

AUDIT & FINANCE COMMITTEE

TERMS OF REFERENCE

Approved by the Board of Directors

September 19, 2019

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A. OBJECTIVE

Primary responsibility for Saskatchewan Power Corporation's consolidated financial reporting and control systems is vested in management and is overseen by the Audit & Finance Committee on behalf of the Board of Directors (Board). The Committee is a standing committee of the Board established to:

1. regularly report to the full Board about Committee activities, issues and related recommendations to assist the Board in fulfilling its fiduciary responsibilities in regard to oversight of financial reporting processes; internal control systems; internal and external audit; legal and ethical conduct; and accountability for the use of assets;
2. assist the Board in setting the tone at the top by influencing corporate consciousness, communication and commitment to ethics and integrity;
3. foster an environment in which management directs due diligence towards the control, accountability and financial reporting functions of the Corporation;
4. monitor and, where necessary, direct corrective action to improve relations and communication among the Board, the Committee, external auditors, Provincial Auditor, Internal Audit and senior management; and
5. promote the independence of the external and internal auditors.

B. CONSTITUTION

Composition

1. The Committee shall be composed of a minimum of three (3) members of the Board.
2. The members of the Committee shall be appointed by resolution of the Board. Each member of the Committee shall continue to be a Committee member until a successor is appointed, unless the member resigns, is removed by resolution of the Board or otherwise ceases to be a director of the Corporation.

3. Where a vacancy occurs at any time in the Committee membership, it may be filled by the Board, and shall be filled by the Board if the membership of the Committee is less than three (3) directors as a result of the vacancy.
4. The Board will appoint one of the Committee members to serve as the Committee Chair that has the appropriate level of financial expertise (e.g. accounting designation or professional experience). All members of the Committee must be financially literate (possess the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that could be reasonably expected to be encountered at the Corporation), or acquire such financial literacy within a reasonable period of time after appointment to the Committee. At least one member shall be designated as the “financial expert”.
5. If the Committee Chair is not available to attend a meeting, when possible in advance of the meeting, the Committee Chair will designate one of the Committee members for the role of Acting Chair. If the Committee Chair is not present for a meeting and no member is designated in advance, the Acting Chair of the meeting shall be chosen by the Committee from among the members present. The Committee will formally appoint the Acting Chair at the beginning of the meeting.
6. The Chair (including any Acting Chair) presiding at any meeting of the Committee shall have a vote in all matters considered by the Committee. In the event of a tie, the matter shall be referred to the Board as a whole for decision.
7. The Corporate Secretary to the Board shall serve as the Secretary to the Committee.

Authority

8. The Committee has authority to:
 - a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
 - b) set and pay the compensation for any advisors employed by the Committee;
 - c) communicate directly with the internal and external auditors, the Chief Financial Officer (CFO), and the President and CEO;

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- d) ensure that Committee members receive appropriate orientation and continuing education; and
 - e) refer issues to the more appropriate Board Committee and receive any action items referred from other Board Committees.
9. Except for Board of Director fees, Committee members may not accept consulting, advisory or other compensatory fees from the Corporation and its subsidiaries.

C. MEETINGS

The time and place of meetings of the Committee and the procedures at such meetings shall be determined from time to time by the members of the Committee, provided that:

- 1. a quorum for meetings shall be a majority of the Committee members present either in person or by telephone, or other telecommunications device that permits all members participating in the meeting to speak to and hear each other;
- 2. the Committee shall meet at least four (4) times per year with authority to convene additional meetings as circumstances require;
- 3. the Chair shall, in conjunction with management and the auditors, establish the agenda for the meeting;
- 4. reasonable notice shall be given in writing, by e-mail, or by facsimile, to each member of the Committee; and the agenda and associated material shall be sent to each member of the Committee prior to the time for such meeting, preferably seven (7) days before the meeting;
- 5. a member may, in any manner, waive a notice of meeting, and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called;
- 6. a meeting of the Committee may be called by the Secretary of the Committee on the direction of the Chair of the Committee, the Chair of the Board or President and CEO or by any two (2) members of the Committee. The CFO; the Internal Auditor; external auditors; or Provincial Auditor may request that the Chair call a meeting; and

7. the President and CEO or designate may be present at meetings of the Committee. The CFO or designate shall be in attendance at meetings. The Committee shall at all times have the right to: determine who, in addition to the President and CEO or designate, will be present at any part of the meetings of the Committee; invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary; and conduct in-camera sessions as required.

