

PUBLIC COMPANIES: AUDIT COMMITTEE MANDATE

Your Company's Audit Committee Charter

Audit Committee Charters

The Canadian Securities Administrators' (CSA) multilateral instrument 52-110 (2004, amended 2005) has defined specific requirements for Audit Committees to meet. One of these requirements is that the company's Audit Committee will have a written charter that sets out its mandate and responsibilities. It also requires the text of the charter to be included in the annual information form along with certain information on the audit committee members.

The following charter has been created as an **example** to show the different elements needed. References to the CSA material are provided.

Purpose:

52-110, 2.1
52-313

The Audit Committee is responsible for the policies and practices relating to integrity of financial and regulatory reporting as well as internal controls to achieve the objectives of safeguarding of corporate assets; reliability of information; and compliance with policies and laws. The Committee is also responsible for identifying principal risks of the business and ensuring appropriate risk management techniques are in place.

58-201

The Audit Committee charges management with developing and implementing procedures to:

- ensure internal controls are appropriately designed, implemented and monitored
- ensure reporting and disclosure of information is complete, accurate, and timely.

The Audit Committee makes recommendations to the Board of Directors regarding items relating to financial and regulatory reporting and the system of internal controls.

Composition of Committee:

52-110, 3.1
(1, 2, 3)
52-110, 1.4
52-110, 1.5

The committee will be composed of 3 independent Directors from the Company's Board of Directors. Independence of the Board members will be consistent with the definition of applicable legislation and as a minimum each committee member will have no direct or indirect relationship with the Company which, in the view of the Board of Directors, could reasonably interfere with the exercise of a member's independent judgment.

52-110, 3.1 (4)
52-110, 1.6
52-110, 3.8

All members of the committee will be financially literate as defined by applicable legislation. If a member upon appointment to the committee is not financially literate as required, the person will be provided a three month period in which to achieve the desired level of literacy.

52-110, 1.4
52-110, 3.4
52-110, 3.6 (d)

If any member loses their independent status, they will be required to resign from the committee within three months of becoming non-independent. The Nominating Committee of the Board will be required to replace the member within that three month time frame. If it is the Chair of the Audit Committee that loses independent status, that person shall cease to be chair immediately and be replaced as chair by an existing member of the committee with the Nominating Committee required to replace this member within the three month time frame.

PUBLIC COMPANIES: AUDIT COMMITTEE MANDATE



Authority:

52-110, 4.1
(a, b)

The Committee has authority to engage independent counsel and other advisors as it deems necessary to carry out its duties. The Committee sets the compensation for such advisors.

52-110, 4 (c)
52-110, 2.2

The Committee has the authority to communicate directly with and to meet with the external auditors and the internal auditor without management present.

Responsibilities:

52-110, 2.3
(2) (a)

1. The Audit Committee will recommend to the Board of Directors;
 - (a) the external auditor for the Company,
 - (b) the compensation of the external auditor.

(2) (b)

52-110, 2.3 (3)

2. The Audit Committee is directly responsible for overseeing the work of the external auditor. The Audit Committee is responsible for resolving disagreements between management and the external auditor regarding financial reporting. The Committee will also ensure that the external auditor is in good standing with the Canadian Public Accountability Board and will enquire if there are any sanctions imposed by the CPAB on the firm. The Committee will also ensure that the external auditor meets the rotation requirements for partners and staff on the Company's audit.

52-110, 2.3 (4)
52-110, 2.5

3. The Audit Committee must pre-approve all non-audit services to be provided to the Company or its subsidiaries by the external auditor. The Committee has delegated to the Chair of the Committee the authority to pre-approve non-audit services up to an amount of \$25,000, with such pre-approved services presented at the next scheduled Audit Committee meeting following such pre-approval.

52-110, 2.4

De minimis non-audit services satisfy the pre-approval requirement provided:

- (a) the aggregate amount of all the non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Company and its subsidiaries to the external auditors during the fiscal year;
- (b) the Company or subsidiaries did not recognize the services as non-audit services at the time of the engagement; and
- (c) the services are promptly brought to the attention of the Audit Committee and approved, prior to the completion of the audit.

s158 (2)
BCA (Ont)
s171 (3)
CBCA

4. The Audit Committee will review and discuss with management and the external auditors the annual audited financial statements, including discussion of material transactions with related parties, accounting policies, as well as the external auditors' written communications to the Committee and to management.

52-110, 2.3 (5)

5. The Audit Committee reviews the Company's financial statements, MD&A as well as annual and interim earnings press releases and recommends them to the Board. This is prior to public disclosure of such information.

52-110, 2.3 (6)

6. The Audit Committee ensures that adequate procedures are in place for the review of financial information extracted or derived from the Company's financial statements, contained in the Company's other public disclosures and periodically assesses the adequacy of those procedures.

52-110, 2.3 (7)

7. The Audit Committee establishes procedures for:
 - a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

52-110, 2.3 (8)

8. The Audit Committee reviews and approves the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company. The Committee will ensure that the policies prohibits hiring any such partners and employees of the audit firm until the passage of three years subsequent to the date of their last employment with the external auditor.

PUBLIC COMPANIES: AUDIT COMMITTEE MANDATE



58-201 9. The Audit Committee will, with respect to ensuring the integrity of disclosure controls and internal controls over financial reporting, understand the process utilized by the Chief Executive Officer and the Chief Financial Officer to comply with the applicable multilateral instruments. This will involve enquiry of the Internal Auditor as to the internal auditors' assessment of internal controls, and assessing disagreements between management and the internal auditor regarding the state of internal controls.

58-201 10. The Audit Committee will undertake a process to identify the principal risks of the business and ensure appropriate risk management techniques are in place. This will involve enquiry of management regarding how risks are managed as well as receiving opinions from Internal Audit regarding the effectiveness of the risk mitigation strategies.

Reporting:

The reporting obligations of the Committee will include:

- o Report to the Board on the proceedings of each Audit Committee meeting and on the Audit Committee's recommendations at the next regularly scheduled Board meeting.
- o Review the disclosure required in the Company's Annual Information Form.

52-110, 5.1
Form 52-110FI

Meetings:

The Committee will meet at least four times per year and at least once every fiscal quarter.

52-110, 2.3(5)

Notice of meetings shall be given to the external and internal auditor of the Company, and meetings can be convened at the request of the external auditor.

s158 (4) BCA
(Ont)
s171 (5) CBCA

The above is an **example** only and dollar amounts and details of procedures would need to be changed to fit the situation.

We hope this advisory has been informative but please **note** that this is a simplified outline of the current rules. There are many defined terms, particular situations, certain exemptions and other critical information in the details of the instruments. It is important that you read the full text of the applicable instruments and consult your professional advisors to assess the full impact on you and your company. For the full text, go to

http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/rrn_part5_index.

Booker & Associates would be pleased to meet with you to discuss this further.

Booker & Associates will not assume liability for any reliance placed on this newsletter.

Fay Booker, CA, CIA is Principal of Booker & Associates, fbooker@bookerandassociates.com. Booker & Associates promotes excellence in Corporate Governance, Risk Management and Operational Effectiveness.