

Ontario Securities Commission Audit and Finance Committee Mandate

Establishment of Committee

The Commission has adopted the Charter of Corporate Governance: Roles and Responsibilities (the "Charter") to delineate its role and responsibilities and to ensure transparency in its governance structure. Members of the Commission, either directly or through Committees of the Board, are responsible for performing the duties set out in the Charter, and have established the Audit and Finance Committee (the "Committee") to assist the Members in fulfilling their governance and regulatory responsibilities.

The Committee has been created by the Board of Directors of the Commission and is governed by the Charter in the conduct of its duties. The Committee's purpose is to assist the Board in fulfilling its oversight in relation to:

- (i) the integrity of the Commission's financial statements;
- (ii) the internal control systems of the Commission;
- (iii) the internal and external audit processes;
- (iv) risk management; and
- (v) any additional duties set out in the Charter or otherwise delegated to the Committee by the Board.

Committee Governance

Membership

The Committee consists of three or more of the Part-Time Members of the Commission, all of whom are appointed by the Board. The Board makes its appointments of the members of the Committee at the first Board meeting immediately following March 31 of each year upon the recommendation of the Chair of the Commission and the Lead Director. No Member is expected to serve longer than five years, absent exceptional circumstances. The Board may appoint a Member to fill a vacancy occurring in the Committee within the year as may be required.

All of the Members are to be financially literate, and at least one Member shall have auditing, accounting or other related financial management expertise, as the Commission shall determine. Financial literacy includes 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 Commission's financial statements.

Appointment of Committee Chair and Secretary

The Chair of the Commission and the Lead Director recommend to the Board the nomination of one Member of the Committee as Chair. The position of Chair of the Committee is normally rotated every three years, but the term of any Chair may be extended by the Board for a term not exceeding five years in the aggregate.

The Secretary to the Commission acts as the Secretary of and counsel to the Committee. The Secretary records and maintains minutes of all proceedings of the Committee and provides all minutes of Committee meetings to be presented to the Board, following their approval and adoption by the Committee.

Meetings

The Committee meets as frequently as it determines is necessary, but not less frequently than quarterly and as soon as is practicable following the completion of the financial statements for each quarter. The Chair of the Committee may call meetings of the Committee, and shall call a meeting when requested to do so by a member of the Committee, the Chair of the Commission, the Lead Director, or the Executive Director. Notice of any such meeting must be given not less than 48 hours prior to the time of the meeting. The Chair of the Committee or his or her designate shall preside at all meetings of the Committee at which he or she is in attendance.

Each meeting shall include a closed session at which only the members of the Committee are present.

A quorum of the Committee shall consist of a majority of the Committee members. Procedure and all related matters are determined by the Committee as a whole. The powers of the Committee may be exercised at a meeting at which a quorum of the Committee is present. However, the Chair of the Committee may determine that any business to be transacted by the Committee in the absence of a quorum may be transacted by resolution in writing provided that:

- (i) no Member of the Committee objects; and
- (ii) the resolution is subsequently signed by all Members of the Committee.

Board Reporting and Recommendations

The Committee meets at least annually with the Lead Director to review the Committee's agenda for the following year and any other matters that the Lead Director or Committee consider appropriate. In so doing it annually reviews and assesses the adequacy of the Committee Mandate, and submits any amendments that the Committee may propose to the Governance and Nominating Committee.

The Chair of the Committee reports orally to the Board the proceedings of each meeting and all recommendations made by the Committee at the Board's next meeting. The Committee reports its activities in writing to the Board annually.

The Committee has the authority to make recommendations to the Board, but does not have decision-making authority, unless such authority is specifically provided by resolution of the Board. In carrying out its duties the Committee may retain any outside advisor without Board approval at the expense of the Commission at any time, and has the authority to determine any such advisor's fees and other retention terms.

Duties and Responsibilities

Management of the Commission is responsible for the preparation, presentation and integrity of the Commission's financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with generally accepted accounting standards and applicable laws and regulations.

The Committee is responsible for the oversight of the Commission's financial affairs and making recommendations thereon to the Board.

