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| AUDIT COMMITTEE TERMS OF REFERENCE | | |

Unless the context otherwise indicates, capitalized terms in these Terms of Reference are defined in the CATSA Act and the Bylaws.

I - MANDATE

According to Bylaw No. 3, the mandate of the Audit Committee (the “**Committee**”) is to assist the Board in fulfilling its oversight responsibilities, with respect to financial reporting, continuous disclosure practices, risk management, internal controls, the audit process, and any other oversight responsibilities as may be assigned to it by the Board.

II - AUTHORITY

The Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility and it is empowered to:

- a) retain outside counsel, accountants or other consultants as the Committee deems necessary, in consultation with the Chairperson, when appropriate, to advise the Committee or to assist in the conduct of investigation;
- b) seek any information it requires from any Officers or employees of the Authority and external parties, including but not limited to the external auditor; and
- c) meet with the Authority’s Officers, Chief Audit Executive (“**CAE**”), other members of the internal audit service provider, external auditors, or internal and external legal counsel, as necessary.

III - COMPOSITION

The Committee shall be composed of at least three (3) Directors. In addition, the Chairperson also serves on the Committee as provided in Bylaw No. 3. Except as otherwise provided herein, the Board will appoint Committee members and the Committee Chairperson. Members shall serve until the member ceases to be a Director for any reason and the Director’s appointed successor shall serve on the Committee until the Board decides otherwise or the Chairperson makes an interim appointment as provided in the Guidelines for Board Committees. The Board may fill a vacancy on the Committee at any time.

All members of the Committee will be independent, as determined by the Board, i.e. free of any interest and business or other relationship which would reasonably be perceived to materially interfere with the exercise of independent judgment.

IV - COMPETENCIES

According to Bylaw No. 3, all members appointed to the Committee must be financially literate. An individual is considered to be financially literate if he or she has the ability to read and understand a set of 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 Authority's financial statements.

Subject to availability, at least one (1) member of the Committee shall have financial expertise. "Financial expertise" means a person who has the following attributes: a background in accounting or related financial management experience which would include any experience which results in the individual's financial speciality, including being or having been a chief financial officer, a partner for an accounting firm, or other senior officer with financial oversight responsibilities. Subject to availability, at least one (1) member should have a recognized accounting designation.

Committee members will continuously enhance their familiarity with financial accounting practices and other areas relevant to their responsibilities by keeping abreast of trends and best practices in these areas, including considering topical issues and their application to the Authority, and by participating in educational sessions or other opportunities for development.

As appropriate, members will also enhance their knowledge of applicable laws, rules and regulations.

V - MEETINGS

The Committee shall meet at least four (4) times per year and the Committee Chairperson may convene additional meetings, as circumstances require. All Committee members are expected to attend each meeting, in person or via teleconference. A majority of the number of Committee members shall constitute a quorum. The President and Chief Executive Officer, the Vice President and Chief Financial Officer, internal and external auditors will attend the meetings. The Committee Chairperson may invite other Officers and employees of the Authority as the Committee Chairperson deems appropriate. Meetings can be requested by the external auditor as provided in s. 148(5) of the *Financial Administration Act*. The Committee will hold in camera meetings with the external auditor and CAE where it deems appropriate.

In the event of a Director's absence or conflict of interest, the Chairperson may identify alternate Director(s) to stand in the stead of the absent or conflicted member(s), and the Directors so acting shall be deemed to be a member(s) of the Committee for that particular meeting.

VI - DUTIES AND RESPONSIBILITIES

1.0 Overseeing the standard of integrity

1.1 Legal and Regulatory Compliance

The Committee will:

- a) report to the Board on the Authority's compliance framework in specific high legal risk areas for which the Committee is assigned responsibility, including but not limited to tax laws and regulations, and any matters that Management observed which may affect financial viability;
- b) inquire about and review the findings of any investigations, audits or examinations conducted by authorities in legal risk areas for which the Committee is assigned responsibility, including but not limited to tax authorities that deal with the Authority; and
- c) review regular reports from Management and the Authority's legal counsel regarding legal matters and their financial implications.

1.2 Review of expenses

The Committee will review the travel and hospitality expenses of the President and CEO and the members of the Board.

2.0 Overseeing financial reporting and continuous disclosure practices

2.1 Standards of financial reporting

The Committee will:

- a) evaluate whether Management fosters a culture and environment that promotes high quality financial reporting;
- b) assess the aggressiveness, or conservatism of financial reporting; and
- c) consider the auditors' assessments of the risk factors relating to potential fraudulent financial reporting.

2.2 Accounting principles and practices

The Committee will:

- a) assess the appropriateness of, including any significant changes to, the accounting principles and practices employed and ensure that the assumptions underlying them are valid; and
- b) seek the external auditors' judgment about the quality, and not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

2.3 Accounting judgments and estimates

The Committee will:

- a) discuss the substance of significant legal matters, contingencies, and claims or assessments that could have a material effect on the financial statements or on the financial stability of the Authority with Management and the internal and external auditors;
- b) assess the reasonableness of estimates related to the accounting recognition of income, assets, and liabilities (including reserves and accruals); and
- c) review Management's methods for estimating significant accounting accruals, reserves, and other estimated liabilities.

2.4 Review of quarterly financial reports

The Committee shall review with Management the quarterly financial reports for each of the first three (3) fiscal quarters of each fiscal year, including comparative financial information for the preceding fiscal year and Management's narrative discussion which must be made public within sixty (60) days after the end of the fiscal quarter to which the report relates, as provided in s. 131.1 of the *Financial Administration Act*.

