



**Carleton**  
UNIVERSITY

**Canada's Capital University**

<b>Document Name:</b>	Audit and Risk Committee - Terms of Reference
<b>Executive Officer Assigned:</b>	Vice-President (Finance and Administration)
<b>Approval Authority:</b>	Board of Governors
<b>Date Document Approved:</b>	March 2019
<b>Mandatory Review Date:</b>	March 2021

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### **Committee's Role - Overview**

The Audit and Risk Committee shall oversee the financial framework, management, controls and oversight of the enterprise risk management program of the University. The Committee's functions include review of financial reporting, internal controls, safeguarding of the University's assets and general risk oversight of the identification, assessment and mitigation of enterprise risks. The Committee monitors external and internal audits, confirms that the Auditors' recommendations are given due consideration, and that the Auditors are independent from the University Administration.

Specifically, the Audit Committee shall oversee the following areas:

1. Financial reporting processes to confirm transparency and integrity of financial reports;
2. Enterprise Risk Management Policy and Framework, including the process to identify, evaluate and mitigate enterprise risks as well to confirm it meets the needs of the University;
3. Effectiveness of internal and external audit functions;
4. Implementation of internal and external audit and enterprise risk recommendations.

#### **A. External Audit**

In support of its mandate to oversee the external audit, the Committee will perform the following functions annually:

- Consider and recommend to the Board, the appointment of External Auditors as per the Procedure for the Appointment of Auditors.

- Review and recommend the approval of the annual audit letters of engagement, management, independence and scope of services as presented by the External Auditors to the Board of Governors.
- Review and recommend to the Board, approval of the annual audit fees and a list provided by the External Auditors describing their fees for other audits and non-audit services for the previous fiscal year.
- Review and recommend the External Auditor's audit plan, scope of examination and the nature of the level of support provided by administration.
- Review and recommend to the Board for approval the draft annual Audited Financial Statements and financial report, as to the reasonableness of presentation, appropriateness of accounting principles, and adequacy of disclosure.
- Review and recommend to the Board for approval the draft annual Audited Pension Plan Statements as well as reviewing significant findings or recommendations submitted by the External Auditor or Pension Committee.
- Assess the effectiveness of the work performed by the External Auditors, the lead partner, and report the results of this assessment to the Board.
- Review material observations and recommendations made by the External Auditors during the audit and ensure that there is a process in place for response and/or correction of these matters as required.
- Meet privately with the External Auditor lead partner to confirm and assess that the audit function is independent, has the capacity, capabilities and cooperation to perform the audit plan and has ability to facilitate the provision of an independent report.

In support of its mandate to oversee the external audit, the Committee will perform the following functions, as required:

- Review the engagement of the External Auditors. Normally, a request for proposals for external audit services would be issued every five years.
- Review any requests to use the External Auditor's firm for non-audit work as stipulated in Annex A. Non-audit work to be considered for provision by the External Auditor's firm will not include any situations where the External Auditor's firm will act in a managerial or strategic function or will involve either a potential conflict, impairment of independence or the appearance thereof. The Committee shall only permit the External Auditor to perform such non-audit work if the Committee has (a) received confirmation from the External Auditor that, in the External Auditor's opinion, doing such non-audit work will not place the External Auditor in a conflict (or the appearance thereof) nor impair the External Auditor's independence as required by the applicable professional

audit standards and (b) received similar confirmation from the University's Senior Administration that the proposed engagement is not a conflict of interest and complies with the related requirements and limitations expressed in these Terms of Reference and Annex A.

- Where permission for non-audit work is required between regularly scheduled meetings of the Committee and time is of the essence, the Chair of the Committee has the delegated authority to complete the necessary review following the procedures noted above and in Annex A, where the proposed non-audit work does not entail a fee in excess of \$50,000. The Chair will report the outcome of any such action to the Committee at its first scheduled meeting following such review. Notwithstanding the ability to use delegated authority, the Chair of the Committee may choose to consult with the Committee and/or engage its members in the decision-making on these matters.

