



PBC Health Benefits Society

**Terms of Reference for
the Pacific Blue Cross
Audit Committee**



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I. Purpose

The primary responsibility for the Society's financial planning and reporting; accounting systems and internal controls is vested in Management and is overseen by the Board of Pacific Blue Cross (the "Board").

The purpose of the Audit Committee (the "Committee") is to assist the Board in fulfilling its oversight responsibilities of the quality and integrity of the accounting, auditing, internal control, and financial reporting practices by reviewing the financial information to be provided to the public, members and regulators, the systems of controls established by Management and the Board, and the audit process.

II. Composition

- a) The Committee will be composed of five directors, none of whom are officers or employees of the Society or an affiliate of the Society.
- b) The Society Secretary or designate shall be the Secretary to the Committee.
- c) The President and Chief Executive Officer ("CEO"), Board Chair, Chief Financial and Investment Officer ("CFIO"), Chief Compliance and Risk Officer ("CCRO") and the Director, Internal Audit may be requested to attend meetings of the Committee.
- d) External Auditors may be requested to attend meetings of the Committee.
- e) When required, the Committee may appoint an ex-officio member to the Committee. Such member would provide financial expertise and advice beyond that available from within the current directors.

III. Duties and Responsibilities

The Committee will have unrestricted access to the Society's personnel, and documents, and will be provided with the resources necessary to carry out its responsibilities.

The Committee shall provide oversight to significant financial issues and provide recommendations and guidance to the Board. Oversight includes identification, assessment, analysis and monitoring of issues raised by Management, the Committee, Auditors or Board members as issues may materialize from time to time.

The Board will consider the recommendations and guidance of the Committee and take actions as it deems appropriate.

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

A. Annual Audited Financial Statements

- i. The Committee will review the annual audited financial statements and recommend their approval or disapproval to the Board and for inclusion in the Annual Report. The Committee will provide an explanation if it cannot recommend approval. The review must include:
 - a) Determining whether appropriate accounting methods are being applied;
 - b) Discussing with Management and with the external auditor all proposed major changes in accounting policy, the import and presentation of all large risks or uncertainties, and all estimates or judgments of Management that may be material to financial reporting;
 - c) Questioning Management and the external auditor regarding significant financial recording or presentation issues that were discussed during the fiscal period and the manner of their resolution; and
 - d) Examining the audited annual financial statements in conjunction with the report of the external auditor, with particular reference to whether the statements:
 - 1) properly reflect the significant accounting policies selected,
 - 2) reflect estimates and other financial statement elements that are reasonable and consistent,
 - 3) adequately disclose all major transactions and issues,
 - 4) disclose all post-year-end significant events, and
 - 5) are understandable, relevant, reliable and comparable.
 - e) Review and recommend to the Board for approval on an annual basis that two PBC Directors are authorized to sign the PBC Health Benefits Society consolidated and separate financial statements and the LIFE Annual Supplements.
 - f) Review the Appointed Actuary's Report on an annual basis.
- ii. The Committee will facilitate the external audit, including:
 - a) Determining whether the performance of the external audit is satisfactory and effective and meets the requirements of the Society;
 - b) Recommending to the Board the retention or replacement of the external auditor and, if the Committee recommends replacement, evaluating candidates for the appointment;
 - c) Reviewing all issues related to any change of external auditor and the planned steps for an orderly transition;
 - d) Reviewing the audit plan with the external auditor and Management for approval on an annual basis including fees;
 - e) Review all engagements for non-audit services provided by the external auditor's firm or an affiliate, together with estimated fees, and considering the implications of such an engagement for the independence of the external auditor;
 - f) If necessary, meeting with the auditor prior to the commencement of the audit to ensure that areas of particular concern to the Committee or Board of Directors are investigated by the auditor during its engagement;

- g) Determining whether Management has provided full and open disclosure to the auditor's inquiries;
- h) Reviewing problems experienced by the external auditor in performing the audit, including any restriction imposed by Management and all significant accounting issues on which there was a disagreement with Management; and
- i) Reviewing the post-audit or Management letter containing the recommendations of the external auditor and reviewing Management's response and subsequent follow-up to all identified weaknesses.

B. Accounting Systems and Internal Controls

- i. Through discussions with Management, the external auditor and Internal Audit, the Committee will obtain reasonable assurance that the Society's accounting systems are reliable and internal controls are adequate. For this purpose, the Committee may wish to direct the auditor's examinations to particular areas and may request the auditor to undertake special examinations.
- ii. The Committee will review the evaluation of internal controls by the external auditor, including any recommendations for improvement of the Society's accounting procedures and internal controls, together with Management's response.
- iii. The Committee will oversee Internal Audit's activities including reviewing and approving the scope of the internal audit plan.
- iv. The Committee will meet separately with Internal Audit to discuss any matters that the Committee or Internal Audit believe should be discussed privately.

