

# CANADIAN SCHOLARSHIP TRUST FOUNDATION

## Terms of Reference for Board Committees

### *Audit Committee*

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## TERMS OF REFERENCE

### 1. **Mandate**

The Audit Committee is a standing committee of the Board of Directors of the Canadian Scholarship Trust Foundation (the “Foundation”). Its mandate is to assist the Board in fulfilling its oversight responsibilities in respect of the Foundation and its subsidiaries and the other entities it controls, including the trusts, plans, funds and investment vehicles it sponsors from time to time (collectively, the “CST Group”) in respect of (a) its financial reporting, internal financial controls and systems and public offering documents, (b) its management practices, and (c) its policies and practices in respect of regulatory compliance, conflict of interest, business ethics and market conduct in all matters except the investment and human resources functions (which are the responsibility of the Investment and Corporate Governance and Human Resources Committees, respectively). The committee is also responsible for overseeing the controls and activities of the CST Group in managing those risks delegated to the committee by the board of directors. It is the responsibility of management to manage the business and affairs of the CST Group. In particular, it is management and not the committee that is responsible for the planning and conduct of the audit and for determining that the financial statements are complete, accurate, fairly presented, and in accordance with International Financial Reporting Standards or in the case of the Foundation, the Accounting Standards for Not-for-Profit Organizations of the Chartered Professional Accountants Handbook and that all regulatory requirements applicable to the CST Group are scrupulously observed.

In exercising its business judgment, the committee shall rely on the information and advice provided by senior management, the external auditors, the internal auditor, if any, and internal financial and compliance personnel. The committee shall endeavour, with that support, to ensure that the CST Group fully and fairly represents its financial condition and the results of its operations in all dealings with third parties.

### 2. **Duties**

In order to discharge its mandate, the Audit Committee shall:

#### **A. External Auditors**

- A.1 Annually recommend to the Board (a) the selection of the external auditors taking into account their independence and effectiveness and the terms of their engagement, and (b) the amount of the auditors’ fees.
- A.2 Annually review with the external auditors and senior financial management the scope of the external audit for the current year, and, if proposed, any significant changes from the original audit plan.
- A.3 Require the external auditors to represent to the committee annually (i) that the auditors have reviewed these terms of reference as amended from time

to time, (ii) that all matters which the auditors are required to raise for discussion have been brought to the attention of the committee, and (iii) the details of all non-audit relationships between the audit firm and the CST Group.

- A.4 Review with the external auditors any significant relationships disclosed under A.3 and satisfy itself on a continuing basis as to the external auditors' objectivity and independence.
- A.5 Review the evaluation of internal financial controls by external auditors.
- A.6 Direct the external auditors to promptly contact the chair of the committee with respect to any significant issue or disagreement concerning the accounting policies or practices employed by the CST Group, the financial statements, or any other matter that is not resolved to the auditors' satisfaction.
- A.7 Meet privately with the external auditors at each meeting of the committee, without management present, to ensure full and free discussion of all matters which could impact on the integrity of the financial administration or the financial information of the CST Group.
- A.8 Conduct a formal Annual Assessment of the quality of the external audit and the external audit firm and a Comprehensive Review at least every five years.
- A.9 Review and approve all requests for non-audit services to be performed by the external auditors for the CST Group before such work commences.
- A.10 Request that the external auditors provide to the committee, at least annually, an oral and/or written report describing the external auditors' internal quality assurance policies and procedures as well as any material issues raised in the most recent internal quality assurance reviews, quality reviews conducted by the Canadian Public Accountability Board, or any inquiry or investigation conducted by government or regulatory authorities.

**B. Financial Statements/Offering Documents/Continuous Disclosure Documents**

- B.1 Review (i) the draft annual financial statements and accompanying continuous disclosure documents and (ii) any interim financial statements to be provided to third parties (other than monthly operating reports required to be filed with bankers), with senior financial management and the external auditors to determine that the external auditors are satisfied with the quality and appropriateness of the disclosure and content of the statements, including the nature and extent of any changes in accounting principles, and recommend approval of annual financial statements to the Board prior to their release.
- B.2 Advise senior financial management and the external auditors that they are expected to provide the committee a timely analysis of significant emerging financial reporting issues and practices that may impact the CST Group.
- B.3 Discuss with senior financial management and the external auditors their qualitative judgments as to the appropriateness, as well as the acceptability, of the accounting policies and financial disclosure practices used or proposed to be adopted, including the clarity of financial disclosure, and any alternative accounting policies or practices that could have been employed.

