

AUDIT COMMITTEE CHARTER

APPROVED BY THE BOARD OF DIRECTORS JUNE 7, 2017

COMMITTEE AUTHORITIES

1. The Board of Directors of Defence Construction Canada (DCC) is responsible for the management of the business, activities and other affairs of the Corporation, pursuant to the *Financial Administration Act* (FAA).
2. The FAA requires the Board of Directors of DCC (Board) to establish an Audit Committee, sets out specific duties of that Committee, and establishes the Office of the Auditor General of Canada (OAG) as DCC's external auditors. The FAA also requires the Audit Committee to perform such other functions as are assigned to this Committee by the Board of Directors or the By-Laws of the Corporation.
3. The By-Laws of DCC outline the technical and procedural matters for all Board Committees. The By-Laws permit the Board of Directors to delegate to a Board Committee such powers as the Board sees fit. DCC's Board has delegated responsibilities for specific matters to the Audit Committee by way of this Audit Committee Charter.
4. Also, the Treasury Board of Canada Secretariat (TBS) has provided advice and guidance on the subject of Charters for Crown Corporation Audit Committees. DCC's Audit Committee Charter incorporates by reference the FAA, DCC's By-Laws and TBS guidance documentation.

RESPONSIBILITIES

5. In assisting the Board of Directors in the fulfillment of its oversight responsibilities, DCC's Audit Committee shall:
 - 5.1 Oversee DCC management's maintenance of appropriate financial and management control and information systems and management practices; and that related records and systems are kept in such a way that they will provide reasonable assurance that:
 - a. DCC's assets are safeguarded and controlled;
 - b. DCC's transactions are in accordance with the FAA and its regulations, DCC's By-laws and any Directive given to the Corporation.

Reports

- 5.2 Review and advise the Board of Directors with respect to the financial statements and related information that is to be included in DCC's Annual Report and recommend same for approval by the Board of Directors.

OAG

- 5.3 Review and advise the Board with respect to the OAG's annual audit plan and report, and, in the case of a Special Examination of DCC, review and advise the Board of Directors with respect to the related plan, findings, recommendations and reports.

Internal Auditor

- 5.4 Recommend for approval by the Board, the selection, dismissal and replacement of DCC's internal auditors and confirm the independence of such internal auditors

AUDIT COMMITTEE CHARTER

- 5.5 Review and approve the internal auditors audit plans, including the long-term audit plan, and any significant changes thereto.

Other Audit Related

- 5.6 Oversee all audits of DCC, including financial statement audits, compliance audits, and operational audits, and also all attestation and assurance services, and any other audits necessary pursuant to DCC's Risk Management Framework and to the FAA.
- 5.7 Review, comment, and advise the Board of Directors with respect to the results of all audits.
- 5.8 Oversee DCC management's implementation of recommendations and observations arising out of all audits.

Other Responsibilities

- 6. Perform such other functions as are assigned to it by the Board of Directors, DCC's By-Laws, or the FAA, for which this Charter will be amended, as appropriate.
- 7. Regarding the quarterly financial reports required under the FAA, which reports are for each of the first three fiscal quarters of each fiscal year and which are to be made public within 60 days after the end of the fiscal quarter to which the report relates, DCC's Audit Committee shall not be responsible for reviewing or approving the reports. The Audit Committee will rely on the sign-off of DCC's President & CEO and CFO on the required attestation as evidence of the veracity of the content of these reports as per the Treasury Board of Canada requirements. The President & CEO shall inform the Audit Committee that the reports have duly been made public.

GUIDING PRINCIPLES

- 8. The Audit Committee values financial integrity and actively promotes an overall corporate tone for quality financial reporting, and sound business risk practices through the review and recommendation for approval by the Board of such documents as DCC's Financial Management Policy.
- 9. DCC management has primary responsibility for DCC's reporting of financial information, risk management and its internal control systems.
- 10. DCC management shall provide sufficient information so that the Committee may evaluate the acceptability of financial accounting principles used by the Corporation.
- 11. DCC's auditors possess substantial expertise and have significant professional responsibilities.
- 12. DCC's internal auditors are to report functionally to the Chair of the Audit Committee for direction and accountability and administratively to DCC's President and CEO, and the Audit Committee establishes a clear understanding with DCC management and with both the external and internal auditors about their accountability to the Board and the Audit Committee, as representatives of the Crown, DCC's shareholder.
- 13. The Audit Committee understands the nature of the auditors' work and responsibilities and holds them accountable for fulfilling their responsibilities.
- 14. The Audit Committee maintains free and open communication between its members, the auditors, DCC management, and the Corporate Secretary.
- 15. The Audit Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate and approve the fees and other retention terms of special or independent counsel, accountants or other experts, as it deems appropriate, without seeking approval of the Board of Directors or DCC management, with related costs to be borne by the Corporation.