C. Role and Responsibility with Internal Audit

- i. Approve the internal audit function's Charter – and review periodically to ensure it provides the appropriate independence and mandate;
- ii. Participate in the appointment, evaluation and replacement of the head of the Internal Audit oversight function (the Director, Internal Audit);
- iii. Ensure there is an open direct relationship and ongoing communication with the Director, Internal Audit, including in-camera sessions;
- iv. Approve a risk-based Internal Audit Plan, and any changes required throughout the year, review the process used to develop the plan, and gain an understanding of why other potential audits were excluded from the plan;
- v. Ensure internal audit has sufficient resources and budget to execute the audit plan; and
- vi. Require the Director, Internal Audit, to regularly report on the status of the Audit Plan and results of internal audit activities.

³ The skills, background and experience of continuing directors is assessed by the Governance Committee objectively, referring to the Director Information Form filed by each director.

D. Financial Reporting

i. Standards of Financial Reporting

The Committee will:

- a) Evaluate whether Management fosters a culture and environment that promotes high quality financial reporting;
- b) Assess the aggressiveness, or conservatism of financial reporting; and
- c) Consider the auditors' assessments of the risk factors relating to potential fraudulent financial reporting.

ii. Accounting principles and practices

- a) Assess the appropriateness of, including any significant changes to, the accounting principles and practices employed and ensure that the assumptions underlying them are valid; and
- b) Seek the external auditor's judgment about the quality, and not just the acceptability, of accounting principles, the reasonableness of significant judgements, and the clarity of the disclosures in the financial statements.

iii. Accounting judgments and estimates

- a) Discuss the substance of significant legal matters, contingencies, and claims of assessments that could have a material effect on the financial statements or on the financial stability of the Society with Management and the internal auditors;
- b) Assess the reasonableness of estimates related to the accounting recognition of income, assets, and liabilities (including reserves and accruals); and
- c) Review Management's methods for estimating significant accounting accruals, reserves, and other estimated liabilities.

iv. Review of interim financial reports

The Committee shall review with Management and recommend Board approval of the interim financial reports for each of the first three (3) fiscal quarters of each fiscal year, including comparative financial information for the preceding fiscal year and Management's narrative discussion.

E. Financial Planning and Risk Management

The Committee will:

- i. Ensure there is an open direct relationship and ongoing communication with the CFIO including in-camera sessions;
- ii. Review and recommend approval of the annual budget to the Board of Directors as presented by Management. This will include the Board of Directors annual budget;
- iii. Approve the mandate, resources and budgets for all oversight functions;
- iv. Review quarterly forecasts as presented by Management;
- v. Review PBC Key Ratios;
- vi. Review Approval Authority Limits on an annual basis and recommend Board approval if required;
- vii. Review the Underwriting Policy on an annual basis for informational purposes;

- viii. Verify the establishment of policies and procedures for monitoring compliance with the Society's policies as to authorization of expenditures, leases and contracts and otherwise, and ascertain their adequacy and the levels of compliance;
- ix. Review and approve the PBC Consolidated Capital and Risk Management Policies;
- x. Review LICAT reporting on a quarterly basis;
- xi. Review the Liquidity Monitoring Report on a quarterly basis; and
- xii. Review the Abuse and Fraud Investigations Report on a semi-annual basis.

F. Other Responsibilities

The Committee will:

- i. Review statutory returns to be filed with the BC Financial Services Authority ("BCFSA");
- ii. Recommend the Appointed Actuary to the Board of Directors;
- iii. Meet with the Appointed Actuary as required;
- iv. Ensure a Peer Review of the Appointed Actuary every three years unless otherwise warranted;
- v. Review the status of pending or threatened material litigation;
- vi. Review before public disclosure any statement on the financial condition or results of the Society;
- vii. Draw to the attention of the Board all financial matters of which the Committee has knowledge and which may materially affect the current or future position of the Society;
- viii. Determine whether there is adequate planning to minimize taxes of all types;
- ix. Endeavor to identify to the Board matters that expose directors to claims for which directors could be held personally liable; and
- x. Review on an annual basis, or more frequently if deemed necessary or appropriate by the Committee, the expenses incurred by the Board of Directors.

IV. Accountability

- a) The Committee will report its discussions to the Board or if necessary, by written summary, at the next meeting of the Board.
- b) The Committee will work and liaise as necessary with other PBC Board Committees.
- c) The Committee will review the Committee Chair Succession Plan on an annual basis.
- d) The Committee will review and recommend changes to its Terms of Reference on an annual basis for referral to the Governance Committee and recommended approval to the Board.

V. Committee Workplan

The Committee Workplan for the forthcoming year will be agreed by the Committee at the last meeting of the current year.

