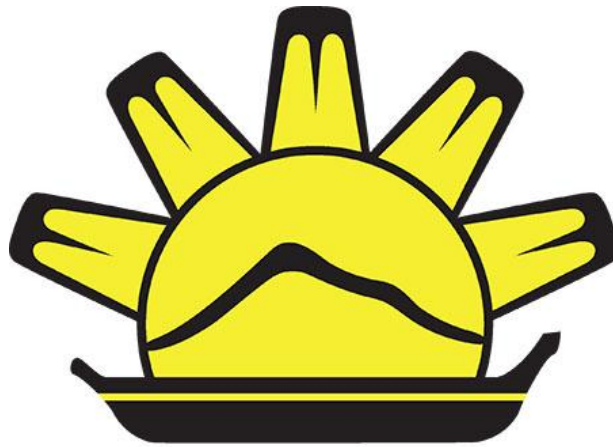


| Statement of Policy and Procedure | |
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Malahat Nation

Finance and Audit Committee Policy

Approved by Council on July 20, 2015



Malahat

1. Policy

It is Council's policy and a requirement of the Malahat Nation's Financial Administration Law to establish and maintain a Finance and Audit Committee ("the Committee") to assist Council in carrying its oversight responsibilities for financial reporting, internal control, and risk management processes.

2. Purpose

The purpose of this Policy is to set out the composition, responsibilities, and procedures in establishing and maintaining a Finance and Audit Committee.

3. Scope

This policy applies to Council, the Finance and Audit Committee, the Chief Executive Officer and the Director of Finance.

4. Definitions

"eligibility criteria" are the council specified requirements which must be met by an individual in order to be considered independent and eligible to be appointed as a member of the Finance and Audit Committee.

"financial competency" is the ability to read and understand general purpose financial statements that present accounting issues and disclosures reasonably expected to be raised by the Malahat Nation's financial statements.

"terms of reference" is a documented statement of the mandate, objectives, purpose, scope, functions and rules under which the Committee is expected to operate.

"financial reporting risk" is the possibility of an undetected material misstatement in financial information due to the existence of ineffective internal control or fraud resulting from manipulation or alteration of accounting records, misrepresentation or intentional omissions of transactions, or intentional misapplication of accounting principles.

"fraud risk" is the potential for an employee, agent or other person connected to the financial administration of the Malahat Nation to use deception to dishonestly make a personal gain for oneself or a loss for another. This commonly includes activities such as theft, corruption, embezzlement, or bribery etc.

"independence" exists between the Malahat Nation and an individual when the individual does not have a direct or indirect relationship with the Malahat Nation government that could, in the opinion of council, reasonably interfere with the individual's exercise of independent judgment as a member of the finance and audit committee.

“internal control” is a process, effected by the Malahat Nation’s Council, Finance and Audit Committee, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations;
- reliability of reporting; and
- compliance with applicable laws and regulations.

5. Responsibilities

(1) Subject to the Malahat Nation’s Financial Administration Law, the Council is responsible for:

- (a) assigning to the Committee any responsibilities or functions in addition to those set out in the Law;
- (b) approval of the Terms of Reference for the Committee;
- (c) determining the eligibility criteria of the Committee members, chairpersons and vice-chairpersons;
- (d) confirming, before appointment, that each potential member of the Committee is eligible to be a member and is independent;
- (e) ensuring that each member of the Committee signs a statement annually, confirming that they continue to meet the eligibility criteria and remain independent;
- (f) determining the requirements of financial competency to be met by the majority of the Committee members;
- (g) the appointment of the Chairperson and the Vice-Chairperson of the Committee and the filling of any vacancies in those offices;
- (h) evaluating the effectiveness of the Committee;
- (i) providing the Committee with the resources it might need to carry out its functions;
- (j) requiring the Council to consider any recommendations or advice provided by the Committee; and
- (k) If the chairperson is not a councillor, sending notices and agendas of all council meetings to the chairperson.

(2) The Chief Executive Officer is responsible for:

- (a) maintaining the current Committee member list;
- (b) tracking the financial competency of each Committee member;
- (c) keeping the Chair of the Committee current in a timely fashion on major developments and provide the Committee with sufficient information on a timely basis to enable the Committee to discuss potential issues, make decisions, and fulfill its mandate;
- (d) assisting the chair of the Committee in planning and making necessary arrangements for setting agendas, giving required meeting notices and holding meetings;

- (e) attending each Committee meeting, unless excused by the chair for a reasonable reason or excluded from attendance by vote of the Committee as provided in the Malahat Nation's Financial Administration Law.

