

CANADA DEPOSIT INSURANCE CORPORATION

AUDIT COMMITTEE

CHARTER

Purpose and Mandate

The purpose of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of Canada Deposit Insurance Corporation (the "Corporation") is to assist the Board in fulfilling its oversight responsibilities with respect to the Corporation's financial reporting processes, internal controls, and independent auditors.

The Committee's responsibilities include assisting with the Board's oversight of: the integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Corporation's internal audit function; and the performance of any special examinations pursuant to the Financial Administration Act ("FAA"). The Committee's responsibilities are set out in detail in Section C, below.

The mandate for the Committee includes the requirements of section 148 of the FAA. The Committee derives its mandate and responsibilities, beyond those in the FAA, from the Board.

A. Operating Principles and Procedures

1. Functions and Composition –

- a. There shall be an Audit Committee, the members of which shall be two or more of the non-*ex officio* Directors, one of whom shall be a member of the Risk Committee, and one or more of the *ex officio* Directors, as named by the Board.
- b. Members of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time.
- c. All members of the Committee shall be independent of Management and the Corporation.
- d. The Committee will carry out the duties outlined in this Charter and such other functions as are assigned or delegated to it by the Board.

2. Competencies –

- a. All members appointed to the Committee shall either:
 - i. be financially literate¹ upon appointment; or

¹ "Financially literate" means having a basic understanding of finance and accounting and being able to read and understand financial statements, including a balance sheet, income statement, statement of comprehensive income and statement of cash flows.

- ii. undertake to be financially literate within a reasonable time after their appointment to the Committee.
 - b. Subject to availability, at least one member of the Committee shall have financial expertise².
 - c. Where appropriate, Committee members will enhance their familiarity with financial accounting, and other best practices for Audit Committees, 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 Corporation, and by participating in educational sessions or other opportunities for development.
3. **Chair and acting Chair** – The Chair of the Committee shall be a non-*ex officio* Director other than the Director who is the Chair of the Risk Committee, as selected by the Board. Where at any meeting the Chair is absent, one of the members of the Committee who is chosen so to act by the members present shall preside and have all the powers of the Chair.
4. **Frequency and Calling of Meetings** – The Committee shall meet at the discretion of the Chair of the Committee, but not less frequently than four times each year. Meetings may also be called by any other member of the Committee, the Chairperson of the Board, the President and Chief Executive Officer (“President & CEO”), the Chief Internal Auditor or the Chief Financial Officer.
5. **Office of the Auditor General (“OAG”)** – The OAG:
 - a. is entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard at each meeting, and, if so requested by a member of the Committee, the OAG shall attend any or every meeting of the Committee; and
 - b. may call a meeting of the Committee.
6. **Meeting Agenda** – A written agenda for each meeting of the Committee shall be established by its Chair, in consultation with Management, and distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.
7. **Quorum** – The presence of three members constitutes a quorum for a meeting of the Committee.
8. **Supplemental Attendees** – Any Director may attend any meeting of the Committee. Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair or acting Chair to attend any meeting of the Committee.
9. **Procedure and Conduct** – Subject to other provisions of this Charter, the Corporate By-law, and any resolution of the Board respecting a specific matter, the Chair shall determine the procedure at and conduct of meetings of the Committee.
10. **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast, and in the event of an equality of votes its Chair has a second vote.

² “Financial expertise” means having a recognized accounting designation and/or the following attributes: a background in accounting or related financial management experience which would include any experience or background which results in the individual’s financial sophistication, including being or having been an auditor, chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