2.5 Review of annual financial statements

Following the completion of the annual audit of the Authority's financial statements, the Committee will review with Management and the external auditor and make recommendation for approval to the Board with respect to:

- a) the Authority's annual financial statements and accompanying notes, Management's discussion and analysis and any proposed related press release, with a view to obtaining assurance that they fairly present the financial position and results of the Authority and do not omit any material fact necessary to understand the Authority's financial performance; and
- b) the external auditor's report on the financial statements.

2.6 Budgets

The Committee will review the annual operating and capital budgets with Management before they are approved by the Board and ensure that they are consistent with the corporate plan.

3.0 Overseeing Management control practices

3.1 Foreign exchange risk management

The Committee will review and recommend for approval by the Board any substantive changes to the policy for management of foreign exchange risk.

The Committee will review and report to the Board on a quarterly basis the report from Management detailing CATSA's foreign exchange management activities.

3.2 Functioning of the financial control systems

The Committee will:

- a) discuss with Management, the CAE and/or other members of the internal audit service provider and external auditors, the adequacy and effectiveness of the control framework, including the Authority's system to monitor and manage accounting and financial risks, as well as legal and regulatory compliance; and
- b) assess how the Authority's internal control structure prevents fraudulent financial reporting and the misappropriation of funds.

4.0 Relying on the work of the auditors

4.1 Internal Audit Function

The internal audit activity of the Authority is fulfilled through an outsourced model, pursuant to a professional services contract, under which a CAE must be appointed. The CAE reports administratively to the Vice-President and Chief Financial Officer and functionally to the Audit Committee. The CAE has direct access to the President and Chief Executive Officer as appropriate. The Committee will:

- a) review and approve proposed action by Management to remove or appoint the CAE;
- b) review the service provider's confirmation of independence, and summary of qualifications of the CAE and internal audit staff;
- c) review with Management on an annual basis the appropriateness of the internal audit budget, organizational structure and resourcing;
- d) review with Management on a biennial basis the appropriateness of the service delivery model;
- e) review and approve on an annual basis the internal audit charter;
- f) review with Management the effectiveness of the CAE and internal audit activity;
- g) review with the CAE compliance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*;
- h) review and approve, on an annual basis, in consultation with the CAE, the internal audit scope and plan;
- i) review the audit reports and any interim updates of the internal audit service provider, including any significant findings and recommendations, together with Management's responses and follow-up action;
- j) review with the CAE any transactions observed as not being in accordance with the legal authorities or approvals, such as corporate plan or budgets, and any other transactions as deemed appropriate;
- k) review any difficulties encountered by the internal audit service provider while conducting audits, including any restrictions on the scope of audit work or access to required information;

- l) inquire about and discuss significant disagreements between the internal audit service provider and Management; and
- m) meet privately with the CAE to discuss matters deemed appropriate by the Committee or the CAE.

4.2 External Auditor

The Auditor General of Canada is the external auditor of the Authority as provided in s. 31 of the CATSA Act.

The Committee will:

- a) review the external auditors' confirmation of independence;
- b) review the draft Management's representation letter that the external auditor obtains as part of the audit work;
- c) review and approve, in consultation with the external auditors, the external audit scope and plan;
- d) review any significant findings and recommendations made by the external auditors, together with Management's responses and follow-up action;
- e) review with the external auditor any other matter that it intends to bring, or has seriously considered bringing, to the attention of the Minister or Parliament;
- f) review with the external auditors any transactions observed as not being in accordance with the legal authorities or approvals, such as corporate plan or budgets, and any other transactions as deemed appropriate;
- g) having regard to the *Financial Administration Act* requirement that the external auditor rely on the work of the internal auditor to the extent considered practical by the external auditor, ensure that the internal and external auditors coordinate the external and internal work with the objective of achieving an appropriate level of reliance by the external auditor on the work of the internal auditor for the purpose of the annual audit and special examinations. The purpose of this coordination is to ensure completeness of coverage, avoid redundancy, and use audit resources effectively;
- h) review any difficulties encountered by the external auditors while conducting audits, including any restrictions on the scope of audit work or access to required information; and
- i) meet privately with the external auditors, at least quarterly, to discuss matters deemed appropriate by the Committee or the external auditors.

4.3 Special Examination

The Committee will review and advise the Board with respect to the special examination plan, including the special examination criteria and the report prepared by the external auditor. As stated in s. 138(4) of the *Financial Administration Act*, any disagreement between the external auditor and the Committee or Board with respect to a plan may be resolved by the Minister.

5.0 Overseeing Management's Approach

The Committee will:

- a) ensure the appropriate policy framework is in place for matters relating to the Committee's mandate, review Management's consideration of updates to the Authority's policies assigned to the Committee including but not limited to the Authority's contracting policies, and make recommendations to the Board for approval of any amendments to such policies;
- b) recommend approval of board-level procurement strategies as required by the Authority's contracting policies for requirements relating to the Committee's mandate;
- c) recommend approval-in-principle of projects as required by the Authority's project management policy, for projects relating to the Committee's mandate; and
- d) receive regular reports on such projects from Management as required by the Authority's project management policy and any such information it deems relevant to fulfill its mandate in relation and report back to the Board.

VII - OTHER RESPONSIBILITIES

The Committee will:

- a) review when appropriate its Terms of Reference;
- b) confirm annually to the Board that the responsibilities outlined in these Terms of Reference have been carried out;
- c) regularly report to the Board about Committee activities, issues, recommendations and requests for Board approval as required; and
- d) keep Management informed and seek its advice, as required, with regard to issues, views, and preferences that are being considered by the Committee.