(3) The Director of Finance is responsible for:

- (a) attending each Committee meeting, unless excused by the chair for a reasonable reason or excluded from attendance by vote of the Committee as provided in the Malahat Nation's Financial Administration Law;
- (b) providing technical and professional support to the Committee as requested or as required in the Malahat Nation's Financial Administration Law.

(4) The Finance and Audit Committee Chairperson is responsible for:

- (a) facilitating the Committee's interaction with Senior Management;
- (b) chairing the Committee meetings and ensuring they are conducted in an efficient and effective manner;
- (c) planning the Committee's activities to ensure that the Committee is successful in fulfilling its mandate and addressing its functions, duties and responsibilities;
- (d) calling meetings and preparing the Committee's agendas;
- (e) ensuring and that minutes are recorded at each duly called meeting;
- (f) recruiting qualified Committee member candidates and recommending them to Council;
- (g) evaluating committee members and their contributions;
- (h) reporting to Council on behalf of the Committee.
- (i) keeping Committee expenses within the budget provided

(5) Committee Members are responsible for:

- (a) preparing for meetings by reading reports and background materials prepared for each meeting and acquiring adequate information necessary for decision making;
- (b) actively participating in the Committee's deliberations;
- (c) attending all scheduled Committee meetings subject to reasonable exceptions acceptable to the Chairperson;
- (d) becoming knowledgeable of the Committee functions and statutory responsibilities under the Malahat Nation's Financial Administration Law;

- (e) maintaining direct, open and frank communications with management, the Committee, the Auditor and other advisors as appropriate;
- (f) ensuring that they have the minimum level of financial competency necessary to fulfill their responsibilities;
- (g) ensuring that they maintain their independence as required in the Malahat Nation's Financial Administration Law;
- (h) avoiding conflicts of interests and complying with conflict of interest policies and procedures established by Council and described in the Malahat Nation's Financial Administration Law;
- (i) reviewing and making recommendations to the Council on the terms of reference of the Committee.

6. Procedures

Appointment and Removal of Members

- (1) Subject to the Malahat Nation's Financial Administration Law, the Council will appoint the Chairperson and Vice-Chairperson of the Finance and Audit Committee by a majority vote.
- (2) The Council must establish its finance and audit committee consisting of the number of members specified in the FAL.
- (3) The Council, upon recommendation of the Chairperson, will appoint the members of the Committee, a majority of whom must have financial competency and all of whom must have independence and meet eligibility criteria established by Council.
- (4) A Committee member may be removed from office by majority vote of Council in the circumstances permitted in the Malahat Nation's Financial Administration Law.

Term Requirements

- (1) Subject to the Malahat Nation's Financial Administration Law, when making appointments to the Committee, Council will endeavor to ensure that no more than half of the members' terms will expire in any one fiscal year.
- (2) The Chief Executive Officer will maintain a register of Finance and Audit Committee members which will, for each member, include the date of appointment or re-appointment, the term of the membership, and the term end date and which will track independence and financial competency issues for each member.
- (3) Upon any changes in the Committee membership, the Chief Executive Officer will report to Council on the term end dates for each member of the Committee.
- (4) The term of a Committee member will be as established in the Malahat Nation's Financial Administration Law.

- (5) The terms of office of members of the Finance and Audit Committee are staggered to ensure the continuing effectiveness of the committee and to provide for succession planning.
- (6) If a Finance and Audit Committee member is removed from office, dies, or resigns before their term expires, the Council must as soon as practicable appoint a new Finance and Audit Committee member to hold office for the remainder of the term.

Eligibility Criteria

- (1) The Council will establish eligibility criteria of a Finance and Audit Committee member by specifying that an individual, other than a councillor, must not have a role in the financial management of the Malahat Nation involving the planning organizing, directing, or controlling of its financial activities, including budgeting, financial accounting, financial reporting, procurement and utilization of funds.
- (2) The Council will document the criteria for independence of a Finance and Audit Committee member by specifying that the individual does not have a direct or indirect financial relationship with the Malahat Nation government that could, in the opinion of council, reasonably interfere with the individual's exercise of independent judgment as a member of the Finance and Audit Committee.
- (3) The Council will establish the criteria for financial competency of a Finance and Audit Committee member that, in the opinion of council, reasonably fulfill the role and responsibilities of the Committee member and the effectiveness of the Committee.