## **B. Internal Audit**

In support of its mandate to oversee the internal auditing process, the Committee will perform the following functions annually:

- Review and approve the annual internal audit plan and three-year work plan of the internal audit function presented by the Administration and the Internal Auditors.
- Receive a report for each internal audit with a synopsis of the results found and management's response and plan for implementation of the recommendations.
- Receive a report on the status of implementation of all outstanding audit recommendations.
- Meet privately with the Internal Auditor lead partner to confirm and assess that the internal audit function is independent (free of conflicts), has the capacity, capabilities and cooperation to perform the audit plan and has ability to facilitate the provision of an independent report.

The Committee will perform the following functions as needed:

- Examine and report on any matters referred to the Committee by the Executive Committee of the Board.
- Review the effectiveness and cost structure of the Internal Audit function and recommend the service provider to the Board, as per the Procedure for the Appointment of Auditors. Normally, a request for proposals for internal audit services would be issued every five years.

### **C. Enterprise Risk Management**

- Review and approve annually, the Risk Management policy and framework for the University, including risk appetite.
- Satisfy itself, on behalf of the Board, that the University has implemented appropriate systems to identify, assess and mitigate significant business risk;
- Satisfy itself, on behalf of the Board, that the University has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively;
- Annually meet privately with the Director of Risk and Insurance Services to confirm that the function has the capacity and capabilities to perform the work plans, and sufficient organizational authority to facilitate the provision of complete, accurate and timely reports to the Committee.
- Receive reports from the Director of Risk and Insurance Services on the enterprise risk assessment on a periodic basis as determined by the Committee.
- Receive regular reports from management on areas of significant enterprise risk to the University, for example but not limited to, significant legal claims, environmental issues, health, safety, and other regulatory matters.
- At least once per year, review with General Counsel: a) any legal matters that could have a significant impact on the financial statements, and b) compliance with applicable laws and regulations and inquiries received from regulators or government agencies.
- Receive annually reports about Environmental Health and Safety.

### **D. Other**

Review no less than every two years, the Committee's mandate, and recommend changes to the Governance Committee, Executive Committee, and Board, as necessary.

Perform such functions as may periodically be assigned to the Committee by the Board of Governors or the Executive Committee.

### **Membership, Qualifications, and Composition**

The Committee shall be comprised of up to eleven members appointed by the Board, including the Chair and Vice-Chair of the Committee. Only those members of the Committee who are community-at-large members shall be entitled to vote.

The following shall be *ex-officio* members of the Committee: the Board Chair, the Board Vice-Chair, and the President and Vice Chancellor.

All Committee members shall be financially literate in that they shall have the ability to read and understand financial statements, accounting practices and policies of a complexity comparable to the financial statements of the University.

### **Quorum**

Quorum for meetings shall consist of one-half the number of members of the committee plus one, present in person, by teleconference or by videoconference, at least one of whom must be the chair or vice-chair of the committee.

### **Revisions and Approvals:**

- 75<sup>th</sup> Meeting, Sept. 15/15 - deferred formal review until completion of By-law review in Spring 2016
- 599<sup>th</sup> Board of Governors Meeting, December 1, 2016, approved amended terms of reference for Governance Committee.

## ANNEX A

**Protocol Name:** Pre-approval of non-audit services, and related fees, provided by the External Auditors  
**Originating/Responsible Department:** Vice-President (Finance & Administration)  
**Approval Authority:** Board of Governors  
**Date of Original Policy:** September 1, 2017  
**Mandatory Revision Date:** September 2022  
**Contact:** Vice-President (Finance & Administration)

### Protocol:

The Audit and Risk Committee of the Board of Governors should ensure the External Auditor remain independent and free from conflicts or the appearance thereof. This can be achieved by reviewing and pre-approving all non-audit services and related fees being proposed by the External Auditor.

### Purpose:

This protocol establishes best practices in establishing quantitative and qualitative parameters used to monitor and ensure the independence of the External Auditor.

### Scope

The following approval of services other than statutory audits that the External Auditors might be called upon to perform, will apply.

