

TERMS OF REFERENCE
AUDIT AND FINANCE COMMITTEE
Alberta Energy Regulator

A. Establishment of Committee

The Audit and Finance Committee (Committee) is a standing committee of the board of directors (Board) of the Alberta Energy Regulator (AER/Regulator). The chair of the Committee (Committee Chair) is the person designated from time to time by the Chair of the AER Board of Directors (Board Chair).

B. Purpose

The purpose of the Committee is to assist and advise the Board with respect to the Regulator's accounting and financial reporting processes and audit functions and, in doing so, aid the Board in fulfilling its governance responsibilities. The role of the Committee is that of oversight, not management, and in such capacity is to consider, monitor, oversee and make recommendations to the Board concerning various matters including:

- (i) the Integrity of the Regulator's financial statements and other financial information provided by, or on behalf of, the Regulator;
- (ii) the adequacy and effectiveness of the Regulator's systems of internal controls, including controls over financial reporting and financial reporting processes generally;
- (iii) the audit function, which includes both external and internal audit functions; and
- (iv) communications between the Board, the Regulator's external auditor (the Auditor General of Alberta (auditor)), management of the Regulator (management) and the Regulator's internal audit staff.

C. Scope of Authority

The Committee may consider, discuss, and provide feedback relating to matters within its area of responsibility brought before it by executive management, the Board or on its own initiative. The Committee may:

- (i) approve matters that are administrative and non-substantive in nature such as: correction of errors; those customarily made to confirm the accuracy and completeness of the Committee's own minutes; to appoint a vice chair for the Committee; conduct all or a portion of the Committee meeting in camera; and to approve the Committee's meeting agenda and changes to the agenda;
- (ii) refer matters to another committee for that committee's further consideration; and
- (iii) recommend to the Board for the Board's further consideration or approval a particular course of action relating to matters that are substantive in nature, but may not itself approve matters which are substantive in nature or require Board approval.

D. Responsibilities and Duties

The Committee shall have the responsibilities set out below as well as any other matters as may be delegated by the Board to the Committee from time to time:

1. Financial Reporting

- (i) Review and assess the accuracy and fairness of annual financial statements with management and the auditor, and recommend these to the Board for approval.
- (ii) Review and assess the accuracy and fairness of quarterly financial statements with management, approve these, and report to the Board as information.
- (iii) As needed, review any interim financial information and forecasts, and advise the Board as necessary.

2. Financial Affairs

- (i) Review and assess the accuracy and fairness of the Regulator's financial information and obtain explanations as required from the auditor and management on whether:
 - (a) actual financial results for any period varied significantly from budgeted or projected results;
 - (b) any changes in financial ratios and relationships in the financial statements are consistent with changes in the Regulator's operations and financing practices;
 - (c) Public Sector Accounting Standards have been consistently applied;
 - (d) there are any actual or proposed changes in accounting or financial reporting practices;
 - (e) there are significant or unusual events or transactions;
 - (f) the Regulator's financial controls are functioning effectively; and
 - (g) the financial information contains adequate and appropriate disclosures and disclaimers;
- (ii) Review any complex or unusual transactions affecting the Regulator that may have a material impact on the financial information; and
- (iii) Review with the auditor and management, and understand the effects upon the financial information of, any of the following:
 - (a) management analysis of financial reporting issues and judgments, including analysis of alternate accounting methods;
 - (b) significant accounting policies and any changes thereto including the specific principles involved and their application;
 - (c) the auditor's judgment about the quality and acceptability of such accounting policies;
 - (d) any significant judgments in accounting estimates;

- (e) the methods used to account for significant or unusual transactions;
- (f) accounting policies or accounting treatment with respect to:
 - (1) regulatory or professional pronouncements and emerging issues; and
 - (2) regulatory and accounting initiatives, including off-balance sheet structures; and
- (g) controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

3. Internal Controls

- (i) Review with the auditor and executive management the principal financial risks of the Regulator and ensure that the Regulator has, where applicable, adequate and effective internal controls in place to manage those risks, including with respect to:
 - (a) accounting, banking and financial reporting;
 - (b) preventing, detecting and reporting accounting fraud, illegal acts or financial irregularities within the Regulator;
 - (c) review the summary of directors' expenses at least annually;
 - (d) review of public announcements of the financial information;
 - (e) receipt, retention and treatment of complaints received by the Regulator regarding accounting, internal accounting controls or auditing matters; and
 - (f) whistleblower processes adopted by the Regulator.

4. External Auditor

- (i) Review the objectives and general scope of the auditor's proposed audit plan and audit fee (if applicable), and discuss with the auditor any significant changes made thereto;
- (ii) Review and discuss with the auditor:
 - (a) the annual audit plan and related systems audit, including materiality and significant audit risks, and the audit plan report;
 - (b) any material issues raised by the auditor;
 - (c) any recommendations of the auditor; and
 - (d) the Regulator's accounting policies and any significant judgments in accounting estimates.
- (iii) Oversee the relationship between the auditor and management, including resolution of any disagreements regarding financial reporting; and
- (iv) Ensure that management responds appropriately and in a timely manner to all recommendations by the auditor as endorsed by the Committee.

