

TERMS OF REFERENCE AUDIT & RISK COMMITTEE

(Approved July 29, 2016; Amended September 28, 2017, December 12, 2018)

A. PURPOSE

The Audit & Risk Committee (the **Committee**) is a standing committee established by the Board (the **Board**) of Alberta Health Services (**AHS**). The purpose of the Committee is to assist the Board in fulfilling the oversight responsibilities of the Board with respect to the following matters:

- i. enterprise risk management and compliance;
- ii. external financial reporting;
- iii. internal controls over financial reporting;
- iv. internal audit; and
- v. external audit.

Such oversight includes AHS and AHS' subsidiaries and where applicable, the health advisory councils, foundations, trusts and other entities for which AHS has a financial obligation or legal obligation or both (**Other Entities**).

B. SCOPE

1. Committee Approval and Recommendations

The Committee may consider and provide feedback relating to matters forwarded by management or the Board, or on its own initiative, and:

- (a) may approve matters which are administrative and non-substantive in nature such as those customarily made to: confirm the accuracy and completeness of the Committee's own minutes; conduct all or a portion of the Committee meeting *in camera*; and to approve the Committee's meeting agenda and changes to the agenda;
- (b) may refer matters to another committee of the Board for further consideration; and
- (c) may make recommendations for approval to the Board on matters of a substantive nature.

2. Enterprise Risk Management and Financial Compliance

The Committee shall provide oversight and where appropriate make recommendations to the Board on the enterprise risk management policy and framework of the organization. The Committee will review and receive regular reports from management on the organization's significant risks. The Committee will also review and assess management's view of the significant risks or exposures to AHS, current and projected risk levels and targets, risk tolerance levels and the steps that management has taken to mitigate such risks to AHS.

In particular, the Committee reviews:

- (a) options and means to ensure that AHS develops and implements effective financial and internal control systems, processes, policies, and directives;
- (b) whether AHS has adequate processes and controls to prevent and detect fraud;
- (c) the internal and external auditors' views regarding:
 - (i) whether management's choices concerning accounting principles are conservative, moderate, or aggressive from the perspective of income, asset, and liability recognition, and whether those principles are common or minority practices; and
 - (ii) the adequacy of internal controls including computerized information system controls and security.
- (d) the general control environment, organizational structure, and delegation of authority policies to ensure that the organization promotes regulatory and legal compliance. Specifically, the Committee should:
 - (i) review the effectiveness of the system for monitoring compliance with laws and regulations, including privacy legislation and the results of management's investigation and follow-up of any instances of non-compliance;
 - (ii) review the findings of any examinations by regulatory agencies and any auditor observations; and
 - (iii) obtain regular updates from management and the organization's legal counsel regarding compliance matters.
- (e) any legal claim, proceeding, matter, or other contingency, and the advice of AHS legal counsel, that could have a material effect upon the financial position or operating results and the manner in which these matters have been disclosed in the financial statements;

- (f) whether AHS has adequate disaster recovery and business continuity plans and processes in place;
- (g) whether AHS has adequate liability and property insurance coverage and processes in place to reduce the likelihood, frequency and severity of claims; and
- (h) reports with respect to compliance with government directives and relevant legislation having a material impact on the financial statements, including tax reporting, legal withholding requirements, environmental protection, and occupational health and safety;

3. External Financial Reporting

The Committee shall oversee the external financial reporting of AHS. The Committee will review and where appropriate recommend approval of:

- (a) unaudited quarterly consolidated financial statements and reports and related analysis;
- (b) annual consolidated financial reports:
 - (i) audited annual consolidated financial statements and related reports;
 - (ii) financial statements discussion and analysis (**FSDA**); and
 - (iii) Annual Report (including audited annual financial statements and FSDA), considering accuracy and completeness of the information;
- (c) all major changes to AHS' accounting policies, assumptions and practices and review significant accounting and reporting issues, including complex or unusual transactions and highly subjective areas;
- (d) any published documents containing financial information derived from the financial statements. The Committee will determine whether the information is consistent with the financial statements;
- (e) reports with respect to compliance with relevant legislation having a material impact on the financial statements, including tax reporting and, legal withholding requirements.