Type of service	Description of Example Services	Approval Level	Rationale
<b>Other Audit Services:</b>	Audits of financial information, non-financial information, or internal controls/processes, performed using Canadian Auditing Standards	AVP, Financial Services or VP, Finance & Administration	These audits are usually a requirement of government contribution agreements providing funding to the University for research, capital projects or other specific programs, and are performed concurrently with the financial statement audit.
<b>Tax-related services</b>	Services relating to GST/HST, Payroll Taxes, Registered Charity Status, U.S. Tax, International Tax, etc.	AVP, Financial Services or VP, Finance & Administration	Because the University is a registered charity, tax-related services impose little risk on an External Auditor's independence
	Contingency Fee Arrangements	Chair of the Audit and Risk Committee	Contingency fee arrangements have an increased risk to auditor independence
<b>Advisory/Consulting Services with a cost</b>	Services relating to	Chair of the Audit and Risk	Provision of advisory/consulting

<b>of \$50,000 or less</b>	governance, risk, financing, valuations, costing, human resources, information technology, forensic, actuarial, management consulting, etc.	Committee	services may jeopardize the independence of the External Auditor; consequently, prior approval should be sought to ensure that independence (free from conflict or the appearance thereof) is preserved and that the cost of such services does not exceed the amount indicated.
<b>Advisory/Consulting Services with a cost greater than \$50,000.</b>	Services relating to governance, risk, financing, valuations, costing, human resources, information technology, forensic, actuarial, management consulting, etc.	Audit and Risk Committee	Provision of advisory/consulting services may jeopardize the independence of the External Auditor; consequently, prior approval should be sought to ensure that independence (free from conflict or the appearance thereof) is preserved.

**1. Total Cost of Advisory/Consulting Services Provided by the External Auditor**

The Audit and Risk Committee will monitor the total cost of advisory/consulting services provided by the External Auditor. The University’s protocol is that as a general rule, the total cost of advisory/consulting services provided by the External Auditor should not exceed three times the total cost of statutory and other audit services provided by the External Auditor, calculated on a three-year rolling average. In exceptional circumstances, the Audit and Risk Committee may approve advisory/consulting services above this threshold, with the expectation that the External Auditor would return to be within the threshold within a reasonable amount of time.

**2. Reporting to Audit and Risk Committee by the External Auditor**

In order to assist the Audit and Risk Committee in performing its duties, the External Auditor is required to present a summary of invoices and engagements to the Audit and Risk Committee. The summary will be presented to the Audit and Risk Committee twice annually in conjunction with the Audit Plan and the Audit Findings Report. This will allow the Audit and Risk Committee to ensure the independence of the External Auditor in a timely manner.

**Contacts:**

Vice-President, Finance & Administration; Assistant Vice-President, Financial Services.



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<b>Document Name:</b>	Audit <u>and Risk</u> Committee - Terms of Reference
<b>Executive Officer Assigned:</b>	Vice-President (Finance and Administration)
<b>Approval Authority:</b>	Board of Governors ( <del>on recommendation from Audit and Risk, Governance and Executive Committees</del> )
<b>Date Document Approved:</b>	<del>December 2016</del> <u>March 2019</u>
<b>Mandatory Review Date:</b>	<del>December 2018</del> <u>March 2021</u>

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### **Committee's Role - Overview**

The Audit and Risk Committee shall oversee the financial framework, ~~and~~ management, ~~financial controls and oversight of the enterprise risk management program~~ exposures of the University. ~~The Committee's functions includes review of financial reporting, internal controls, safeguarding of the University's assets and general risk exposure~~ oversight of the identification, assessment and mitigation of enterprise risks. The Committee monitors ~~s the competence with which external and internal audits are conducted,~~ confirms that the Auditors' recommendations are given due consideration, and that the Auditors' ~~have~~ are independent ~~in their relationship with~~ from the University Administration.

Specifically, the Audit Committee shall oversee the following areas:

1. ~~Financial reporting processes to confirm transparency and integrity of financial reports; and External Audit~~
2. ~~Internal Audit~~ Enterprise Risk Management Policy and Framework, including the process to identify, evaluate and mitigate enterprise risks- as well ~~internal control and risk management environment -~~ to confirm it meets the needs of the University; and
3. Effectiveness of ~~i~~Internal and ~~e~~External ~~a~~Audit functions;
- 2-4. ~~Implementation of internal and external audit and enterprise risk recommendation~~ the lines of communication among the Internal and External Auditors, President, Director of Risk and Insurance Services, Financial Services, and the Audit Committee to confirm they support appropriate and timely action in fulfillment of the fulfillment of the Committee's responsibilities.

