

Audit and Risk Committee Terms of Reference

INTRODUCTION

The Board has established an Audit and Risk Committee (ARC) to assist in fulfilling its oversight responsibilities related to:

1. the quality and integrity of financial reporting; and
2. enterprise risk management, including internal controls and fraud detection and prevention.

These terms of reference are intended to articulate and clarify the responsibilities of the ARC.

AUTHORITY

When the ARC was established on May 17, 2004, there were no legislative provisions specifically dealing with the formation or operation of an audit and risk or similar committee. The establishment and authority of the ARC arose from the broad authority vested in the Board to properly manage the affairs and activities of the Teachers' Retirement Allowances Fund (TRAF). Effective June 2, 2017, *The Teachers' Pensions Act* was amended to include subsection 41.1(1), which specifically provides that the Board may establish committees of the Board and appoint members of the Board and other individuals to such committees.

The ARC is empowered to make such inquiry and investigation and require such information and explanation from management as it considers reasonably necessary to carry out its mandate; and to require management to promptly inform the ARC and the auditor of any material misstatement or error in the financial statements following discovery of such situation. The ARC also has authority to engage outside advisers where appropriate.

COMMITTEE COMPOSITION AND MEMBER TERMS

On or before June 30 each year, the Board will appoint an ARC that consists of a minimum of two and a maximum of five of its members, together with a minimum of one and a maximum of two external independent accounting professionals. The Board Chair shall, if not appointed as a member, be an ex-officio member of the ARC. The Board will designate one member as Chair of the ARC. The Chair of the ARC will be a financially literate Board member, who is not also serving as Chair of the Board. The Board will use its best efforts to avoid overlapping membership between the ARC and the Investment Committee. When appointing ARC members, the Board must consider all threats to independence. All members must be independent of day-to-day operations.

ARC members may be reappointed. It is preferred that an ARC member shall not serve more than four consecutive years; however, in making reappointments, the Board must also consider the necessary balance of skills and experience. To the extent possible, there should be some continuity on the ARC from year to year (i.e., at least some of the members should be reappointed when possible). A member's appointment to the ARC will cease if the member's appointment to the Board ceases. The Board may appoint members to fill vacancies.

STANDARD OF CARE AND RELIANCE ON EXPERTS

In the discharge of their duties under the mandate of the ARC, each member of the ARC shall be obliged to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances where they are dealing with the affairs and property of another person, and shall use all relevant knowledge and skill possessed by them by reason of such member's profession, business or calling.

In the discharge of their duties, the members of the ARC may rely in good faith upon the report and findings of any expert engaged to report upon the matter under consideration. The ARC must act reasonably when engaging outside advisers. The Board shall be notified of any such engagement.

OPERATIONAL PROCEDURES

1. Meetings

Meetings may be convened at the request of the Chair of the ARC, or at the request of the TRAF Board or TRAF's auditor. The ARC will meet at least two times per year, or more often as determined by the ARC. The ARC shall meet with the auditor at least two times per year, but may request the attendance of the auditor at any meeting.

2. Attendance

Other members of the Board may attend ARC meetings subject to obtaining approval in advance from the ARC Chair. In addition, the President & Chief Executive Officer (CEO), the Chief Risk Officer (CRO) and the Vice President, Finance are generally expected to attend ARC meetings.

The ARC Chair, the President & CEO and the CRO may invite other staff members as they consider necessary or advisable to attend ARC meetings.

The Board Chair as an ex-officio member of the ARC is invited to attend all meetings of the ARC but is not required to attend.

Representatives of the auditor may also be present.

In the event that the ARC Chair is absent, the remaining ARC members shall elect a Chair for that meeting.

3. Quorum and Voting

A quorum consists of the majority of the voting members of the ARC in attendance. For certainty, the Board Chair, as an ex-officio member, is not counted for quorum and is not a voting member. Each ARC member, including the ARC Chair, is entitled to one vote and decisions shall be made by majority vote of those present. In the event of a tie vote, the ARC Chair shall have an additional or casting vote.

4. Minutes

The Vice President, Finance shall generally act as the recording secretary for each meeting. In the absence of the Vice President, Finance, the ARC Chair shall designate a recording secretary for such meeting. The designated recording secretary will generally be someone other than the ARC Chair.

Meeting minutes shall contain an outline of the material issues addressed at the meeting, as well as all approved decisions, resolutions or directives.

A draft of the minutes approved by the ARC Chair and recording secretary shall be circulated for review and approval with the materials for the next ARC meeting. The minutes shall be approved with such amendments or adjustments as may be agreed upon. In the event of a dispute, the normal voting procedures shall apply.

Notwithstanding the inherent delay in approving minutes, any action taken at a meeting will be effective as of and from the date of such original meeting.