11. **Private Meetings (*in camera*)** – The Committee shall meet privately as a committee at each regular meeting, and periodically with the President & CEO, the OAG, and the head of the internal audit function, in separate private sessions.
12. **Minutes** – The Corporate Secretary shall provide copies of the approved minutes of the proceedings of the Committee to all Directors upon request.
13. **Reporting** – The Committee shall, where appropriate, provide an oral report of each meeting of the Committee at the next regular Board meeting, or as may otherwise be required by the Board. If practicable, any report to the Board shall be in writing.
14. **Communication** – In carrying out its responsibilities, the Committee will maintain free and open communication among the Committee members, the OAG, Management of the Corporation, and the internal audit function.
15. **Disclosure** – The Committee shall ensure that this Charter and the composition of the Committee are publicly disclosed.
16. **Workplan** – The Committee shall, in consultation with Management, develop an annual workplan responsive to the Committee's duties and responsibilities.
17. **Self-assessment** – The Committee shall review its performance regularly and assess whether the Committee has fulfilled its responsibilities and duties stated in this Charter. The Committee shall also regularly assess the effectiveness of its Chair.
18. **Review of Charter** – The Committee shall review and assess the adequacy of this Charter annually. If the Committee considers that amendments are necessary, the Committee shall recommend such amendments to the Board for its approval.

B. Authority

1. **Investigation** – In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities, and to the OAG and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate based on information supplied to it by the OAG or others.
2. **Information** – The Committee is empowered to seek any information it requires from Management or employees of the Corporation regarding any matter under its responsibility.
3. **Input of Other Board Committees** – The Committee may request the input of other Board Committees regarding any matter under its responsibility.
4. **Independent Counsel or Other Advisors** – The Committee has the authority, in accordance with the Board's Policy respecting Engagement of Separate Independent Counsel or Other Advisors, to engage outside advisors, including but not limited to counsel, independent audit consultants and other experts, as needed, to review any matter under its responsibility.

C. Duties and Responsibilities

1. **Advice and Recommendations to Board** – In discharging its duties and responsibilities, the Committee relies on the expertise of Management, the Corporation's internal audit function, and the OAG, including examiners conducting special examinations. Although it does not carry out internal or external audits or special examinations itself, the Committee shall monitor the audit

and examination processes and review the reports, and make reasonable inquiries, to allow it to provide sound advice and recommendations to the Board.

2. **Financial Reporting** – The Committee shall assist the Board in discharging its responsibility for oversight of reliable, accurate and clear financial reporting, including by reviewing the Corporation’s annual financial statements and management’s discussion and analysis (MD&A) prior to approval by the Board, and reviewing, as appropriate, releases to the public of significant non-public financial information. Such review shall include, where appropriate but at least annually, discussion with Management, the internal audit function, and the OAG, of significant issues regarding accounting principles, the Corporation’s accounting policies, and significant management estimates and judgments.

The Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information and shall periodically assess the adequacy of those procedures.

3. **Financial Reporting Processes, Accounting Policies, and Internal Control Structure** – Management is responsible for the preparation, presentation, and integrity of the Corporation’s financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The Committee shall seek Management’s and the OAG’s views on opportunities to improve the quality of the Corporation’s accounting principles as applied in its financial reporting, inquire into alternative treatments that may have been considered but rejected, review the aggressiveness or conservatism of the Corporation’s accounting principles and estimates and review instances where the OAG’s advice on accounting or disclosure matters has not been followed.

Specifically, the Committee shall assist the Board in its oversight of the financial reporting process of the Corporation including:

- a. reviewing and advising the Board with respect to the Corporation’s annual financial statements;
- b. reviewing and approving the Corporation’s quarterly financial reports (“QFRs”) (encompassing quarterly narratives and financial statements) prior to public disclosure and reporting to the Board with respect to such reports. At any time the Audit Committee may refer the review of the QFRs to the Board for its review and approval;
- c. reviewing and advising the Board with respect to the OAG’s annual audit report referred to in subsection 132(1) of the *FAA*;
- d. reviewing major changes to the Corporation’s auditing and accounting principles and practices as suggested by the OAG, the internal audit function or Management;
- e. reviewing the integrity of the Corporation’s financial reporting processes and the internal control structure;
- f. ensuring that Management has the necessary policies and procedures in place related to internal controls, in accordance with applicable laws, regulations and guidance, to provide reasonable assurance of the adequacy and effectiveness of the Corporation’s internal control systems; and, reviewing the related reporting by Management and the internal audit function on such internal controls;
- g. reviewing the plan for the annual audit by assessing the reasonableness of the audit scope and plan and determining whether the Corporation is receiving appropriate audit

coverage and overall effort; satisfying itself that the OAG has considered the work of the internal audit function in developing its overall audit strategy; and, assessing the degree of assurance that the Board will be able to take from the OAG's work. Accordingly, the Committee should satisfy itself that the audit scope will not be restricted in any way and that key areas of interest to the Board are adequately covered;

