

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

I. PURPOSE

- A. The primary function of the Finance and Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities by reviewing:
- i) the financial information that will be provided to the Government and other stakeholders;
 - ii) the performance management system and policies established by management and the board to monitor the operational efficiency and effectiveness of the Vancouver Island Health Authority (“the Authority”);
 - iii) the systems of internal controls established by management and the Board; and
 - iv) all audit processes.
- B. The Committee will oversee the investment management activities.
- C. Primary responsibility for the financial reporting, information systems, risk management and internal controls of the Authority is vested in management and is overseen by the Board.

II. COMPOSITION AND OPERATIONS

- A. The Committee shall be composed of not fewer than three directors and not more than five directors, none of whom shall be officers or employees of the Authority or any of its subsidiaries.
- B. The Committee shall operate in a manner that is consistent with the Committee Guidelines outlined in the Board Manual.

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

- C. All Committee members shall be “financially literate”¹ and at least one member shall have "accounting or related financial expertise". The Authority’s auditors shall be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Finance and Audit Committee, and to be heard at those meetings on matters relating to the Auditor's duties.
- D. The Committee shall meet with the external auditor as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board.
- E. The Committee shall meet at least four times each year.

III. DUTIES AND RESPONSIBILITIES

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

A. Financial Statements and Other Financial Reporting

The Committee will:

- i) review and recommend for approval to the Board, financial information that will be forwarded to the Government or made publicly available, including:
 - a) the financial content of the annual report and any designated reports required by government or regulatory authorities; and
 - b) 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.

¹ The Board has defined “financial literacy” as the ability to read and understand a balance sheet, income statement and a cash flow statement in accordance with Canadian GAAP. Where there is a requirement for a director to have accounting or 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.

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

- ii) review normal periodic internal financial information provided to the Board, including:
 - a) internal period accounting reports and periodic financial statements;
 - b) annual audited financial statements;
- iii) ensure that:
 - a) 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;
 - b) all reports to the Board clearly display the financial results of each principal area of activity and include cash flow for the period and year to date; and
 - c) 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, expense, asset, or liability components.
- iv) review and discuss:
 - a) the appropriateness of accounting policies and financial reporting practices used by the Authority;
 - b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Authority; and
 - c) any new or pending developments in accounting and reporting standards that may affect the Authority;

B. Financial Planning and Budgets

The Committee will:

- i) monitor and/or recommend to the Board, as appropriate, all matters relating to long range financial planning;

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

- ii) review, and recommend actions to the Board, as appropriate, all matters pertaining to the preparation of the annual operating and capital budgets. The Committee will:
 - a) review the assumptions that have been used in preparing the budget;
 - b) ensure that the resources applied are appropriate to carry out programs; and
 - c) ensure that potential risks have been identified and that strategies have been developed to address these risks.
- iii) monitor major capital budget allocations and designated capital projects and report to the Board regularly.

C. Performance Management System

The Committee will review and obtain reasonable assurance that performance management systems are in place and operating effectively to keep the organization focused on the factors critical to the success of the organization. This includes:

- i) reviewing the system in place for identifying and measuring factors that are critical to the success of the organization;
- ii) obtain assurance that information systems are in place to reliably report progress against milestones, responsibilities, budget and expected results;
- iii) obtain assurance that the process and systems are in place to compare the Authority's operations not only to plan, but also to best practices;
- iv) regularly review designated initiatives to benchmark results against best practices;
- v) regularly obtain assurance the Authority's readiness and capabilities to meet its operational and strategic goals;
- vi) monitor progress, by receiving, reviewing and discussing with management status reports of designated measurements associated with the critical success factors; and

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

- vii) obtain assurances that processes, policies and procedures are in place to obtain best value for operational decisions.