4. Internal Controls over Financial Reporting (ICOFR)

The Committee shall provide oversight and where appropriate make recommendations on the following ICOFR matters:

- (a) the reliability, appropriateness, and effectiveness of internal controls over

financial reporting, including information technology security and control, for AHS and its subsidiaries; and

- (b) the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

5. Internal Audit Oversight

The Chief Audit Executive (the **CAE**) reports functionally to the Board, through the Committee Chair, and administratively to the President and Chief Executive Officer (**CEO**). The Committee shall provide oversight and where appropriate make recommendations on the following matters:

- (a) the internal audit charter;
- (b) the annual internal audit plan, and all major changes to the plan;
- (c) the internal audit department's budget, staffing plan and work schedule;
- (d) internal audit reports submitted, including significant findings during the past fiscal year, and the responses of management thereto;
- (e) status updates and progress of implementation by management on internal audit recommendations;
- (f) communications on internal audit's performance relative to its plan and other matters;
- (g) significant difficulties encountered in the course of an audit including any restrictions on the scope of the internal audit department's or access to required information;
- (h) investigations of alleged misappropriation of assets, theft and fraud;
- (i) regarding the appointment, replacement, re-assignment, or dismissal of the CAE;
- (j) regarding the annual review of the CAE's performance and compensation;
- (k) ensuring the independence of the primary internal auditor and any service providers in providing internal auditing services to AHS and its subsidiaries; and

- (l) the effectiveness of the internal audit function and compliance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics.

The Committee shall meet regularly with the CAE to discuss any matters that the Committee or the CAE believes should be discussed privately, *in camera*.

6. External Audit Oversight

6.1 Financial Statement audits

The Committee shall provide oversight of the audit of AHS' financial statements including:

- (a) recommending the appointment of the external auditor for audit of AHS's annual financial statements. Where the Auditor General is appointed as external auditor, the Committee may also provide input into the Auditor General's choice of agent;
- (b) reviewing and assessing the written confirmation of independence from the external auditor, including any relationships between the external auditor or its agent and AHS, that may impact the external auditor's independence and objectivity in performing the audit.
- (c) Reviewing and providing advice to the external auditor on:
 - the audit plan including audit objectives, scope, risks and materiality.
 - audit reports and draft opinions on the financial statements for AHS
- (d) The Committee may also review audit reports and opinions on the financial statements of AHS subsidiaries, and Other Entities where the results are relevant and significant to AHS;

6.2 Performance Audits

The *Auditor General Act* gives the Auditor General the mandate to conduct performance audits of the Government of Alberta Departments and Alberta public sector agencies, including AHS. These audits typically focus on programs or initiatives that an organization undertakes to achieve its goals and objectives. As an independent officer of the Legislature, the reports of the Auditor General are prepared for the Legislative Assembly and are made public. As part of the performance audit process, the Auditor General typically prepares audit plans and reports that are shared with both management and governing boards.

The Committee will review and provide advice to the Auditor General on performance audit plans and audit reports, including findings and recommendations, arising from any performance audits of AHS.

6.3 Other Matters

The Committee shall provide oversight and where appropriate provide advice to management or the external auditor on the following:

- (a) status updates and progress of implementation of external audit recommendations by management;
- (b) any serious difficulties or disputes with management and/or internal audit encountered during the course of an audit for AHS;
- (c) other matters related to the conduct of the audit which must be communicated to the Committee under generally accepted auditing standards.

The Committee shall meet regularly with the external auditors to discuss any matters that the Committee or the external auditor believe should be discussed privately, *in camera*.

