

EXTERNAL AUDITOR INDEPENDENCE

1 Purpose and Scope

- (1) The *Terms Of Reference For The Audit And Finance Committee* assigns to the Audit and Finance Committee (the “Committee”) responsibility for reviewing the planning and results of external audit activities and for overseeing the ongoing relationship with the external auditor.
- (2) The Committee recommends to the Board of Directors (the “Board”), engagement of the external auditor. It is also required to:
 - (a) review and receive assurances on the independence of the external auditor; and
 - (b) review the non-audit services to be provided by the external auditor’s firm or its affiliates, including estimated fees, and consider the impact on the independence of the external audit.
- (3) The objectivity and integrity of the external auditor is fundamental to the public confidence in the reliability of the external auditor’s report and hence the public accountability of Interior Health (the “Authority”).
- (4) Since the external auditor is required to have a relationship with the client, absolute independence is not possible. The significance of economic, financial and other relationships must therefore be evaluated in light of what a reasonable and informed third party would conclude as acceptable.
- (5) The purposes of this policy are to establish principles and controls designed to provide reasonable assurance that the external auditor maintains an adequate degree of independence to ensure objectivity and integrity.
- (6) The principles and controls set out below concern the engagement of the external auditor, the justification of non-audit services, and the hiring of audit staff.

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2 Engagement of the Auditor

- (1) The external auditor's independence can be influenced by a number of threats including:
 - (a) self-review threats that occur when an external auditor provides assurance on his or her own work;
 - (b) self-interest threats that occur, for example, when an external auditor could benefit from a financial interest, either directly or indirectly, in a client;
 - (c) advocacy threats that occur when an external auditor promotes a client's position or opinion;
 - (d) familiarity threats which occur when an external auditor becomes too sympathetic to a client's interests; and
 - (e) intimidation threats which occur when an external auditor is deterred from acting objectively by actual or perceived threats from a client.
 - (f) Economic dependence on a client.
- (2) It is expected that the external auditor will maintain a quality control system which recognizes these and other threats and provides reasonable assurance that his or her independence is not impaired.
- (3) The external auditor is required to give the Committee annual assurances concerning independence.
- (4) The external auditor is expected to adhere to a rotation policy that is widely accepted and provides a balance between effectiveness, efficiency and independence. This rotation must be at intervals of no more than seven years for the lead partner responsible for the Authority audit.
- (5) The external auditor should not hire and involve any individuals who were previously senior management staff members of the Authority to participate in the audit of the Authority within twelve months of the cessation of their employment with the Authority.

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- (6) The Committee will not sign the letter of engagement or authorize its signature until satisfied that the external auditor recognizes and accepts these principles and responsibilities.

3 Non-audit work

- (1) Audit services are those related to the formulation of an opinion on financial statements prepared by management and include advice on accounting policies. Non-audit services are those services other than audit services.
- (2) Non-audit services undertaken by the external auditor create actual and/or perceived self-review, self-interest or advocacy threats to the independence of the external auditor. The degree of the threat depends on the nature, scale and scope of the non-audit services.
- (3) In relation to the provision of non-audit services, the term external auditor shall be interpreted as meaning the external auditor and any of its affiliates. The term affiliates will be interpreted by reference to the substance of a relationship with the audit firm but will generally include any entity controlled by the audit firm or under common control, ownership or management.
- (4) The external auditor may be engaged to provide non-audit services where:
 - (a) there are good reasons; and
 - (b) the services to be provided do not create a material threat to the independence of the external auditor.
- (5) Good reasons for the external auditor to be appointed to perform non-audit services include circumstances where:
 - (a) it is economic in terms of skill and effort for the external auditor to provide such services as a result of his or her intimate and specialized knowledge of the business;

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- (b) the information required is a by-product of the audit process; or
 - (c) required by legislation or regulation.
- (6) Certain categories of non-audit services are considered to be potentially incompatible with the independence of the external auditor and should normally be avoided. These categories include:
- (a) performance of management functions or making management decisions;
 - (b) financial statement preparation services and bookkeeping services;
 - (c) valuation services;
 - (d) actuarial services;
 - (e) internal audit services where the services comprise a significant portion of the internal audit activities;
 - (f) designing or implementing a hardware or software system;
 - (g) legal services;
 - (h) recruiting services; and
 - (i) certain corporate finance activities that create an unacceptable advocacy or self-review threat including making investment decisions or having custody of assets such as securities.
- (7) A proposal by the Chief Financial Officer (the “CFO”) to engage the external auditor for any services in the categories set-out in 3(6) must be approved in advance by the Committee. In the review of such proposals the Committee will, where further detailed guidance is considered necessary, refer to standards and guidelines issued by the Canadian Institute of Chartered Accountants.

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- (8) Except for those services set out in 3(6) the CFO may, without prior approval, arrange the provision of non-audit services by the external auditor provided:
 - (a) that the costs of such services do not exceed an amount equal to 50% of the regular audit fee for the year as approved by the Board,
 - (b) that the costs of the service to be provided, combined with the cost of any other non-audit services previously rendered by the external auditor in the same year do not exceed an amount equal to 100% of the regular audit fee, and
 - (c) that all such services are reported to the Committee at the next scheduled meeting along with the reasons therefore.
- (9) Any proposal to engage the external auditor for the provision of non-audit services, the cost of which will exceed the limits set out in 3(8)(a) and (b), must have the prior approval of the Committee. Where the need for such services is time sensitive, the CFO may request the Chair of the Committee to convene a special meeting of the Committee by telephone or by video conference.
- (10) Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to external auditor independence and may be arranged by the CFO as required.
- (11) The Committee will annually provide the Board with a summary of any non-audit services undertaken by the external auditor and the associated fees.

4 Hiring of Audit Staff

- (1) An individual that was employed by the external audit firm and participated in the audit within the last twelve months will not be hired by the Authority as President and Chief Executive Officer or CFO, or engaged to fill any other senior position concerned with financial management or quality assurance.