D. Asset and Liability Management

The Committee will

- i) review, approve or recommend to the Board, as appropriate, all matters pertaining to the Board's responsibility for the safe, effective and efficient management of VIHA physical assets, including, but not necessarily limited to leasing of space, disposal of equipment or insurance.
- ii) review major contracts and contracts policy;
- iii) verify the establishment of policies and procedures for monitoring compliance with applicable laws and with the Authority's policies as to authorization of expenditures, leases and contracts and otherwise, and ascertain their adequacy and the levels of compliance;
- iv) review the status of pending or threatened material litigation and its impact on financial reporting;
- v) ascertain whether the Authority's financial results and condition satisfy the criteria for lenders, material agreements, applicable laws and insurers; and
- vi) recommend policies, in accordance with established spending authority levels, regarding the Committees' review and recommendation for approval by the board of tenders/contracts.

E. Level of Spending Authority

The Committee will:

- i) develop with management a comprehensive statement of authorities for operating and capital expenditures and present these authorities to the Board for its approval;
- ii) monitor compliance through the audit process and recommend to the Board any changes which may be necessary from time to time; and

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

- iii) specifically review the policy and authority levels required for the disposal of real property.

F. Enterprise Risk Management

Primary responsibility for Enterprise Risk Management rests with the Committee of the Whole. In respect to the category of risk with which the Finance & Audit Committee is concerned, the committee will:

- i) review and endorse the Enterprise-Wide Risk Management Program; and
- ii) provide regular in-depth monitoring of extreme and high risk areas identified and/or referred by the Committee of the Whole, until the risk rating has been lowered or appropriate risk mitigation strategies have been implemented.

G. Information Systems

- i) ensure that there is an information technology plan in place that effectively supports the strategic plan, including current operational requirements, longer-term service plans and public health and patient/clinical care needs.
- ii) review the reliability and security of existing information systems and recovery planning.

H. Internal Control and Information Systems

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

- i) obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the internal auditor and the external auditor;

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

- ii) review management steps to implement and maintain appropriate internal control procedures including a review of policies;
- iii) review adequacy of security of information, information systems and recovery plans; and
- iv) monitor compliance with statutory and regulatory obligations.

I. Internal Audit

The Committee will oversee the Authority's internal audit function and the internal audit relationship with the auditor and with management. This includes:

- i) review and ensure the organization and independence of the internal auditor;
- ii) review and approve goals, resources and work plans, and any significant changes that arise during the year;
- iii) review any restrictions or problems;
- iv) review recommendations and significant responses;
- v) meet periodically and at least annually, with the internal auditor without management present; and
- vi) review and approve proposed changes in the Internal Auditor.

J. External Audit

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

- i) review and recommend to the Board, for approval, engagement of the external auditor;

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

- ii) review the annual external audit plan, including but not limited to the following:
 - a) engagement letter
 - b) objectives and scope of the external audit work;
 - c) procedures for quarterly review of financial statements;
 - d) materiality limit;
 - e) areas of audit risk;
 - f) staffing;
 - g) timetable; and
 - h) proposed fees.
- iii) meet with the external auditor as required to discuss the Authority's annual and other financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
- iv) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
 - a) any difficulties encountered, or restriction imposed by management, during the annual audit;
 - b) any significant accounting or financial reporting issue;
 - c) the auditor's evaluation of the Authority's system of internal controls, procedures and documentation;
 - d) 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;
 - e) any other matters the external auditor brings to the Committee's attention; and

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

- f) assess the performance and consider the annual appointment of external auditors for recommendation to the Board.
- v) review the auditor's report on all material subsidiaries;
- vi) review and receive assurances on the independence of the external auditor;
- vii) 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
- viii) meet periodically, and at least annually, with the external auditor without management present.

K. Investment Management Activity

The Committee will:

- i) annually review the investment policy for those handling the Authority's funds and recommend any needed revisions to the Board;
- ii) where appropriate, recommend the appointment, renewal or replacement of fund managers; and
- iii) regularly review the performance of fund managers against the investment policy.

L. Other

The Committee shall:

- i) review policies and procedures for the review and approval of the CEO's expenses; and
- ii) review the terms of reference for the Committee annually and make recommendations to the Board as required.

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

IV. ACCOUNTABILITY

- A.** The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Authority.
- B.** 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.

V. COMMITTEE TIMETABLE

Annually the committee will establish a schedule of activities and provide such schedule to the board.