

Category: BOARD PROCESS	
Title: Terms of Reference for the Audit Committee	Reference Number: AB-330
Approved by: PHSA Board of Directors	Last Approved: October 24, 2013 Last Reviewed: October 24, 2013

## 1. PURPOSE

- 1.1 The primary responsibility for external audit, audited financial statements, risk management, internal controls and information systems of the Provincial Health Services Authority and its related members (“the Authority”) is vested in management and is overseen by the Board.
- 1.2 The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities related to:
- i) external audit and the audited financial statements;
  - ii) the systems of internal controls;
  - iii) internal audit processes and services;
  - iv) the security of information, information systems and recovery plans;
  - v) the Safe Reporting Office and policy; and
  - vi) enterprise risk management, excluding risks relating to patient care and access risks in accordance with the PHSA Quality and Safety framework, and risks relating to compliance with legislative, ethical and academic review requirements and standards monitored by the Research Committee.

## 2. COMPOSITION AND OPERATIONS

- 2.1 The Audit Committee shall be composed of no fewer than three directors. The Chair of the Finance Committee and at least one other member of the Finance Committee shall be appointed as members of the Audit Committee. Members of the Audit Committee shall not be officers or employees of the Authority or any of its affiliates.
- 2.2 The Audit Committee shall operate in a manner that is consistent with the Committee guidelines. The Committee Guidelines can be found on the Board of Directors Teamsite under Board Reference Manual/Policies/Committee Guidelines.

- 2.3 Audit Committee members shall be “financially literate”<sup>1</sup> and at least one member shall have “accounting or related financial expertise”.
- 2.4 The Audit Committee shall meet at least three times each year.

### **3. DUTIES AND RESPONSIBILITIES**

- 3.1 Subject to the powers and duties of the Board, the Audit Committee will perform the duties as detailed in section 3.

#### **Audited Financial Statements**

- 3.2 The Audit Committee will review and advise the Board on:

- i) the annual audited financial statements;
- ii) the appropriateness of accounting policies and financial reporting practices;
- iii) significant proposed changes in financial reporting and accounting policies and practices;
- iv) new or pending relevant developments in accounting and reporting standards;
- v) significant estimates made in the audited financial statements; and
- vi) compliance with the Budget Transparency and Accountability Act and the Canadian Public Sector Accounting Standards (PSAS).

#### **External Audit**

- 3.3 The external auditor is accountable to the Board through the Audit Committee. The Audit Committee will liaise with the external auditor and advise the Board in respect of the appointment, independence, planning, conduct and results of external audit activities. This includes:
- i) invite the external auditor to attend meetings of the Audit Committee, and to be heard at those meetings on matters relating to the external audit:
    - a) at the request of the Audit Committee Chair or any two members of the Audit Committee;
    - b) at the request of the external auditor; and
    - c) periodically, and at least annually, without management present.
  - ii) review the appointment and independence of the external auditor, including:
    - a) assess performance and recommend to the Board, for approval, the engagement of or reappointment of the external auditor;
    - b) receive assurances on the independence of the external auditor; and

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<sup>1</sup> The Board has defined “financial literacy” as the ability to read and understand financial statements prepared in accordance with Canadian PSAS. Where there is a requirement for a director to have accounting or financial expertise, this means the director shall have the ability to analyze and understand a full set of financial statements, including the notes attached thereto in accordance with Canadian PSAS.

