

## **Audit & Risk Committee Terms of Reference**

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### **Purpose**

The Audit & Risk Committee (“Committee”) is a Standing Committee of the Board of Directors (“Board”). On behalf of the Board, the Committee oversees the impact and management of financial, and all other risks that affect Tarion (“Corporation”), except for the Ontario New Home Warranty Plan Act, which is overseen by the Governance, Regulatory Affairs and Nominations Committee (“GRANC”). The Committee also oversees the Corporation’s external and management financial reporting; risk framework and reporting; and long-term financial sustainability and reports thereon to the Board.

### **Committee Mandate**

1. To review, evaluate and recommend to the Board strategies and policies for the Corporation to manage enterprise-wide risks including their acceptability within the defined Risk appetite, tolerance and capacity statements, as well as preventive and mitigating measures.
2. To review the Corporation’s periodic and annual audited financial statements and management reports, the pension plan(s) financial statements, actuarial reports, management of pension assets. Liaise with the internal and external auditors, the Actuary and other advisors to discuss any financial and operational matters, including the pension fund’s liability and liquidity.
3. To review accounting, auditing and taxation rules and guidelines, enterprise-wide risk and capital management standards applicable to the Corporation. Identify best practices and procedures from OSFI, CPA Canada, federal and provincial governments and others (which are not mandated) which affect financial statement presentation disclosure and may be used in communicating the financial viability of the Corporation.
4. To review and report to the Board on financial strategies, including the assessment of reserves management, corrective actions, and the related policies listed under the Committee’s workplan.
5. To monitor and evaluate the continued effectiveness of internal controls in view of the Corporation’s strategic and business plans.
6. To monitor and evaluate the performance of the internal and external auditors and the Actuary.
7. To monitor and evaluate the performance of the Actuary of the pension plan(s).

8. Review, evaluate and recommend to the Human Resources and Compensation Committee (“HR&CC”) and the Board with respect to performance measurements that should be reflected in the Key Performance Indicators under the Strategic and Business Plans.
9. To liaise with the Investment Committee and the HR&CC as needed.

## **Committee Authority**

The Audit & Risk Committee draws its authority from the Board, specific regulatory requirements (CRA, etc.) and professional standards (CPA Canada, IFRS, etc.) that require the Corporation to be compliant. In addition, it has the authority to conduct and authorize investigations into any matters within its scope of responsibilities and is empowered to:

1. Retain outside counsel, internal and external auditors, actuaries or other advisors to assist in an investigation; and
2. Seek any information from employees and officers of the Corporation, who are required to co-operate at the Committee’s request as noted in the Employee Code of Conduct;

## **Committee Responsibilities**

The Committee will carry out the following responsibilities:

### ***Annual Report***

1. Review and advise the Board on the annual audited and quarterly in-house financial statements, including significant accounting and disclosure issues, complex or unusual transactions and areas of significant judgement call.
2. Review with management and the external auditors the results of the annual financial audit and any subsequent follow-up.
3. Review the financial commentary and analysis and make any amendments before the release of the Annual Report.

### ***Pension Plan***

1. Review the annual audited pension plan financial statements, including significant accounting, disclosure and reporting issues, complex or unusual transactions and areas of significant judgement call.

### ***Internal Control***

1. Request management to implement and maintain effective internal control systems and processes for the Corporation including financial reporting, warranty liability, e-business and management information system security and controls.
2. Meet with the senior management to assess the adequacy, efficiency and effectiveness of the internal control systems and processes as well as the integrity of the corporate management information system.
3. Review the warranty liabilities, Minimum Capital Test (MCT), Dynamic Capital Adequacy Testing (DCAT) and the Annual Review of Surety Providers reports.
4. Review reports on significant litigation and regulatory compliance matters.
5. Once a year, at a minimum, meet in-camera with the Vice President & Chief Financial Officer and the Vice President, Chief Information Officer to discuss any matters that the Committee or the executives believe should be discussed privately.

