

## Audit and Finance Committee Terms of Reference

Approved: February 23, 2018

### 1.1 PURPOSE

The Audit and Finance Committee (“**Committee**”) is a committee of the Board of Directors (the “**Board**”) to which the Board has delegated responsibility for oversight over the financial reporting process.

Management is responsible for the preparation, presentation and integrity of Central 1’s financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The external auditors are responsible for planning and carrying out, in accordance with professional standards, an audit of Central 1’s annual financial statements and reviews of Central 1’s quarterly financial information.

The Committee’s purpose is to review the adequacy and effectiveness of these activities and to assist the Board in its oversight of:

- a) integrity of Central 1’s financial statements
- b) external auditors’ qualifications and independence
- c) performance of Central 1’s internal audit function and external auditors
- d) adequacy and effectiveness of internal controls
- e) Central 1’s compliance with legal and regulatory requirements affecting financial reporting.

The Committee has oversight over budgets. The Committee acts as liaison between the external auditors, internal auditors and the Board. The Committee assists the Board in meeting its responsibilities in ensuring that the review of Central 1’s financial operations and that of its subsidiaries, by the external auditor provides an independent report on the integrity of the financial data and reporting.

The Committee ensures compliance with financial and accounting policies and the Committee may make recommendations to the Board on any matters pertaining to the financial reporting process, including the audit process and internal controls.

The Committee derives its authority from the Board and Article 14A, Rule 6 of Central 1’s *Constitution and Rules*. For the purposes of performing its duties, the Committee shall have the right at all reasonable times to inspect the books and records of Central 1, and its subsidiaries, and to discuss with management, the officers, and external and internal auditors such information and matters pertaining to the financial reporting of Central 1, as it deems necessary.

### 1.2 COMPOSITION AND TERM OF OFFICE

1.2.1 The Committee shall consist of a minimum of five (5) directors. The members of the Committee shall be elected annually by the Board at the first meeting of the Board following Central 1’s annual general meeting (“**AGM**”) to hold office until the next AGM, unless the member becomes unable to serve or is removed by the Board. A casual vacancy may be filled, and additional members of the Committee may be appointed by the Board, to hold office until the next AGM.

1.2.2 Each member of the Committee must be able to read and understand financial statements to the level of detail and complexity to which Central 1 reports, including the notes attached thereto.

1.2.3 The members of the Committee must be independent as defined in the Board Structure section of the Board Manual and the majority of the members of the Committee shall not be (a) officers or employees of Central 1 or an affiliate of Central 1.

1.2.4 No more than one representative from any one credit union is permitted to serve on the Committee, except where one representative is serving as an *ex-officio* member of the Committee.

1.2.5 The Chairperson of the Risk Review and Investment and Loan Committee shall be an *ex-officio* member of the Committee, if not otherwise appointed to the Committee.

1.2.6 The Chairperson of the Board of Directors shall be an *ex-officio* member of the Committee.

1.2.7 The Committee shall elect one (1) of its members to be its Chairperson. The Chairperson of the Committee shall act in accordance with the Position Description: Committee Chairperson section of the Board Manual.

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## 1.3 OBJECTIVES/DELIVERABLES

### 1.3.1 Oversight of External Auditors

- a) Selection: the Committee shall annually recommend to the Board the appointment, reappointment or termination of the external auditor. This recommendation shall be done sufficiently in advance of the next annual meeting of Central 1 to allow the Board to seek membership ratification. At regular intervals (not greater than every 5 years), the Committee will assess Central 1's external audit requirements and review the appropriateness of undertaking a full Request for Proposal (RFP) process, with such RFP process to be undertaken at the option of the Committee, if it so determines. The Committee shall report annually to the Board on the performance of the external auditor.
- b) Independence: the Committee shall oversee the process to determine the independence of the external auditor. The Committee shall obtain and review a formal written statement from the external auditor describing all relationships between Central 1 and the external auditor that may impact upon its independence. The Committee shall actively discuss with the external auditor any disclosed relationships or services that might impact on the independence or objectivity of the external auditor. The Committee shall report annually to the Board on the independence of the external auditor.
- c) The Committee shall annually review and approve Central 1's policy regarding the hiring of members of the external audit team and former external audit teams.

