

# **PUBLIC SECTOR PENSION INVESTMENT BOARD**

## **TERMS OF REFERENCE FOR THE AUDIT AND CONFLICTS COMMITTEE**

### **INTRODUCTION**

1. The Audit and Conflicts Committee (the “Committee”) is a standing committee of the Board of Directors (the “Board”) of the Public Sector Pension Investment Board (“PSP Investments”). The Committee has been established in accordance with the *Public Sector Pension Investment Board Act* (the “Act”).
2. The Act requires that the Board designate a committee of the Board to monitor the application of conflict of interest procedures for directors (the “Conflict of Interest Procedures for Directors”) and a code of conduct for Officers and employees (the “Code of Conduct for Officers and Employees”). The Board has designated the Committee to monitor the application of the Code of Conduct for Officers and Employees and the Governance Committee to monitor the application of the Conflict of Interest Procedures for Directors.
3. The Committee must be comprised of at least three directors, all of whom must be independent. The Committee reports to the Board on its activities, findings and recommendations.
4. Pursuant to the *Financial Administration Act*, the Auditor General of Canada (the “Auditor General”) will be the auditor, or joint auditor, of PSP Investments unless the Auditor General waives this requirement.

### **DUTIES AND RESPONSIBILITIES**

#### **5. Financial Reporting**

The Committee will:

- (a) review any accruals, provisions, estimates or management programs and policies that may have a significant effect on the financial statements of PSP Investments;
- (b) meet with the PSP Investments’ External Auditor or Joint External Auditors to discuss the annual consolidated financial statements of PSP Investments and the auditors’ report;
- (c) review the financial statements (together with the notes thereto) for each Fund on a quarterly and on an annual basis, and report to the Board before those statements are approved by the Board and discuss any letters to Management commenting on significant concerns on the part of the External Auditor or Joint External Auditors;
- (d) review and recommend for approval by the Board of Directors the quarterly consolidated financial statements and the annual consolidated financial statements (together with the notes thereto) in respect of PSP Investments, and discuss any letters to Management commenting on significant concerns on the part of the External Auditor or Joint External Auditors;

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- (e) review and recommend for approval by the Board the Management Discussion and Analysis section of the Annual Report and all other financial information contained within the Annual Report;
- (f) review all securities offering documents (including documents incorporated therein by reference);
- (g) review prior to public disclosure, press releases which accompany financial statements to the extent such press releases discuss the financial position, performance or operating results of PSP Investments;
- (h) review the findings or comments of any regulatory agencies concerning the financial information of PSP Investments and responses by Management to material information requests in this regard from such agencies; and
- (i) ensure, including by reviewing periodic reports from Management, that adequate procedures are in place for the review of financial or other information and periodically assess the adequacy of such procedures to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements.

### **6. Internal Controls, Risk Management and Accounting Policies and Procedures**

The Committee will:

- (a) require Management to implement and maintain appropriate, reliable and effective internal control procedures, including the internal controls relating to the accounting and financial reporting systems of PSP Investments, and the internal information system controls, security, and recovery plans;
- (b) review, evaluate and approve the internal control procedures required for PSP Investments to conduct its business;
- (c) receive and review periodic reports from Management, evaluating PSP Investments' internal control systems;
- (d) meet at least annually with the chief internal auditor of PSP Investments, or with any person acting in a similar capacity, and with members of Management as appropriate, to discuss the effectiveness of the internal control procedures;
- (e) retain, as necessary, independent counsel, accountants or other specialists to advise the Committee or assist in the conduct of an investigation;
- (f) review the arrangements of PSP Investments with any related party and Management's program to monitor compliance with proper business conduct;
- (g) monitor the application of the Code of Conduct for Officers and Employees;
- (h) receive and review, on a quarterly basis, reports on compliance with personal trading rules for Officers and employees;

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- (i) review and assess the appropriateness of accounting policies and financial reporting practices, any significant proposed changes in financial reporting and accounting policies and practices, and any new or pending developments in accounting and reporting standards that may affect PSP Investments;
- (j) review with Management, PSP Investments' External Auditor or Joint External Auditors and/or external legal counsel any claim or contingency that could have a significant effect on the financial condition or results of operations of PSP Investments, the manner in which such claim or contingency is being managed and the manner in which it has been disclosed in the financial statements of PSP Investments;
- (k) receive and review periodic reports on the nature and extent of compliance with statutory requirements relating to statutory deductions and remittances, the nature and extent of any non-compliance together with the reasons therefore and PSP Investments' plan and timetable to correct any deficiencies; and
- (l) review all investments and transactions that could adversely affect the return on PSP Investments' investments that are brought to the Committee's attention including, for example, by PSP Investments' external or internal auditors or Officers.