D. MINUTES AND REPORTING RESPONSIBILITY

1. All recommendations, decisions and directives of the Committee shall be recorded by the Secretary in the minutes of the meeting.
2. A draft copy of the minutes of each meeting, as approved by the Committee Chair, shall be circulated to the Committee, the Board and the President and CEO prior to the next following Committee and Board meetings respectively. Following approval of the minutes of the meeting by the Committee as a whole, if substantive revisions have been made to the draft minutes, the minutes approved by the Committee shall be circulated to the Committee and to the Board.
3. The Committee Chair shall ensure a written or verbal report of the meeting is presented to the next meeting of the Board.

E. SCOPE, DUTIES AND RESPONSIBILITIES

The Committee shall have the following specific functions, duties and responsibilities:

1. Annual Financial Information
 - a) Review the annual consolidated financial statements and recommend their approval to the Board, after discussing with management and the auditors and understanding the impact on the financial statements of matters pertaining to:
 - i) compliance with International Financial Reporting Standards (IFRS);

- ii) the selection, application and quality of accounting policies and changes thereto;
 - iii) the completeness and consistency of the financial statements with information known to Committee members;
 - iv) significant accounting judgments, unusual or complex items, accruals and estimates, recent professional and regulatory pronouncements;
 - v) significant disclosure or presentation issues identified by management, the external auditors, the Provincial Auditor and the Internal Auditor during the course of the audit and preparation of the financial statements;
 - vi) all matters required to be communicated to the Committee by the external auditor or Provincial Auditor under Canadian Generally Accepted Auditing Standards; and
 - vii) significant variances in the financial statements compared to prior periods and budget.
- b) Review the management discussion and analysis (MD&A) for inclusion in the Annual Report prior to its publication; and ensure the content for the Annual Report is accurate and consistent with the Committee's knowledge of the Corporation.
 - c) Review the Corporation's CEO and CFO certification of the effectiveness of internal controls over financial reporting.
 - d) Review the quality of service and performance of the external auditors and recommend to the Board the appointment or reappointment of the external auditors. The Board recommends the appointment of the external auditors to Crown Investments Corporation (CIC). CIC with the approval of the Lieutenant Governor-in-Council appoints the external auditors who shall audit the accounts and financial statements of the Corporation annually and at any other time that CIC directs.
 - e) Review with management, the external auditors and the Provincial Auditor and approve changes in accounting policies.

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- f) Review with management and the external auditors and the Provincial Auditor, the planning and results of the external audit including:
- i) Review and recommend to the Board the Audit Planning Memorandum, including:
- the engagement letter and projected fees;
 - the scope of the audit, including areas of audit risk, timetable, deadlines, materiality limits, extent of internal control testing, and co-ordination with Internal Audit;
- ii) Review the Audit Summary Memorandum, including:
- all critical accounting policies and practices used;
 - all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management;
 - ramifications of the use of alternative disclosures and treatments;
 - treatments preferred by the external auditors;
 - observations on effectiveness of controls and any significant weaknesses or issues noted;
 - results of work regarding legislative compliance and other issues;
 - any material written communication between the external auditors and management such as the management representation letter, internal control letter and schedule of unadjusted differences;
 - any material errors detected by the audit, how they were resolved with management, and whether they indicate a weakness in the reporting and control system; and
 - any difficulties encountered during the audit. The Committee shall ensure timely follow-up on any matters unresolved.

