



# **AUDIT AND FINANCE COMMITTEE TERMS OF REFERENCE**

Reviewed by the Audit and Finance Committee – August 23, 2017  
Reviewed by the Governance and Social Responsibility Committee – November 9, 2017  
Approved by the Board of Directors – November 29, 2017

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## 1. OBJECTIVE

The Audit and Finance Committee is generally advisory in nature. The objective of the Committee is to assist the Board in meeting its responsibilities by ensuring the adequacy and effectiveness of the financial reporting, internal controls, management information systems and risk management.

## 2. CONSTITUTION

2.1 The Audit and Finance Committee of the Board shall be comprised of a minimum of three (3) members of the Board, the majority of members to be independent Directors of the Corporation pursuant to the standards for independence adopted by the Board.

2.2 All members of the Committee will be financially literate, with at least one member having accounting or related financial expertise, using the terms defined below. In the event all members of the Committee are not financially literate, upon the adoption of the Committee's Terms of Reference, or upon appointment to the Committee, the Committee member may develop financial literacy capability within a reasonable period of time after appointment as a transition measure, and report same to Chair of the Committee.

*"Financially literate"* means the ability to read and understand a set of financial statements that presents breadth and level of complexity of accounting issues that are generally comparable to the Corporation's financial statements; and

*"Accounting or related financial expertise"* means the ability to analyse and interpret a full set of financial statements, including the notes attached thereto, in accordance with International Financial Reporting Standards (IFRS).

2.3 The Committee members shall be appointed by resolution of the Board. Each member shall continue as a member until a successor is appointed, unless the member resigns, or is removed by resolution of the Board or otherwise ceases to be a member of the Board.

2.4 Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board, and shall be filled by the Board if the membership of the Committee is less than three (3) members as a result of the vacancy.

2.5 The Board, or in the event of its failure to do so, the Committee, shall appoint a Chair from among the Committee members. If the Chair of the Committee is not present at any meeting of the Committee, the Chair of the meeting shall be chosen by the Committee from among the members present.

- 2.6 The Chair presiding at any meeting of the Committee shall have a vote in all matters considered by the Committee. In the event of a tie the motion is defeated.
- 2.7 The Secretary to the Board shall serve as Secretary to the Committee. If the Secretary is not present at any meeting of the Committee, the Committee may appoint an acting Secretary to perform the functions of the Secretary at that meeting.
- 2.8 The Committee shall assist with deliberations required for the fulfilment of the Board's mandate and those specific responsibilities and duties assigned to the Committee; however, unless specifically stated otherwise, the Committee shall act in advisory capacity only, recommending decisions to the Board for approval.

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

#### **3.1 Audit:**

The Committee shall have the following duties and responsibilities with respect to Audit:

- 3.1.1 Review with management and the external auditor, and recommend to the Board for approval, the annual audited financial statements of the Corporation, and its directly or indirectly wholly owned subsidiaries. The Committee shall receive for information purposes, the audited financial statements of other entities in which it owns an equity investment interest;
- 3.1.2 Notwithstanding the advisory nature of the Committee, the Board delegates to the Committee the authority to review and approve the quarterly financial statements. The Committee shall provide a report to the Board on the results of its review at the next regular Board meeting;
- 3.1.3 Review and recommend for the approval of the Board, the management discussion and analysis (MD&A) section of the Annual Report, as well as any other disclosure documents containing financial statements or financial information of the Corporation;
- 3.1.4 Review and report to the Board the results of the reports of the internal and external auditor with respect to the state of the Corporation's internal control systems including, but not limited to, the adequacy of those internal control systems addressing the legal, ethical, regulatory and financial reporting requirements of the Corporation.
- 3.1.5 Review all Director expenses and the other operating costs of the Board annually;

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- 3.1.6 Review annually, a detailed report of the President and Chief Executive Officer's expenses;
  - 3.1.7 Review annually, a summary of the Executive's expenses;
  - 3.1.8 Review the Corporation's report on material outstanding litigation and report to the Board;
  - 3.1.9 In accordance with the Non-Audit Services Policy, approve significant non-audit services to be provided by the external auditors and specify in advance what services require approval before they are commenced;
  - 3.1.10 Review the formal representation letter provided by the President and Chief Executive Officer and Chief Financial Officer to the external auditors as to the accuracy, fairness and completeness of financial reporting;
  - 3.1.11 Through the Chair of the Committee, approve the expenses of the President and Chief Executive Officer; and
  - 3.1.12 On an exception basis, monitor any losses reported by management throughout the year to Crown Investments Corporation (CIC) on the CIC Reporting of Losses Policy and review management's annual summary of the losses incurred.