7. Governance Responsibilities

The Committee shall:

- (a) evaluate, on an annual basis, its performance and review its Terms of Reference and shall, as it considers appropriate, propose any changes to the Governance Committee for recommendation for approval by the Board, as required;
- (b) ensure adequate resources and support are in place to enable the Committee to fulfill its duties effectively and efficiently;
- (c) fulfill such other duties as may be assigned to the Committee by the Board; and
- (d) review any applicable bylaws and policies annually and make recommendations to the Board for revisions, as required.

C. MEMBERSHIP

1. Members

The Committee comprises:

- (a) a minimum of two Members of the Board (**Members**) appointed to the Committee by the Chair of the Board, each of whom shall have voting rights;
- (b) any other individuals who are not Members, appointed by the Board, whose voting status shall be determined at the time of appointment;
- (c) the Chair of the Board shall be an *ex officio* member of the Committee and shall have full voting rights; and
- (d) the CEO shall be a non-voting *ex officio* member of the Committee and all other Members not appointed by the Chair of the Board shall be non-voting members of the Committee. The CEO may appoint another individual to attend a Committee meeting as an *ex officio* non-voting Committee member in his or her absence.

2. Committee Member Qualifications

At least one voting member must be financially literate and have accounting or related financial expertise. Fundamental literacy requirements that may be considered include:

- (a) ability to read, comprehend, and analyze financial statements and related notes;
- (b) ability to understand accounting policies, estimates, and judgments;
- (c) understanding of AHS business and any unique features that may impact financial reporting or business strategies;
- (d) knowledge and understanding of business strategies adopted, including any inherent or associated risk; and
- (e) ability to understand AHS' risk environment.

3. Term of Office

The terms of individuals appointed under C.1.(b) shall be determined at the time of appointment.

4. Committee Chair and Vice Chair

The Chair of the Board shall appoint a Committee chair and a vice chair from among the voting members of the Committee. In the absence of the Committee chair, the vice chair shall chair the meeting.

5. Vacancies

The Chair of the Board may appoint a successor to serve for the balance of a vacated Committee member's term.

6. Advisors

The Committee may request the participation of advisors from time to time, including but not limited to AHS' employees, management, or external consultants, to provide advice or information to the Committee or to its members independently, with respect to any matter before or related to the Committee, at AHS' expense.

D. MEETINGS

1. Confidentiality

The nature and subject of discussions and deliberations on matters before the Committee are confidential until such time as an item is approved by the Board and released publicly.

2. Frequency

The Committee shall meet at least four times each year at the call of the Committee chair, or at the discretion of the Chair of the Board.

3. Quorum

A majority of Committee members entitled to vote shall constitute a quorum. Committee members may participate in person or by any other method that permits them to hear and participate in the meeting.

4. Notice

Notice of the time and place of every meeting of the Committee shall be given electronically, by postal service, or as agreed to by the Committee members, at least seven days in advance of a meeting. In the event the Committee chair or the Chair of the Board determines an urgent requirement to meet, notice of the time and place of the meeting may be given electronically or by telephone at least 24 hours in advance. Notice may be waived by a Committee member in any manner, including by unanimous consent of all Committee members. Attendance of a Committee member at a meeting is a waiver of the notice of the meeting, except where the Committee member attends for the express purpose of objecting to the transaction of any

business on the grounds that the Committee member was not given adequate notice of the meeting.

5. Report and Recommendations

Subject to confidentiality requirements, the Committee shall submit an overview report on the business conducted at each meeting, and shall make recommendations, if appropriate, to the Board at its next public meeting.

6. Minutes

The Corporate Secretary or such other person acceptable to the Committee shall act as recording secretary to attend at every Committee meeting to take minutes. Minutes shall be approved by the Committee at its next meeting.

7. *In camera* discussions

The Committee shall meet *in camera* with management in separate sessions to discuss any matters that should be discussed privately with the Committee.

The Committee shall meet regularly *in camera* with the CAE to discuss any matters that the Committee or the CAE believes should be discussed privately.

7. Rules of Order

Unless provided otherwise in the AHS Amended General Bylaws or these Terms of Reference, Committee business and conduct of the Committee members shall follow Robert's Rules of Order as may be modified by the Committee chair.