

## TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

### I. INTRODUCTION

- A. The Alberta Dental Association and College (“the ADA&C”) has an obligation to protect the integrity of its financial records, and will do so by ensuring financial statements are prepared accurately by the ADA&C’s management and secondly by arranging for the audit of the ADA&C’s financial statements by an auditor.
- B. Primary responsibility for the financial reporting, information systems, risk management and internal controls of the ADA&C is vested in management and is overseen by Council, through the Audit Committee.
- C. The ADA&C’s auditor has the responsibility to audit the ADA&C’s financial statements in accordance with the generally accepted auditing standards and to express an opinion as to the fairness of the representations made in the financial statements. The Audit Committee will review with the auditor the scope of the proposed audit and the terms of the engagement letter to ensure the audit will have appropriate scope. It will review with the auditor the results of the audit upon its conclusion. In this regard, the Audit Committee will serve as a liaison between Council and the ADA&C’s auditor.

### II. PURPOSE

- A. The primary function of the Audit Committee is to assist Council in fulfilling its oversight responsibilities by:
  - i) overseeing the preparation of financial statements by management;
  - ii) overseeing the conduct of audits by the ADA&C’s auditor;
  - iii) recommending to the regulated members of the ADA&C an auditor for approval by them; and
  - iv) reporting to Council on all activities of the Audit Committee.

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### III. COMPOSITION AND OPERATIONS

- A. The Committee shall be composed of three directors, one of whom shall be the President-Elect.
- B. If appropriate, the President-Elect shall chair the Committee.
- C. All members of the Committee shall be financially literate or shall be actively working towards achieving financial literacy, and, ideally, at least one will have an accounting or related financial experience.<sup>1</sup>
- D. The ADA&C's auditors shall be advised of the names of the committee members and will receive notice of and be invited to attend meetings of the Committee, and to be heard at those meetings on matters relating to the Auditor's duties.
- E. The Committee shall meet with the external auditors, as it deems appropriate, to consider any matter that the Committee or auditors determine should be brought to the attention of Council.
- F. The Committee shall meet at least two times each year.
- G. The Committee has access to the ADA&C's management and employees, and to documents as required to fulfill its responsibilities and is provided with the resources necessary to carry out its responsibilities.
- H. The Committee provides open avenues of communication among management, employees, external and internal auditors and Council.
- I. The Committee shall operate under the guidelines applicable to all committees, which are located in Tab D-2 of the Governance Manual.

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<sup>1</sup> "Financial literacy" is: the ability to read and understand a balance sheet, income statement and a cash flow statement. Where there is a requirement for a director to have accounting or financial experience this means the director shall have the ability to analyze and understand a full set of financial statements, including the notes attached thereto.

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### IV. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of Council, the Committee holds the following duties and responsibilities:

#### A. Financial Statements and Other Financial Information

- i) The Committee will review and, where appropriate, recommend for approval to Council, financial information that will be made available to regulated members and the Government. This includes:
  - a) assurance that all regulatory compliance matters have been considered in the preparation of financial statements;
  - b) review and recommend for approval, the ADA&C's annual audited financial statements and report to Council before the statements are approved by Council;
  - c) ensure that the Chief Executive Officer has the necessary financial information for the Annual Report to the Minister in a timely manner;
  - d) review and recommend for approval the financial portion of the Annual Report to the Minister, including any explanatory notes; and
  - e) review and recommend approval of the operating budget presented by the Chief Executive Officer.
- ii) The Committee will review and discuss:
  - a) the appropriateness of accounting policies and financial reporting practices;
  - b) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the ADA&C;
  - c) any new or pending developments in accounting and reporting standards that may affect the ADA&C; and

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- d) management's key estimates and judgments that may be material to financial reporting.

### **B. Risk Management, Internal Control and Information Systems**

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- i) understand the policies and procedures that ADA&C has in place to identify, monitor and manage risk;
- ii) review with other committees any area of risk that falls under their scope;
- iii) review the ADA&C's risk management controls and policies;
- iv) obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management and the external auditor;
- v) determine whether any internal control recommendations made by the auditor has been implemented by management, and discuss with management as appropriate;
- vi) evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities;
- vii) consider how management is held to account for the security of computer systems and applications, and review any contingency plans for retrieving and processing financial information in the event of a systems breakdown;
- viii) review adequacy of security of information and information systems;

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- ix) review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance;
- x) obtain regular updates from management regarding compliance matters;
- xi) review the appointment of any employees with key financial responsibilities, taking into consideration, among other factors, previous employment by ADA&C's external auditor; and
- xii) review the adequacy of accounting and finance resources.

