

# Finance and Audit Committee Terms of Reference



## Authority

The Finance and Audit Committee is a standing committee constituted by By-law. [CPSO By-Laws, s. 9.1]

## Mandate, Duties and Powers

The Finance and Audit Committee shall review and report to the CPSO Board of Directors (Board) regarding the financial affairs and position of the College. In order to fulfill its duty, the Finance and Audit Committee shall:

- meet with the auditor each year,
  - before the audit to review the timing and extent of the audit and to bring to the attention of the auditor any matters to which it considers the auditor should pay attention; and
  - as shortly before the annual financial meeting<sup>1</sup> as practical in order to review and discuss with the auditor the financial statements, the auditor's report and the management letter;
- review the draft budget before it is presented to the Executive Committee, and report to the Executive Committee and the Board arising from its review of,
  - the assumptions in the draft budget;
  - the steps taken to maximize efficiency and minimize cost in relation to the quality of goods and level of service; and
  - any other issue which the Finance and Audit Committee considers may affect the financial affairs and position of the College; and
- review from time to time,
  - the expenditures of the College in relation to the budget;
  - the performance and administration of the College's pension plans;
  - the investment strategies and performance of the College's non-pension investments; and
  - the security of the College's assets generally. [CPSO By-Laws, s. 9.2]

## Roles and Responsibilities

The Finance and Audit Committee is a standing committee of the Board of Directors of the College of Physicians and Surgeons. Finance and Audit Committee's function is to assist the Board in fulfilling its oversight responsibilities for monitoring and assessing the College's long term financial and capital resource plans, and strategies by:

- reviewing, monitoring, and recommending for approval by the Board the Operating budget, and planned Capital expenditures

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<sup>1</sup> The annual financial meeting shall be called by the Chair between March 1st and June 30th of each year. [CPSO By-laws, s. 6.1.1(b)]

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- monitoring ongoing financial and service performance against performance matrices
- approving the engagement of the external Auditor and monitoring and ensuring the Auditor's independence
- reviewing the external financial statements and recommending approval by the Board
- reviewing the external Audit Findings Report for internal control and other recommendations and monitoring compliance.
- monitoring management compliance to statutory and other reporting requirements and deadlines
- reviewing and monitoring the College's internal control framework and system, and supporting policies and processes including technology systems
- maintaining oversight over management processes to safeguard College assets.
- reviewing the systems and supporting policies and procedures for the College's risk management activities and obligations

To fulfill its role, the Finance and Audit Committee shall execute on the following responsibilities:

- **Operating Budget and Capital Expenditures, and Financial Performance**
  - Review the reasonability of financial assumptions and parameters used to develop the operating budget, determination of capital expenditures, and funding of unbudgeted expenses.
  - Review and recommend for approval to the Executive Committee and the Board, the annual operating budget and planned capital expenditures.
  - Review quarterly operating results and the forecast of year end results that reflect events to date, known factors and trends which may influence overall revenues and expenses.
  - Review and consider the implications of unfunded, unbudgeted commitments exceeding \$250,000, and recommend Executive Committee approval of a revised budget, where required.
  - Review industry developments and legislative changes presented by management that may have an impact on financial resources or performance of the College, report requirements and change impacts to the Board.
- **Annual Financial Statements and Financial Information**
  - Review the annual financial statements as prepared by management, including presentation, disclosures, supporting notes and schedules and recommend for approval by the Board.
  - Oversee management's processes to assess the appropriateness of accounting policies and financial reporting practices, including any significant proposed changes in financial reporting and adopted or recommended accounting policies and practices that may be recommended by management.

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- Oversee management's process to assess and implement new or pending developments in accounting and reporting standards effected by CPA Canada for not-for-profit organizations.
  - Review the financial content of the annual report and all other reports of a financial nature which require Board approval prior to the release.
  - Oversee compliance with accounting and financial, legal, public disclosure, and regulatory filings and requirements.
- **External Audit**
    - Recommend the annual appointment of the external auditor for approval by the Board.
    - Review and recommend for approval by the Board the compensation of the external auditor.
    - At least annually, meet with the external Auditor without management present; review and receive assurances on the independence of the external auditor.
    - Review the annual external audit plan prior to the commencement of the audit engagement, including but not limited to the engagement letter, objectives and scope of audit work, procedures for review of financial information, considerations relating to the financial statement disclosures, materiality, areas of audit risk, staffing, and timetable.
    - Authorize management to sign the engagement letter.
    - Oversee performance of the external audit as required, receiving progress updates from management and the external auditor.
    - Make enquiries of the auditor regarding management conduct, corporate governance, cooperation, information flow and systems of internal controls
    - Make known to the auditor any issues of disclosure, corporate governance, fraud or illegal acts, non-compliance with laws or regulatory requirements.
    - Review and pre-approve any non-audit related services to be provided by the external auditor's firm or its affiliates as needed, including fees, and consider the impact on the independence of the external auditor.
    - review the annual Audit Findings Report for internal control or other recommendations provided by the external auditor, along with management's responses and implementation plans.
  - **Internal Controls and Risk Management**
    - Oversee management's efforts and responsibilities to create a strong internal control environment, including assessing the College's financial and operational risks and management's internal control framework, policies, processes, and systems to identify and mitigate these risks.