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- iii) Review with management and the Provincial Auditor any findings or reports arising from their special review of corporate operations.

2. Interim Financial Information

- a) Review with management and the external auditors and approve all quarterly financial statements, including MD&A, that will be published, prior to release.
- b) Understand the process of developing the interim financial information; and obtain reasonable assurance that the process for preparing these interim financial statements is reliable and consistent with the process for preparing annual financial statements.

3. External Auditor Independence

The Committee shall:

- a) ensure that the external auditors understand their ultimate accountability to the Board of Directors and the Committee. The external auditors shall report directly to the Committee;
- b) pre-approve all audit and non-audit services provided as documented in the Auditor Independence Policy as a means of preserving the objectivity and independence of the external auditors;
- c) strengthen and preserve external auditor independence by:
 - i) holding periodic in-camera sessions with the external auditors and the Provincial Auditor to discuss any matter that the Committee or the auditors believe should be discussed privately;
 - ii) annually reviewing relationships between the auditors and the Corporation including non-audit engagements undertaken by the audit firm and assessing their impact on the external auditor's objectivity and independence;
 - iii) receiving from the external auditors a letter declaring their independence from the Corporation;
 - iv) review on an annual basis a report detailing the non-audit (consulting) services provided by the external auditor;

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- v) discussing with senior management and the external auditors, the rotation plan (including the timing and process for implementing the plan) for all the audit partners active on the engagement;
 - vi) reviewing the co-operation received by the external auditors from management; and
 - vii) ensuring that any disagreements between management and the auditors particularly regarding financial reporting are resolved; and
- d) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors.

4. Internal Audit

The Committee shall:

- a) review and approve, at least annually, revisions to the Internal Audit Mandate. The revised Internal Audit Mandate will be provided to the Board as information;
- b) strengthen and preserve the independence of the Director, Internal Audit (Internal Auditor) by having regular in-camera sessions with the Internal Auditor. These sessions may be requested by either Internal Audit or the Committee;
- c) ensure there are no unjustified restrictions or limitations on the scope of Internal Audit activities;
- d) approve the appointment, replacement, reassignment or dismissal of the Internal Auditor ensuring the Internal Auditor's continued objectivity;
- e) review and approve the annual plans including the adequacy of the risks and activities covered; the budget and other resources provided to the department; accomplishments and cost and effectiveness of the Internal Audit function; the department's compliance with the IIA International Standards for the Professional Practice of Internal Auditing; and report to the Board the nature of any matter from the Internal Auditor's reports that remains unresolved;
- f) direct the inclusion of specific assignments in the Internal Audit workplan as might be deemed necessary from time to time;

- g) review adequacy of Internal Audit staffing; organizational structure; and succession planning;
- h) review and report to the Board on the status of management action plans in response to Internal Audit recommendations;
- i) review the quarterly status report which Internal Audit is required to provide to the Committee;
- j) review reports from Internal Audit regarding unethical conduct including illegal activities, misuse of corporate assets and resolution thereof. Internal Audit will report these events as they occur and will summarize and present in a quarterly Irregularities Report;
- k) review the results of external quality assurance reviews of the Internal Audit department in accordance with Standard #1320 of the IIA International Standards for the Professional Practice of Internal Auditing; and
- l) participate in and approve the annual performance appraisal of the Internal Auditor. The CFO and Internal Auditor will forward the results of the first draft of the performance evaluation to the Committee Chair who will seek input of the Committee members. The performance evaluation will be finalized by the CFO; the Committee Chair and the Internal Auditor.