### **7. Audits, Special Audits, and Examinations**

The Committee will:

- (a) examine and approve the objectives, co-ordination and scope of audits, including the overall audit plans of PSP Investments' external and internal auditors, the duties and responsibilities of PSP Investments' external and internal auditors and the timing and estimated budgets of the annual audits;
- (b) oversee the work of PSP Investments' External Auditor or Joint External Auditors relating to the preparation or issuance of an auditor's report or the performance of other audit, review or services for PSP Investments;
- (c) ensure that there is an effective working relationship between PSP Investments' external and internal auditors and Management;
- (d) serve as the primary liaison, on behalf of the Board, and provide the appropriate forum for all matters related to audits, examinations, investigations or inquiries of PSP Investments' external and internal auditors, and appropriate agencies of the federal government;
- (e) provide a channel of communication between PSP Investments' external and internal auditors and the Board and meet separately on a regular basis with the external and internal auditors and Officers to discuss and review specific issues as appropriate;
- (f) review the findings of any audits, including any difficulties or disputes that arise with Management and Management's response thereto and follow-up on any issues identified;

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- (g) review the independence of the External Auditor or the Joint External Auditors, including the impact of any non-audit services performed for PSP Investments by the External Auditor or the Joint External Auditors or any affiliate thereof on such independence and make recommendations to the Board with respect to appropriate actions to be taken to protect and enhance the independence of the External Auditor or Joint External Auditors;
- (h) approve the fees proposed by the External Auditor or Joint External Auditors, if applicable;
- (i) pre-approve all non-audit services, if any, to be provided by the External Auditor or Joint External Auditors;
- (j) make recommendations to the Board and the Minister with respect to the reappointment or appointment of the Joint External Auditors, if applicable, and review the terms of the engagement, including the compensation of the External Auditor or Joint External Auditors, if applicable;
- (k) if a change in the Joint External Auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditor, and enquire as to the qualifications of the proposed Joint External Auditors before making its recommendation to PSP Investments and the Minister.

### **8. Complaints and Whistleblower Mechanism**

The Committee will ensure the creation and maintenance of an appropriate “whistleblower” mechanism for reporting financial fraud and other fraudulent and inappropriate activities and establish procedures to ensure the confidentiality of information collected in relation to disclosures of wrongdoing.

### **9. Governance and Management Oversight**

The Committee will:

- (a) review periodically the Terms of Reference for the Committee;
- (b) ensure that each new member of the Committee receives training with respect to the requirements and obligations of audit committees, issues of accounting principles, auditing standards, risk management and ethical compliance;
- (c) review the proposed appointment or termination of the Chief Financial Officer and the proposed appointment or termination of the Chief Internal Auditor, and inform the Chief Executive Officer of any concerns or findings;
- (d) review the evaluation of the Chief Financial Officer and the Chief Internal Auditor with the Chief Executive Officer before such evaluations are presented to the Human Resources and Compensation Committee at year-end for the determination of the compensation of such Officers for the ensuing year; and

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- (e) review and approve administrative budgets and require periodic reports from Management on significant expenses.

### **10. Other**

The Committee will:

- (a) review on an annual basis corporate insurance coverage; and
- (b) perform the other duties assigned to it by the Board and undertake on behalf of the Board such other activities as may be necessary or desirable in discharging its responsibilities.

### **DEFINITIONS**

- 11. “External Auditor” refers to the Auditor General, in the event that, at any time, the Auditor General is the sole auditor of PSP Investments.
- 12. “Fund” refers to the Canadian Forces Pension Fund or the Canadian Forces Superannuation Investment Fund within the meaning of the *Canadian Forces Superannuation Act*, or, if regulations are made under section 59.1 of that Act, a fund established under the regulations; the Public Service Pension Fund or the Public Service Superannuation Investment Fund, within the meaning of the *Public Service Superannuation Act*; or the Royal Canadian Mounted Police Pension Fund or the Royal Canadian Mounted Police Superannuation Investment Fund, within the meaning of the *Royal Canadian Mounted Police Superannuation Act*.
- 13. “Joint External Auditors” refers to the Auditor General and an external auditor of PSP Investments which, following a recommendation by the Committee and approval by the Board and the Minister, has been appointed by the Governor in Council to be the external auditor of PSP Investments in addition to the Auditor General.
- 14. “Management” refers to the Officers of PSP Investments and the other members of the senior management team of PSP Investments as may be determined from time-to-time by the Chief Executive Officer and communicated to the Board.
- 15. “Minister” refers to the President of the Treasury Board.
- 16. “Officers” refers to those employees who are appointed as officers by the Board in accordance with By-Law No. 1.

These Terms of Reference were most recently reviewed and amended by the Board on May 15<sup>th</sup>, 2009.