

## **Terms of Reference for the Audit and Risk Committee**

### **Purpose**

The audit and risk committee advises the board in:

- overseeing the commission's financial affairs
- overseeing the integrity of the commission's financial management and reporting systems
- overseeing the commission's information technology (IT) governance
- overseeing the effectiveness of the commission's internal controls
- ensuring the independence of the commission's internal and external auditors
- monitoring risk management and risk management policies and processes
- such other 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. Whenever possible, 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 these Terms of Reference and 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 the external audit
- the external audit fee
- legal, accounting and regulatory matters that may have a material impact on the financial statements of the commission
- any significant findings and recommendations, together with management's responses

Review the commission's annual financial statements and management's discussion of results, 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 external auditor and management
- meetings with management to discuss any problems with financial policies, financial reporting and any disagreements or matters of contention with 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 that, in the opinion of the external auditor, ought to be brought to the attention of the committee

Review with management:

- quarterly financial reports and management reports
- the commission's significant accounting policies
- the commission's quarterly forecast and projections to Treasury Board
- the commission's report under the *Financial Information Act*
- the commission's annual operating and capital budgets
- the financial plan 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 staff or otherwise.

Submit to the board for its approval before they are released, the annual financial statements and discussion of results, auditor's reports, quarterly financial reports, quarterly forecasts to Treasury Board, reports under the *Financial Information Act* and annual budgets and financial plans to be included in annual service plans.

### ***Information technology***

Review with management:

- IT risks
- IT strategy and IT operating performance results and targets, annually
- IT policies, including the IT governance policy, annually
- IT spending, as part of the annual budgeting process and quarterly major project reporting
- outcomes from material project spending, including management reports on the project benefits realized

Recommend to the board for its approval:

- annual IT strategic plan and any subsequent material changes to that plan
- changes to IT policies, including to the IT governance policy

### ***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, the external auditor or the internal auditor consider appropriate

Ensure that the internal auditor reviews the adequacy of, and compliance with, the commission's service plan, internal controls, operational policies and procedures.

Review compliance with legal and regulatory requirements, other than those relating to human resources matters, which are reviewed by the human resources committee.

Review annually the commission's internal control structure and delegations of authority as they relate to financial management.

### ***Other reviews***

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 CEO, and reports to the committee at least annually on the nature of the claims approved.

### ***External and internal auditors***

As the committee 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 external auditor's appointment, compensation and terms of engagement
- the external auditor's report and bring any concerns to the board.

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

As the committee 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

The committee assesses the results of the internal auditor's reviews and makes recommendations to the board in relation to the internal auditor's reviews.

### ***Risk management***

As the committee responsible for monitoring the commission's risk management processes, the committee:

- reviews management's risk management plan that:
  - identifies the principal internal and external risks to the commission, markets, investors and capital raisers that could impact the commission's ability to carry out its mandate
  - identifies controls to mitigate the risks identified
  - incorporates strategies to mitigate the most significant risks into the commission's service plan
  - specifies those accountable for:
    - managing particular risks or categories of risks
    - identifying and implementing response and mitigation strategies
    - maintaining risk controls
  - provides for reporting on implementation of the risk management plan, risk controls and mitigation plans
  - reports on the results of the annual risk review process with a description of all risks and discussion of the most significant risks

- reports to the board on the risk management plan and the results of the annual risk review
- reviews with the internal auditor their approach to risk management and the scope of their review of commission internal controls, policies and procedures
- reviews and reports to the board on:
  - management's business continuity plan
  - insurance coverage
  - the Guarantees and Indemnities Approval Policy and management's processes and reports under that policy
  - indemnities in place for commissioners and staff

The committee addresses 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.

***Terms of reference 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.