### **Financial Reporting**

#### **A. External Audit**

In support of its mandate to oversee the external audit, the Committee will perform the following functions annually:

- Consider and recommend to the Board, the appointment of External Auditors as per the Procedure for the Appointment of Auditors.
- Review and recommend the approval of the annual audit letters of engagement, management, independence and scope of services letter as presented by the External Auditors to the Board of Governors-
- Review a list provided by the External Auditor describing its fees for other audits and non-audit service for the previous fiscal year.
- Review and recommend to the Board, approval of the annual audit fees and a list provided by the External Auditors describing their fees for other audits and non-audit services for the previous fiscal year.
- Review and recommend the External Auditor's audit plan, scope of examination and the nature of the level of support provided by administration.
- Review and recommend to the Board for approval the draft annual Audited financial Financial statements-Statements and financial report, as to the reasonableness of presentation, appropriateness of accounting principles, and adequacy of disclosure.
- Review and recommend to the Board for approval the draft annual Audited Pension Plan Statements as well as reviewing significant findings or recommendations submitted by the External Auditor or Pension Committee.
- Assess the effectiveness of the work performed by the External Auditors, and the lead partner, and report the results of this assessment to the Board.
- Review material observations and recommendations made by the External Auditors during the audit, and ensure that there is a process in place for response and/or correction of these matters as required.
- Meet privately with the External Auditor lead partner to confirm and assess that the audit function is objective (free of conflicts is independent), has the capacity, capabilities and cooperation to perform the audit plan and has ability to facilitate the provision of an independent report.

In support of its mandate to oversee the external audit, the Committee will perform the following functions, as required:

- Review the engagement of the External Auditors as per as per the Procedure for the Appointment of Auditors. Normally, a request for proposals for external audit services would be issued every five years.

**Commented [SL1]:** Deleted Annex B as its non-compliant with the procurement requirements of the Broader Public Sector Procurement Directive. It also no longer reflects what is actually done in practice as audit services are procured through an RFP process.

- Review any requests to use the External Auditor's firm for non-audit work as stipulated in Annex A. Non-audit work to be considered for provision by the External Auditor's firm will not include any situations where the External Auditor's firm will act in a managerial or strategic function or will involve either a potential conflict, or impairment of independence or the appearance thereof. The Committee shall only permit the External Auditor to perform such non-audit work if the Committee has (a) received confirmation from the External Auditor that, in the External Auditor's view/opinion, doing such non-audit work will not place the External Auditor in a conflict (or the appearance thereof) nor impair the External Auditor's independence as required by the applicable professional audit standards and (b) received similar confirmation from the University's Senior Administration (i.e., CFO/CRO) that the proposed engagement is not a conflict of interest and complies with the related requirements and limitations expressed in these Terms of Reference and Annex A.
- Where permission for non-audit work is required between regularly scheduled meetings of the Committee and time is of the essence, the Chair of the Committee has the delegated authority to complete the necessary review following the procedures noted above and in Annex A, where the proposed non-audit work does not entail a fee in excess of \$50,000. The Chair will report the outcome of any such action to the Committee at its first scheduled meeting following such review. Notwithstanding the ability to use delegated authority, the Chair of the Committee may choose to consult with the Committee and/or engage its members in the decision-making on these matters.

## **B. Internal Audit**

In support of its mandate to oversee the internal auditing process, the Committee will perform the following functions annually:

- Review and approve the annual internal audit plan and ~~five-year~~ three-year work plan of the internal audit function presented by the Administration and the Internal Auditors.
- Receive a report for each internal audit with a synopsis of the results found and management's response and plan for implementation of the ~~current year~~ audits recommendations, and
- Receive a report on the status of implementation of all outstanding audit recommendations.
- Meet privately with the ~~Internal Auditor~~ External Auditor lead partner to confirm and assess that the internal audit function is objective/independent (free of conflicts), has the capacity,

capabilities and cooperation to perform the audit plan and has ability to facilitate the provision of an independent report.