### ***External Audit***

1. Initiate selection of the External Auditor in accordance with the Committee Terms of Reference, Tarion's Procurement Policy and agreements with the current service provider.
2. Approve the contents and distribution of the Request for Proposal (RFP), evaluate the submissions and finalize selection of a firm.
3. Report to the Board on the RFP evaluation process, selection of the successful external auditor and obtain the Board's approval for finalizing the remuneration and engagement letter of the Firm.
4. Ascertain the External Auditor's independence and obtain written confirmation to that effect.
5. Review and approve the audit plan presented by the External Auditor for the current year.
6. Meet separately (in-camera), at least once a year, with the External Auditor to discuss any matters that the Committee or auditors believe should be discussed privately.
7. Oversee that the annual audit has been effectively carried out and that any matters and/or unresolved differences raised by the External Auditor have been resolved and reported to the Board.
8. Pre-approve all non-audit services to be provided to Tarion by the external auditor.
9. Annually perform an External Auditor performance evaluation, review the results with the Committee and report the results to the Board and the External Auditor.

### ***Internal Audit***

1. Initiate selection of the Internal Auditor in accordance with the Committee's Terms of Reference, Tarion's Procurement Policy and agreements with the current service provider.
2. Approve the contents and distribution of the Request for Proposal (RFP), evaluate the submissions and finalize the selection of a Firm.
3. Report to the Board on the RFP evaluation process, selection of the successful Firm and obtain Board approval for finalizing the remuneration and engagement letter with the Firm.
4. Ascertain the Internal Auditors' independence and obtain written confirmation to that effect.
5. Annually, or as often as required, review and approve the internal audit plan that meets the oversight responsibilities of the Committee and the current risk profile of the Corporation.
6. Meet separately (in-camera), at least once a year, with the Internal Auditor to discuss any matters that the Committee or auditor believe should be discussed privately.
7. Oversee that the internal audit is being carried out effectively and corrective action plans are executed and monitored and reported to the Committee and then to the Board.
8. Annually, perform an Internal Auditor performance evaluation, review the results with the Committee and report the results to the Board and the Internal Auditor.
9. Review the Internal Audit Terms of Reference on a bi-annual basis.

### ***Actuary***

1. Initiate selection of an Actuary in accordance with the Committee Terms of Reference, Tarion's Procurement Policy and agreements with the current service provider.
2. Approve the contents and distribution of the Request for Proposal (RFP), evaluate the submissions and finalize selection of a Firm.
3. Report to the Board on the RFP evaluation process, selection of the successful Actuary and obtain Board approval for finalizing the remuneration and engagement letter with the Firm.
4. Ascertain the Actuary's independence and obtain written confirmation to that effect.

### ***Other Responsibilities***

1. Perform other activities related to the mandate of the Committee as requested by the Board of Directors.
2. Review the annual Business Plan and Budget. Modify external and internal audit and actuarial engagements to align with these plans.
3. Review and assess the adequacy of the Committee mandate annually and request Board approval for any proposed changes.
4. Confirm annually that all responsibilities outlined in this charter have been carried out.
5. Perform a self-assessment to evaluate the Committee's performance on a regular basis in concert with the overall Board evaluation process.
6. Regularly report to the Board of Directors about Committee activities, issues and related recommendations.
7. Review quarterly technology updates from the Chief Information Officer and oversee any major developments and/or initiatives of Information Systems.

### **Chair's Specific Responsibilities**

1. Under the Corporation's Whistleblower Policy, the Chair of the Committee is the designated person to review the reports of financial wrongdoings submitted by employees.
2. The Chair of the Committee has the authority to pre-approve non-audit services provided by the appointed External Auditor between committee meetings, on an as required basis, to avoid delay in meeting the business needs of Tarion. Such situations will be reported to, and ratified by, the Committee at its next meeting.
3. The Chair of the Committee, or an independent third party, shall review on a quarterly basis the expenses of the Board and the CEO for reasonability and compliance with the Board's Remuneration Policy (BRD-GC-03) and Management's General and Expense Reimbursement Policy (MGMT-AC-03).
4. The Committee Chair has the authority to speak to Directors who act out of self-interest, with distraction, but more importantly potential diversion of fiduciary duty and its effect on the Committee. If a Director cannot refrain from pursuing self-interest, the Committee Chair shall advise the Chair, GRAN Committee and the Board Chair.
5. The Committee Chair will remind Directors they are entitled to a total of four questions in the meeting, including follow-ups.