AUDIT COMMITTEE CHARTER

16. The Audit Committee is empowered to investigate any matter within the realm of its responsibilities with full access to all books, records, facilities, and DCC personnel.
17. DCC's Corporate Secretariat provides support required for the Audit Committee to carry out its responsibilities.
18. The Chair of the Committee shall preside at all meetings of the Committee, unless not present, in which case the members of the Committee will designate from among the members present the Chair for the purposes of that meeting.
19. The Audit Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances.

REPORTING TO THE BOARD

20. The Audit Committee is accountable to the Board of Directors and reports on its activities to the Board of Directors at the Board meeting held after the Audit Committee meeting.
21. Regularly, the Audit Committee reports to the Board on the work of the auditors.
22. Annually, the Audit Committee reports to the Board on its plan which includes such information as activities, findings, conclusions, and recommendations related to its responsibilities.
23. Regularly, the Audit Committee reviews and assesses its Charter for appropriateness and presents any recommendations for change to the Board of Directors for approval.

ORGANIZATION

24. The Chair of the Board of Directors appoints the members of the Audit Committee.
25. The Audit Committee is composed of at least three directors all of whom are independent of DCC management and DCC itself.
26. The terms of appointment of Audit Committee members should provide for both continuity of membership and the contribution of fresh perspectives.
27. The Chair of the Audit Committee should be a financial expert (i.e.: able to read and understand financial statements, able to understand accounting policies when explained by DCC management, and be familiar with private or public sector financial reporting) while each Audit Committee member should be financially literate, or attain an appropriate level of financial literacy for DCC's needs, within a reasonable period of time after being appointed.
28. The By-Laws of DCC may be referred to for further information on committee and meeting organization.

WORK PRACTICES AND PROCESSES

29. Annually, the Audit Committee should review its work plan in consultation with the auditors and DCC management, where appropriate.
30. The Audit Committee is to meet, pursuant to DCC's By-Laws, as often as members deem necessary to fulfil its mandate, perhaps as often as quarterly.
31. The Audit Committee may, at the discretion of its members, invite attendees to its meetings, including DCC management, and may: hold meetings *in camera* with or without the presence of the auditors; meet

AUDIT COMMITTEE CHARTER

separately and privately with DCC management or Controller; or may meet with professional advisors, with related costs to be borne by the Corporation.

- 32. Special meetings of the Audit Committee may be called by a Committee member, a Board member, DCC management or Corporate Secretary, or the auditors.
- 33. Regularly, the Audit Committee will assess its performance, usually in conjunction with the annual Board Assessment tool.

DCC FINANCIAL MANAGEMENT AND INTERNAL CONTROLS

FINANCIAL MANAGEMENT:

- 34. The Audit Committee will have oversight of DCC's financial management policies, procedures and practices and, from time to time, shall review and recommend to the Board for its approval any changes to these documents (e.g. DCC's Financial Management Policy, including sections thereof, for example, the investment policy)
- 35. DCC management is to provide adequate information to the Committee so that it may evaluate the acceptability of financial accounting principles used by DCC.
- 36. Regularly, the Committee shall review DCC's financial status and its consistency with plans and discuss same with DCC management and/or auditors.
- 37. The Committee shall consider and review DCC management's analysis and evaluation of significant financial reporting issues and the extent to which such issues affect DCC's financial statements.

INTERNAL CONTROLS:

- 38. The Audit Committee holds management accountable for the design and functioning of the Corporation's control framework. Periodically, the Audit Committee may request that management provides it with an assessment of the effectiveness of the internal control structure and procedures, and, if warranted, with plans for improving its effectiveness.
- 39. The Audit Committee reviews with the auditors (internal, external and special examiners) their assessments of the design and functioning of the control framework and the systems in place for ensuring that the business risks are identified, monitored, controlled and within the Corporation's limit of tolerance, and their views on management's plans for improvements. As they arise, DCC management shall inform the Committee of DCC's management letters and other reports from the auditors.
- 40. As they arise, the Committee shall review with DCC management and auditors views on the risk of fraudulent activities and control processes.
- 41. As required, the Committee shall review the adequacy of DCC's internal financial and business process controls.

RISK MANAGEMENT:

- 42. DCC management is responsible for identifying the principal business risks facing the Corporation and formulating the Corporation's risk tolerance levels and risk management policies for consideration and approval by the Board. The Audit Committee assists the Board in its risk management responsibilities.
- 43. The Committee may require DCC management or the auditors to provide information about significant financial risks or exposures to the Corporation and review the steps DCC management has taken to mitigate same. As required, the Committee shall review any legal and other matters that may have a material impact on the financial statements with DCC's legal counsel, management or auditors.

AUDIT COMMITTEE CHARTER

CHARTER APPROVAL

Through the Governance and HR Committee, the Board will review this Charter at least once every three years and, if appropriate, revise this Charter from time to time.

This Charter was approved by the Board of Directors at the meeting held June 7, 2017.