### C. External Audit

The independent auditor is ultimately responsible to the Committee and Council. The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

- i) assist the regulated members in their selection of an auditor by supplying a recommendation as to an auditor who is competent, who possesses an ability to work and communicate with the ADA&C and who possesses an understanding of the ADA&C's mandate;
- ii) recommend the remuneration to be paid to the Auditor to Council for its approval;
- iii) review the annual external audit plan, including but not limited to the following:
  - a) engagement letter;
  - b) objectives and scope of the external audit work;
  - c) changes in independent accounting and auditing standards;
  - d) materiality limit;

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- e) areas of audit risk;
  - f) staffing;
  - g) timetable; and
  - h) proposed fees.
- iv) meet with the external auditor to discuss the ADA&C's annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
- v) review and advise Council with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
- a) any difficulties encountered, or restriction imposed by management, during the annual audit;
  - b) any significant accounting or financial reporting issue.
  - c) the auditors' evaluation of the ADA&C's system of internal controls, procedures and documentation;
  - d) the post audit or management letter containing any material findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses; and
  - e) any other matters the external auditor brings to the Committee's attention.
- vi) assess the performance of and consider the annual appointment of external auditors for recommendation to Council;
- vii) review and receive assurances on the independence of the external auditor;
- viii) review and approve the non-audit services to be provided by

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the external auditor's firm or its affiliates (including estimated fees), giving consideration to the impact on the independence of the external audit; and

- ix) meet annually with the external auditor without management present.

### D. Other

- i) review the findings of any financial examinations by government or regulatory agencies;
- ii) review insurance coverage of significant risks and uncertainties;
- iii) ensure the ADA&C has established procedures for the receipt and treatment of complaints received by the ADA&C regarding accounting or audit matters and anonymous submissions by employees of concerns regarding questionable accounting or auditing matters;
- iv) review and approve the ADA&C's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the ADA&C;
- v) review Council's Levels of Spending Authorities (Tab C-8) at least annually, and recommend any changes to Council for its approval;
- vi) review expenses of the President and the Chief Executive Officer semi-annually; and
- vii) review the terms of reference for the Committee annually and make recommendations to Council as required.

### V. ACCOUNTABILITY

The Audit Committee will at all times ensure Council is kept apprised of its activities through the provision of written reports to Council following each of its meetings, and at a minimum shall report to Council at every regularly scheduled Council meeting.

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### VI. COMMITTEE TIMETABLE

The timetable on the following pages outlines the Committee's schedule of activities.



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Audit Committee Timetable												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>A) Financial Statements and Other Financial Information</b>												
i) review and recommend financial information to be made available to regulated members and the Government including:												
a) assurance that all regulatory compliance matters have been considered in the preparation of financial statements												
b) review and recommend annual audited financial statements												
c) financial information to the Chief Executive Officer for the Annual Report to the Minister												
d) review and recommend financial portion of the Annual Report												
e) review and recommend the operating budget												
ii) Review and discuss												
a) appropriateness of accounting policies and financial reporting practices												
b) significant proposed changes in financial reporting and accounting policies and practices												
c) any new or pending developments in accounting and reporting standards												

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Audit Committee Timetable												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
d) management's key estimates and judgments that may be material to financial reporting												
<b>B) Risk Management, Internal Control and Information Systems</b>												
i) Review policies and procedures in place to identify, monitor and manage risk												
ii) review with other committees any area of risk that falls under their scope												
iii) review risk management controls and policies												
iv) obtain reasonable assurance that information systems are reliable and internal control systems are properly designed and effectively implemented												
v) determine whether any internal control recommendations made by the auditor has been implemented by management, and discuss with management as appropriate												
vi) evaluate whether management is setting the appropriate "control culture"												
vii) consider how management is held to account for the security of computer systems and applications, and review any contingency plans for retrieving and processing financial information in the event of a systems breakdown												

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Audit Committee Timetable												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
viii) review adequacy of security of information and information systems												
ix) review effectiveness of system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any fraudulent acts or non-compliance												
x) obtain regular updates from management regarding compliance matters												
xi) review appointment of any employees with key financial responsibilities												
xii) review the adequacy of accounting and finance resources												
<b>C) External Audit</b>												
i) assist regulated members to select auditor												
ii) recommend Auditor's remuneration												
iii) review annual external audit plan												
iv) meet with external auditor to discuss annual financial statements and auditor's report												
v) review and advise Council with respect to the planning, conduct and reporting of the annual audit												

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Audit Committee Timetable												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
vi) assess the performance and consider the annual appointment of external auditors for recommendation to Council												
vii) review and receive assurances on the independence of the external auditor												
viii) review and approve any non-audit services to be provided by the external auditor's firm or its affiliates												
ix) meet annually with the external auditor without management present												
<b>D) Other</b>												
i) review the findings of any financial examinations by government or regulatory agencies												
ii) review insurance coverage of significant risks and uncertainties												
iii) review procedures for the receipt and treatment of complaints received by the ADA&C regarding accounting or audit matters and anonymous submissions by employees of concerns regarding questionable accounting or auditing matters												
iv) review and approve the ADA&C's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor												

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Audit Committee Timetable												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
v) review Levels of Spending Authority and make any recommendations to Council												
vi) review President and Chief Executive Officer expenses												
vii) review terms of reference for the Committee and make any recommendations to Council												

**Committee Members**

Chair - President-Elect