

Vestcor Inc. Terms of Reference – Audit Committee

1. Introduction and Purpose

Management is responsible for the preparation, presentation and integrity of the financial statements of Vestcor Inc. (Vestcor) and Vestcor Investment Entities and of Total Fund Reports, and for maintaining appropriate accounting and financial reporting principles and policies to support these statements and reports. Primary responsibility for information systems, risk management and internal controls of Vestcor is vested in Management and overseen by the Board.

The external auditors are responsible for planning and carrying out, in accordance with professional standards, an audit or other form of assurance engagement, as appropriate, of these annual financial statements and reports. The external auditors are expected to be at Audit Committee Meetings.

The Board of Directors of Vestcor has established the Audit Committee to review the adequacy and effectiveness of these activities and to assist the Board in its oversight of:

- a) The integrity of Vestcor’s financial reporting and disclosure processes
- b) The recommendation to the shareholder for the appointment of the external auditors including their qualifications and independence
- c) The performance of Vestcor’s internal audit function and appointment of auditors
- d) The adequacy and effectiveness of internal controls
- e) Risk management, and
- f) Vestcor’s compliance with legal and regulatory requirements

2. Duties and Responsibilities

Subject to the powers and duties of the Board, and to the requirements of the *Vestcor Act* (the “Act”), Members’ Agreement and corporate By-Laws, the Audit Committee will perform the following duties in relation to Vestcor, as may be appropriate in the context:

2.1 Financial Statements and Other Statements

The Audit Committee will review and recommend for approval to the Board financial information that will be made publicly available. In this regard, the Audit Committee will:

- a) review and recommend to the Board for approval (i) the annual financial statements for Vestcor and the Vestcor Investment Entities and (ii) the annual investment performance Total Fund Reports
- b) review and recommend to the Board for approval the financial content of the Annual Report
- c) review and recommend to the Board for approval the Management’s Discussion & Analysis section of the Annual Report
- d) prior to public disclosure, review news releases which accompany published financial statements (to the extent such releases discuss the financial position or operating results) for consistency of disclosure with the financial statements themselves
- e) review the unaudited, quarterly financial statements for Vestcor, and the Vestcor Investment Entities as prepared by Management

The Audit Committee will:

- a) regularly review, assess and annually approve, through the approval of the annual financial statements, the appropriateness of accounting policies and financial reporting practices used by Vestcor, the Vestcor Investment Entities and the Total Fund Reports
- b) review and approve, as required, any significant proposed changes in financial reporting and accounting policies and practices to be used by Vestcor and the Vestcor Investment Entities
- c) regularly review and assess any new or pending developments in accounting and reporting standards that may affect Vestcor and the Vestcor Investment Entities
- d) regularly review and assess the key estimates and judgments of Management that may be material to the financial reporting of Vestcor or the Vestcor Investment Entities
- e) regularly review and assess responses by Management to material information requests from government or regulatory authorities
- f) investigate and recommend a resolution to the Board of any issues or concerns referred to it by the Governance Committee (as the point of entry for any complaints or concerns) arising from complaints under the Code of Ethics and Business Conduct that may relate to a breakdown of financial disclosure controls or internal controls over financial reporting. Depending upon the nature of the complaint, the Committee may delegate the investigation and resolution of the complaint to Senior Management.

The Audit Committee has the delegated authority to approve changes in financial and accounting policies and practices to be used by Vestcor.

2.2 Internal Control and Information Systems

The Audit Committee will review and obtain reasonable assurance that the internal controls and information systems are operating effectively to produce accurate, appropriate and timely management and financial information and that they are appropriately incorporating the risks identified in Vestcor's Enterprise Risk Management Framework. In this regard, the Audit Committee will receive Management's regular status reports addressing internal control or management information system issues identified by internal and external auditors or identified internally. The Committee will also annually review and assess the IT Strategic Plan.