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- Review management's process of assessing fraud risk including responsibility for fraud risk assessment.
  - Review material claims, indemnifications, guarantee and other obligations, and litigation potentially impacting College financial performance and/or requiring recognition on the College's financial statements.
  - Review the quality and accuracy of financial and performance information to ensure it accurately and completely reflects the College's economic situation.
  - Review significant accounting accruals, reserves, judgements, estimates and accounting policy changes for reasonableness and appropriateness.
  - Review the internal control and approval policies and practices concerning the expenses of Board members and officers of the College.
- **Asset Management**
    - Ensure there are policies and processes in place to manage and safeguard the assets of the College.
    - Review and make recommendations to the Board on the adequacy of insurance coverage.
- **Treasury Matters and Investment Activity**
    - Review options and make recommendation(s) associated with the selection of banking services provider(s) and banking arrangements for Executive Committee approval.
    - Review options and make recommendations to the Executive Committee and the Board related to borrowing requirements.
    - Review investment options presented for funds not immediately required and recommend approval of investment or reinvestment of funds to the Executive Committee.
    - Oversee investment performance and compliance with preferred investment options approved in the by-law.
- **Pension Plans and Associated Investments**
    - With respect to the Defined Benefit Pension Plan and the Supplementary Executive Retirement Plan (the "Plans") of the College, as applicable:
      - Receive and review an annual report from management on the operation and financial performance of the Plans including a certificate of compliance that the College has complied with the requirements of the Plans, complied with the requirements of the applicable laws, including the Ontario Pension Benefits Act, and made all required regulatory filings.
      - Review investment performance of the Plans and provide an annual summary report regarding the Plans to the Board

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- Review and recommend to the Board for approval:
  - The annual audited financial statements
  - The appointment of the investment manager(s), the custodian, and the external auditor; and
  - The adequacy of the investment policies and procedures of the Plan's investments
- **Other**
  - Perform such other duties as may be requested by the Board from time to time.

### Reporting

The Finance and Audit Committee reports to the Executive Committee (if required) and the Board.

### Composition

The Finance and Audit Committee will be comprised of the Board Chair, Registrants and Public Directors to meet the needs of the Finance and Audit Committee. Out of the membership, at least two to three must be Public Directors.

### Term of Appointment

The term of office of a Finance and Audit Committee member automatically expires at the third Annual Organizational Meeting of the Board of Directors<sup>2</sup> which occurs after the appointment or at such earlier time as the Board specifies in the appointment. [CPSO By-Laws, s. 7.6.2] The maximum number of years that a member may serve on the Finance and Audit Committee is nine years. [CPSO By-Laws, s. 7.6.6]

### Chair and Vice-Chair

The Chair and Vice-Chair of the Finance and Audit Committee are members of the Committee appointed by the Board. The term of the Chair is up to two years.

### Meetings

- The Finance and Audit Committee will meet at least three times a year, and additional meetings may be held as required, at the call of the Chair.
- Meetings of the Finance and Audit Committee may, in the discretion of the Chair, be held in any manner that allows all the persons participating to communicate with each other simultaneously and instantaneously. [CPSO By-Laws, s. 7.7.8]
- Members of the Finance and Audit Committee are expected to regularly attend and actively participate in meetings.

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<sup>2</sup> The Annual Organizational Meeting is the Board meeting that takes place between November 1st and December 14th of each year. [CPSO By-Laws, s. 6.1.1(a)]

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- The Chair, or their appointee for this purpose, will preside over meetings of the Finance and Audit Committee. [CPSO By-Laws, s. 7.7.6]
- The Chair, or their appointee, is responsible for the recording of the meeting deliberations in writing (i.e. minutes). The minutes will be brought to a subsequent Finance and Audit Committee meeting for acceptance (and corrections, if any) so that the minutes are conclusive proof that they accurately reflect the deliberations at the prior Finance and Audit Committee meeting. [CPSO By-Laws, s. 7.7.9 and 7.7.10]

### **Quorum**

A majority of the members of the Finance and Audit Committee constitutes a quorum. [CPSO By-Laws, s. 7.7.5]

### **Decision-Making**

Questions or motions before the Finance and Audit Committee may be decided by a majority of the votes cast at the meeting (including the presiding officer at the meeting). If there is an equality of votes, the question is deemed to have been defeated. [CPSO By-Laws, s. 7.7.7]<sup>3</sup>

### **Compensation**

Committee members who are Registrants are compensated for committee work and travel time, and are reimbursed for expenses incurred in the conduct of committee business, in accordance with section 12.1 of the CPSO By-Laws.

Committee members who are public Directors are compensated by the Minister of Health for expenses and remuneration as determined by the Lieutenant Governor in Council. [HPPC, s. 8]

### **Committee Staff Support**

The Finance and Audit Committee will receive administrative support from the staff within the Governance Office and Finance Department. Administrative support includes scheduling meetings, preparing and distributing meeting materials and assistance with organization and notice of each meeting.

### **Declaration of Adherence**

Each member of the Finance and Audit Committee must sign a Declaration of Adherence in the form provided by CPSO, which requires committee members to comply with, among other things, conflict of interest, confidentiality obligations and CPSO policies.

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<sup>3</sup> For example, where there are only 3 Committee members present, a majority of the votes is 2.