

BOARD MANUAL

SUBJECT: Audit Committee Terms of Reference	NO.: 2-A-10
SECTION: Structure, Roles and Responsibilities	
APPROVED BY: Board of Directors	DATE: June 28, 2023

1. Application

This terms of reference shall apply to Audit Committee (the “**Committee**”) of the Cambridge Memorial Hospital (the “**Corporation**”). All capitalized terms not defined herein have the meaning set out in the Corporation’s Corporate By-Laws.

2. Composition and Independence, Financial Literacy and Authority

- (a) The Committee shall be composed of following voting members:
 - (i) Up to two (2) elected Directors, one of whom shall sit as Chair of the Committee; and
 - (ii) Up to five (5) members appointed by the Board upon the recommendation of the Governance Committee.
- (b) Non-voting resources to the Committee will include:
 - (i) The Vice President Finance and Corporate Services/Chief Financial Officer;
 - (ii) The Director of Finance; and
 - (iii) The external auditor, who shall be invited and be heard at all meetings of the committee
- (c) Every member of the Committee shall be independent of the Corporation within the meaning of all applicable laws, rules and regulations including those particularly applicable to the Committee members and any other relevant consideration as determined by the Board.

In addition to the qualities set out in the Board policies on Board succession planning and recruitment, all members of the Committee should be financially literate or be willing and able to acquire the necessary knowledge. Financially literate means the ability to read and understand financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and

complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements. The Chair shall have a background in accounting or related financial management experience which would include any experience or background which results in the individual's financial sophistication, including being or having been an auditor, a Chief Executive Officer or a Chief Financial Officer or other senior officer with financial oversight responsibilities.

Committee members will enhance their familiarity with financial, accounting and other areas relevant to their responsibilities by participating in educational sessions or other opportunities for development.

- (d) In fulfilling the responsibilities set out in this terms of reference, the Committee has the authority to conduct any investigation and access any officer, employee or agent of the Corporation appropriate to fulfilling its responsibilities, including the auditor. The Committee may obtain advice and assistance from outside legal, accounting or other advisors as the Committee deems necessary to carry out its duties and may retain and determine the compensation to be paid by the Corporation for such independent counsel or outside advisor in its sole discretion without seeking Board approval.

3. Meetings

The Committee shall:

- (a) Meet at least two (2) times annually. The Committee can conduct all or part of any meeting in the absence of management, and it is the Committee's policy to include such a session on the agenda of each regularly-scheduled Committee meeting.
- (b) Meet at the call of the external auditor or at the request of any committee member.
- (c) Meet with the Chief Financial Officer in the absence of the Chief Executive Officer.
- (d) Invite to its meetings any Director, member of management or such other persons as it deems appropriate in order to carry out its duties and responsibilities.
- (e) Exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

4. Specific Duties and Responsibilities

- (a) Financial Reporting

The Committee shall be responsible for the oversight of reliable, accurate and clear financial reporting to members, including reviewing the Corporation's annual financial statements and management's discussion and analysis, prior to approval by the Board. Such review of the financial reports of the Corporation shall include, where appropriate but at least annually discussion with management and the auditor of significant issues regarding accounting

principles, practices, and significant management estimates and judgments.

(b) The Committee's Role in the Financial Reporting Process

- (i) Work with management and the auditor to review the integrity of the Corporation's financial reporting processes;
- (ii) Consider the scope of the audit work performed or to be performed, on an annual basis, and discuss with the auditor any matters arising out of the annual financial statements;
- (iii) Review the process relating to and the certifications of the Chief Executive Officer and the senior financial officer on the integrity of the Corporation's quarterly and annual consolidated financial statements, performance metrics, and other public disclosure documents as required;
- (iv) Consider the key accounting policies of the Corporation and key estimates and judgements of management and discussing such matters with management and/or the auditor;
- (v) Keep abreast of trends and best practices in financial reporting in the public sector including considering, as they arise, topical issues and their applications to the Corporation;
- (vi) Review with the auditor and management existing accounting policies and procedures and any significant audit adjustments made;
- (vii) Consider and approve, if appropriate, major changes to the Corporation's accounting and financial reporting and policies as suggested by the auditor or management; and
- (viii) Establish regular systems of reporting to the Committee by each of management and the auditor regarding any significant judgements made in managements preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information.

(c) Internal Financial Controls

The Committee shall be responsible for overseeing the establishment and maintenance of internal financial controls of the Corporation, including:

- (i) require management to implement and maintain appropriate systems of internal financial controls (including controls related to the prevention, identification and detection of fraud), and that also comply with applicable

laws, regulations and guidance;

- (ii) meet with management and the auditor to assess the adequacy and effectiveness of the Corporation's internal financial controls, including controls related to the prevention, identification and detection of fraud; and
- (iii) as required, review reporting by the Corporation to its members regarding internal control over financial reporting.