- ~~• Receive and review the University Risk Assessment Report.~~

The Committee will perform the following functions as needed:

~~• On behalf of the Board of Governors, monitor and report on issues identified in the risk assessment as being significant.~~

- Examine and report on any matters referred to the Committee by the Executive Committee of the Board.
- Review the effectiveness and cost structure of the Internal Audit function and recommend the service provider to the Board, as per as per the Procedure for the Appointment of Auditors. Normally, a request for proposals for internal audit services would be issued every five years.

### C. Enterprise Risk Management

- Review and approve annually, the Enterprise Risk Management policy and framework for the organizationUniversity, including risk appetite.
- Satisfy itself, on behalf of the Board, that the University has implemented appropriate systems to ,that confirms that appropriate processes are in place to identify, assess and report on management's control framework and identify, assess and report on material risks, including actions being taken to address and/or mitigate significant enterprisbusinesse these risks.;
- Satisfy itself, on behalf of the Board, that the University has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively;
- At least once a yearAnnually, meet privately with the Director of Risk and Insurance Services to confirm that the function is objective (free of conflicts), has the capacity and capabilities to perform the work plans, and sufficient organizational authority to facilitate the provision of complete, accurate and timely reports to the Committee. Confirm that material risks are being addressedmonitored by the appropriate committee(s) of the Board and collect information from these committees to be able to provide comprehensive reporting to the Board at least annuallythat management has implemented appropriate mitigation measures
- Receive reports from the Director of Risk and Insurance Services on the enterprise risk assessment on a periodic basis as determined by the Committee.
- Receive regular reports from management on areas of significant enterprise risk to the University, for example but not limited to, significant legal claims, environmental issues, health, safety, and other regulatory matters.

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- At least once per year, review with General Counsel: a) any legal matters that could have a significant impact on the financial statements, and b) compliance with applicable laws and regulations and inquiries received from regulators or government agencies.
- Receive annually reports about Environmental Health and Safety.

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#### C.D. Other

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Review no less than every two years, the Committee's mandate, and recommend changes to the Governance Committee, Executive Committee, and Board, as necessary.

Perform such functions as may periodically be assigned to the Committee by the Board of Governors or the Executive Committee, including special examinations as may be required from time to time, and if appropriate retain special counsel or experts to assist.

#### D. Membership, Qualifications, and Composition

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The Committee shall be comprised of up to eleven members appointed by the Board, including the Chair and Vice-Chair of the Committee. Only those members of the Committee who are community-at-large members shall be entitled to vote.

The following shall be *ex-officio* members of the Committee: ~~the Chancellor, the~~ Board Chair, the Board Vice-Chair, and the President and Vice Chancellor.

All Committee members shall be financially literate in that they shall have the ability to read and understand financial statements, and accounting practices and policies of a complexity comparable to the financial statements of the University.

#### E. Quorum

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Quorum for meetings shall consist of one-half the number of members of the committee plus one, present in person, by teleconference or by videoconference, at least one of whom must be the chair or vice-chair of the committee.

#### Revisions and Approvals:

- 75<sup>th</sup> Meeting, Sept. 15/15 - deferred formal review until completion of By-law review in Spring 2016
- 599<sup>th</sup> Board of Governors Meeting, December 1, 2016, approved amended terms of reference for Governance Committee.

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## ANNEX A

<b>Protocol Name:</b>	Pre-approval of non-audit services, and related fees, provided by the External Auditors
<b>Originating/Responsible Department:</b>	Vice-President (Finance & Administration)
<b>Approval Authority:</b>	Board of Governors
<b>Date of Original Policy:</b>	September 1, 2017
<b>Mandatory Revision Date:</b>	September 2022
<b>Contact:</b>	Vice-President (Finance & Administration)

### Protocol:

The Audit and Risk Committee of the Board of Governors should ensure the External Auditor remain independent and free from conflicts or the appearance thereof. This can be achieved by reviewing and pre-approving all non-audit services and related fees being proposed by the External Auditor.

### Purpose:

This protocol establishes best practices in establishing quantitative and qualitative parameters used to monitor and ensure the independence of the External Auditor.

### Scope

The following approval of services other than statutory audits that the External Auditors might be called upon to perform, will apply.