- B.4 Unless there is a meeting of the committee planned in conjunction therewith, require senior financial management to meet with the chair of the committee prior to any regularly scheduled meetings of the Board to review the most recent internal interim financial reports and any accounting issues or changes in accounting policies or financial disclosure practices which have arisen or have been adopted or proposed since the prior meeting of the Board.
- B.5 Review all offering documentation by which plans or other investment vehicles may be proposed for submission to regulatory authorities in respect of the distribution activities of the CST Group and the continuous disclosure documents of each plan or investment vehicle prior to the submission of such documentation to the Board for approval, including the discussion of such documentation with senior financial management and the external auditors to confirm the quality and appropriateness of the disclosure and content of such documentation.

**C. Internal Audit Function**

- C.1 The chair of this committee shall report to the Board at least annually the effectiveness, capability, results of the work performed and any concerns regarding Internal Audit function of the CST Group.
- C.2 Review and endorse the appointment or replacement of the internal audit provider, who reports directly to this committee.
- C.3 Review and approve the Internal Audit Mandate at least every three (3) years or upon recommendation by the internal audit provider of the CST Group.
- C.4 Receive report from the internal audit provider on the adequacy and appropriateness of the adopted audit methodology and any significant changes to the Audit Procedures.
- C.5 Review the progress of the annual audit plan, any major issues/findings from completed assignments and any other pertinent matters that may provide insight into the control environment and risk mitigation regime of the CST Group and meet privately with the internal audit provider without other management present.
- C.6 Review complaints received by the CST Group regarding accounting, internal controls and auditing matters or other possible violations of internal codes of conduct and other policies or external regulations, whether or not related specifically to financial matters.
- C.7 Review, evaluate and approve Annual Audit Plan as submitted by the internal audit provider of the CST Group, including the risk evaluation process that supported the Annual Audit Plan.
- C.8 On an annual basis, with independent input from both the Chief Executive Officer and the internal audit provider, evaluate the continued functioning of the Internal Audit function of the CST Group, its annual budget and resource requirement, including the use of external expertise.
- C.9 The Chair, with input and recommendations from the Chief Executive Officer approves the performance review, compensation (including salary, bonus and other benefits or service fees) of the internal audit provider.

- C.10 Where material, reviews and approves the appointment of outsourced audit firms and subsequently monitors the effectiveness of this arrangement. Review the working relationship internal audit provider has, if any, with external auditors to ensure efficient and effective coverage of audit and risk oversight and not for the sole purpose of audit fees reduction.
- C.11 At least once every five (5) years, request and receive a benchmarking report from the internal audit provider on the operation and effectiveness of the internal audit function.
- C.12 At the earlier of the completion of any internal audit provider contract or at least once every five (5) years, request and receive a quality assurance review of the internal audit provider by a qualified external party.
- C.13 Conduct in-camera session amongst members of the committee on the overall functioning and effectiveness of the Internal Audit function at least on an annual basis.

**D. Ethical Business Conduct and Regulatory Compliance**

- D.1 Promote the development of high standards of market conduct and business ethics in the affairs of the CST Group (in respect of the investment management function, the development of standards and related oversight is the responsibility of the Investment Committee and in respect of staff, officers and directors, the development of standards and related oversight is the responsibility of the Corporate Governance and Human Resources Committee) and be apprised of serious infractions.
- D.2 Review policies and procedures to better assure that the mission of the CST Group, the standard of business ethics expected of employees, branch managers and sales representatives and, if and when established, all codes of conduct are well articulated and properly disseminated throughout the CST Group and its distribution network.
- D.3 Review the programs and policies designed by management to assure compliance with applicable regulatory requirements and monitor the results of such compliance by employees, branch managers and sales representatives.
- D.4 At each meeting of the committee, meet privately with the Chief Compliance Officer without other management present (i) to provide open dialogue in respect of compliance by the CST Group with regulatory requirements and approved policies and in respect of the programs and policies of the CST Group relating to business ethics, conflict of interest and other market conduct matters, and (ii) to confirm effective cooperation by senior management and other personnel in respect of compliance issues.
- D.5 Review the size, membership and compensation of Independent Review Committee (“IRC”) and make recommendations to the IRC as required.
- D.6 Provide input into the self-assessment process of the IRC.
- D.7 Review the policies and procedures designed by management to both manage or mitigate the risk of conflict of interest situations and ensure that the Canadian Scholarship Trust Plans (the “Plans”) are managed in the best interest of each Plan and that the CST Group is in full compliance with the regulatory requirements for an IRC.