2.3 Risk Management

The Audit Committee supports the Board's risk management oversight in areas relating to its specific mandate. Such risks include but are not limited to major financial risks and risks relating to financial controls and/or financial reporting. The Committee will discuss these risks and the steps that Management has taken to monitor and control such exposures.

The Audit Committee will:

- a) review the mandate and scope of the Risk Manager role
- b) receive regular reports from the Risk Manager to monitor the status and evolution of enterprise-wide risks and the effectiveness of Vestcor's risk management program, including annual review and recommendation to the Board for approval of any significant changes to the Enterprise Risk Management Framework.

- c) meet periodically with the Risk Manager in the absence of Management and the external auditor
- d) oversee Management's fraud risk management program including annual review and recommendation for approval to the Board of Vestcor's Fraud Risk Management Policy and Management's annual fraud risk assessment

2.4 Internal Audit

The Audit Committee will oversee the internal audit function of Vestcor and the internal auditor's relationship with the external auditor and with Management. In this regard, the Audit Committee will:

- a) review and approve the selection, evaluation (using Framework for Evaluation of Internal Audit) and retention of the Manager, Internal Audit
- b) review and approve the terms of the annual internal audit plan including objectives, scope, staffing, timetable, annual budget and use of external consultants
- c) review and approve any significant changes to an approved internal audit plan
- d) review matters that may affect the independence of the internal auditor including but not limited to the position of the internal audit function within the organizational structure of Vestcor and receive an annual confirmation of the independence of the internal audit function
- e) review and approve the findings and follow-up of the internal auditor including any significant difficulties encountered, restrictions imposed by Management or disagreements between Management and the internal auditor with regard to required systems and controls
- f) ensure that direct and open communication exists among the Audit Committee, the external auditor and the internal auditor
- g) meet periodically with the internal auditor in the absence of Management and the external auditor
- h) biennially review and recommend to the Board for approval the Internal Audit Terms of Reference
- i) review annually an evaluation of Internal Audit staff's conformance to the Institute of Internal Auditors International Professional Practices Framework including the Code of Ethics and Standards
- j) review the results of an annual self assessment of the effectiveness and efficiency of Internal Audit and an external assessment completed every five years by a qualified external assessor

2.5 External Auditor

The Audit Committee is directly responsible for overseeing the work of the external auditor. The Audit Committee will review the planning and results of external audit and other annual assurance activities and the ongoing relationship with the external auditor. In this regard, the Audit Committee will:

- a) review and recommend to the shareholder for approval, the annual appointment of the external auditor.

- b) review and approve the terms of the annual external audit engagement plan, including but not limited to the following:
 - i. engagement letter
 - ii. objectives and scope of the external audit and other annual assurance work
 - iii. materiality limit
 - iv. areas of audit risk
 - v. staffing, and in particular, the lead audit partner and the audit partner responsible for reviewing the audit, including partner rotation
 - vi. timetable, and
 - vii. proposed fees
- c) review and approve in advance, the non-audit services to be provided by the external auditor's firm or its affiliates (including the estimated fees) in accordance with a policy established by Management and approved by the Audit Committee, consider the impact on the independence of the external audit work and receive a quarterly report thereon from Management. The Audit Committee will also pre-approve quarterly fee baskets of \$5,000 each for non-audit, tax and other services to be used at Management's discretion which will be ratified at the next scheduled meeting.
- d) assess the performance and independence of the external auditor.
- e) meet with the external auditor in the absence of Management and the internal auditor, at least annually, to discuss Vestcor's and Vestcor Investment Entities' financial statements, Total Fund Reports and the external auditor's audit findings report.
- f) review and advise the Board with respect to the plan, conduct and reporting of the annual external audit, including but not limited to the following:
 - i. any difficulties encountered, or restriction imposed by Management, during the annual audit
 - ii. any significant accounting policies or financial reporting issues, alternative accounting treatments discussed with Management, ramifications and external auditors' preferred alternative, and any other material written communications with Management
 - iii. the external auditor's evaluation of Vestcor's system of internal controls, procedures and documentation
 - iv. the post audit or management letter containing any findings or recommendations of the external auditor including Management's response thereto and the subsequent follow-up to any identified internal control weaknesses
 - v. any significant disagreements between Management and the external auditor with regard to financial reporting
 - vi. any other matters that the external auditor brings to the attention of the Audit Committee, and
 - vii. any issues relating to review or appointment of internal or external auditors
- g) ensure that direct and open communication exists among the Audit Committee, the external auditor and the internal auditor