5. Reporting

The ARC shall report to the Board on a regular basis. Reporting shall normally be made through the ARC Chair. Copies of meeting minutes shall be made accessible to the Board via posting to the Board portal. In addition, the Board can request a report from the ARC at any time.

6. Compensation

ARC members who are also Board members, including the Board Chair as an ex-officio member, shall be compensated for their services in accordance with Board Policy 3.0 — Board & Committee Member Expenses and Compensation. The external member(s) of the ARC will be compensated on a basis approved by the Board from time to time.

RESPONSIBILITIES

1. External Audit Process

- (a) Ensure that the following basic conditions for the external audit performed by the auditor are satisfied:
 - (i) independence;
 - (ii) qualifications; and
 - (iii) adequate planning;
- (b) Review and discuss the scope of each of the above with the auditor prior to the commencement of each audit;
- (c) Ensure that the external audit plan adequately considers an assessment of the risk of those areas where material misstatement to the financial statements is most likely;
- (d) Review audit timetable and compare to legislative requirements;
- (e) Review the engagement letter and fee estimate;
- (f) Review any non-audit services performed by the auditor that relate to TRAF business (whether or not engaged by TRAF) and evaluate any threats to independence of the auditor with respect to the external audit;
- (g) Meet with management at least annually, without the presence of the auditor, to discuss the quality of services provided by the auditor;
- (h) Meet with the external auditor at least annually, without the presence of management, to discuss any problems encountered by the auditor in performing the external audit;
- (i) Review the management letter issued by the external auditor and management's response, and advise the Board as to the adequacy of management's actions;
- (j) Adequately respond to any issues raised by the auditor;
- (k) Advise the auditors of any issues of disclosure, corporate governance, fraud or illegal acts, or known non-compliance with laws or regulatory requirements, where such matters may impact the financial statements, the schedule of compensation¹ or the respective auditor's report; and
- (l) Address any other matters necessary in order to recommend that the Board approve the annual financial statements and schedule of compensation.

2. Risk Management, Internal Controls and Fraud Prevention/Detection

- (a) Meet with management, as required, to discuss TRAF's enterprise risk management practices as set out in the Enterprise Risk Management (ERM) Handbook. To the extent necessary or desirable, recommend changes to the ERM Handbook for consideration by the Board;
- (b) Meet with management, as required, to discuss and evaluate the effectiveness of TRAF's internal controls;
- (c) Meet with management at least annually to discuss any knowledge they might have of an actual or suspected fraud affecting TRAF and review the appropriateness of any management response to any such situations;
- (d) As required, evaluate management's proactive fraud prevention program and make recommendations where appropriate;
- (e) As required, evaluate the effectiveness of management's fraud reporting process;
- (f) Meet at least annually with the external auditor and discuss any issues that could impact the fraud risk assessment process; and
- (g) Meet with management at least annually to discuss sensitive expenditure reports.

¹ The schedule of compensation is prepared in accordance with *The Public Sector Compensation Disclosure Act* (Manitoba).

3. Financial Reporting

- (a) Ensure that the annual financial statements and schedule of compensation disclosures appear complete and are consistent with the information available to the ARC;
- (b) Ensure that the financial statements and schedule of compensation disclosures are prepared in accordance with Canadian accounting principles;
- (c) Discuss any areas of concern with the auditor and consider obtaining independent verification if necessary; and
- (d) Review the methodology used for determining the fair value of investments as set out in the Valuation Handbook and ensure it is appropriate. To the extent necessary or desirable, recommend changes to the Valuation Handbook for consideration by the Board.

4. Standards on Integrity and Behaviour

- (a) At least annually, evaluate TRAF's written code of conduct, conflict of interest and whistleblower protection policies, and make recommendations where necessary;
- (b) Meet with management annually to discuss the implementation of the code of conduct, conflict of interest and whistleblower protection policies;
- (c) Evaluate management's communication of the code of conduct, conflict of interest and whistleblower protection policies to employees;
- (d) Obtain the details of any violations of such policies during the year and evaluate management's response; and
- (e) Meet with the auditor and request any details of any activities that might be in breach of the spirit of the code of conduct, conflict of interest and whistleblower protection policies.

RESPONSIBILITIES OF THE COMMITTEE CHAIR

The Chair of the ARC shall:

- 1. Provide leadership to enhance the ARC's effectiveness by:
 - (a) ensuring that the areas of responsibilities of the ARC and management are understood and respected by both; and
 - (b) overseeing the discharge of the ARC's responsibilities including its reporting obligation to the Board.
- 2. Act as the liaison between the ARC and management by working with the CFO to:
 - (a) carry out the annual calendar of the ARC's business
 - (b) set the agenda for each ARC meeting; and
 - (c) ensure that proper information is made available to the ARC.

BOARD REQUESTS

The ARC shall carry out such other tasks as directed by the Board.



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