

As approved by the CDIC Board of Directors, March 8, 2006

CANADA DEPOSIT INSURANCE CORPORATION ("CDIC")

AUDIT COMMITTEE

CHARTER

PURPOSE

The purpose of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of the Canada Deposit Insurance Corporation (the "Corporation") is to assist with Board oversight of: the integrity of the Corporation's financial statements; the financial reporting process; the systems of internal accounting and financial controls; the performance of the Corporation's internal audit function; the identification and management of the Corporation's significant risks; and the Corporation's compliance with ethics-related policies, and legal and regulatory requirements. In so doing, the Committee will maintain free and open communication among the Committee members, the Office of the Auditor General ("OAG"), Management of the Corporation, and the internal audit function.

The mandate for the Committee includes the requirements of section 148 of the *Financial Administration Act*, the Corporate By-law of the Corporation, and such other functions as may be assigned or delegated by the Board. The Committee derives its mandate and responsibilities, beyond those prescribed in the *Financial Administration Act* and the Corporate By-law, from the Board. The combined effect of these provisions results in the following charter for the Committee.

A. Operating Principles:

1. (a) Functions and Composition –

- (i) There shall be an Audit Committee, the members of which shall be two or more of the non-*ex officio* Directors and one or more of the *ex officio* Directors, as named by the Board.
- (ii) Committee members shall each be independent of Management and the Corporation.
- (iii) The Committee will carry out the duties outlined in this Charter and such other functions as are assigned or delegated to it by the Board.

(b) Competencies – All members appointed to the Committee shall either:

- (i) be financially literate, upon appointment, which is defined as, having a basic understanding of finance and accounting and being able to read and understand fundamental financial statements, including a balance sheet, income statement and statement of cash flows; or
- (ii) undertake to be financially literate within a reasonable period of time after their appointment to the Committee.

Subject to availability, at least one member of the Committee shall have financial expertise. "Financial expertise" means a person who has the following attributes:

a background in accounting or related financial management experience which would include any experience or background which results in the individual's financial sophistication, including being or having been an auditor, a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

Where appropriate, Committee members will enhance their familiarity with financial, accounting, practices for Audit Committees, and other areas relevant to their responsibilities by keeping abreast of trends and best practices in these areas including considering topical issues and their application to the Corporation, and by participating in educational sessions or other opportunities for development.

2. **Chair** – The Chair is a non-*ex officio* Director, as selected by the Board. Where at any meeting the Chair is absent, one of the members of the Committee who is chosen so to act by the members present shall preside and have all the powers of the Chair.
3. **Quorum** – The presence of three members constitutes a quorum for a meeting of the Committee.
4. **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast, and in the event of an equality of votes its Chair has a second vote.
5. **Procedure and Conduct** – Subject to other provisions of the Corporate By-law, this Charter and to any resolution of the Board respecting a specific matter, the Chair shall determine the procedure at and conduct of meetings of the Committee.
6. **Minutes** – Once they have been approved by the Committee, copies of the minutes of the proceedings of the Committee shall be sent by the Corporate Secretary to all of the Directors.
7. **Frequency and Calling of Meetings** – The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than four times each year.
8. **Auditor General of Canada (OAG)** – The OAG:
 - (i) is entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard at each meeting, and, if so requested by a member of the Committee, the OAG shall attend any or every meeting of the Committee; and
 - (ii) may call a meeting of the Committee.
9. **Private Meetings** – The Committee shall meet privately as a committee, and periodically with Management, the OAG, and the head of the internal audit function in separate private sessions.
10. **Meeting Agenda** – A written agenda for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date, together with any related materials, if available.

11. **Supplemental Attendees** – Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair or acting Chair to attend any meeting of the Committee.
12. **Term of Appointment/Rotation of Committee** – Members of the Committee shall be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time.
13. **Reporting** – The Committee will, where appropriate, provide an oral report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board. If practicable, any report to the Board will be in writing.
14. **Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. If the Committee considers amendments necessary, the Committee shall recommend such amendments to the Board for its approval.
15. **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.
16. **Disclosure** – The Committee shall ensure that this Charter, the composition of the Committee, and in the Committee's judgement, recommendations not adopted by the Board are publicly disclosed.
17. **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent audit consultants and/or other experts, as needed, to review any matter under its responsibility, in accordance with the Board's Policy respecting Engagement of Separate Independent Counsel or Other Advisors.