*Related Information: Appendix 1 - Central 1 Credit Union Audit and Finance Committee Restriction on Employment of Members of External Audit Team*

### 1.3.2 Compensation of External Auditors

Upon resolution of members of Central 1 that the remuneration of the external auditors is to be set by directors, the Committee will have the sole responsibility for setting the remuneration of such external auditor. In the case of an external auditor appointed to fill a casual vacancy, the Committee shall have sole responsibility for setting the compensation of such auditor without resolution of the members. 1.3.3 Other Duties as Required by Parts 4 and 5 of the FIA

### 1.3.3 Pre-approval of Services

The Committee shall pre-approve all audit and non-audit services, including the provision of tax advice (other than "de minimus" non-audit services provided to Central 1 and its subsidiaries as defined in NI 52-110). If necessary, the Chairperson shall be authorized to provide such pre-approval throughout the year, with any such approvals being reported to the next regularly scheduled meeting of the Committee.

The Committee shall oversee Central 1's policy on services provided by its external auditor.

*Related Information: Appendix 2 - Central 1 Credit Union Audit and Finance Committee Pre-Approval of Services Provided by Central 1's External Auditor*

### 1.3.4 Reporting of External Auditors

- a) The external auditors shall report directly to the Committee, and the Committee shall have responsibility for overseeing the activities of the external auditors, including resolution of any disagreements between management and the external auditors regarding financial reporting. The Committee shall review, prior to the commencement of the audit, the audit engagement letter, audit plans and scope of the external audit, identifying special areas of concern to the external auditor. The Committee will monitor the audit process, the annual audit report and the findings of the examination after its completion.
- b) Accounting Policies: the Committee shall review with management and the external auditors the appropriateness of accounting policies and approve any changes thereto.
- c) Reports: the Committee shall review all written or oral reports made by the external auditor. Such reports may include:
  - i. Current and prospective changes in accounting policies and practices;
  - ii. Alternative treatment of financial information within generally accepted accounting principles;
  - iii. Review of transactions or investments, as brought forward by either the auditors or management, which could adversely affect the financial wellbeing of Central 1; and
  - iv. Any other written communications between the external auditor and Central 1's management.

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- d) **Review of Reportable Events:** the Committee shall review all reportable events (occurrences in the relationship between Central 1 and the external auditor which may have been a contributing factor in the resignation or termination of the external auditor) including disagreements, unresolved issues or consultations, as defined in NI 52-102, whether or not there is a change of the auditors.
- e) ***In-Camera Meetings:*** the Committee shall have an in-camera meeting with the external auditors at every Committee meeting, at which the external auditors are in attendance.

### 1.3.5 Oversight of Internal Auditor

- a) **Oversight:** The internal auditor shall report directly to the Committee, and the Committee shall have responsibility for reviewing and approving the Internal Audit Mandate; overseeing the activities of the internal auditor, including reviewing and approving the annual internal audit plan and identifying special areas of concern for internal audit review.

The Committee will monitor the internal audit process and the findings of examinations, including the status of identified control weaknesses and management's corrective action.

The Committee will review and concur in the appointment, replacement, reassignment, or dismissal of the Director, Internal Audit. On behalf of the Committee, the Chairperson shall provide input concerning the performance review and compensation of the Director, Internal Audit.

The Committee will regularly review the organizational structure of the internal audit function and annually review and approve the function's budget and resources.

- b) **Reports:** The Committee shall receive and review all written or oral reports made by the internal auditor and, in particular, recommendations for changes in internal control procedures or processes. The internal auditor will report to the Committee the response or determination of management with respect to any findings or recommendations.

The Risk Review and Investment and Loan Committee shall be copied on Internal Audit reports prepared for the Committee.

### 1.3.6 Review of Annual Audited Financial Statements

The Committee shall review and discuss with management and the external auditors Central 1's annual audited financial statements and Central 1's unaudited quarterly financial statements. In addition, the Committee shall review the annual audited financial statements of Central 1's subsidiaries.

In reviewing the financial statements, the Committee shall:

- a) Ensure that they are complete and consistent with the information known to the Committee;
- b) Review, if applicable, the contents of management's representation letters to the external auditors;
- c) Discuss with management and, if applicable, the external auditors whether they reflect appropriate accounting principles, considering the quality of the principles selected;
- d) Discuss any actual or proposed changes in accounting or financial reporting and consider their impact on the financial statements;
- e) Discuss any related party transactions;
- f) Discuss any unusual, complex or significant events, such as legal actions, claims or contingencies or areas where significant judgment has been exercised, such as valuations, losses and reserves; and
- g) The Committee will recommend to the Board the approval of Central 1's consolidated financial statements.