## **3.2 Finance:**

The Committee shall have the following duties and responsibilities with respect to Finance:

- 3.2.1 Review the quarterly financial forecasts;
- 3.2.2 Review and monitor the Corporation's financial performance and Corporate Balanced Scorecard related to the achievement of approved financial targets by management, and recommend to the Board for approval the corresponding quarterly performance result report;
- 3.2.3 Review and recommend to the Board for approval the financial aspects of the Corporation's annual business plan;
- 3.2.4 Review and recommend to the Board for approval the utility rate strategies, and all rates for delivery, commodity, storage and transportation;
- 3.2.5 Review annually the efficacy of the Corporation's Execution of Documents Policy, Expenditure Authorization Policy or other policy documents as requested by this Committee;

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- 3.2.6 Review semi-annually, the performance, management and execution of the Corporate Credit Risk Management Policy;
  - 3.2.7 Review quarterly, the performance, management and use of financial derivatives, including activities under the Commodity Risk Management Policy and strategies, the Corporate Debt and Interest Rate Risk Management Policy and the Foreign Currency Risk Management Policy;
  - 3.2.8 Review annually, the debt and interest rate risk management activities proposed for the upcoming year included in the Corporate Debt Management Plan;
  - 3.2.9 Review and recommend to the Board for approval, any changes in accounting policies or significant transactions which impact the financial statements in a significant manner;
  - 3.2.10 Review annually with management and the External Auditor, and report to the Board, on the appropriateness of accounting policies, disclosures, forecasts, unbilled revenue reports, reserves, and judgments regarding accounting choices and ensure they are fair, accurate and in accordance with International Financial Reporting Standards;
  - 3.2.11 Review annually, the insurable risks and insurance coverage of the Corporation;
  - 3.2.12 Review bi-annually, the Corporate Derivatives Policy; the Corporate Debt and Interest Rate Risk Management Policy; the Foreign Currency Risk Management Policy; the Commodity Risk Management Policy; and the Corporate Credit Risk Management Policy;
  - 3.2.13 Provide annual input to the President and Chief Executive Officer on the performance of the Chief Financial Officer. Review the appointment or exit of the Chief Financial Officer;
  - 3.2.14 Review and monitor and report to the Board the policies and procedures that management have developed to identify and manage the principal risks of the corporation's business, including the results of the implementation of appropriate systems to manage these risks;
  - 3.2.15 Ensure the adequacy and effectiveness of the system of internal controls in relation to the financial reporting, management information systems and risk management; and
  - 3.2.16 Review and approve bi-annually, the "acceptable annual expected credit loss" for each business activity as identified in the Corporate Credit Risk Management Policy.
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- 3.2.17 Review and recommend to the Board for approval facility related expenditures that require Board approval.
- 3.2.18 Review and recommend to the Board for approval the payment of dividends.

### **3.3 External Auditor Relationship:**

The External Auditor is the representative of the Provincial Auditor for the purposes of legislative requirements. The Committee shall have the following general duties and responsibilities with respect to the External Auditor:

- 3.3.1 Annually review the qualifications, independence, quality of service and performance of the auditors. The Committee may recommend to the Board the discharge of the external auditors, at any time, for unsatisfactory service.
- 3.3.2 Recommend to the Board the appointment or reappointment of the external auditors. The Board recommends the appointment of the external auditors to CIC.
- 3.3.3 Review the Corporation's relationship with the external auditor, including recommending for approval of the Board, the terms of their audit engagement and related fees (the "Annual Audit Plan");
- 3.3.4 Review in camera with the External Auditor, the results of the external auditor's audit of the Corporation's financial statements, including the management letter, and report to the Board any matter remaining unresolved; and
- 3.3.5 Act as a communication link between the Board, External Auditors, the Provincial Auditor and Management.

### **3.4 Internal Audit:**

The Director of Audit Services reports functionally to the Committee, as well as administratively to the President and Chief Executive Officer. The Committee shall have the following general duties and responsibilities with respect to Internal Audit function:

- 3.4.1 Review and approve the plans, costs and effectiveness of the internal audit function, (including approval of the Annual Audit Plan and budget, approval of outsourcing arrangements, review of internal audit reports and management's response); and report to the Board the nature of any significant matter from the internal auditor's reports that remains unresolved;
  - 3.4.2 Meet with the Director of Audit Services as requested by the Director of Audit Services;
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- 3.4.3 Review a quarterly status report prepared by the Director of Audit Services;
- 3.4.4 Review the results of the external quality assurance reviews of the Audit Services department in accordance with the IIA International Standards for the Professional Practice of Internal Auditing.
- 3.4.5 Through the Chair of the Committee, obtain input from the President and Chief Executive Officer, to annually set objectives and conduct a performance review of the Director of Audit Services;
- 3.4.6 Review and recommend for approval of the Board, the appointment or discharge of the Director of Audit Services; and
- 3.4.7 Review the exit of the Director of Audit Services.