- h. reviewing and monitoring the implementation of recommendations made through annual OAG audit and special examination reports and any management letter provided by the OAG and Management's responses to such reports and any such letter;
- i. satisfying itself that systems of reporting to the Committee are in place by each of Management, the OAG and the internal audit function regarding any significant judgments made in Management's preparation of the financial statements and any significant difficulties encountered during the review or audit, including any restrictions on the scope of work or access to required information;
- j. through its oversight of the internal audit function, satisfying itself that the Corporation is maintaining its books of account, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:
 - i. the assets of the Corporation are safeguarded and controlled;
 - ii. the transactions of the Corporation are in accordance with the *FAA* and the regulations thereunder, the *Canada Deposit Insurance Corporation Act* ("*CDIC Act*") and by-laws of the Corporation, and any directive given to the Corporation under the *FAA* or the *CDIC Act*; and
 - iii. the financial, human and physical resources of the Corporation are managed economically and efficiently, and the operations of the Corporation are carried out effectively; and
- k. receive such information from the internal audit function, Management, the Governance and Human Resources Committee ("GHRC"), and the Risk Committee, as appropriate, to understand the nature and magnitude of the key risks to which the Corporation is exposed, to enable the Committee to assess whether any such risks could have a significant impact on CDIC's financial statements or financial reporting, and to take such actions and make such recommendations it deems appropriate.

4. **Financial Management Oversight** – The Committee shall:

- a. **Operating and Capital Budgets** – monitor and advise the Board with respect to the annual operating budget and capital budget;
- b. **Borrowing** – review and advise the Board with respect to the policies and procedures of the Corporation relating to, and the terms and conditions of, any external borrowing to be incurred or assumed by the Corporation, through the Corporation's debt or otherwise;
- c. **Investments** – review and advise the Board with respect to the policies and procedures of the Corporation relating to, and the terms and conditions of, the investment of the Corporation's cash assets in short-term and long-term securities; and
- d. **Chair's, Directors' and Officers' Expenses** – receive reports from Management, and review reports thereon from the internal audit function, and the OAG, if any, on their review of the Chair's, Directors' and Officers' expense accounts.

5. **The Internal Audit Function** – The internal audit function conducts an audit, in accordance with subsection 131(3) of the *FAA*, of the Corporation's books of account and records and the financial and management control and information systems and management practices, to assess:
- i. whether they are being kept, and maintained, respectively, as required by the *FAA*: and
 - ii. whether (i) the assets of the Corporation are safeguarded and controlled; (ii) the transactions of the Corporation are in accordance with the *FAA* and regulations thereunder, the *CDIC Act* and by-laws of the Corporation, and any directive given to the Corporation; and (iii) the financial, human and physical resources of the Corporation are managed economically and efficiently, and the operations of the Corporation are carried out effectively.

To fulfil its responsibilities, the internal audit function requires independent status and therefore reports directly to the Audit Committee of the Board of Directors and to the President & CEO. This relationship requires that the Committee and the internal audit function have unrestricted access to each other directly.