- c) in respect of its responsibility for the approval of non-audit services to be provided by the auditor as set out in the Audit Independence Policy, the Audit Committee shall advise the Board annually of any such approved non-audit services.
- iii) review the plans and conduct of the annual external audit, including but not limited to:
  - a) the audit plan:
    - engagement letter;
    - procedures to review internal controls and management estimates;
    - materiality limit;
    - areas of financial risk identified by the auditor;
    - staffing;
    - timetable;
    - proposed fees; and
  - b) any difficulties encountered, or restriction imposed by management, during the annual audit;
- iv) review the external audit results, reporting and the annual financial statements, including:
  - a) by discussion with the external auditor, the annual financial statements and the external auditor's report including the appropriateness of accounting policies and underlying estimates;
  - b) any significant accounting or financial reporting issue;
  - c) the evaluation of the system of internal controls, procedures and documentation;
  - d) the post audit or management letter containing any findings or recommendations, including management's response thereto and the subsequent follow-up to any significant identified internal control weaknesses; and
  - e) any other matters the external auditor brings to the Audit Committee's attention.
- v) review the annual A-133 external audit results and reporting, including:
  - a) by discussion with the external A-133 auditor, the external auditor's findings including management's response thereto and the subsequent follow-up of compliance findings, for reporting to the U.S. Government funding bodies; and
  - b) any other matters the external A-133 auditor brings to the Audit Committee's attention.

### **Internal Audit**

- 3.4 Internal Audit is accountable to the Board through the Audit Committee and the Chief Executive Officer. The Audit Committee will be the primary liaison with Internal Audit regarding all matters governed by its respective Terms of Reference.
- 3.5 The Audit Committee will advise the Board in respect of the Authority's Internal Audit function and the Internal Audit relationship with management.

- 3.6 The Audit Committee will advise the Board in respect of key Internal Audit matters including the appointment, independence, planning, and results of Internal Audit activities. This includes:
- i) meet periodically and at least annually, with the Internal Audit Director and without management present, and review the level of independence, including the appropriateness of the reporting channels, of the Internal Audit function within the organization;
  - ii) a formal review and approval of the Internal Audit Charter at least every three years, subject to regular review and revisions as required;
  - iii) the appointment or removal of the Internal Audit Director;
  - iv) proposed changes to Internal Audit resources and staff;
  - v) goals, adequacy of resources, work plans, and project timetable, including the approval of the annual strategic Internal Audit plan and annual report of the work completed against the plan; and
  - vi) any difficulties encountered, or restriction imposed by management.
- 3.7 The Audit Committee will advise the Board in respect of the key Internal Audit activities. This includes inviting the Internal Audit Director to attend meetings of the Audit Committee to report on:
- i) independent and objective evaluations and reviews of the systems of internal control, processes, conduct, and risk mitigation;
  - ii) areas of financial or any other non-medical risk identified by Internal Audit, the Committee, Board, or the Chief Executive Officer;
  - iii) the post review reports containing any significant findings or recommendations, including management's response thereto and the subsequent follow-up to any significant identified control weaknesses;
  - iv) the confidential complaints received under the Safe Reporting policy (with anonymity retained) including the number of complaints, nature of complaints and the process or resolution; and
  - v) any other matters Internal Audit brings to the Audit Committee's attention.

### **Risk Management, Internal Control and Information Systems**

- 3.8 The Audit Committee will advise the Board in respect of the enterprise risk management, internal control and information systems as they pertain to finance but also to the broader enterprise. This includes the receipt of assurances from management and the Internal Audit Director, and the review of:
- i) the enterprise risk management processes, controls and policies, with particular focus on financial aspects;
  - ii) the annual enterprise risk management plan and annual report of the work completed against the plan;
  - iii) the Authority's corporate enterprise risk register to ensure management identifies the principal financial and non-financial risks of the Authority and that these risks are appropriately managed;

- iv) the system of internal control to ensure it is properly designed, implemented and maintained to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations and accurate, appropriate and timely financial reporting;
- v) financial policies, in particular the policies for signing authority and travel and business expenses;
- vi) security of information, information systems and recovery plans, including an annual report on information system risk; and
- vii) compliance with financial statutory and regulatory obligations.

#### **Non-clinical Legal, Regulatory and Contractual Compliance**

3.9 The Audit Committee will review and advise the Board of the impact of any significant non-clinical legislative, regulatory and contractual non-compliance issues.

#### **Other**

3.10 The Audit Committee has the authority to engage independent counsel and other advisors, with prior approval from the board chair.