## **E. Risk Management/Internal Controls**

- E.1 Provide oversight in respect of the risks delegated to the committee by the board of directors, including the review of the status of the risks and the monitoring of processes and actions taken to mitigate risks and the specific controls and activities in the management of those risks. for a listing of the assigned risks.
- E.2 Review annually with senior management the adequacy and effectiveness of financial controls and management and information systems, including accounting and budget controls, financial planning and computer operation and security; and discuss these issues annually with the external auditors in the context of any auditors' management letter.
- E.3 Discuss risk identification and management processes with the external auditors.

## **F. General**

- F.1 Review the adequacy of these terms of reference at least annually.
- F.2 Conduct or authorize investigations into any matters within the committee's mandate.

The committee may, with the approval of the Chair of the Board, engage independent advisors in respect of matters within its mandate if it determines that this is necessary to enable it to properly discharge its responsibilities.

## **3. Membership**

- 3.1 The Audit Committee shall be comprised of a minimum of three directors as appointed by the Board.
- 3.2 The Chair of the Board of the Foundation shall be an ex officio member of the committee who shall have the same rights as other members of the committee including being counted towards a quorum and the right to vote.
- 3.3 All committee members shall be independent of the Foundation according to the standards of independence applicable to Canadian publicly listed corporations. Financial literacy shall also be a requirement for appointment as a member of the committee. The committee chair shall be a person who, by reason of training or experience, has expertise in financial matters.
- 3.4 A director appointed by the Board shall serve as chair of the Audit Committee. If the committee chair is not present at a meeting or is unable to act as chair, the committee shall select a chair for the meeting in question.

- 3.5 The appointment of the committee chair will be on an annual basis. However, the normal rule will be that a committee chair will serve in the position for three successive one-year terms, unless determined otherwise by the Board based on an annual evaluation of the committee chair overseen by the Corporate Governance and Human Resources Committee.

#### **4. Meetings**

- 4.1 The Chief Executive Officer, at the direction of the committee chair, shall call meetings of the Audit Committee upon notice as required in the bylaws. The committee chair shall call a meeting if requested by the Chief Executive Officer, the Chair of the Board, the Chief Financial Officer, the Chief Compliance Officer, the internal auditor (if any) or the external auditors.
- 4.2 Meetings may be held in person, by telephone or videoconference hook-up, or by any individual member participating by telephone or videoconference hook-up.
- 4.3 A quorum of any meeting of the committee shall be a majority of its members and decisions taken by a majority of those present shall constitute a decision of the committee.
- 4.4 The Chief Executive Officer shall be entitled to receive notice of, and attend, all meetings of the Audit Committee. The committee chair may determine that it would be appropriate for an item of business at the meeting to proceed in their absence. This could occur, for example, if the item of business relates to some alleged conflict of interest. The Chief Executive Officer is a member of the committee and shall not be counted for the purposes of determining whether a quorum is present.
- 4.5 The external auditors are entitled to receive notice of, and attend, all meetings of the Audit Committee.
- 4.6 Each meeting of the committee shall include a private session with only committee members present. In addition, meetings shall be structured to provide an opportunity at each meeting for separate private discussions with the internal audit provider (if any), external auditors, Chief Compliance Officer, Chief Executive Officer and the Chief Financial Officer. If any material issues arise during such a session, the Audit Committee Chair shall discuss it with the Chief Executive Officer.
- 4.7 Committee meeting agendas shall be the responsibility of the committee chair in consultation with committee members, senior management, the internal audit provider (if any) and the external auditors.
- 4.8 The committee shall communicate its expectations to management, the internal audit provider (if any) and the external auditors with respect to the nature, timing and extent of its information needs. The committee expects that written materials will be received from management, the internal audit provider (if any) and the external auditors at least one week in advance of meeting dates.

4.9 The committee may request any officer or employee of the Company or the CST Group's outside counsel to attend a meeting of the committee or to meet with consultants to the committee.

**5. Reporting**

5.1 Minutes of meetings of the committee shall be maintained in such fashion as the committee shall direct and copies of the minutes shall be distributed to the Board prior to its next regular meeting. The committee may determine that minutes of its private sessions shall not be made available to management, including management directors.

5.2 At each meeting of the Board, the committee chair shall report on the work of the committee which has been undertaken since the last report.





