

**TERMS OF REFERENCE FOR THE
BOARD AUDIT AND FINANCE COMMITTEE**

1. PURPOSE

Responsibility for the financial reporting, information systems, risk management and internal controls of the Interior Health Authority (the “Authority”) is vested in management. Management is also responsible for the budgeting and accounting activity, including the preparation of all financial statements and reports for both internal and external use.

- (1) The Board Audit and Finance Committee (the “Committee”) will assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities by reviewing:
 - (a) the financial information that will be provided to the Government and other partners;
 - (b) the systems of internal controls established by management and the Board; and
 - (c) all audit processes.
- (2) The Committee will assist the Board in understanding the budget development process and in monitoring the financial performance of the Authority.
- (3) The Committee will also oversee the management of any investment activity in which the Authority may become involved.
- (4) The Committee will ensure that its activities are aligned with other broad strategic goals set out by the Quality, Governance & Human Resources, and Strategic Priorities Committees.

2. COMPOSITION AND OPERATIONS

- (1) The Committee shall be composed of not fewer than three (3) directors and not more than five (5) directors, none of whom shall be officers or employees of the Authority or any of its subsidiaries.
- (2) The Committee shall operate in a manner that is consistent with the *Committee Guidelines Board Policy 4.1*.

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- (3) All Committee members shall be “independent”¹ and “financially literate”² and at least one member shall have "accounting or related financial expertise". The Authority’s external auditors shall be advised of the names of the Committee members and will receive notice of, and be invited to attend, meetings of the Committee, and to be heard at those meetings on matters relating to the external auditors' duties.
- (4) The external auditor has a standing invitation to attend Committee meetings so that the Committee and the auditor can consider any matter that the Committee or auditors determine should be brought to the attention of the Board.

3. DUTIES AND RESPONSIBILITIES

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

(1) **Financial Statements and Other Financial Reporting**

The Committee will:

- (a) review and recommend for approval to the Board, financial information that will be forwarded to the Government or made publicly available, described in Appendix A, including:
 - (i) the financial content of any reports required by government or regulatory authorities;
 - (ii) any management report that accompanies published financial statements (to the extent such a report discusses the financial position or operating results) for consistency of disclosure with the financial statements themselves; and
 - (iii) annual audited financial statements.

¹ “independent” means having no material direct or indirect association with the organization, which could, in the view of the organization’s board of directors, reasonably interfere with the exercise of the member’s independent judgment.

² The Board has defined “financial literacy” as the ability to read and understand a statement of financial position, income statement and a cash flow statement in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Where there is a requirement for a director to have “accounting or related 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.

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- (b) review and discuss:
 - (i) the appropriateness of accounting policies and financial reporting practices used by the Authority;
 - (ii) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Authority;
 - (iii) any new or pending developments in accounting and reporting standards that may affect the Authority; and
 - (iv) a report on outstanding accounts receivable, bad debts, and allowance for doubtful accounts.
- (c) ensure that:
 - (i) the Board receives timely, meaningful reports that keep it properly informed of the Authority's financial situation and that provide the information needed for decision-making;
 - (ii) the Board receives, at each meeting, an up-to-date forecast of year end results which reflects events to date and known factors which may influence either revenue or expense components.

(2) **Limits of Spending Authority**

The Committee will:

- (a) develop with management a comprehensive statement of spending authorities for operating and capital expenditures and present these authorities to the Board for its approval as reflected in the signing authority policy; and
- (b) monitor compliance through the audit process and recommend to the Board any changes which may be necessary from time to time.

(3) **Internal Control Systems**

The Committee will review and obtain reasonable assurance that internal control systems are operating effectively to produce accurate, appropriate and timely information. This includes:

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- (a) review the Authority's financial controls and policies;
- (b) obtain reasonable assurance through Management and the Internal Auditor that the systems of internal controls are properly designed and effectively implemented through discussions with, and reports from, management, the internal auditor and/or the external auditor;
- (c) review management steps to implement and maintain appropriate internal control procedures including a review of policies; and

(4) Risk Management

The Committee will:

- (a) as required, receive updates with respect to categories of risk for which the Committee is directly concerned;
- (b) receive from time to time independent reports of the Internal Auditor;
- (c) keep the Board informed of any major incident reports; and
- (d) from time to time, recommend to the Board any changes in policy or process required to achieve the overall objectives of the Authority's risk management program.