### 1.3.7 Review of Financial Disclosures

The Committee shall review the contents of all periodic public disclosure documents and all event driven disclosure documents for which the Committee's review is deemed necessary by the Disclosure Committee before release, including the Management Discussion & Analysis, any prospectus and any financial report, statement or return (including associated press releases) that requires the approval of the Board before filing or release.

The Committee must satisfy itself that adequate procedures are in place for the review of Central 1's public disclosure of financial information extracted from or derived from the financial statements (i.e. press releases, information posted to Central 1's website and any other form of public communication). While this information is currently vetted through the

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Disclosure Committee, the Committee must periodically assess the adequacy of the processes and procedures followed by the Disclosure Committee and the adequacy of management representation on that Committee. The Committee shall review the Disclosure Policy at least every two years and, if deemed advisable, recommend changes to the Board.

### 1.3.8 Controls and Procedures

- a) Oversight: The Committee shall provide oversight of Central 1's internal accounting controls, of its disclosure controls and procedures and of its Ethical Reporting Policy. The Committee shall require management to implement and maintain appropriate systems of internal control, including internal controls over financial reporting and for the prevention and detection of fraud and error. The Committee shall receive and review reports from other board committees with regard to matters that could affect financial reporting, including the major financial and business risks to which Central 1 is exposed, and management's actions to monitor and control such exposures.
- b) External Auditor Reporting: The Committee shall consider the external auditors' management letters, recommendations and comments with respect to accounting treatment and internal controls and management's responses and subsequent follow-up of any identified weaknesses.
- c) Internal Auditor: The Committee shall meet with the internal auditor and with management to discuss the effectiveness of internal control procedures and shall approve recommendations for improvements.
- d) CEO/CFO Certification Program: The Committee shall oversee Central 1's CEO/CFO Certification program and the meeting of its obligations under that program.
- e) Procedures for Complaints: The Committee shall establish procedures for the receipt, retention and treatment of complaints received by Central 1 regarding accounting, internal accounting controls or auditing matters. The Committee shall also establish procedures for the confidential, anonymous submission by Central 1's employees of their concerns regarding questionable accounting and internal controls over auditing matters.
- f) Additional Powers: The Committee shall have such other duties as may be delegated to it by the Board, from time to time.
- g) The Committee shall receive material of the Risk Review and Investment & Loan Committee.

*Related Information: Ethical Reporting Policy*

### 1.3.9 Oversight of Budgets

- a) The Committee shall review, annually, Central 1's Operating Budget, Dues Budget and Capital Asset Budget and recommend their approval to the Board.
- b) At least biennially, the Chief Financial Officer will present the Budget Policy to the Committee for review and recommendation to the Board.

### 1.3.10 Review Inspection Reports

- a) FICOM: The Committee shall review inspection reports prepared by the Superintendent of Financial Institutions and the contents of the Board's proposed response. The Committee shall recommend the Board's proposed response to the Board.

## 1.4 MEETINGS AND PROCEDURES

1.4.1 The Committee shall meet as it deems necessary to fulfill its duties hereunder, but no less than once each quarter. The time and location of the meetings and the procedures to be followed at such meetings shall be determined, from time to time, by the Committee.

The Board Chairperson, the Committee Chairperson, any two (2) members of the Committee, the internal auditor, the external auditors, or the Corporate Secretary may call meetings of the Committee. The external auditor shall be given notice of, and shall have the right to appear before, every Committee meeting.

The Committee may meet in person, by conference call or by other electronic means.

1.4.2 Whenever possible, seven (7) days' notice of the meeting shall be provided, in writing, to members of the Committee, the external auditors and any invited persons. The agenda and required reports shall be circulated to the Committee (via Diligent or e-mail) one week in advance of the meeting date, whenever possible.

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1.4.3 A quorum at any meeting of the Committee shall be a majority of the members of the Committee, excluding any ex-officio members. Decisions of the Committee will be by an affirmative vote of the majority of those members of the Committee voting at a meeting. The Committee may also act by resolution in writing signed by all the members of the Committee.

1.4.4 The external auditor, the internal auditor, and the provincial Superintendent of Financial Institutions shall have the right to appear before and be heard at any meeting of the Committee and to request the Committee Chairperson to consider any matter that the requisitioning party believes should be brought to the attention of Directors or members.

