

TERMS OF REFERENCE AUDIT AND RISK MANAGEMENT COMMITTEE

I. PURPOSE

- A. The primary audit function of the Audit & Risk Management Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities by reviewing:
- i) the financial information that will be provided to the Province and the public;
 - ii) the systems of internal controls, that management and the Board have established;
 - iii) all audit processes; and
 - iv) compliance with laws regulations and policies that may apply.
- B. Primary responsibility for the financial reporting, information systems, risk management and internal controls of Partnerships British Columbia (PBC) is vested in management and is overseen by the Board.

II. COMPOSITION AND OPERATIONS

- A. The Committee shall be composed of not fewer than three directors and not more than five directors.
- B. All Committee members shall be financially literate and at least one shall have accounting or related financial experience.¹
- C. PBC’s auditors shall be advised of the names of the committee members and will receive notice of and be invited to attend Committee meetings, and to be heard at those meetings on matters relating to the auditor’s duties.
- D. The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors

¹ The Board has defined “financial literacy” as: the ability to read and understand a balance sheet, income statement and a cash flow statement in accordance with Canadian GAAP. 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 in accordance with Canadian GAAP.

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determine should be brought to the attention of the Board.

- E. The Committee shall meet at least four times each year.
- F. The Committee has access to PBC's senior management and documents as required to fulfill its responsibilities and is provided with the resources necessary to carry out its responsibilities.
- G. The Committee provides open avenues of communication among management, employees, external and internal auditors and the Board of Directors.
- H. The secretary to the Committee shall be either the Corporate Secretary or his/her delegate.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

AUDIT COMMITTEE RESPONSIBILITIES

- A. **Financial Statements and Other Financial Information**
 - i) The Committee will review and, where appropriate, approve or recommend for approval to the Board financial information that will be made available to shareholders. This includes:
 - a) review and approve PBC's annual audited financial statements and report to the Board before the statements are approved by the Board;
 - b) review and recommend to the Board for approval PBC's quarterly financial statements;
 - c) review and recommend to the Board for approval, the financial content of the Annual Report and any quarterly reports;
 - d) review and recommend to the Board for approval of content of Annual Report and audited financial statements annually;

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- e) review and recommend to the Board approval of the service plan, annual business plan and operating and capital budgets;
- f) review and approve PBC budget presentation to government and report to the Board before the statements are approved by the Board;
- 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 PBC;
 - c) any new or pending developments in accounting and reporting standards that may affect PBC; and
 - 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) review the Company's risk management controls and policies;
- ii) 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, the internal auditor and the external auditor;
- iii) review management's steps to implement and maintain appropriate internal control procedures including a review of significant financial policies;

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- iv) review adequacy of security of information, information systems and recovery plans;
- v) monitor compliance with statutory and regulatory obligations;
- vi) review the appointment of the Chief Financial Officer, Comptroller and/or Senior Financial Officer (as appropriate), and
- vii) review the adequacy of accounting and finance resources.

C. External Audit

The external auditor is ultimately responsible to the Committee and the Board of Directors as representatives of the shareholder (see Appendix A – Terms of Reference for the External Auditors). The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor.

This includes:

- i) review and recommend to the Board the engagement of the external auditor;
- ii) 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;
 - e) areas of audit risk;
 - f) staffing;
 - g) timetable; and

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- h) proposed fees.
- iii) meet with the external auditor to discuss the Company's annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
- iv) review and advise the Board 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; and
 - b) any significant accounting or financial reporting issue.
- v) the auditors' evaluation of PBC's system of internal controls, procedures and documentation;
- vi) 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;
- vii) any other matters the external auditor brings to the Committee's attention;
- viii) assess the performance and consider the annual appointment of external auditors for recommendation to the Board;
- ix) review the auditor's report on all material subsidiaries;
- x) review and receive assurances on the independence of the external auditor;
- xi) review the non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and
- xii) meet periodically, and at least annually, with the external auditor without management present.

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D. Other

- i) review insurance coverage of significant business risks and uncertainties;
- ii) review material litigation and its impact on financial reporting and meet at least annually with the Company's General Counsel to review outstanding legal issues relating to PBC;
- iii) ensure PBC has established procedures for the receipt and treatment of complaints received by the company regarding accounting or audit matters and anonymous submissions by employees of concerns regarding questionable accounting or auditing matters;
- iv) retain the opportunity to undertake exit interviews with senior financial staff;
- v) review policies and procedures for the review and approval of officers' expenses and perquisites;
- vi) review expenses of the Board Chair and the President and Chief Executive Officer (the "CEO") semi-annually; and
- vii) review the terms of reference for the Committee annually and make recommendations to the Board as required; and
- viii) periodic review of decision making process for major projects.

IV. ACCOUNTABILITY

The Committee shall report its discussions to the Board by oral or written report at the next Board meeting.