(5) Information Systems

The Committee will:

- (a) ensure that there is in place an information technology plan which effectively supports the strategic planning process including both current operational management and the longer-term service plans for component sectors;

(6) Capital Projects

The Committee will:

- (a) review and recommend major capital projects;
- (b) monitor implementation of major projects; and
- (c) review outcomes achieved through investments in major capital projects.

(7) Internal Audit

The Committee will have functional oversight responsibility for the Authority's internal audit function and the internal audit relationship with the auditor and with management. This includes:

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- (a) review the independence of the internal auditor and any restrictions or problems;
- (b) review and recommend to the Board any changes to the Internal Audit Charter;
- (c) review and recommend to the Board the Internal Audit and Advisory Services Workplan including goals, and IA's regular monitoring of controls, staffing and budget;
- (d) monitor internal audit's performance relative to its plan;
- (e) receive status updates on previous recommendations;
- (f) review annual report including year-end progress on Annual Audit and Advisory Services Workplan;
- (g) Conduct the annual performance evaluation of the Director of Internal Audit with input from the President and CEO;
- (h) Determine the selection and appointment, replacement or dismissal of the Director of Internal Audit or External Audit;

(8) External Audit

The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

- (a) review and recommend to the Board, for approval, engagement of the external auditor;
- (b) review the annual external audit plan, including but not limited to the following:
 - (i) engagement letter;
 - (ii) objectives and scope of the external audit work;
 - (iii) procedures for quarterly review of financial statements;
 - (iv) materiality limit;
 - (v) areas of audit risk;
 - (vi) staffing;
 - (vii) timetable; and
 - (viii) proposed fees

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- (c) review and recommend to the Board, for approval, audit fees;
- (b) meet with the external auditor to discuss the Authority's annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
- (c) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
 - (i) any difficulties encountered, or restriction imposed by management, during the annual audit;
 - (ii) any significant accounting or financial reporting issue;
 - (iii) the auditor's evaluation of the Authority's system of internal controls, procedures and documentation;
 - (iv) the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
 - (v) any other matters the external auditor brings to the Committee's attention; and
 - (vi) assess the performance and consider the annual appointment of external auditors for recommendation to the Board;
- (d) review and receive assurances on the independence of the external auditor;
- (e) review the non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and
- (f) meet periodically, and at least annually, with the external auditor without management present;

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(9) Budget Development

The Committee will, with the assistance of the Chief Financial Officer:

- (a) review the budget planning methodology of the capital budget to ensure the Committee has a clear, concise picture of the financial implications of the capital budget and the associated risks;
- (b) review, consider, and recommend to the Board, for approval, a capital budget;
- (c) review the budget planning methodology of the operating budget – including revenue estimates, base assumptions for expense projections, risk factors, inflation allowances, etc.; and
- (d) review, consider, and recommend to the Board, for approval, an operating budget.

(10) Monitoring On-going Financial Performance

The Committee will ensure, through the Chief Financial Officer:

- (a) periodic review of report formats;
- (b) that the Board receives timely, meaningful reports which keep it properly informed of the overall financial situation of the Authority;
- (c) that all reports to Board show a clear picture of the financial situation in each principle area of activity;
- (d) that the report to the Board includes an up-to-date forecast of the year;
- (e) that, in between meetings of the Committee, the entire Board receives a Financial Summary that highlights performance against budget and any significant issues.

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(11) Performance Reporting

The Committee will:

- (a) ensure on behalf of the Board that there is a proper coordination and integration of all reporting requirements to meet Ministry of Health expectations and that the Board is kept informed in regard to the meeting of these obligations; and
- (b) review and discuss Board Audit and Finance Committee performance measures.

(12) Other

The Committee shall:

- (c) review insurance coverage of significant risks and uncertainties;
- (d) review material litigation and its impact on financial reporting;
- (e) review terms of reference for the Committee and make recommendations to the Governance & Human Resources Committee;
- (f) undertake any special initiatives requested by the Board or the Board Chair; and
- (g) review and recommend to the Board, for approval, the Land Management Framework; and
- (h) review and recommend to the Board, for approval, items identified within Board Policy 3.4 Limits of Spending Authority that require Board approval.

4. ACCOUNTABILITY

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

5. COMMITTEE TIMETABLE

The timetable in Appendix A outlines the Committee's schedule of activities.