The Committee shall oversee any internal audit of the Corporation that is conducted pursuant to subsection 131(3) of the *FAA*³. The Committee's specific responsibilities include:

- a. reviewing the internal audit function's Charter on a regular basis;
 - b. assessing the internal audit function's capabilities;
 - c. reviewing the internal audit function's independence and reporting relationships;
 - d. approving the internal audit plan and reviewing the internal audit function's budgets, the quality and quantity of staff and other resources it needs to do its job well;
 - e. evaluating the internal audit function's performance, including performance against its audit plans and budgets, in consultation with the President & CEO;
 - f. reviewing the internal audit function's reports;
 - g. monitoring the implementation of the internal audit function's reports and recommendations;
 - h. receive reports from the internal audit function on the review of Management's risk assessment procedures, controls and results;
 - i. ensuring that there is coordination of the internal audit function with annual OAG audits and special examinations; and
 - j. reviewing the overall operations of the internal audit function, having regard to its mandate and considering current internal audit standards.
6. **Special Examination (pursuant to the *FAA*)** – The Committee shall review and advise the Board with respect to the special examination plan and reports referred to in sections 138 to 141 of the *FAA*. The Committee's specific responsibilities include:
- a. reviewing the plan for the special examination, including the statement of the criteria to

³ Paragraph 148(3)(b) of the *FAA* provides for the Audit Committee to oversee the audit.

be applied in the special examination submitted by the OAG, and make recommendations to the Board for approval of the examination plan and the criteria;

- b. monitoring the progress of the special examination; and
- c. reviewing the report of the findings of the OAG on completion of the special examination, with the OAG and with Management, and advise and make recommendations to the Board with respect thereto.

The OAG is required to submit a plan for the examination, including a statement of the criteria to be applied in the examination, to the Committee before the detailed examination begins. There should be agreement with the OAG on the plan and criteria before the examination starts. In the absence of agreement, the Committee may recommend to the Board that the matter be raised with the Minister of Finance for resolution.

The Committee shall review and advise the Board on the findings of a special examination. In conducting such a review, the Committee should discuss findings with the examiner and with Management.

The Committee should fully probe any difficulties encountered in carrying out a special examination. In addition, any problems encountered in relying on the internal audit function should be investigated.

In instances where the OAG requires that a report concerning the special examination be included in the Corporation's next Annual Report and/or be provided to the Minister of Finance, the Committee should discuss the contents of the report with the OAG and make any recommendations to the Board it deems appropriate to assist the Board in its consultations with the OAG on the report.

In all such instances, the Committee should recommend to the Board that the Board request Management to take whatever corrective action is appropriate.

7. Ethical and Legal Compliance – The Committee shall:

- a. review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;
- b. ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management reports on compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a loss or liability to the Corporation (a copy of such reports shall also be provided to the GHRC and the Risk Committee); and by reviewing any report that is received from the internal audit function, the OAG, and/or other Committee Chairs on their review of same. The Board has delegated oversight responsibility to the GHRC for ensuring that policies are in place, and the GHRC reviews compliance with such policies. The Risk Committee reviews ethical and legal compliance from a risk perspective.;
- c. review the results of Management's investigation of, and action taken in connection with any internal control or accounting matters that may be questionable;
- d. establish a process for:
 - i. the receipt, retention and treatment of complaints or concerns regarding accounting, internal controls or auditing matters;

- ii. the confidential and anonymous submission, in accordance with the Corporation's policies, by the Corporation's employees of concerns regarding questionable accounting or auditing matters; and
 - iii. the evaluation, investigation and resolution of concerns relating to accounting, internal controls or auditing matters that may be questionable; and
 - e. subject to the process provided for in the CDIC Policy for Internal Disclosure of Information Concerning Wrongdoing in the Workplace, if such Policy applies in the circumstances, investigate any allegation that any officer or Director of the Corporation, or any other person acting under the direction of such a person, took any action to influence, coerce, manipulate or mislead any person engaged in the performance of an audit of the financial statements of the Corporation for the purpose of rendering such financial statements materially misleading and, if any such allegation proved to be accurate, take or recommend to the Board appropriate disciplinary action.
- 8. **Reports and Information, General** – The Committee should receive and review any information or reports that may be relevant to or assist the Committee with the fulfilment of its responsibilities, and where any information or reports may be relevant to or assist another Committee with the fulfilment of its responsibilities, the Committee should share or cause same to be shared with such other Committee. This includes sharing any information or reports with the Risk Committee on material risks in respect of matters within the Committee's mandate.