5. Risk Management, Accounting and Internal Control

The Committee shall:

- a) review and evaluate the critical areas of risk and exposure and recommendations for mitigation as determined by management for the Corporation including but not limited to insurance protection, foreign exchange, treasury derivatives, natural gas contracting, disaster recovery and business resumption plans, etc;
- b) review risk management report; and review annually other reports related to enterprise risk management;
- c) review annually and report to the Board on the insurable risks and insurance coverage of the Corporation;

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- d) review and report to the Board on the Corporation's systems of internal controls including controls over financial reporting; and obtain reports on significant findings and recommendations and related management action plans;
 - e) review and report to the Board on the Corporation's level of compliance with legal, ethical, code of conduct and regulatory framework;
 - f) review audit and other reports and the implications of examinations by external organizations such as Canada Revenue Agency;
 - g) receive and review updates from management and the General Counsel on compliance matters and litigation claims or other contingencies that could have a significant impact on the financial position or operating results of the Corporation;
 - h) direct establishment of procedures for:
 - i) receiving, retaining and addressing complaints received by the Corporation related to any incidents of actual or potential unethical conduct including conflicts of interest; fraud, theft, harassment, safety and environmental concerns; violations of applicable laws; violations of approved policies or procedures; violations in accounting or auditing matters and controls; and
 - ii) the confidential anonymous submission by employees of the Corporation of concerns regarding any incidents of actual or potential unethical conduct including conflicts of interest; fraud, theft, harassment, safety and environmental concerns; violations of applicable laws; violations of approved policies or procedures; violations in accounting or auditing matters and controls;
 - i) 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 instances of non-compliance;
 - j) review annually and report to the Board on the financial integrity and performance of the pension funds for the employees of the Corporation;
 - k) review the findings of any examinations by regulatory agencies and any auditor observations;

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- l) be consulted by the President and CEO in advance of the appointment, replacement, reassignment or dismissal of the CFO;
 - m) review, on an annual basis, a summary of the senior management's expense claims;
 - n) review quarterly all director expenses and other operating costs of the Board;
 - o) direct the external auditors to specific areas for examination as deemed necessary by the Committee;
 - p) review the adequacy of the processes used and the due diligence applied by management in developing key financial ratio targets, capital and operating budgets; and review financial balanced scorecard indicators in conjunction with the Governance & Human Resources Committee and the Safety, Environment & Corporate Responsibility Committee
 - q) ensure that business plans are consistent with the strategic priorities approved by the Board and the Owner;
 - r) monitor how management addresses significant control exposures identified from the audit process; and
 - s) annually review and evaluate management's disaster recovery and business resumption plans including the results of testing those plans.
 - t) Review the Corporation's Natural Gas Hedging program.

6. Other

The Committee shall:

- a) annually review the Committee's Terms of Reference and recommend appropriate changes to the Board; and ensure appropriate disclosure as may be required by law or regulation.
- b) annually review and update the Committee's Summary Agenda;
- c) evaluate the Committee and individual member performance every third year;

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- d) self-assess whether the Committee has carried out the responsibilities defined in its Terms of Reference and report these results to the Board on a bi-annual basis;
 - e) ensure that members are oriented and receive the appropriate continuing professional development opportunities;
 - f) perform other activities related to the Terms of Reference as requested by the Board; review other Board Decision/Information items not subject to review by other Committees; and institute and oversee special investigations as needed;
 - g) review, as required, and recommend to the Board, applications for rate increases; and
 - h) review projects and other transactions that are outside the scope of management's authority prior to submission to the Board for approval.

(E. 6. d) is reviewed by the Governance & Human Resources Committee of the Board under Section E. of that Committee's Terms of Reference.)

F. ACCESS TO CORPORATE RECORDS/PERSONNEL

The Committee in performing any of its duties and responsibilities shall have access to:

1. all books and records of the Corporation required for the execution of the Committee's obligations. The Committee shall discuss with appropriate corporate officers and employees such records and other relevant matters;
2. any information it requires from employees or external parties. All employees are directed to cooperate with the Committee's requests; and
3. corporate officers, external auditors, the Internal Auditor, the Provincial Auditor, outside advisers and outside counsel as necessary.