B. Principal Duties and Responsibilities

1. **Advice and Recommendations to Board** – In discharging its duties and responsibilities, the Committee relies on the expertise of Management, the Corporation's internal audit function, and the OAG, including examiners conducting special examinations. Although it does not carry out internal or external audits or special examinations itself, the Committee shall monitor the audit and examination processes and review the reports, and make reasonable inquiries, to allow it to provide sound advice and recommendations to the Board.
2. **Investigation** – In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, OAG and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate based on information supplied to it by the OAG or others.
3. **Financial Reporting** – The Committee shall assist the Board in discharging its oversight role of reliable, accurate and clear financial reporting, including by

reviewing the Corporation's annual financial statements and management's discussion and analysis (MD&A) prior to approval by the Board, and reviewing, as appropriate, releases to the public of significant non-public financial information. Such review shall include, where appropriate but at least annually, discussion with Management, the internal audit function, and the OAG of significant issues regarding accounting principles, the Corporation's accounting policies, and significant management estimates and judgments, including the quality and acceptability of generally accepted accounting principles (GAAP).

The Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information, and shall periodically assess the adequacy of those procedures.

4. **Financial Reporting Processes, Accounting Policies, and Internal Control Structure** – Management is responsible for the preparation, presentation, and integrity of the Corporation'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 Committee shall seek Management's and the OAG's views on opportunities to improve the quality of the Corporation's accounting principles as applied in its financial reporting, inquire into alternative treatments that may have been considered but rejected, review the aggressiveness or conservatism of the Corporation's accounting principles and estimates and review instances where the OAG's advice on accounting or disclosure matters has not been followed.

Specifically, the Committee shall assist the Board in its oversight of the financial reporting process of the Corporation including:

- (a) reviewing and advising the Board with respect to the Corporation's annual financial statements;
- (b) reviewing and advising the Board with respect to the OAG's annual audit report referred to in subsection 132(1) of the *Financial Administration Act*;
- (c) reviewing major changes to the Corporation's auditing and accounting principles and practices as suggested by the OAG, the internal audit function or Management;
- (d) reviewing the integrity of the Corporation's financial reporting processes and the internal control structure;
- (e) ensuring that Management has the necessary policies and procedures in place related to internal controls, in accordance with applicable laws, regulations and guidance, to provide reasonable assurance on the adequacy and effectiveness of the Corporation's internal control systems; and reviewing the related reporting by Management and the internal audit function on such internal controls;
- (f) reviewing the plan for the annual audit by assessing the reasonableness of the audit scope and plan and determining whether the Corporation is receiving appropriate audit coverage and overall effort; satisfying itself

that the OAG has considered the work of the internal audit function in developing its overall audit strategy; and, assessing the degree of assurance that the Board will be able to take from the OAG's work. Accordingly, the Committee should satisfy itself that the audit scope will not be restricted in any way and that key areas of interest to the Board are adequately covered;

- (g) reviewing and monitoring the implementation of recommendations made through annual OAG audit and special examination reports and any management letter provided by the OAG and Management's responses to such reports and any such letter;
- (h) satisfying itself that systems of reporting to the Committee are in place by each of Management, the OAG and the internal audit function regarding any significant judgments made in Management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information;
- (i) through its oversight of the internal audit function, satisfying itself that the Corporation is maintaining its books of account, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:
 - (i) the assets of the Corporation are safeguarded and controlled;
 - (ii) the transactions of the Corporation are in accordance with the *Financial Administration Act*, the *Canada Deposit Insurance Corporation Act* and by-laws of the Corporation and any directive given to the Corporation under subsection 89(1) of the *Financial Administration Act*; and
 - (iii) the financial, human and physical resources of the Corporation are managed economically and efficiently and the operations of the Corporation are carried out effectively.

5. **Financial Management Oversight** – The Committee shall:

- (a) Operating and Capital Budgets – monitor and advise the Board with respect to the annual operating budget and capital plan.
- (b) Financing – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of any external financing to be incurred or assumed by the Corporation, through the Corporation's debt or otherwise.
- (c) Investments – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of the investment of the Corporation's cash assets in short-term and long-term securities.
- (d) Chair's, Directors' and Officers' Expenses – receive reports from

Management, and review reports thereon from the internal audit function and/or OAG on their review of the Chair's, Directors' and Officers' expense accounts.

6. **The Internal Audit Function** – The internal audit function investigates and provides information to the Committee and Management on the Corporation's books of account and records and on the effectiveness and performance of financial and management control and information systems and management practices and that the operations of the Corporation are carried out effectively pursuant to subsection 131(3) of the *Financial Administration Act*.

