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Category: Corporate Governance Policy	
Subject/Title: <b>Terms of Reference for the Audit Committee</b>	Reference Number: AB-330
	Effective Date: December 15, 2005
Approved by: <b>PHSA Board of Directors</b>	Revision Number:

## I. PURPOSE

- A. The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities related to the audit and the audited financial statements.

## II. COMPOSITION AND OPERATIONS

- A. The Audit Committee shall be composed of no fewer than three and no more than five 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.
- B. The Audit Committee shall operate in a manner that is consistent with the committee guidelines outlined in section 3.2 of the board manual.
- C. Audit Committee members shall be “financially literate”<sup>1</sup> and at least one member shall have “accounting or related financial expertise”.
- D. The Audit Committee shall meet at least twice each year.

## III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Audit Committee will perform the

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<sup>1</sup> The Board has defined “financial literacy” as the ability to read and understand a balance sheet, income statement and a cash flow statement in accordance with Canadian GAAP. 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 GAAP.

following duties:

**A. Audited Financial Statements**

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; and
- v) significant estimates made in the audited financial statements.

**B. External Audit**

The external auditor is accountable to the Board and 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 auditor's duties:
  - 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
  - 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.

### **C. Internal Assurance**

Internal Assurance is accountable to the Board, the Audit Committee, the Finance Committee, and the CEO. The Audit Committee will liaise with Internal Assurance regarding matters that may impact the external audit and the audited financial statements. The Audit Committee will advise the Board in respect of the internal audit relationship with the external auditor. The Finance Committee will be the primary liaison with Internal Assurance regarding all other matters governed by its respective Terms of Reference.

The Audit Committee will participate with the Finance Committee in advising the Board in respect of key internal assurance matters including the appointment, independence, planning, and results of internal assurance activities. This includes:

- i) inviting the Internal Assurance Director to attend meetings of the Audit Committee, and to be heard at those meetings on matters as they may impact external financial and other reporting obligations and the external audit. The Internal Assurance Director will meet the Committee periodically, and at least annually, without management present.
- ii) in coordination with the Finance Committee, and without management present, participating in the review of the appointment and independence of the Internal Assurance Director;
- iii) in coordination with the Finance Committee, reviewing the plans and activities of Internal Assurance including;
  - a) the multi-year Internal Assurance Plan;
  - b) areas of financial reporting risk identified by Internal Assurance;
  - c) adequacy of resources for the function and project timetable;
  - d) any difficulties encountered, or restriction imposed by management;
  - e) independent and objective evaluations and reviews of the system of internal controls, processes, conduct, and risk mitigation as they may impact upon the external audit and the audited financial statements;
  - f) the post review reports containing any findings or recommendations, including management's response thereto and the subsequent follow-up to any significant identified control weaknesses;
  - g) any other matters Internal Assurance brings to the Audit Committee's attention; and
  - h) areas of financial or any other non-medical risk identified by Internal Assurance, the Committee, the Board, or the CEO.

**D. Non-clinical Legal, Regulatory and Contractual Compliance**

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

**E. Other**

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

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; and
- iii) the review of management's exception reports regarding the stability of key PHSA suppliers and organizations that are funded by or providing funding to the PHSA that otherwise would create a material risk to the operations of the PHSA; and
- iv) the appointment and changes to the role of the Chief Financial Officer.

**IV. ACCOUNTABILITY**

- A.** The Audit Committee Chair has the responsibility to make periodic reports to the Board, as requested, on audit matters relative to the Authority.
- B.** 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.
- C.** 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.

**V. 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							X
<b>B. External Audit</b>												
i) As appropriate, invite the auditor to attend meetings.					X							X

Activity	Schedule											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
ii) Review appointment and independence of the external auditor. Review and report non-audit services to the Board.					X							
iii) Review the plan and conduct of the external audit.												X
iv) Review external audit results, reporting and annual financial statements.					X							
<b>C. Internal Assurance</b>												
i) Invite the Internal Assurance Director to attend meetings.					X							X
ii) Review the independence of communications between Internal Assurance and the external auditor.												X
iii) Meet the Internal Assurance Director without management and review independence, resources, planning, activities, conduct, and results that may impact financial reporting.					X							X
iv) In coordination with the Finance Committee, provide recommendations for Internal Assurance's plans and activities.					X							X
v) In coordination with the Finance Committee review Internal Assurance's reports and evaluations of controls, systems and processes; conduct; risk mitigation; and any other areas of risk and consider the impact upon the external audit and the audited financial statements.					X							X
<b>D. 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							X
<b>E. Other</b>												
i) Review the impact of material litigation on financial reporting.					X							
ii) Review terms of reference for the Audit Committee												X
iii) Review management's exception reports regarding the stability of key PHSA suppliers and organizations that are funded by or providing funding to the PHSA that otherwise would create a material risk to the operations of the PHSA.					X							X