## **Committee Composition**

1. The Committee will be composed of up to five members from the Board. The Committee has the right to hire external experts to provide advice as and when it deems necessary. The Committee will invite members of Management, external and internal auditors, the Actuary or others to attend meetings and provide pertinent information, as necessary.
2. The members of the Committee will be appointed annually by the Board.
3. All members of the Committee must meet financial literacy requirements.  
*(Financial literacy is currently defined as being able to read and understand basic financial statements. This may be evidenced by taking a course in accounting or finance.)*
4. The Chair of the Committee will be appointed annually by the Board and must possess a recognized professional designation in accounting or any other comparable experience or background which evidences the individual's financial literacy, e.g. a currently serving or having served as a chief executive officer, chief financial officer, treasurer, financial analyst or other senior executive role involving financial oversight responsibilities.
5. The Vice-Chair of the Committee will be appointed annually by the Board of Directors.
6. A quorum for the Committee will be 50% of its members.
7. The majority of the members of the Audit & Risk Committee will be unrelated, as determined by the Board of Directors, e.g. free of any interest and/or business or other relationship which would reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Corporation.
8. Any member of the Committee may be removed or replaced at any time by the Board of Directors. A committee member will cease to be a member of the Committee as soon as such member ceases to be a director.

## **Committee Administration**

1. As a minimum, the Committee will meet four times per year, but may have additional meetings as required. It will also hold private informal meetings, if required, with external auditors, internal auditors and appointed Actuaries (see also note under Authority).
2. A meeting agenda will be prepared by the Corporate Secretary in conjunction with the Committee Chair and provided to members in advance of each Committee meeting, along with briefing materials.
3. The Corporate Secretary of the Corporation will attend all meetings of, and act as Secretary to the Committee, except during in-camera sessions, unless invited by the Committee Chair.
4. Minutes will be recorded at each meeting and will be accepted and approved by the Committee at its next meeting. The minutes will be distributed to the Board at its next meeting.

5. The Committee Chair will report to the Board of Directors on any meetings of the Committee held between Board meetings. The Chair may provide an oral report to the Board on matters not yet minuted, and may elect to report on in-camera matters during in-camera meetings of the Board.
6. Committee Members will treat all discussions and resolutions of the Committee in confidence, and will not disclose any information relating to any materials tabled at the meeting, until the release of such information is authorized by the Chair of the Board or the Committee.
7. Where a Committee member believes that he or she may be involved in a potential conflict of interest regarding a matter that is under consideration by the Committee, then that member will declare the possibility of a conflict and, if it is determined by the Committee that a conflict does exist, such member will leave the meeting for the duration of the discussion on the issue, or, with the approval of the Chair, remain in the meeting but refrain from participating in the discussion related thereto, and will not vote on any decision or resolution arising therefrom.
8. The Annual Report will include a report on the number of meetings of the Committee and the individual Directors attendance.
9. An In-camera session will be held at each meeting at the discretion of the Committee Chair.