5. Internal Audit

- (i) Review and approve the organizational structure of Regulator's internal audit functions and the mandate of the Regulator's internal audit group to ensure no unjustified restrictions or limitations are made to his or her authority or scope of work;
- (ii) Following review by the Chief Executive Officer, review and approve the annual internal audit plan, budget and activities and deliverables of internal audit;
- (iii) Review the qualifications of the [Director of Internal Audit Services] and his or her key personnel and concur with the appointment, replacement, reassignment or dismissal of such individual;
- (iv) Oversee the effectiveness of the Regulator's internal audit function;
- (v) Receive reports and provide direction to the [Director of Internal Audit Services] regarding the Regulator's internal audit functions and audit results (excepting administrative and operational matters relating to internal audit, in relation to which the [Director of Internal Audit Services] will report to the Chief Executive Officer; and
- (vi) Ensure that management responds appropriately and in a timely manner to all recommendations by the [Director of Internal Audit Services], as endorsed by the Committee.

6. Monitoring

Unless otherwise noted, at least quarterly, review and monitor the Regulator's financial performance and obtain:

- (i) Written confirmation from the [Vice President Finance and Chief Financial Officer] that they have each reviewed the financial statements and financial information and based upon his or her knowledge:
 - (a) the financial statements and financial information do not contain any untrue statement of material fact or omit a material fact necessary to make them in light of the circumstances in which they are made, not misleading; and
 - (b) the financial statements and financial information present fairly in all material respects the financial condition of the Regulator;
- (ii) Written confirmation from the [Vice President Finance and Chief Financial Officer] that:
 - (a) the Regulator has established policies and procedures to provide reasonable assurance that material financial information is provided on a timely basis; and
 - (b) the [Vice President Finance and Chief Financial Officer] has disclosed to the [Director of Internal Audit Services], the auditor and the Committee:
 - (1) all known significant deficiencies and material weaknesses in the design of internal controls that could adversely affect the Regulator's ability to disclose material information, including any actions taken to correct significant deficiencies and weaknesses; and
 - (2) any fraud that involves employees who have a role in the Regulator's internal controls.

7. General and Governance Matters

The Committee shall report to the Board at least quarterly.

With respect to governance matters and other actions not identified above, the Committee shall, at least annually:

- (i) evaluate and review its performance and its compliance with its terms of reference and report to the Board;
- (ii) assess the appropriateness of its terms of reference, taking into account any applicable legislative and regulatory requirements, as well as best practices for Crown agencies, boards and commissions and report to the Board;
- (iii) receive and review a report from the [Director of Internal Audit Services] respecting compliance with internal policies and the effectiveness of internal controls and procedures; and
- (iv) perform such other responsibilities as the Board shall determine from time to time by resolution.

E. Meetings

1. Procedure

Unless otherwise determined by the Board or provided in the general bylaw of the Regulator, the Committee shall determine and regulate its procedures in all respects. The duties of the Committee Chair, and any requirements with respect to the calling of meetings, attendance at meetings and voting shall be as set out in the general bylaw except as provided in this document.

2. Support

The [Vice President Finance and Chief Financial Officer] will support the Committee as required to fulfill its mandate and duties.

3. Quorum

Participation of a majority of the members of the Committee shall constitute a quorum.

4. Reporting to the Board

The Committee shall report to the Board on material matters arising at Committee meetings, and where applicable, present the Committee's recommendation to the Board for its approval.

5. Delegation

The Committee may, from time to time, delegate to the Committee Chair any powers or responsibilities of the Committee. This delegation must include a reporting accountability back to the Committee.

6. Meetings

The Committee shall meet at least quarterly, or more frequently if necessary to consider urgent matters or at the discretion of the Committee Chair.

7. Access to Management and Outside Advisors

The Committee, through the Committee Chair, shall have unrestricted access to staff and management of the Regulator. The Committee, with the consent of the Board, shall have the authority to retain external advisors to assist it in fulfilling its responsibilities.

F. Membership

1. Composition and Appointment

The Committee shall be comprised of:

- (ii) A minimum of two directors appointed to the Committee by the Board, each of whom shall have voting rights, and one of whom shall be appointed by the Board Chair as Committee Chair;
- (iii) the Chair shall be:
 - (a) 'financially literate' (defined as the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Regulator's financial statements);
 - (b) have an understanding of financial and accounting issues relevant to the Regulator; and
 - (c) have related business experience or be willing to acquire relevant knowledge.
- (iv) The Board Chair shall be an ex officio voting member of the Committee.
- (v) [Vice President of Finance and Chief Financial Officer] and the [Director of Internal Audit Services] as standing non-voting members.
- (vi) Any other individuals who are not directors, and are appointed as members by the Board Chair, whose voting status will be determined at the time of appointment.
- (vii) At least one member shall have such accounting or related financial management expertise as the Board, using its business judgment, considers desirable.

2. Committee Chair

The Committee Chair is accountable to the Board Chair and is responsible for the matters set out in the role description approved from time to time by the Board, which shall at a minimum include the following:

- (i) call meetings of the Committee;
- (ii) identify items for consideration, ensure meeting agendas are prepared and that all other necessary materials are provided on a timely basis;
- (iii) notify and invite management and staff as appropriate;
- (iv) when present, preside at meetings of the Committee;
- (v) ensure all discussion items end with direction, action or definitive outcome, and communicate such to staff and/or the Board; and

- (vi) ensure draft minutes are prepared for approval at the subsequent Committee meeting; and ensure that agendas, minutes and documentation of Committee activities are properly maintained.

3. Independence

Each member of the Committee shall meet the independence standards established by the Board.

G. Further Direction

- (i) The Committee may direct any of its members or management to perform any responsibilities of the Committee itself. This direction will include a reporting accountability back to the Committee.
- (ii) The Committee and each of its members shall comply with such additional requirements as are specified in the *Responsible Energy Development Act*, S.A. 2012, Chapter 17 .3 as amended (REDA), and in the bylaws and resolutions of the Board in effect from time to time.

David Goldie, Chair
Board of Directors
Alberta Energy Regulator

Date