3.11 The Audit Committee will review and advise the Board in respect of:

- i) the impact of material litigation on financial reporting;
- ii) the terms of reference for the Audit Committee;
- iii) the review of management's exception reports regarding the stability of key Authority suppliers and organizations that are funded by or providing funding to the Authority that otherwise would create a material risk to the operations of the Authority; and
- iv) the appointment and changes to the role of the Chief Financial Officer, in conjunction with the Finance Committee.

3.12 In Conjunction with the Finance Committee Chair, the Audit Committee Chair will review and advise the Board on the annual Financial Information Act reporting.

### **4. ACCOUNTABILITY**

4.1 The Audit Committee Chair has the responsibility to make periodic reports to the Board, as requested, on audit matters relative to the Authority.

4.2 The Audit Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.

4.3 The Audit Committee will work closely with the Finance Committee and will advise the Finance Committee in respect of any matters that might impact the work of the Finance Committee, particularly concerning financial reporting.

## 5. AUDIT COMMITTEE TIMETABLE

The following timetable outlines the Audit Committee's schedule of activities:

Activity	Schedule											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>A. Financial Statements and Other Financial Information</b>												
i) Review annual audited financial statements.					X							
ii) Review accounting policies, financial reporting practices, proposed changes thereto and significant management estimates.					X							
<b>B. External Audit</b>												
i) As appropriate, invite the auditor to attend meetings.		X			X	X		X		X		X
ii) Review appointment of the external auditor..						X						
iii) Review the plan and conduct of the external audit.												X
iv) Review external audit results and reporting.					X							
-v) Review and report non-audit services provided by the external auditor.					X							
vi) Review independence of the external auditor.					X							
vii) Review external A-133 audit results and reporting.												X
<b>C. Internal Audit</b>												
i) Invite the Internal Audit Director to attend meetings.		X			X	X		X		X		X
ii) Meet the Internal Audit Director without management and review independence, resources, planning, activities, conduct, and results.		X			X	X		X		X		X
iii) Review the activities of the Internal Audit function.		X			X	X		X		X		X
iv) Review the annual strategic plan and annual report of the Internal Audit function.						X						

Activity	Schedule											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
v) Review the reports and evaluations of controls, systems, and processes; risk mitigation; conduct; and any other areas of risk and consider the impact upon the external audit and the audited financial statements.		X			X	X		X		X		X
vi) Review the independence of communications between Internal Audit and the external auditor.		X			X	X		X		X		X
vii) Review the Internal Audit Charter at least every three years ( <i>timing not set</i> ).												
viii) Review the report of confidential complaints received under the safe reporting policy.		X										
<b>D. Risk Management, Internal Control and Information Systems</b>												
i) Review financial risk and management controls.		X			X	X		X		X		X
ii) Ensure internal control systems are properly designed, implemented and maintained.		X			X	X		X		X		X
iii) Review adequacy of security of financial information, information systems and recovery plans.		X			X	X		X		X		X
iv) Monitor compliance with financial statutory and regulatory obligations.										X		
v) Review the annual plan and annual report for enterprise risk management.						X						
vi) Review annual information systems risk reporting.								X				
<b>E. Non-clinical Legal, Regulatory and Contractual Compliance</b>												
i) Review the impact of any significant non-clinical legislative, regulatory, and contractual non-compliance issues.										X		
<b>F. Other</b>												
i) Review the impact of material litigation on financial reporting.					X							
ii) Review terms of reference for the Audit Committee.												X

Activity	Schedule											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
iii) Review management's exception reports regarding the stability of key suppliers and organizations that are funded by or providing funding to the Authority that otherwise would create a material risk to the operations of the Authority.											X	
iv) Chair review of the annual Financial Information Act reporting with a report to the Committee.											X	

Policy Created on: December 15, 2005

Revision Dates:

- December 11, 2008
- December 9, 2010
- June 22, 2011
- February 21, 2013
- October 24, 2013