(d) Oversight of Auditor

The Committee shall review and evaluate the performance, qualifications and independence of the auditor including the lead partners and annually make recommendations to the Board and members regarding the nomination of the auditor for appointment by the members. The Committee shall also make recommendations regarding remuneration and, if appropriate, termination of the auditor, and shall oversee the tendering and award of a multi-year contract for audit services, ensuring that the tendering process is in compliance with provincial public sector requirements. The auditor shall be accountable to the Committee and the Board, as representatives of the members, for its review of the financial statements and controls of the Corporation. In addition, the Committee shall:

- (i) review and approve the annual audit plans and engagement letters of the auditor;
- (ii) review the auditor's processes for assuring the quality of their audit services including any matters that may affect the audit firm's ability to serve as auditor;
- (iii) discuss those matters that are required to be communicated by the auditor to the Committee in accordance with the standards established by the Chartered Professional Accountants of Canada, as such matters are applicable to the Corporation from time to time;
- (iv) review with the auditor any issues that may be brought forward by it, including any audit problems or difficulties, such as restrictions on its audit activities or access to requested information, and management's responses;
- (v) meet with the auditor and Resources Committee to review the annual audited financial statements and auditor's report prior to the annual meeting;
- (vi) receive at any one of its meetings any written report and recommendation of the auditor;
- (vii) review with the auditor concerns, if any, about the quality, not just acceptability, of the Corporation's accounting principles as applied in its financial reporting; and
- (viii) provide a forum for management and/or the auditor to raise issues regarding

their relationship and interaction. To the extent disagreements regarding financial reporting are not resolved, be responsible for the resolution of such disagreements between management and the auditor.

(e) Independence of Auditor

The Committee shall monitor and assess the independence of the auditor through various mechanisms, including:

- (i) review and approve (or recommending to the Board for approval) the audit fees and other significant compensation to be paid to the auditor and reviewing, approving and monitoring the policy for the provision of non-audit services to be performed by the auditor, including the pre-approval of such non-audit services in accordance with the policy;
- (ii) receive from the auditor, on an annual basis, a formal written statement delineating all relationships between the auditor and the Corporation consistent with the professional standards of the Chartered Professional Accountants of Canada or other regulatory bodies, as applicable;
- (iii) review and discuss with the Board, annually and otherwise as necessary, and the auditor, any relationships or services between the auditor and the Corporation or any factors that may impact the objectivity and independence of the auditor;
- (iv) review, approve and monitoring policies and procedures for the employment of past or present partners, or employees of the auditor as required by applicable laws; and
- (v) review, approve and monitor other policies put in place to facilitate auditor independence, such as the rotation of members of the audit engagement team, as applicable.

(f) Compliance

The Committee shall oversee the establishment and maintenance of processes that ensure the Corporation is in compliance with the laws and regulations that apply to it as well as its own policies. Unless otherwise indicated, legislative compliance is the responsibility of the Audit Committee and includes the following:

- (i) ensure compliance with the financial requirements stipulated by the Ministry of Health;
- (ii) review with management the Corporation's compliance with applicable financial, legal and regulatory requirements and the legislative compliance management processes;
- (iii) review professional pronouncements and changes to key regulatory

requirements relating to accounting rules to the extent it applies to the financial reporting process of the Corporation; and

- (iv) review with the Corporation's general counsel any legal matter arising from litigation, asserted claims or regulatory non-compliance that could have a material impact on the Corporation's financial condition or reputation.

(g) Oversight of Risk

The Committee has accountability, on behalf of the Board to oversee the CMH integrated risk management framework and ensure that management has processes and tools in place that effectively identify risks to the organization and mechanisms to monitor plans to prevent and manage such risk.

The Committee shall have the primary responsibility for reviewing risk policies related to the following risk management groups: financial and regulatory.

In addition, the Committee has the responsibility to:

- (i) review on an annual basis, the Integrated Risk Management Framework for any substantive changes;
- (ii) review at least annually reports from Board committees on the status of their assigned risk groups;
- (iii) discuss with management the Corporation's major risks and monitor the appropriate progress and completion of plans to mitigate risks identified through the Framework; and
- (iv) oversee the monitoring and implementation of actions to improve upon the related performance metrics.

5. General

The Committee shall have the following additional general duties and responsibilities:

- (a) report to the Board on material matters arising at the Committee meetings following each meeting of the Committee;
- (b) maintain minutes or other records of meetings and activities of the Committee;
- (c) conduct an annual evaluation of the Committee in which the Committee (and/or its individual members) reviews the Committee's performance for the preceding year for the purpose, among other things, of assessing whether the Committee fulfilled the purposes and responsibilities stated in the terms of reference;
- (d) review and assess the adequacy of the terms of reference at least every three years and submitting any proposed amendments to the terms of

reference to the Governance Committee and the Board for approval;

- (e) provide an orientation for new Committee members; and
- (f) perform such other functions and tasks as may be assigned from time to time by the Board.

DEVELOPED: June 12, 2010		REVISED/REVIEWED:
November 1, 2012	June 25, 2014	May 27, 2015
May 24, 2017	July 28, 2020	May 26, 2021
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