V. COMMITTEE TIMETABLE

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

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AUDIT AND RISK MANAGEMENT COMMITTEE**

A. Financial Statements and Other Financial Information	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
i) review and recommend: a) annual audited financial statements			✓									
b) report to the Board before statements approved by Board			✓									
ii) review and recommend quarterly financial statements			✓			✓			✓			✓
iii) review and approve financial content of annual & quarterly reports & revised forecasts			✓			✓			✓			✓
iv) review and approve audited financial statements						✓						
v) review and recommend approval of the service plan, annual report, annual business plan and operating and capital budgets*												✓
vi) review and discuss current accounting policies and financial reporting practices and proposed changes and new developments in accounting and reporting standards												✓

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vii) review and discuss management's key estimates and judgments that may be material to the financial reporting												✓
B. Risk Management, Internal Control, and Information Systems	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
i) review risk management controls and policies						✓						
ii) review information and internal control systems						✓						
iii) review implementation of information systems and internal controls						✓						
iv) review security of information, information systems and recovery plans						✓						
v) monitor compliance with statutory and regulatory obligations			✓			✓			✓			✓
vi) review Comptroller appointment			✓									
vii) review adequacy of accounting and finance resources						✓						

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C. Internal Audit (biennially)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
i) review organization and independence of internal auditor						✓						
ii) review mandate goals, resources and work plans						✓						
iii) review any restrictions or problems						✓						
iv) review recommendations and significant responses						✓						
v) meet with the internal auditor without management present						✓						
D. External Audit	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
i) review & recommend engagement of external auditor									✓			
ii) review external audit plan									✓			
iii) meet with auditor to discuss:												
a) annual financial statements			✓									
b) auditor's report			✓									
iv) review planning, conduct & reporting of annual audit and advise Board			✓									

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D. External Audit	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
v) review auditor's evaluation of internal controls, procedures and documentation			✓									
vi) review post audit or management letter and management's response						✓						
vii) assess external auditor performance and make recommendation to Board						✓						
viii) review auditor's report on material subsidiaries			✓									
ix) review external auditor independence										✓		
x) review non-audit services to be provided by external auditor's firm and consider impact on external auditor independence										✓		
xi) meet with the external auditor without management present.			✓									
E. Other	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
i) review insurance coverage of significant business risks and uncertainties												✓
ii) review material litigation and its impact on financial reporting									✓			

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E. Other	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
iii) review complaint procedures			✓									
iv) review policies and procedures for review and approval of officers' expenses and perquisites									✓			
v) review expenses of Board Chair and CEO			✓						✓			
vi) review Committee terms of reference and make recommendations to the Board						✓						

APPENDIX A – TERMS OF REFERENCE FOR EXTERNAL AUDITORS

A. Accountability to the Board

The external auditors are accountable through the Audit Committee to the Board of Directors, as representatives of the shareholder.

B. Appointment of Auditors

The Audit Committee has overall responsibility for the selection of the external auditors and it will recommend to the Board the external auditors for approval.

C. Auditor Independence

The External Auditor must be independent in fact and appearance.

- a) To achieve it, the external auditors of the company will be prohibited from the following:
 - i) Employment of the family members of the auditors in the managerial positions with the company
 - ii) Business relationship with the company other than providing professional services.
 - iii) Bookkeeping or other services related to the company's accounting records or preparation of financial statements
 - iv) Financial systems design and implementation, except services provided in connection with the assessment, design and implementation of internal accounting controls and risk management controls.
 - v) Appraisal or valuation services or fairness opinion where the results of any valuation or appraisal would be material to the financial statements, or where the accountant would audit the results.
 - vi) Actuarial services.
 - vii) Internal audit services.
 - viii) Management functions.
 - ix) Human resources – auditor will not be able to recruit, act as a negotiator on the company's behalf, develop employee testing and evaluation programs or recommend or advise that the company hire a specific candidate for a specific job. It could, however, interview candidates and advise the company on the candidates' competence for accounting and related positions.
 - x) Broker-dealer services. The auditor will not serve as a broker-dealer, promoter or underwriter of the company's securities.
 - xi) Legal services.
 - xii) Employment with the company for audit managers and partners within 3 years of performing audit or audit-related services.

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- b) The external auditors will furnish details of all factors that might have an impact on their independence and objectivity, including all services provided and fees charged by them. The audit committee will satisfy itself regarding the independence of external auditors and report its conclusions and the basis therefore to the board.

D. Scope of Work

With the approval of the audit committee, external auditor may perform the following services for the company:

- a) External audit.
- b) Quarterly reviews.
- c) Tax advice and reviews.
- d) Due diligence for any M&A transactions that the company may be associated with.
- e) Other professional services that are not expressly prohibited and will enable the external auditor to maintain factual and perceived independence.

E. Audit committee review

- a) The Audit Committee will review the performance of the external auditor on an annual basis, review the results of their work and approve their annual audit fee. Additionally, the committee will review all audit-related services performed in the prior quarter.
- b) The incumbent auditors will be expected to institute a policy to rotate the lead partner in charge of the audit after every five years. In addition, the Audit Committee may periodically issue a request for proposal from other external audit firms, usually every 5 years.

F. Removal of auditors

When necessary, the audit committee will recommend the removal of the external auditor to the board.