

AUDIT AND FINANCE COMMITTEE TERMS OF REFERENCE

1. CREATION

There shall be a committee, to be known as the Audit and Finance Committee (the “Committee”), of the Board of Directors of the Bank of Canada.

2. MEMBERSHIP

The Committee shall be comprised of not less than three (3) directors (the “members”) appointed under Section 9 of the *Bank of Canada Act* (the “Act”)

All members of the Committee shall be financially literate or become financially literate in a reasonable amount of time.

The Chair of the Committee shall be designated by the Board from among the members. The Board may remove or replace any member at any time. A member shall hold office until the Board member resigns, is replaced or removed or ceases to be a director, whichever first occurs.

The Governor, Senior Deputy Governor and Lead Director shall receive notice of, and shall be entitled to attend, meetings of the Committee, provided that the Committee may meet in camera at its discretion.

All decisions of the Board regarding membership and Chair of this Committee, contemplated in this Section, shall be made annually by the Board having regard to the recommendation of the Corporate Governance Committee.

Attendance by non-members is not ordinarily expected. All Board members will receive the meeting documentation.

3. MEETINGS

The Committee shall convene at such times and places designated by its Chair or whenever a meeting is requested by a member. A minimum of forty-eight (48) hours written notice of each meeting shall be given to each member. Unless otherwise designated by the Chair, all meetings of the Committee shall take place at the head office of the Bank.

The Committee shall meet as often as it deems appropriate to fulfill its mandate but not less than 3 times per annum.

A quorum at a meeting shall consist of a majority of members. Members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.

The Committee may, on the request of its Chair, make decisions via a consent resolution which shall be executed by all voting members of the Committee and be deemed a decision of the Committee having full effect with respect to the subject matter.

In the event of the absence of the Chair or at the request of the Chair, a meeting shall be chaired by such person as may be designated by the Chair in advance of such meeting or in the absence of such delegation, by such person as may be agreed at the meeting.

Where appropriate, individual members of the Committee may meet separately with the Bank's senior management.

The Corporate Secretary or an Assistant Secretary of the Bank shall act as Secretary to the Committee.

The minutes of the Committee meetings shall be duly entered in the books of the Bank. Such books shall remain in the custody of the Corporate Secretary of the Bank.

4. DUTIES AND RESPONSIBILITIES OF THE CHAIR

The Chair is responsible for:

- 4.1 Convening Committee meetings and designating the times and places of those meetings.
- 4.2 Ensuring Committee meetings are duly convened and that quorum is present when required.
- 4.3 Working with management on the development of agendas and related materials for the Committee meetings.
- 4.4 Ensuring Committee meetings are conducted in an efficient, effective and focused manner.
- 4.5 Ensuring the Committee has sufficient information to permit it to properly make decisions when decisions are required.
- 4.6 Providing leadership to the Committee and assisting it in reviewing and monitoring its responsibilities.
- 4.7 Reporting to the Board on the deliberations and recommendations of the Committee.
- 4.8 Monitoring compliance by the Committee of its duties and responsibilities as contained in the Committee Terms of Reference.

Other duties of the Chair:

- 4.9 Together with the Governor, sign the Engagement Letters for the Bank's annual audit, and interim quarterly reviews including the audit engagements for the Office of the Auditor General.

- 4.10 Review the expense accounts filed by the Governor and Senior Deputy Governor and report to the Committee regarding such review.
- 4.11 Act as the contact for staff who wish to make a disclosure to the Board under the Bank's Disclosure of Wrongdoing Policy or complaint under any policy adopted with regard to business conduct or ethics.
- 4.12 Together with the Governor, the Chief Financial Officer and Chief Accountant and another director as determined by the Board, sign the year-end audited Financial Statements.¹

5. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

As permitted by and in accordance with the requirements of the Bank, the Committee shall:

- Review the Bank's annual and interim financial statements, approve interim financial statements and make a recommendation to the Board with respect to the approval of the annual financial statements, as appropriate.
- Oversee and ensure that the external and internal audit functions are carried out in an appropriate manner.
- Review the adequacy of the Bank's risk management, internal control and governance framework with respect to financial reporting.
- Oversee the Bank's financial management including the Strategic Plan's financial plan, the annual budget and expenditure reporting.

The Committee shall have the following specific duties:

Financial Statements

- 5.1 Review with the external auditors of the Bank (the 'External Auditors') and with management, the Bank of Canada's annual and interim financial statements and the associated audit or review report thereon and (i) as appropriate, approve the interim financial statements and (ii) recommend to the Board, as appropriate, the approval of the annual financial statements.
- 5.2 Review the overall format, presentation and content of the financial statements, including changes in significant accounting policies.
- 5.3 Review significant issues that could affect the financial statements including but not limited to issues related to emerging accounting principles and/or standards.
- 5.4 Review areas of significant management judgement or estimates within the financial statements and the underlying assumptions contained within such judgements.