**MONITORING METHODOLOGY:**

Audit Committee Review	03/31/11; 05/31/12; 05/16/13; 05/12/14; 05/15/15; 05/19/16; 09/25/17; 03/25/18; 05/13/19; 05/28/20; 03/29/21
Governance Committee Review	04/05/11; 09/20/12; 04/04/13; 04/02/14; 04/01/15; 04/06/16; 09/22/16; 04/06/17; 04/05/18; 04/04/19; 04/09/20; 04/01/21
Board of Directors Approval	04/21/11; 10/04/12; 04/25/13; 04/17/14; 04/16/15; 10/20/16; 10/25/17; 04/26/18; 04/25/19; 06/10/20; 04/22/21

### 2021 Audit Committee Annual Work Plan

<b>March Meeting</b>		
1	Review and recommend approval of the audited year-end financial statements for Tarion Warranty Corporation	
2	Review and recommend approval of the audited year-end financial statements for the Pension Fund	
3	Review year-end Performance and Activity Report	
4	Review Auditors report on the audited financial statements (Corporation & Pension Fund)	
5	Review year-end Reserves Report	
6	Review management's representation letter to the external auditor	
7	External Auditor appointment/reappointment	
8	Risk Assessment Update (full report – all risks)	
9	Review of Management Risk Committee Minutes	
10	Policy review (if required)	
11	Update on any claim matters	
12	Reinsurance Renewal	
13	Technology Update – Disaster/Business Recovery Update	
14	Cyber Security Update	
15	Internal Audit Update	
16	Actuary RFP	
17	Internal Audit RFP & review of Terms of Reference	
18	Meet in-camera with the Actuary	
19	Meet in-camera with the External Auditor	
20	Meet in-camera with the Internal Auditor	
21	Meet in-camera with the Chief Financial officer	
22	Meet in-camera with the CEO	
<b>May Meeting</b>		
1	Review Q1 financial statements and Q1 Performance & Activity Report	
2	Review year-end DCAT results	
	2021 Forecast and Recessionary Scenario Stress Test	
3	Review Annual Capital Management Assessment	
4	Review Audit Committee Mandate & Terms of Reference	
5	Assessment of External Service Providers: The Actuary	
	Review of Actuary RFPs to determine appointment	
6	Review external audit management letter and management's responses	
7	Review of External Audit Fees (if planning an RFP)	
8	Update on any claim matters	
9	Policy review (if required)	
10	Risk Assessment Update	
11	Review of Management Risk Committee Minutes	
12	Technology & Cyber Risk Security Update	
13	Internal Audit Update (selection of IA project for 2021)	
14	Review of Internal Audit Terms of Reference	
15	Recession Scenario Projections	
16	Committee & Committee Chair Evaluation (next 2021)	
<b>September Meeting</b>		
1	Review Q2 financial statements and Q2 Performance & Activity Report	



2	Policy Review (if required)	
3	Update on any claim matters	
4	External Auditor RFP (Sept. 2021)	
5	Risk Assessment Update	
6	Capital Plan Review (if required)	
7	Review of Management Risk Committee Minutes	
8	Financial Condition Testing (formerly DCAT)	
9	Internal Audit Update	
10	IFRS 17 Update	
11	Technology Update	
12	Cyber Security Update	
<b>October Meeting [joint with HRC Committee]</b>		
1	Review of Taron's budget and business plan for the coming year	Completed
<b>November Meeting</b>		
1	Review Q3 financial statements and Q3 Performance & Activity Report	
2	Review External Auditor's Engagement Letter, proposed fees and audit plan for the coming year	
3	Review draft proforma year-end financial statements	
4	Annual review of Surety providers	
5	Risk Assessment Update	
6	Catastrophic Risk Capacity Review	
7	Annual Policy Review: <ul style="list-style-type: none"> <li>• MGMT-AC-01 Procurement Policy</li> <li>• MGMT-AC-02 General Authority Limits</li> <li>• MGMT-AC-03 General Expense Reimbursement</li> <li>• BRD-AC-01 – Payments in Excess of Regulatory Liability Caps</li> <li>• BRD-AC-02 – Letters of Credit Limits</li> </ul>	
8	Update on any claim matters	
9	Internal Audit Update	
10	Technology Update	
11	Cyber Security Risk Update	
12	Assessment of Service Providers: Internal Audit	
<b>Reviews</b>		
	Reinsurance (2020)	Renewed for 2020
	Internal Auditor RFP (2022)	
	Committee & Committee Chair Evaluation (biannually 2021)	
	Actuarial Services RFP	See agenda