The Committee annually recommends to the Board the appointment of the Commission's external auditor. The external auditor is responsible for planning and carrying out, in accordance with professional standards, an audit of the Commission's annual financial statements. The external auditor reports directly to the Audit and Finance Committee.

In making recommendations to the Board, the Committee is responsible for the following:

Financial Review, Reporting and Public Disclosure

- Reviewing with management and the external auditor the audited annual financial statements together with all related management discussion and analysis, and recommending approval of the financial statements by the Board.
- Reviewing with management the quarterly financial statements and related reports for submission to the Board for review and approval. This review includes:
 - the accounting treatment of significant risks and uncertainties;
 - key estimates and judgments of management that may be material to the Commission's financial reporting;
 - significant auditing and financial reporting issues arising during the fiscal period and the method of resolution; and
 - reviewing management's explanation of all significant variances between comparative reporting periods and approved Operating and Capital budgets.
- Receiving confirmation from management that the Commission's financial statements, along with all other financial information, fairly present in all material respects the financial condition, results of operations and cash flows of the Commission, as of the date or periods presented in the statements.
- Reviewing the appropriateness of the Commission's accounting and financial reporting, and any changes to such reporting as recommended by management or the Commission's auditors.
- Reviewing management proposals for changes to, and ensuring compliance with, existing financial policies and practices.
- Reviewing the Commission's Business Plan, and reviewing and recommending for Board approval the annual Operating and Capital budgets.
- Reviewing and approving guidelines and policies for the handling, investing or allocation of settlement funds, the reserve fund, off-balance sheet arrangements, and debt borrowing and debt guarantees proposed by the Commission.
- Reviewing the Commission policies, practices and procedures for contract management.
- Ensuring that adequate procedures are in place for the review of the Commission's public disclosure of financial information.
- Reviewing reports on any litigation matters that could significantly affect the financial statements.

Oversight of Internal Controls

- Overseeing the system of internal controls by monitoring and reviewing policies and procedures for internal accounting, internal audit, financial control and management information.
- Reviewing and assessing the adequacy of the Commission's system of internal controls and management information systems through discussions with management and the internal and external auditors.
- Consulting with the internal and external auditors to discuss other matters as deemed appropriate.
- Receiving and reviewing the report of the internal auditor and meeting privately with the internal auditor at least annually.
- Reviewing the policies for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and the protection from retaliation of those who report such complaints in good faith.
- Ensuring that the Chair of the Committee reviews and approves the expenses incurred by the Chair of the Commission.

Risk Management

- On an on-going basis, reviewing and assessing the adequacy of the Commission's risk management policies and procedures with regard to identification of the Commission's principal risks, and reviewing updates on these risks and assessing the adequacy of the implementation of appropriate systems to mitigate and manage the risks, and reporting regularly to the Board.

External Auditor

- Annually recommending to the Board the appointment of the external auditor.
- Annually reviewing and approving the proposed audit plan and scope of the external audit with the external auditor and management.
- Reviewing, in the absence of management, the external audit report and discussing with the external auditor the quality of accounting principles used, any alternative treatment of financial information that has been discussed with management, the ramifications of their use and the external auditor's preferred treatment, and any other material communications with management.
- Resolving any disagreements between management and the external auditor regarding financial reporting.
- Reviewing all other material written communications between the external auditor and management, including the post-audit management letter containing the recommendations of the external auditor, management's response and follow-up.
- Meeting with the external auditor in the absence of management at least annually to discuss and review specific issues as appropriate, and ensuring that any matter the external auditor seeks to bring to the attention of the Board has been given adequate attention.

Internal Audit

- Reviewing the appointment or replacement of the internal auditor.
- Reviewing with management the mandate, staffing, plans, activities and results of the Commission's internal auditor to gain reasonable assurance that their activities are appropriately comprehensive, effective and coordinated with the external auditor, where appropriate.
- Discussing the impact of any significant internal audit findings, together with the appropriateness of management's response, on the adequacy and effectiveness of the Commission's system of internal controls.