¹ The *Bank of Canada Act* requires that *the financial statements must be signed by the Governor or the [Senior] Deputy Governor and the Chief Accountant or Acting Chief Accountant of the Bank*. Since 1997 the financial statements have also been signed by two directors, including the Chair of the Audit and Finance Committee.

- 5.5 Review with the External Auditors any comments and conclusions on the items of audit significance arising from their annual audit or interim reviews of the financial statements.
- 5.6 Advise the Board that the External Auditors have completed their annual audit and filed the related audit reports associated with the annual Statement of Government of Canada Debt Outstanding for which the Bank of Canada acts as Fiscal Agent and Registrar and with the Statement of Financial Position and Statement of Operations of the Exchange Fund Account.
- 5.7 Recommend to the Board for approval as appropriate, the form of statement of accounts, pursuant to Section 35 (d) of the Act.
- 5.8 Recommend to the Board, the accounting principles and/or standards to be used in the presentation of the annual financial statements as required by By-Law 14.
- 5.9 Review and approve management's discussion and analysis (MD&A) of the audited annual financial statements prior to their release to the public.

Engagement of External Auditors and Setting of Remuneration

- 5.10 Review the audit plan and terms of engagement of the External Auditors for the annual audit and review engagements of the Bank of Canada's financial statements and recommend to the Board the terms of engagement of the External Auditors as well as the related remuneration to be paid.
- 5.11 Recommend to the Board the remuneration to be paid to the External Auditors in respect of their annual audit for the Statement of Government of Canada Debt Outstanding and for the Exchange Fund Account based on management's approval of the audit plan and the terms of engagement for such audit.
- 5.12 Review and recommend for approval by the Board, the scope, terms of engagement and remuneration to be paid to the External Auditors for any special audit requests. Review, as required, the results of the work performed.
- 5.13 Assess the continuing independence of the External Auditors including a review and pre-approval of non-audit services, if any, performed by them for the Bank.
- 5.14 Meet privately with the external auditors at least annually. Additional private meetings may be held as often as the Committee deems necessary or at the request of the external auditors.

Oversight of the Internal Audit Function

- 5.15 Review and approve the annual internal audit plan of the Chief Internal Auditor, including internal audit's staffing, organizational structure and budget.
- 5.16 Review the annual internal audit report and any interim update of the Chief Internal Auditor.

- 5.17 Meet privately with the Chief Internal Auditor at least quarterly. Additional private meetings may be held as often as the Committee deems necessary or at the request of the Chief Internal Auditor.
- 5.18 Contribute to the evaluation of the work of the Internal Audit Department, and in the appointment and termination of the Chief Internal Auditor.
- 5.19 Monitor the independence and effectiveness of the internal audit function in conformance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

Risk Management, Control and Governance

- 5.20 Review annually with the Chief Internal Auditor the adequacy of the Bank's risk management, control and governance framework with respect to financial reporting, including the internal accounting controls and financial and operating procedures.
- 5.21 Review annually the adequacy of the Bank's process for identifying, assessing and managing risks relating to financial reporting.
- 5.22 Review and advise on matters related to the Committee's mandate, including guidelines related to the Governor's and Senior Deputy Governor's expense accounts, as may be requested from time to time by management or the Board.
- 5.23 Monitor the quarterly reports on the contracts entered into by the Bank and the relevant web site disclosure reports.

Finance

- 5.24 Review annually the planned expenditures and recommend a budget for approval by the Board which effectively becomes the spending authority for the Bank. Consider management's recommendations for additional resources, as required, for recommendation to the Board.
- 5.25 Review and monitor throughout the year the actual expenditures in relation to the approved budget.
- 5.26 Review and provide advice on budget matters and other issues related to revenues and expenditures as may be requested from time to time by Management or the Board.
- 5.27 Review the budgetary implications of the actuarial valuation report of the Bank of Canada pension fund. (The Pension Committee reviews the actuarial valuation report.)

Other Duties

- 5.28 Review its terms of reference annually and the Internal Audit Charter triennially and recommend any changes to these documents to the Corporate Governance Committee.
- 5.29 Review and resolve, as necessary, any unusual or exceptional travel expense claims filed by directors.
- 5.30 Receive a briefing on staffing changes to senior financial and internal audit positions (SO 2 and above) prior to the changes being made.
- 5.31 Consider any other matter properly referred to the Committee by the Lead Director, the Board, a director, the Governor, or the management of the Bank, for review or recommendation to the Board, including the oversight of any investigation or inquiry to be undertaken by the Committee in accordance with any policy or procedure of the Bank.
- 5.32 Assign, at its discretion, a specific subject for further discussion to a subcommittee of the Committee.
- 5.33 Meet separately with senior management, employees or independent advisors, as deemed necessary by the Committee.
- 5.34 Engage at its discretion professional advisors to provide counsel on issues before the Committee; the cost of the same shall be borne by the Bank.

6. COMMITTEE TIMETABLE

The major activities of the Committee will be outlined in an annual work plan.

7. EXTERNAL AUDITORS

The requirements with respect to the appointment of external auditors are set out in Section 28 of the *Bank of Canada Act*