

**TERMS OF REFERENCE
AUDIT COMMITTEE**

I. PURPOSE

The purpose of the Audit Committee (the “Committee”) of the Toronto Local Health Integration Network (the “TC LHIN”) is to act on behalf of the Board of Directors (the “Board”) in all material aspects of financial reporting, internal controls, the internal audit function and the audited financial statements.

The Committee supports the Board in fulfilling its oversight responsibilities by reviewing and providing advice to the Board on the following core responsibilities:

1. The TC LHIN’s obligations with respect to appropriate accounting and financial reporting.
2. Who the TC LHIN should appoint as auditors and monitoring auditor independence.
3. The audit plan of the TC LHIN.
4. The audited financial statements of the TC LHIN.
5. Reviewing the systems of internal controls established by management and the Board.
6. Appropriate risk management activities.
7. Who a Health Service Provider (HSP) should appoint as its auditor to audit its accounts and financial transactions, if the TC LHIN directs the service provider under Section 21 of the Act to have such an auditor.

The primary responsibility for the financial reporting, information systems, risk management and internal controls of the TC LHIN is vested in management and is overseen by the Board.

II. COMPOSITION AND OPERATIONS

1. Membership:

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 TC LHIN
- Board Chair, Ex Officio - non-voting
- CEO, Ex-Officio - non-voting
- Controller - non-voting
- Provider organization representative – voting
- Other - voting/non-voting?

2. Term of Office:

Members of the Committee will be appointed annually.

3. Quorum:

A quorum shall be a simple majority of voting membership.

4. Number of Meetings:

Meetings of the Committee shall be held at least quarterly (four times per year) or at the call of the Chair.

5. Guidelines:

The Committee shall operate in a manner that is consistent with the Regulations as they are provided by the Ministry of Health and Long Term Care (MOHLTC).

6. Skills and Experience:

All Committee members shall be “financially literate”¹ and at least one member shall have “accounting or related financial expertise”.

III. DUTIES AND RESPONSIBILITIES

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

1. Financial Statements and Other Financial Reporting

The Committee will:

- a. review and recommend:
 - i. the accounting policies and financial reporting practices used by the TC LHIN;
 - ii. any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the TC LHIN; and
 - ii. any new or pending developments in accounting and reporting standards that may affect the TC LHIN.
- b. review and discuss financial statements and reports including:
 - i. quarterly financial statements; and
 - ii. annual audited financial statements.
- c. review other financial information that will be forwarded to the Government or made publicly available to ensure consistency with the financial information contained in the financial statements.

2. Risk Management, Internal Control and Information Systems

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

- a. review the TC LHIN’s risk management controls and policies and oversee

¹ Financial literacy is defined 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 analyse and understand a full set of financial statements, including the notes attached thereto in accordance with Canadian GAAP.

managements establishment of an adequate system of internal controls and risk management systems to mitigate financial risks and to ensure strong internal financial control environment exists;

- b. have a clear understanding of the risks of fraud and error and review management's response to these risks;
- c. 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 and the external auditor;
- d. consider the potential risk of management override of controls or other inappropriate influence over the financial reporting process;
- e. enquire into the conditions of the books and records and the adequacy of resources to the accounting functions and internal controls;
- f. review management steps to implement and maintain appropriate internal control procedures including a review of policies;
- g. review adequacy of security of information, information systems and recovery plans; and
- h. monitor compliance with statutory and regulatory obligations.

3. Internal Auditor

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

- a. review the organization and independence of the internal auditor;
- b. review goals, resources and work plans;
- c. review any restrictions or problems;
- d. review recommendations and significant responses;
- e. meet periodically and at least annually, with the internal auditor without management present; and
- f. review proposed changes in the Internal Auditor.

4. External Audit

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

- a. review and recommend to the Board for approval, re-engagement or appointment of the external auditor;
- b. the external auditors shall be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Audit Committee, and to be heard at those meetings on matters relating to the Auditor's duties;
- c. review the annual external audit plan, including but not limited to the following:
 - i. engagement letter;
 - ii. objectives and scope of the external audit work;
 - iii. procedures for quarterly review of financial statements;
 - iv. materiality limit;
 - v. areas of audit risk;
 - vi. staffing;

- vii. timetable; and
- viii. proposed fees.
- d. meet with the external auditor to discuss the TC LHIN's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
- e. review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
 - i. any difficulties encountered, or restriction imposed by management, during the annual audit;
 - ii. any significant accounting or financial reporting issue;
 - iii. the auditor's evaluation of the TC LHIN's system of internal controls, procedures and documentation;
 - iv. 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;
 - v. any other matters the external auditor brings to the Committee's attention; and
 - vi. assess the performance and consider the annual appointment of external auditors for recommendation to the Board.
- f. review the auditor's report on all material subsidiaries;
- g. review and receive assurances on the independence of the external auditor;
- h. 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;
- i. meet periodically, and at least annually, with the external auditor without management present; and
- j. recommend to the Board the approval of the audited financial statements.

5. Communications

The Committee shall:

- a. be accountable to all stakeholders of the organization;
- b. have open communication with management, other committee members, and advisors, as applicable to strengthen the Committee's knowledge of current and prospective issues; and
- c. insist on open discussions with management and the external auditor about issues of quality and integrity.

6. Other

The Committee shall:

- a. review insurance coverage of significant risks and uncertainties;
- b. review with internal or external legal counsel, as appropriate, any material litigation and its impact on financial reporting;
- c. establish procedures for confidential, anonymous submissions of concerns in relation to questionable accounting and other matters by employees or volunteers of the organization (whistle blowing policies). The Committee should ensure if the claim is legitimate then the employee or the volunteer

- will not suffer any recourse; and
- d. review the terms of reference for the Committee annually and make recommendations to the Board as required.

IV. ACCOUNTABILITY

The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the TC LHIN.

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. EVALUATION

The Committee shall conduct and present to the Board an annual evaluation of the performance of the Committee and its members. The Committee shall report to the Board on the proceedings at each meeting and, on an annual basis, report on the performance of the Committee in the fulfilment of its duties under the mandate delegated by the Board. Reporting will include the adequacy of the terms of reference and recommend any proposed changes to the Board for approval.