- h) review Vestcor’s hiring policies concerning employees and partners or former employees and partners of the external auditor

2.6 Committee Objectives

- a) Annually in March, review the Audit Committee’s accomplishments for the prior year;
- b) Annually in November, formulate annual objectives, that align with Vestcor’s Strategic Plan, for the Audit Committee’s upcoming year; and
- c) Regularly review progress against annual objectives.

2.7 Other

The Audit Committee will also:

- a) where applicable review all significant unusual investments, transactions or valuation adjustments that could have a material impact on the return on Vestcor’s investments that are brought to the Audit Committee’s attention by the external auditor or Officers
- b) annually review and recommend to the shareholder for approval insurance coverage of significant business risks and uncertainties
- c) review a quarterly report of any litigation matters that could significantly affect the financial statements
- d) review a quarterly report from the Chief Financial Officer on regulatory compliance matters
- e) review an annual report from the Chief Compliance Officer on securities regulation compliance
- f) review annually the top ten suppliers
- g) carry out such other duties as may be determined from time to time by resolution of the Board

The Audit Committee will have access to Management and Vestcor documents as required. It will also be provided with the resources necessary to carry out its responsibilities. The Audit Committee may engage independent counsel and other advisors and set and pay the compensation for any advisors so engaged.

In coordination with the Governance Committee, the Audit Committee shall annually review and assess the adequacy of its mandate in relation to evolving best practices and quarterly, through a review of meeting evaluation survey results, evaluate its effectiveness in fulfilling its mandate.

3. Committee Membership

The Audit Committee shall be composed of not fewer than three Directors. All members of the Audit Committee shall meet the standard of financial literacy, which entails the ability to read and understand financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by Vestcor’s financial statements. All committee members shall be independent of Management of Vestcor. At least one committee member shall have accounting or financial management expertise.

The Board will, after reviewing the Board Chair’s recommendation, appoint a Chair for the Committee.

A quorum for the transaction of business at a meeting of the Audit Committee will be a majority of Directors appointed to the Committee. The Committee Chair will vote on matters requiring a decision and will cast the deciding vote in the event of a tie.

Any Director who is a member of the Audit Committee may be removed and replaced at any time at the pleasure of the Board.

The Board Chair shall serve as an ex-officio member of the Audit Committee.

Directors who are not members of the Audit Committee may attend committee meetings but will not have the right to vote on matters requiring decisions.

4. Committee Meetings

The Audit Committee shall meet at least quarterly, with additional meetings at the discretion of the Committee Chair or at the request of a majority of the committee members.

The Audit Committee will have separate private meetings with the external auditors, the Manager Internal Audit, Risk Manager, Management or any other persons to discuss any matters that the Committee or these groups believe should be discussed.

Vestcor’s external auditor, Manager Internal Audit, Risk Manager or any member of the Audit Committee, may request a meeting of the Audit Committee.

The external auditor, Manager Internal Audit and Risk Manager shall attend meetings of the Audit Committee. The Manager Internal Audit and Risk Manager shall present quarterly reports to the Committee while the external auditor shall present annual audit plans and audit findings reports. Any or all of the above may request an opportunity, or be requested by an Audit Committee member, to provide further reports or presentations as appropriate.

5. Accountability

The Audit Committee shall prepare a written report of its discussions and decisions for inclusion in the Board’s meeting package.