1.4.5 The Chairperson of the Committee shall appoint a Secretary who need not be a director to keep minutes or other records of the meeting.

1.4.6 The Committee will meet "*in-camera*" at each meeting with only the members of the Committee present.

1.4.7 The Committee will meet "*in-camera*" with the internal auditor at every meeting at which the internal auditor is in attendance.

1.4.8 At least quarterly, the Committee shall meet "*in-camera*" with the Chief Financial Officer.

1.4.9 The Committee may invite any director, officer or employee of Central 1 or any other person, as appropriate, to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee, including: the external auditor, external counsel, the internal auditor, Chief Risk Officer, the President and Chief Executive Officer or any member of executive management.

### 1.5 MANAGEMENT AND RESOURCES

1.5.1 The Committee shall be resourced by the Chief Financial Officer.

1.5.2 The Committee shall have the authority to engage and determine funding for any independent counsel, accountants, and other external consultants and resources, as it may deem necessary to carry out its responsibilities, provided that all contracts for such services shall be reviewed, where appropriate, by Central 1's Legal Department and that any contract in excess of \$10,000 must be approved by the Chairperson of the Board or the Board prior to execution. The Committee shall report to the Board on any undertakings to engage such advisors, including the level of compensation.

### 1.6 RECORDS

The official records of the Committee including all meeting material and minutes are maintained by the Office of the Corporate Secretary. Minutes of every meeting shall be recorded and available to Committee members and the Board.

### 1.7 ACCOUNTABILITY

The Committee is accountable to the Board. The Chairperson of the Committee shall report the proceedings of each meeting and all recommendations made by the Committee at such meeting to the Board, at the Board's regularly scheduled meeting.

### 1.8 EVALUATION OF COMMITTEE EFFECTIVENESS

The Committee shall annually review and assess the adequacy of its mandate and its effectiveness in fulfilling its mandate. As part of this review, the Committee will review and assess the adequacy of its Terms of Reference on an annual basis taking into account all legislative and regulatory requirements applicable to the Committee, as well as any best practice guidelines, and, if appropriate will recommend changes to the Conduct Review and Corporate Governance Committee.

### 1.9 COMMITTEE OUTPUT

The major annual activities of the Committee are outlined in the schedule on the following page.

### 1.10 AMENDMENTS

The Board must authorize substantive amendments to these Terms of Reference. The Committee may make administrative amendments, including amendments related to dates, organization, and similar matters.

## Audit and Finance Committee Terms of Reference

### Routine Outputs – Audit and Finance Committee

Routine Outputs	Q1	Q2	Q3	Q4	Comments
Audited Financial Statements – year end	•				
Interim Consolidated Financial Report		•	•	•	
Management Discussion & Analysis (MD&A)	•	•	•	•	
Financial Report	•	•	•	•	
External Audit Report (KPMG LLP)	•	•	•	•	
Internal Audit Report	•	•	•	•	
CEO/CFO Certification Report	•	•	•	•	
Review the Procedures for Ethical Reporting	•	•	•	•	
Annual Report to Board on performance and independence of external auditor	•				
Review Legal Actions	•				
Election of Chairperson		•			
Provincial Examination (if applicable)		•			
Report & Reply Interim Financial Report (if applicable)		•			
Subsidiary Financial Statements		•			
Set Meeting Dates for Following Year	•				
Audit Plan and engagement letter			•		
Auditor remuneration			•		
Review Committee's Terms of Reference, including all policies under Committee oversight			•		
Review Finance Policies <ul style="list-style-type: none"> <li>• Budget</li> <li>• Disclosure</li> <li>• Ethical Reporting</li> <li>• Internal Audit</li> </ul>			•		
Committee Self-Assessment – Approve process			•		
Committee Self-Assessment – Review Results (In-Camera)				•	
Assess the adequacy of the processes and procedures followed by the Disclosure Committee and the adequacy of management representation on that Committee.				•	
Central 1's Operating, Dues and Capital Asset Budgets				•	
Internal Audit Plan				•	
Internal Audit Budget and Resources				•	
Incentive Plan <ul style="list-style-type: none"> <li>• Approve Year End Results</li> <li>• Approve Targets for Next Year</li> </ul>	•				

# Audit and Finance Committee Terms of Reference

## Appendix 1

### Central 1 Credit Union Audit & Finance Committee — Restriction on Employment of Members of External Audit Team

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Approved: February 23, 2018

#### **1.1 PURPOSE**

To maintain the independence of the External Auditor and to prevent a potential conflict of interest Central 1 shall not employ a key member or former key member of the external audit firm in a financial reporting oversight role until a period of one year or more has elapsed from the date the financial statements, on which that person participated in an audit, review or attestation engagement capacity, were filed with the relevant securities regulator. For the purposes of this policy, a key member includes all partners involved in the audit, review or attestation engagement and any employees of the auditor involved in the audit in a management or decision-making capacity.