### **3.5 Business Development:**

The Committee shall have the following duties and responsibilities respecting business development:

- 3.5.1 Review and report to the Board on investment and business development strategies.
- 3.5.2 Review tactical plans developed to achieve investment and business development goals set out in the Corporation's Strategic Plan.
- 3.5.3 Review, monitor and report to the Board on investment and business development opportunities.
- 3.5.4 Review the economic evaluations of potential investments and business development opportunities.
- 3.5.5 Review and recommend for the approval of the Board, the appropriate operating structure for potential investments and business developments.
- 3.5.6 Monitor compliance with the SaskFirst Investment Policy and the Significant Transactions Reporting Policy, as well as any other guidelines established by Crown Investments Corporation relating to investments and business development.
- 3.5.7 Review and monitor Management reports regarding the proper due diligence for any investment or business development to be undertaken.



- 3.5.8 Review and recommend for the approval of the Board investments or business development projects and initiatives.
- 3.5.9 Review and recommend to the Board for approval the business development aspects of the Corporation's annual business plan.
- 3.5.10 Review and monitor the monetization of external investments.
- 3.5.11 When requested by the Board, review and report on the status and future outlook of existing investments and business developments held by the Corporation from time to time. Such review should include using approved corporate business plan metrics.
- 3.5.12 Review and report to the Board on the effectiveness and timeliness of Management's execution of specific investments that were approved by the Board.

### **3.6 General Governance:**

The Committee shall have the following general duties, functions and responsibilities to:

- 3.6.1 Adopt an Annual Work Plan to ensure that duties and responsibilities listed in the Terms of Reference are scheduled to be achieved;
- 3.6.2 Provide formal evaluation in writing on the performance of the Committee on a bi-annual basis;
- 3.6.3 Review annually, in conjunction with the Governance Committee, and report to the Board on the adequacy of the Committee's Terms of Reference; and
- 3.6.4 Produce and provide to the Board an annual evaluation of the Committee, which evaluation shall compare the effectiveness of the Committee with the requirements of these Terms of Reference, including the Annual Work Plan.

## **4. MEETINGS**

- 4.1 The Committee shall meet a minimum of four (4) times a year, preferably quarterly.
  - 4.2 A meeting of the Committee may be called by the Chair of the Committee, the Chair of the Board or President and Chief Executive Officer of the Corporation or by any two (2) members of the Committee, the external auditor or the internal auditor.
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- 4.3 The external auditor shall attend meetings at the request of the Committee and at the expense of the Corporation. A minimum of two (2) meetings with the external auditor are to occur each year to review:
- (i) the upcoming audit plan and scope;
  - (ii) the audit findings and audited financial statements of the Corporation.
- 4.4 A quorum for meetings shall be three (3) directors present in person or by telephone or other telecommunications device that permits all persons participating in the meeting to speak and hear one another.
- 4.5 Reasonable notice, preferably (7) days before the meeting, shall be given in writing, by e-mail or by facsimile communication to each member of the Committee.
- 4.6 The Chair of the Committee shall, upon recommendation of Senior Management in collaboration with Audit Services, approve an agenda for each Meeting which, together with any associated material, shall be sent to each member of the Committee prior to the time for such meeting (preferably seven (7) days).
- 4.7 A director may in any manner waive a notice of meeting, and attendance of a director at the meeting is a waiver of notice of the meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not properly called.
- 4.8 The Committee shall have the right to determine who shall and shall not be present at any part of the meetings of the Committee, and may hold in camera sessions.

## **5. MINUTES AND REPORTING RESPONSIBILITIES**

- 5.1 An outline of material proceedings and deliberations addressed by the Committee, and all recommendations, decisions and directives of the Committee shall be recorded by the Secretary in the minutes of the meeting.
- 5.2 A draft copy of the minutes of such meeting, approved by the Committee Chair, shall be circulated to the Committee prior to the next Committee meeting where practicable, for approval by the Committee. A Committee member may request that the minutes be revised to include specific deliberations. Following approval of the minutes of the meeting by the Committee as a whole, if substantive revisions have been made to the draft minutes, the minutes approved by the Committee shall be re-circulated to the Committee.
- 5.3 Minutes shall be circulated to the Board prior to the next regular Board meeting.
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- 5.4 A report of the Committee meeting shall be made at the next regular meeting of the Board. Reports to the Board may take the form of an oral or written report by the Chair of the Committee, or any other member of the Committee designated by the Committee to make the report.

## **6. SUPPORT TO THE COMMITTEE**

- 6.1 The Committee shall identify, through the Office of the President and Chief Executive Officer, or designate, the kind and frequency of information required by the Committee.
- 6.2 The Committee shall have access to any and all books and records of the Corporation required for the execution of the Committee's obligations and, as necessary, shall discuss with appropriate corporate officers and employees, coordinated through the Office of the President and Chief Executive Officer, such records and other relevant matters.
- 6.3 The Committee shall have the authority to retain external advisors, experts or consultants, in order to properly discharge its duties and responsibilities.

## **7. CONFIDENTIALITY**

- 7.1 All deliberations of the Committee, and all records, material and information pertaining to the Corporation obtained by a member of the Committee shall be considered confidential. Committee members shall maintain the confidentiality of such deliberations, and shall safeguard such records, material and information from improper access.