

Audit & Finance Committee Terms of Reference

The Audit & Finance Committee (the Committee) is a standing committee of, and reports to, the Board of Alberta Gaming, Liquor and Cannabis (AGLC). Through these terms of reference, the Board delegates certain responsibilities to the Committee to support the Board in discharging its mandate to oversee the AGLC's governance, risk management, internal control practices, financial performance, and business planning. This oversight increases confidence in the integrity of AGLC practices.

1. Mandate, Purpose and Authority

The Committee shall provide assistance in fulfilling the Board's oversight responsibilities over AGLC with specific reference to the:

- a) Integrity of AGLC financial statements and financial reporting process;
- b) Oversight of financial and business planning processes and monitoring performance;
- c) Compliance with applicable legal and regulatory requirements;
- d) Performance of AGLC's Internal Audit function ("Internal Audit");
- e) Oversight of the work performed by the Office of the Auditor General; and
- f) Preparation of the Audit & Finance Committee Report to the Board.

In broad terms, the Committee reviews each of the items noted above and provides independent advice and guidance regarding the adequacy and effectiveness of management practices and potential improvement to those practices.

The Committee shall be empowered to investigate any matter brought to its attention with full access to all AGLC books, records and personnel, using internal resources, counsel or outside experts when necessary or appropriate.

2. Duties and Responsibilities

Audit

It is the responsibility of the Committee to provide independent, objective advice and oversight on the adequacy of management arrangements with respect to the following aspects of the organization:

Values and Ethics

To obtain reasonable assurance with respect to the organization's values and ethics practices, the Committee will:

- Review and assess the policies, procedures, and practices established by AGLC to monitor conformance with its code of conduct and ethical policies by all managers and staff of the organization.
- Provide oversight on the mechanisms established by management to establish and maintain high ethical standards for all managers and staff of the organization.
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies and standards of ethical conduct and to identify and deal with any legal or ethical violations.
- Review the process for communicating the code of conduct to the organization's personnel and for monitoring compliance with that code.
- Obtain regular updates from management and the organization's Legal Counsel & Ethics Officer regarding compliance matters.

Risk Management

To obtain reasonable assurance with respect to the organization's risk management practices, the Committee will:

- Review AGLC's key enterprise risks on a semi-annual basis.
- Receive and review a semi-annual report on management's implementation and maintenance of an appropriate enterprise wide risk management process.
- Provide oversight on significant risk exposures and control issues that may impact strategic, operational, financial and compliance/legal/regulatory objectives.
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure they are operating effectively.

Fraud

To obtain reasonable assurance with respect to the organization's procedures for the prevention and detection of fraud, the Committee will:

- Oversee management's arrangements for the prevention and deterrence of fraud.
- Ensure that appropriate action is taken against known perpetrators of fraud.
- Challenge management and internal and external auditors to ensure that the AGLC has an appropriate antifraud program with controls in place to identify potential fraud and that investigations are undertaken if fraud is detected.

Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the AGLC's controls in responding to risks within the AGLC's governance, operations, financial transactions and information systems, the Committee will:

- Consider the effectiveness of the AGLC's control framework, including information technology security and control.
- Review and provide advice on the controls fundamental to achieving the organizational objectives.
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the Board.

Compliance

The Committee will:

- Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any instances of noncompliance.
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies.

Internal Audit Activity

To obtain reasonable assurance with respect to work of the internal audit activity, the Committee will provide oversight on these matters:

Internal Audit Terms of Reference and Resources

- Review and approve the internal audit terms of reference at least annually. The terms of reference should be reviewed to ensure that they accurately reflect the internal audit activity's purpose, authority, and responsibility, consistent with the mandatory guidance of The Institute

of Internal Auditors (IIA) and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management and governance process of the organization and developments in the professional practices of internal auditing.

- Advise the Board about increases and decreases to the resources requested to carry out the internal audit plan. Evaluate whether additional resources are needed permanently or temporarily through contracting external consultants.

Internal Audit Strategy

- Review and provide input on the internal audit activity's objectives, performance measures and outcomes.
- Review and approve proposed risk-based internal audit plan and make recommendations concerning internal audit projects.
- Review and approve the internal audit plan including reviewing internal audit resources necessary to achieve the plan.
- Review the internal audit activity performance relative to its audit plan.

Internal Audit Engagement and Follow-up

- Review internal audit reports and other communications to management.
- Review and track management's action plans to address the results of internal audit engagements.
- Review and advise management on the results of any special investigations.
- Receive updates from the Director of Internal Audit about any internal audit engagements or non-audit engagements that have been completed but no formal report was issued.
- Receive reports from the Director of Internal Audit whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.

Standards Conformance

- Inquire of the Director of Internal Audit about steps taken to ensure that the internal audit activity conforms with The IIA International Standards for the Professional Practice of Internal Auditing (Standards).
- Ensure that the internal audit activity has a quality assurance and improvement program and that the results of these periodic assessments are presented to the Committee.
- Ensure that the internal audit activity has an external quality assurance review every five years.
- Review the results of the independent external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations.
- Monitor any recommendations for the continuous improvement of the internal audit activity.

External Auditors (Office of the Auditor General)

To obtain reasonable assurance with respect to work of the external assurance providers, the Committee will meet with the external assurance providers during the planning phase of the engagement, the presentation of the audited financial statements, and the discussion of the results of engagements and recommendations for management.

The Committee will:

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with the internal audit activity.