In order to fulfil its responsibilities, the internal audit function requires independent status and therefore reports directly to the Audit Committee of the Board of Directors and to the President and Chief Executive Officer ("President & CEO"). This relationship requires that the Committee and the internal audit function have unrestricted access to each other directly.

The Committee shall oversee any internal audit of the Corporation that is conducted pursuant to subsection 131(3) of the *Financial Administration Act*. The Committee's specific responsibilities include:

- (a) reviewing the internal audit function's mandate on an annual basis;
- (b) assessing the internal audit function's capabilities;
- (c) reviewing the internal audit function's independence and reporting relationships;
- (d) reviewing the internal audit function's audit plans, budgets, quality and quantity of staff and other resources it needs to do its job well;
- (e) evaluating the internal audit function's performance including performance against its audit plans and budgets in consultation with the President & CEO;
- (f) reviewing the internal audit function's reports;
- (g) monitoring the implementation of the internal audit function's reports and recommendations;
- (h) ensuring that there is coordination of the internal audit function with annual OAG audits and special examinations; and
- (i) reviewing the overall operations of the internal audit function having regard to its mandate and taking into account current internal audit standards.

7. **Special Examination (pursuant to FAA)** – The Committee should review and advise the Board with respect to the special examination plan and reports referred to in sections 138 to 141 of the *Financial Administration Act*. The Committee's specific responsibilities include:

- (a) reviewing the plan for the special examination, including the statement of the criteria to be applied in the special examination, submitted by the OAG and make recommendations to the Board for approval of the examination plan and the criteria;
- (b) monitoring the progress of the special examination; and
- (c) reviewing the report of the findings of the OAG on completion of the special examination with the OAG and with Management of the Corporation and advise and make recommendations to the Board with respect thereto.

The OAG is required to submit a plan for the examination, including a statement of the criteria to be applied in the examination, to the Committee before the detailed examination begins. The Committee, the Board and the OAG are to agree on the plan and criteria before the examination starts.

The Committee shall review and advise the Board on the findings of a special examination. In conducting such a review, the Committee should discuss findings with the examiner and with Management.

The Committee should fully probe any difficulties encountered in carrying out a special examination. In addition, any problems encountered in relying on the internal audit function should be investigated. In all such instances, the Committee should recommend to the Board that the Board request Management to take whatever corrective action is appropriate.

8. **Risk Management** – The Committee shall:

- (a) ensure that sound policies, procedures and practices are implemented for the management of key corporate risks;
- (b) receive sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed;
- (c) review with Management and advise the Board on the Corporation's policies developed and implemented to manage the Corporation's risk exposures, and review such policies at least once a year to ensure that they remain appropriate and prudent;
- (d) on a regular basis, obtain reasonable assurance that the Corporation's risk management policies for significant risks are being adhered to;
- (e) report to the Board on: the significant risks; the policies and controls in place to manage these significant risks; and the overall effectiveness of the risk management process;
- (f) periodically consider the respective roles of the OAG and internal audit function concerning risk management at the Corporation and annually evaluate the OAG's and internal audit function's respective performance in relation to such roles;
- (g) receive reports from the internal audit function validating Management's

risk assessments.

9. **Ethical and Legal Compliance** – The Committee shall:

- (a) review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;
- (b) ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management reports on compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a loss or liability to the Corporation; and by reviewing any report that is received from the internal audit function, the OAG and/or other Committee Chairs on their review of compliance with same (the Human Resources and Compensation Committee of the Board is delegated responsibility by the Board to ensure that policies are in place and the HRCC reviews compliance therewith);
- (c) ensure there is a system for monitoring the Corporation's compliance with laws and regulations, and obtain on an annual basis reports that the Corporation is in conformity with applicable legal requirements;
- (d) review the results of Management's investigation of, and action taken in connection with, any internal control or accounting matters that may be questionable;
- (e) establish a process for: (i) the receipt, retention and treatment of complaints or concerns regarding accounting, internal controls or auditing matters and (ii) the confidential and anonymous submission, in accordance with the Corporation's policies, by the Corporation's employees of concerns regarding questionable accounting or auditing matters. Establish a process for the evaluation, investigation and resolution of concerns relating to accounting, internal controls or auditing matters that may be questionable; and
- (f) investigate any allegations that any officer or director of the Corporation, or any other person acting under the direction of such a person, took any action to influence, coerce, manipulate or mislead any person engaged in the performance of an audit of the financial statements of the Corporation for the purpose of rendering such financial statements materially misleading and, if such allegations prove to be correct, take or recommend to the Board appropriate disciplinary action.