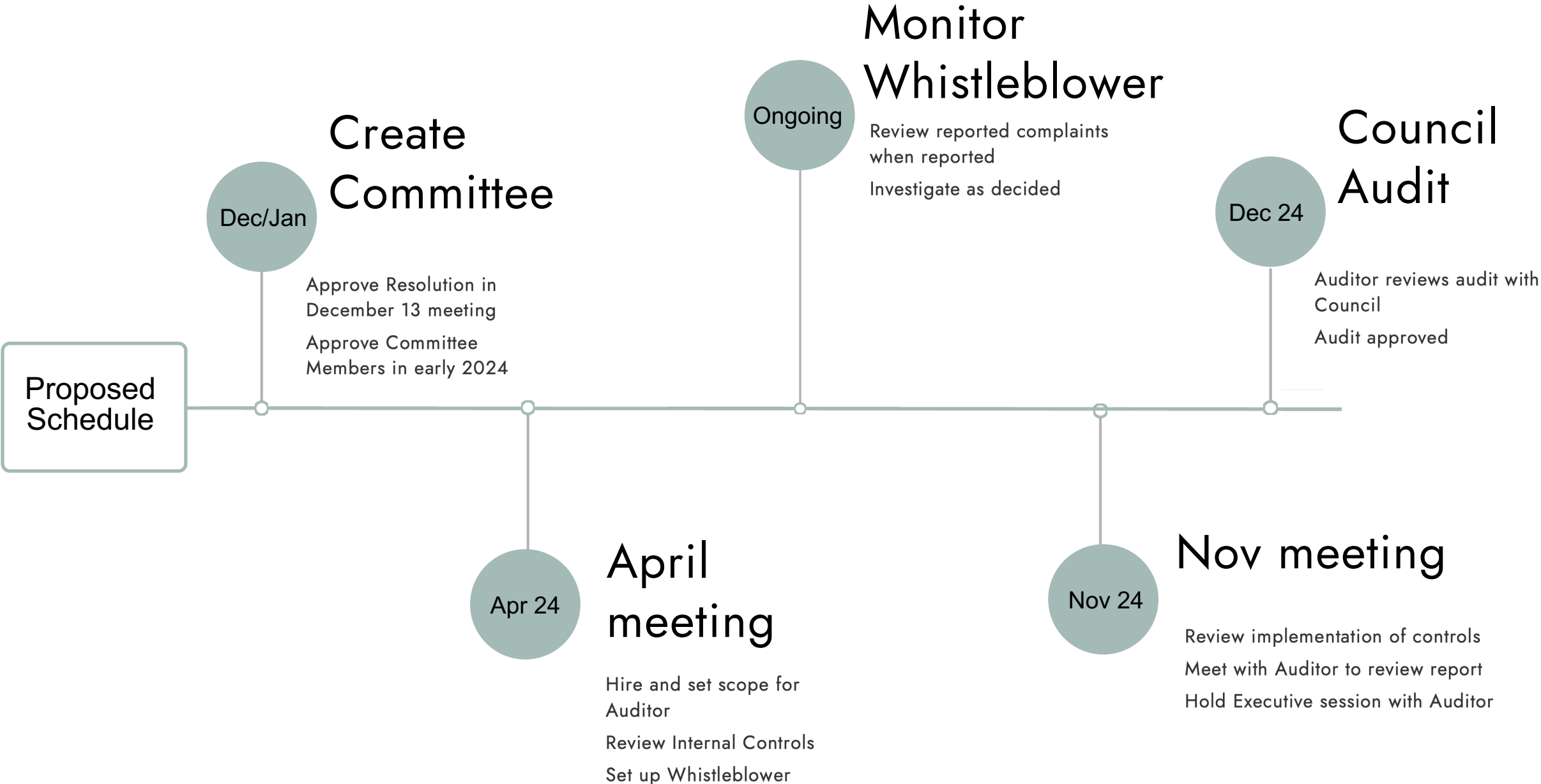
- General practice is to hire a new auditor every 3 to 4 years. This rotation is designed to prevent collusion between the outside Auditor and mgmt.
- ToA has been following this practice and our 4 year contract is up this December
- If we want an Audit Committee, its first job will be to hire the Auditor early in 24

Finance function is ready

- Jen is on top of reporting and timing

Changeover in our management team makes this an easy time to introduce new process





Next Steps

- Nov 29 - Budget Committee Review
- Dec 13 - Consideration by ToA Council
- Jan 10 - Committee membership ratified at January meeting