- Have regularly scheduled exclusive meetings with external auditors to discuss any sensitive matters.
- Monitor management's progress on action plans.

To obtain reasonable assurance that management has acted on the results and recommendations of internal and external audit engagements, the Committee will regularly review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audit engagements.

Finance

Financial Statements and Public Accountability Reporting

The Committee is responsible for oversight of the independent audit of AGLC's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal and regulatory compliance, and ethics.

The Committee will:

- Review with management and the Office of the Auditor General the results of audit engagements, including any difficulties encountered.
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and assess their impact on the financial statements.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings and consider the accuracy and completeness of the information before it is released.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted external auditing standards.
- Understand strategies, assumptions and estimates that management has made in preparing financial statements, budgets, and investment plans.
- Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement in the process.
- Review interim financial reports with management and external auditors, and consider whether they are complete and consistent with the information known to committee members.

Financial and Business Planning

- Ensure the annual fiscal and capital plans are reasonable and reflective of the initiatives approved by the Board.
- Ensure the annual external business plan is reflective of the strategies and objectives approved by the Board.
- Ensure performance measures and associated targets appear in the business plan and are consistent with the objectives of the Board.

Financial Management

- Review the quarterly financial reports.
- Ensure the President & CEO or his designate report variances and provide reasonable explanations of any variances between reporting periods, budgets and forecasts.
- Monitor current and emerging financial issues.

- Review the form, content and level of detail of financial reports.

Performance Management

- Review quarterly reports of progress towards the objectives and business priorities in the business plan.
- Monitor current and emerging issues affecting the achievement of the business plan.
- Ensure the President & CEO or his designate report variances and provide reasonable explanations of any variances between performance achieved and the objectives and performance targets in the business plan.

Other Responsibilities

In addition, the Committee will:

- Perform other activities related to this terms of reference as requested by the Board Chair.
- Institute and oversee special investigations as needed.
- Review and assess this Audit & Finance Committee Terms of Reference annually.
- Regularly evaluate its performance and that of its individual members.

The Audit & Finance Committee Chair will:

- Review the annual performance of the Director of Internal Audit and develop annual performance plan.
- Receive a recommendation from management and approve appropriate compensation.
- Assist in the recruitment for the Director of Internal audit, if required.

3. Committee Membership

The Committee shall be comprised of no fewer than three (3) members of the Board and shall not have more than 4 members or a majority of the appointed Board members. The Board Chair shall be an ex officio (voting) member. The President & CEO, and the Vice President of Corporate Services and Chief Financial Officer shall be ex-officio (non-voting) members.

Committee members shall have:

- financial literacy, meaning 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 government's financial statements;
- a strong understanding of governance;
- an appreciation of the public sector decision making process and accountability framework, including the unique role of this Committee;
- independence, including an unbiased perspective on the matters brought before the Committee and the members' employment or involvement in other activities must not place them in a conflict of interest position;
- effective communication skills;
- strong support for ethics; and
- senior level experience in large organizations addressing strategic and conceptual issues.

The Board Chair shall appoint the members of the Committee and appoint a Chair from amongst those appointed.

Any Committee member may be removed or replaced at any time by the Board Chair, recommendation of the Committee to the Board Chair or on the Board's initiative. The Board Chair will fill vacancies on the Committee by appointment from qualified directors of the Board. The Board Chair, in consultation with Board members shall annually review the Committee membership skills composition.

The Chair of the Committee shall generally provide leadership to enhance the effectiveness of the Committee.

The Director of Internal Audit (or his/her delegate) is required to attend all Audit & Finance Committee meetings.

The Manager, Board Office shall be appointed as the Management Liaison for the Committee. The Management Liaison will work with the Committee Chair in establishing the agendas, coordinating the Committee reports and will attend meetings as appropriate.

The Committee may invite, at its discretion, members of management and/or other guests to attend all or a portion of a meeting of the Committee.

4. Meetings

The committee meeting dates will be established for the following year as part of the annual Board calendar. The Committee will meet at least 4 times annually or more frequently as the Committee Chair deems necessary. The time frame between Committee meetings should not exceed four months.

Committee members are not required to attend meetings in person. Audio or video conferencing tools will be provided to committee members.

All Board members will receive notice of Committee meetings and are entitled, to attend any meeting of the Committee as a non-voting attendee. Non-members may participate in Committee discussions.

5. Annual Work Plan

The Committee will develop an annual work plan and shall ensure the schedule of meetings coordinates with the deliverables outlined in the work plan.

6. Agenda and Reporting to the Board

The Chair of the Committee will establish the agenda for meetings in consultation with Committee members, management, the Director of Internal Audit and the Management Liaison ensuring alignment with the Committee work plan.

To the extent possible, the agenda and meeting materials will be circulated to all members at least one (1) week in advance of regular meeting dates to ensure sufficient time for review prior to the meeting. The Committee, through the Committee Chair, shall provide a report, with recommendations (when applicable), to the Board at the Board's next regularly scheduled meeting after a meeting of the Committee.

The secretary of the Committee shall be the Executive Assistant to the Board.

7. Minutes

The minutes of all Committee meetings will be approved at the next meeting of the Committee. Minutes of the meetings will be circulated to all Board members.

8. Quorum

A minimum of three (3) members in attendance shall be necessary to establish a quorum of the committee at any meeting and all actions of the Committee shall be taken by a majority of the members participating at the meeting.