Committee Administration and Reporting

- (1) Subject to the Malahat Nation's Financial Administration Law, the quorum necessary for the transaction of business at Committee meetings will be a majority of the members of the Committee.
- (2) Subject to the Malahat Nation's Financial Administration Law, the Finance and Audit Committee will meet at least quarterly and otherwise as necessary but in any event as soon as practical following receipt of the audited annual financial statements and report of the auditor.
- (3) Any member of the Committee may request a meeting of the Committee. The committee will review the request and by majority vote determine if an additional meeting is warranted. All Councillors of the Nation may attend meetings of the Committee provided, however, that no Councillor is entitled to vote at such meeting and is not counted as part of quorum for the Committee if he or she is not a member of the Committee.
- (4) The external auditor may attend and be heard at meetings of the Committee.
- (5) The Committee will maintain written records of all attendees at its meetings.
- (6) The Committee will provide minutes of its meetings to the Council and the Chairperson will provide reports to Council as appropriate on the substance of meetings at the next Council meeting following a Committee meeting.

7. References and Related Authorities

- (a) FMB's Financial Management System Standards
 - (a) Standard 11.2 – First Nation Committees – Finance and Audit Committee
- (2) FMB's Financial Administration Law Standards
 - (a) Standard 10.1 – Finance and Audit Committee – Constitution
 - (b) Standard 10.2 – Finance and Audit Committee – Terms of Office
 - (c) Standard 10.3 – Finance and Audit Committee – Committee Officers
 - (d) Standard 10.4 – Finance and Audit Committee – Committee Procedures
 - (e) Standard 10.5 – Finance and Audit Committee – Committee Functions
 - (f) Standard 19.2.5 - Auditor Authority

8. Attachments

Appendix A – Finance and Audit Committee Terms of Reference

Appendix B – Finance Competency Guidelines

Appendix A –Finance and Audit Committee Terms of Reference

Finance and Audit Committee Terms of Reference

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| Composition: | At least one (1) councillor must be a member of the committee. Council will appoint Committee members, including a chairperson and a vice-chairperson one of whom must also be a member of Council. Each Committee member will perform their role in an objective, fair, and impartial manner. The majority of the Committee members must have financial competency, all of the members must have independence and all members must be eligible to be members of the committee. |
| Quorum: | Quorum necessary for the transaction of business at Committee meetings will be majority of the voting members of the Committee. |
| Voting Rules: | Unless a Committee member is not permitted to participate in and vote on a motion because of a conflict of interest, every member has one vote in all Committee decisions. In the event of a tie vote, the chairperson may cast a second tie-breaking vote. |
| Committee Term: | The Finance and Audit Committee is a standing committee established by the Malahat Nation <i>Financial Administration Law</i> . |
| Member Term: | The members of the Finance and Audit Committee must serve staggered terms, as follows: a) Non-Councillor members shall serve a term of not less than three-years; and b) Councillor members must be appointed to the Finance and Audit Committee as soon as practicable following their election to the Council, and shall serve on the Finance Committee to the end of their term on Council. |
| Chairperson: | Appointed by Council. Either the Chairperson or the Vice-Chairperson must be a Councillor. |
| Vice-chairperson | Appointed by Council. Either the Chairperson or the Vice-Chairperson must be a Councillor. |
| Mandate: | The Finance and Audit Committee is responsible to review and make recommendations to Council on the financial administration matters of the Malahat Nation. The Finance and Audit Committee will assist the Council in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the process for monitoring compliance with laws and regulations and the code of conduct. |

Meetings:

The Committee will meet not less than quarterly and immediately following completion of the annual audit. The chairperson has authority to convene additional meetings as circumstances require.

All Committee members are expected to attend each meeting, in person or via tele/video-conference. The Committee will invite members of the management, auditors, or others to attend meetings as necessary.

The Chief Executive Officer and Director of Finance must be notified of all meetings and must attend those meetings, subject to reasonable exceptions.

The Auditor of the Malahat Nation must receive notices of all meetings and may attend and be heard at such meetings.

Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared. The Chairperson will report key decisions and areas of discussion or concern to Council at the next Council meeting immediately following each Finance and Audit Committee meeting or in writing if the information needs attention in a timely manner.

The Chief Executive Officer or Director of Finance may be excluded from all or any part of a Committee meeting at the discretion of the Committee - decided by a recorded vote.

Responsibilities:

Financial Accounting and Reporting Oversight

- a) Review quarterly financial information of the Malahat Nation;
- b) Subject to the Malahat Nation's Financial Administration Law, review draft annual budgets and multi-year financial plans and recommend them to Council for approval;
- c) Monitor the financial performance of the Malahat Nation against the budget and report any significant variations and their reasons to Council;
- d) Review the quarterly and annual financial statements of the Malahat Nation and recommend them to Council for approval;
- e) Upon enacting the First Nation's Local Revenue Account, review the annual financial statements of the First Nation's Local Revenue Account and recommend them to Council for approval;
- f) Review the annual special purpose reports of the Malahat Nation and recommend them to Council for approval;
- g) Review the annual report of the Malahat Nation and recommend it to Council for approval;
- h) Make any other recommendations to Council on any matter respecting the financial administration of the Malahat Nation;

- i) Review managements approach for safeguarding the Malahat Nation's assets and information systems, the adequacy of staffing of key financial functions and their plan for improvements;
- j) Review with management and the external auditors emerging accounting issues and their potential impact on the Malahat Nation's financial reporting;
- k) Review with management the Malahat Nation's financial policies and compliance with such policies.

Auditor Oversight

- a) Make recommendations to Council on the selection, engagement and performance of the Malahat Nation's independent auditor;
- b) Receive assurances on the independence of a proposed or appointed auditor;
- c) Review and make recommendations to Council to approve the annual audit plan of the external auditor, including the scope of the audit to be performed and the estimated audit fees;
- d) Review and make recommendations to Council respecting the audited annual financial statements, including the audited local revenue account financial statements (once enacted) and any special purpose reports;
- e) Review any management letters containing recommendations of the external auditor and management's response;
- f) Recommend to Council pre-approval of all audit, audit-related and non-audit services to be provided to the Malahat Nation by the external auditor;
- g) Periodically review, and make recommendations to Council respecting policies, procedures and directions on reimbursable expenses and prerequisites of Councillors, officers and employees;
- h) Monitor financial reporting risks and fraud risks and the effectiveness of internal control designed to mitigate those risks taking into consideration the cost of implementing any change to internal control;
- i) Review the Malahat Nation's *Financial Administration Law* and recommend amendments to Council;
- j) Review and make recommendations to Council on the terms of reference of the Finance and Audit Committee.

Risk Management

- a) Review the annual Risk Management Plan and Fraud Risk Assessment completed by the Chief Executive Officer and provide input on the identification, monitoring and reviewing of the annual risk assessment process.

- b) Provide recommendations to Council regarding the annual Risk Management Plan and Fraud Risk Assessment.
- c) Provide updates to the Council on any significant changes to the assessment and adequacy of monitoring activities.
- d) Review requests for non-budgeted funding requests to the Malahat Nation's business enterprises and make recommendations to Council.

Other

- a) Evaluate at least annually, the adequacy of these terms of reference.

Authority

- a) The Committee is empowered to make such inquiry and investigation and require such information and explanation from management as it considers reasonably necessary and to require management to promptly inform the Committee of any material misstatement in the financial statements following discovery of such situation;
- b) After consultation with the Chief Executive Officer, the Committee may retain a consultant to assist in the performance of any of its responsibilities.

Appendix B – Financial Competency Guidelines

Some criteria for Council and the Finance and Audit Committee Chairperson to consider in determining whether or not a Finance and Audit Committee member is financially competent include:

- The ability to read, understand and analyze the Malahat Nation’s annual financial statements and the notes to the financial statements;
- The ability to understand accounting policies, including any estimates used or judgments applied by management in the application of the Malahat Nation’s accounting policies, when these are explained by the Malahat Nation’s Director of Finance and the auditor;
- An understanding of the Malahat Nation’s objectives and operations that may impact the selection or application of accounting policies;
- A knowledge and understanding of the strategies that have been adopted by the Malahat Nation and the risks inherent in any new strategies; and
- An ability to understand the Malahat Nation’s risk environment.