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## Appendix 2

### Central 1 Credit Union Audit & Finance Committee — Pre-Approval of Services Provided by Central's External Auditor

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Approved: February 23 ,2018

#### 1.1 PURPOSE

Central 1's Audit & Finance Committee shall pre-approve all services to be provided by Central 1's external auditor. In addition to audit services, Central 1's external auditors may provide Central 1 with certain other services which are listed in the section below entitled Permitted Services. Central 1 may not engage its external auditors to perform services that are inconsistent with an auditors' independence. A description of prohibited services is included in the section below entitled Prohibited Services.

#### 1.2 PERMITTED SERVICES

Central 1 may retain its external auditors to perform the following services:

##### 1.2.1 Audit Services

###### a) Audit Related Services – Tax Services

- i. compliance services,
- ii. Canadian & US tax planning services
- iii. Commodity Tax Services
- iv. Executive Tax Services

###### b) Other Services

- i. Valuation Services, except for financial reporting purposes
- ii. Information Technology Advisory and Risk Management Services (this includes assistance in ensuring that technology processes are operating efficiently)
- iii. Actuarial Services, except for items which are included in the financial statements
- iv. Forensic and Related Services
- v. Corporate Recovery Services (this includes tax recoveries such as Scientific Research & Experimental Development claims)
- vi. Transaction Services (this includes providing assistance in structuring significant acquisitions)
- vii. Project Risk Management Services (this includes providing project management services for systems implementations such as PeopleSoft)
- viii. Operational Advisory and Risk Management Services (this includes information risk management which may be increased by a major structural change such as a merger)
- ix. Regulatory and Compliance Services

##### 1.2.2 Prohibited Services

Central 1 may not retain its external auditor to perform any service that is inconsistent with an auditor's independence. Prohibited services include, but are not limited to, the following:

- a) bookkeeping or other services related to the audit client's accounting records or financial statements;
- b) financial information systems design and implementation;
- c) appraisal or valuation services for financial reporting purposes;
- d) actuarial services for items recorded in the financial statements;
- e) internal audit outsourcing services;
- f) management functions;
- g) Human Resources;
- h) corporate financing activities;
- i) legal services; and
- j) expert witness services.



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### 1.3 POLICY

For permitted services the following pre-approval policies will apply:

- a) **Audit Services:** The Audit & Finance Committee will pre-approve all audit services provided by Central 1's external auditor through its recommendation of the external auditor at Central 1's AGM and through the Audit & Finance Committee's review of the external auditor's annual Audit Plan.
- b) **Pre-Approval of Audit Related, Tax and Other Non-Audit Services:** On an annual basis, the Audit & Finance Committee will update the attached list of Permitted Services and pre-approve services that are recurring or otherwise reasonably expected to be provided. The Audit & Finance Committee will be subsequently informed of the services on the attached list for which the auditor has been actually engaged.
- c) **Approval of Additional Services:** The Central 1 employee making the request will submit the request for service to the Chief Financial Officer. The request for service should include a description of the service, the estimated fee, a statement that the service is not a Prohibited Service and the reason that the external auditor is being engaged.

The Chief Financial Officer may approve an engagement for additional non-audit services if (i) the aggregate amount of fees for all non-audit services that were not pre-approved is reasonably expected to not exceed five (5) per cent of the total Audit Service fee during the fiscal year (ii) Central 1 did not recognize the services as non-audit services at the time of the engagement and (iii) the services are promptly brought to the attention of the Audit & Finance Committee and approved, prior to the completion of the audit, by the Audit & Finance Committee or the Chairperson of the Audit & Finance Committee. Recommendations in respect of all other engagements will be submitted by the Chief Financial Officer to the Chairperson of Audit & Finance Committee for consideration and approval. The engagement may commence upon approval of the Chairperson of the Audit & Finance Committee. The full Audit & Finance Committee will subsequently be informed of any additional services, at its next meeting.