

Terms of Reference for the Audit Committee

Purpose

The audit committee assists the board in

- ensuring the integrity of the commission's financial management and reporting systems
- ensuring the effectiveness of the commission's internal controls
- ensuring the independence of the commission's internal and external auditors
- monitoring risk management policies and systems
- such other related initiatives as may be necessary or desirable to enhance board effectiveness

Composition and operations

The committee consists of at least three independent commissioners. Each member is financially literate, and independent of the internal and external auditors. At least one member has accounting or other relevant financial management expertise.

The committee meets at least four times a year, and otherwise as necessary. The committee operates under the Terms of Reference for Board Committees.

Duties and responsibilities

The committee has the following specific responsibilities.

Financial management and reporting

Ensure that effective lines of communication exist among the internal and external auditors, management, and the board.

Review and discuss with the external auditor

- the scope and plan of audits
- the audit fee
- legal, accounting, and regulatory matters that may have a material impact on the financial statements
- any related significant findings and recommendations together with management's responses

Review the annual financial statements and related management discussion and analysis (MD&A), which review may include

- reports from the external auditor as to the results of their examination, including management letters and advice relating to any problems with financial reporting in the annual report, such as any disagreements that may have arisen between the auditor and management
- meetings with management who outline any problems with financial policies, financial reporting, or matters in contention with or under consideration by the external auditor
- the appropriateness of key accounting estimates, the accounting principles being employed, and any change in accounting policy or practice
- any proposed changes in financial statement presentation or notes
- other matters related to the conduct of the external audit that, in the opinion of the auditor, ought properly to be brought to the attention of the committee

Review with management

- quarterly financial reports and related MD&A
- the commission's significant accounting policies
- the commission's quarterly cash forecast to Treasury Board

- the commission's report on remuneration under the *Financial Information Act*
- the commission's annual budget
- the summary financial outlook to be included in the commission's annual service plan

Confirm with management that the commission has made all statutory withholdings and remittances relating to the commission's employees or otherwise.

Submit to the board for its approval before they are released the annual financial statements, auditor's reports, quarterly financial reports, related MD&A, quarterly cash forecasts to Treasury Board, reports on remuneration under the *Financial Information Act*, annual budgets, and summary financial outlooks to be included in annual service plans.

Internal controls

Meet with management and the external auditor at least once a year, and with management and the internal auditor at each regularly scheduled committee meeting, to

- review the design and effectiveness of the commission's internal controls and management information systems, and any recommendations for improvements
- discuss any matters that the committee or the auditor consider appropriate

Ensure that the internal auditor reviews the adequacy of, and compliance with, the commission's operational procedures, such as registrations, prospectus reviews, and compliance reviews.

Review annually the commission's Delegation Schedule as it relates to the internal control structure, and make appropriate recommendations to the governance committee.

Regarding the regulatory organizations over which the commission has regulatory authority (SROs)

- ensure that the internal auditor reviews the commission's processes for assessing each SRO's performance against the standards and the procedures established for that SRO
- review with management and the internal auditor the scope and results of the commission's audits and reviews of each SRO

Review management's proposals for the appointment of the chief financial officer.

The committee chair reviews, and if appropriate approves, the expense claims of the chair, and reports to the committee at least annually on the nature of the claims approved.

Auditor independence

As the entity at the commission to which the external auditor reports, review

- the independence of the external auditor from the commission and its management, and report any concerns to the board
- the appointment of the external auditor, and recommend to the board the compensation and terms of engagement

The committee chair signs on behalf of the commission the engagement letters of the external auditor.

As the entity to which the internal auditor functionally reports

- approve the mandate, appointment, and compensation of the internal auditor
- review and approve the internal audit priorities and work plan for each year

Risk management

Review

- with the internal auditor, its approach to risk management and the scope of its review of commission internal controls and policies and procedures
- with management
 - management's risk management plans, including its business continuity plan
 - insurance coverage
 - indemnities in place for the commissioners and staff

Address such other issues of an internal control or risk management nature that may, from time to time, come before the committee or arise in its deliberations.

Mandate review and self-evaluation

On an annual basis, review these Terms of Reference and evaluate the committee's performance against them. Report the results of the review and self-evaluation, and make appropriate recommendations, to the governance committee.