<u>Type of service</u>	<u>Description of Example Services</u>	<u>Approval Level</u>	<u>Rationale</u>
<u>Other Audit Services:</u>	<u>Audits of financial information, non-financial information, or internal controls/processes, performed using Canadian Auditing Standards</u>	<u>AVP, Financial Services or VP, Finance &amp; Administration</u>	<u>These audits are usually a requirement of government contribution agreements providing funding to the University for research, capital projects or other specific programs, and are performed concurrently with the financial statement audit.</u>
<u>Tax-related services</u>	<u>Services relating to GST/HST, Payroll Taxes, Registered Charity Status, U.S. Tax, International Tax, etc.</u>	<u>AVP, Financial Services or VP, Finance &amp; Administration</u>	<u>Because the University is a registered charity, tax-related services impose little risk on an External Auditor's independence</u>
	<u>Contingency Fee Arrangements</u>	<u>Chair of the Audit and Risk Committee</u>	<u>Contingency fee arrangements have an increased risk to auditor independence</u>
<u>Advisory/Consulting Services with a cost</u>	<u>Services relating to</u>	<u>Chair of the Audit and Risk</u>	<u>Provision of advisory/consulting</u>

<a href="#">of \$50,000 or less</a>	<a href="#">governance, risk, financing, valuations, costing, human resources, information technology, forensic, actuarial, management consulting, etc.</a>	<a href="#">Committee</a>	<a href="#">services may jeopardize the independence of the External Auditor; consequently, prior approval should be sought to ensure that independence (free from conflict or the appearance thereof) is preserved and that the cost of such services does not exceed the amount indicated.</a>
<a href="#">Advisory/Consulting Services with a cost greater than \$50,000.</a>	<a href="#">Services relating to governance, risk, financing, valuations, costing, human resources, information technology, forensic, actuarial, management consulting, etc.</a>	<a href="#">Audit and Risk Committee</a>	<a href="#">Provision of advisory/consulting services may jeopardize the independence of the External Auditor; consequently, prior approval should be sought to ensure that independence (free from conflict or the appearance thereof) is preserved.</a>

**1. Total Cost of Advisory/Consulting Services Provided by the External Auditor**

[The Audit and Risk Committee will should monitor the total cost of advisory/consulting services provided by the External Auditor. -The University's protocol is that as a general rule, the total cost of advisory/consulting services provided by the External Auditor should not exceed three times the total cost of statutory and other audit services provided by the External Auditor, calculated on a three-year rolling average. -In exceptional circumstances, the Audit and Risk Committee may approve advisory/consulting services above this threshold, with the expectation that the External Auditor would return to be within the threshold within a reasonable amount of time.](#)

**2. Reporting to Audit and Risk Committee by the External Auditor**

[In order to assist the Audit and Risk Committee in performing its duties, the External Auditor is required to present a summary of invoices and engagements to the Audit and Risk Committee. The summary will be presented to the Audit and Risk Committee twice annually in conjunction with the Audit Plan and the Audit Findings Report. This will allow the Audit and Risk Committee to ensure the independence of the External Auditor in a timely manner.](#)

**Contacts:**

[Vice-President, Finance & Administration: Assistant Vice-President, Financial Services.](#)

**Links to related Policies:**

## ANNEX B

At its 380th Meeting on March 28th 1989, the Board of Governors approved the following procedure for the Appointment of Auditors:

Each fall, following the presentation of the audited financial statements, the Audit Committee shall consider a report of the President containing a recommendation as to whether the present Auditors' appointment should be continued for the next fiscal year or, whether consideration should be given to calling for proposals from other Auditing companies.

If it is agreed to continue the present Auditors' appointment the Auditors will be invited to propose a letter of engagement to the University which will be considered at the next meeting of the Committee and if it is agreed, a recommendation of the Audit Committee will be forwarded to the Board for its consideration at its April meeting to reappoint the existing Auditors.

If it is agreed to call for proposals the proposals will be submitted to the next meeting of the Committee, with a recommendation from the President as to which firm should be selected. It is expected that part of the proposal will be a proposed letter of engagement. The Committee's decision in respect of the firm selected and the letter of engagement shall form the recommendation to be presented to the Board at its April meeting to appoint Auditors.