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APPENDIX A – COMMITTEE TIMETABLE**

Terms of Reference Section and Activity	Fiscal Year					
	Jun	Oct	Dec	Feb	Apr	As Required
3(1) Financial Statements and Other Financial Information						
(a) Review and recommend:						
(i) financial content and reports to be forwarded to the government or made public; and		X				
(ii) the financial content of any management reports that accompany published financial statements						X
(iii) annual audited financial statements	X					
(b) Review and discuss:						
(i) appropriateness of accounting policies and financial reporting practices;	X					X
(ii) significant proposed changes in financial reporting and accounting policies and practices; and	X					X
(iii) new or pending developments in accounting and reporting standards	X					X
3(2) Limits of Spending Authority						
(a) Develop a comprehensive statement of authorities for operating and capital expenditures and review annually		X				
(b) Monitor compliance through the audit process and recommend necessary changes	X					X
3(3) Internal Control Systems						
(a) Monitor the Authority’s financial risk management controls and policies						X

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Terms of Reference Section and Activity	Fiscal Year					
	Jun	Oct	Dec	Feb	Apr	As Required
(b) Ensure internal control systems are properly designed and effectively implemented	X					X
(c) Review management steps to implement and maintain appropriate internal control procedures	X					X
3(4) Risk Management						
(a) Receive updates as required in respect to categories of risk with which the Committee is directly concerned						X
(b) Receive from time to time independent reports of the Internal Auditor						X
(c) Keep the Board informed of any major incident reports						X
(d) Recommend to the Board any changes in policy or process which may be needed from time to time to realize the overall objectives of the Authority’s risk management program						X
3(5) Information Systems						
(a) Ensure that there is in place an information technology plan which effectively supports the strategic planning process including both current operational management and the longer-term service plans;			X			
3(6) Capital Projects						
(a) Review and recommend major capital projects						X
(b) Monitor implementation of major capital projects	X	X	X	X	X	
(c) Review outcomes achieved through investments in major projects						X

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TIMETABLE**

Terms of Reference Section and Activity	Fiscal Year					
	Jun	Oct	Dec	Feb	Apr	As Required
3(7) Internal Audit						
(a) Review the independence of internal auditor and any restrictions or problems	X					
(b) Review and recommend to the Board the Internal Audit Charter						X
(c) review and recommend to the Board the Internal Audit and Advisory Services Workplan including goals, and IA's regular monitoring of controls, staffing and budget	X					
(d) Monitor internal audit's performance relative to its plan		X	X	X	X	
(e) Receive status updates on previous recommendations						X
(f) Review annual report including year-end progress on Annual Audit and Advisory Services Workplan					X	
(g) Conduct the annual performance evaluation of the Director of Internal Audit with input from the President and CEO	X					X
(h) Determine the selection and appointment, replacement or dismissal of the Director of Internal Audit or External Audit						X
3(8) External Audit						
(a) Review and recommend engagement of the external auditor	X					
(b) Review terms of the external audit engagement plan		X				

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TIMETABLE**

Terms of Reference Section and Activity	Fiscal Year					
	Jun	Oct	Dec	Feb	Apr	As Required
(c) Review and recommend approval of audit fees	X					
(d) Meet auditor to discuss annual financial statements and auditor’s report	X					
(e) Advise the Board with respect to the conduct and reporting of the annual audit	X					
(f) Review and receive assurances on independence of external auditor	X					
(g) Review non-audit services from external auditor’s firm or its affiliates as included in the Audit Findings Report	X					
(h) Meet with external auditor without management present	X					
3(9) Budget Development Process						
(a) Review the budget planning methodology every three years for the capital budget						X
(b) Review, consider, and approve a capital budget			X			
(c) Review the budget planning methodology every three years for the operating budget						X
(d) Review, consider, and approve an operating budget	X					
3(10) Monitoring On-Going Performance - Operating & Capital						
(a) Periodic review of report formats						X
(b) The Board receives current financial reports	X	X	X	X	X	

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Terms of Reference Section and Activity	Fiscal Year					
	Jun	Oct	Dec	Feb	Apr	As Required
(c) All reports to the Board clearly display year-to-date financial results of each principle area of activity						X
(d) The report to the Board includes an up-to-date forecast of year		X	X	X		
(e) That, in months the Committee does not meet, the entire Board receives a Financial Summary that highlights performance against budget and any significant issues						X
3(11) Performance Reporting						
(a) Ensure that there is a proper integration of all reporting requirements to meet Ministry of Health expectations						X
(b) Review and discuss Board Audit and Finance Committee performance measures	X	X		X		
3(12) Other						
(a) Review insurance coverage of significant risks and uncertainties						X
(b) Review material litigation and its impact on financial reporting	X					
(c) Review terms of reference for the Committee and make recommendations to the Governance & Human Resources Committee	X					
(d) Undertake any special initiatives requested by the Board or the Board Chair						X
(e) Review and approve the Land Management Framework		X				