



Proxy Disclosure Audit Committee Transparency



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Background

The Canadian Centre for Audit Quality (CCAQ) has analyzed the audit committee disclosures made in the annual Management Proxy Circular (or the Management Information Circular) documents of companies in the Toronto Stock Exchange 60 (TSX 60) for fiscal 2022 and 2023¹. The purpose of this analysis was to better understand in what manner audit committees at the largest Canadian companies are disclosing how they exercise their oversight responsibilities over audit quality and the extent that they communicate their processes to investors. In the current Canadian environment, this is particularly important given recent proxy activism regarding auditor tenure.

Audit committees consider several factors in their evaluation when recommending an incumbent auditor for appointment, including the auditor's performance, experience, specific company knowledge and industry expertise, audit methodologies used, technologies applied in the audit process, the quality of communication and observations, and the potential disruption and costs that an auditor change can have on the company.

We believe that detailed disclosure in the Management Proxy Circular (MPC) of decision-useful information regarding the processes performed, the unique factors considered by the audit committee when reviewing the performance of an auditor, and how these activities lead to either the reappointment of the incumbent auditor or re-tendering of the audit can be helpful to investors.

1. Date ranges included in the analysis: 2022 fiscal year proxy statements refer to MPCs filed between from October 1, 2022 and September 30, 2023, and 2023 fiscal year proxy statements refer to MPCs filed between October 1, 2023 and September 30, 2024.



Overview of 2022 and 2023 Audit Committee Disclosure Results

The 2023 results reflect an improvement over 2022 proxy documents in the amount and detail of audit committee disclosures, with opportunities for continued enhancement in certain areas, such as audit fees and its connection to audit quality(Q5-Q8).

Management Proxy Circular Disclosure Query

Audit Quality Assessment of the External Auditor

- Q1** Is there disclosure related to a discussion of Audit Committee considerations in appointing or (re) appointing the external auditor?
- Q2** Is there disclosure of the length of time the auditor has been engaged?
- Q3** Is there disclosure related to a discussion about how the Audit Committee considers length of auditor tenure?
- Q4** Is there disclosure related to a discussion of the use of Canadian regulatory best practices for the assessment of auditor performance, such as the use of a comprehensive review every five years, or the use of an Audit Quality Indicator (AQI) assessment?
- Q5** Is there disclosure related to a discussion of audit fees and its connection to audit quality?
- Q6** Is there disclosure related to a discussion of how non-audit services may impact independence?
- Q7** Is there a statement that the Audit Committee is responsible for fee negotiations?
- Q8** Is there an explanation provided for a change in fees paid to the external auditor?
- Q9** Is it stated that the evaluation of the external auditor is at least an annual event?
- Q10** Is there disclosure of a discussion on audit partner mandatory rotation requirements?

Audit Committee Composition and Responsibilities

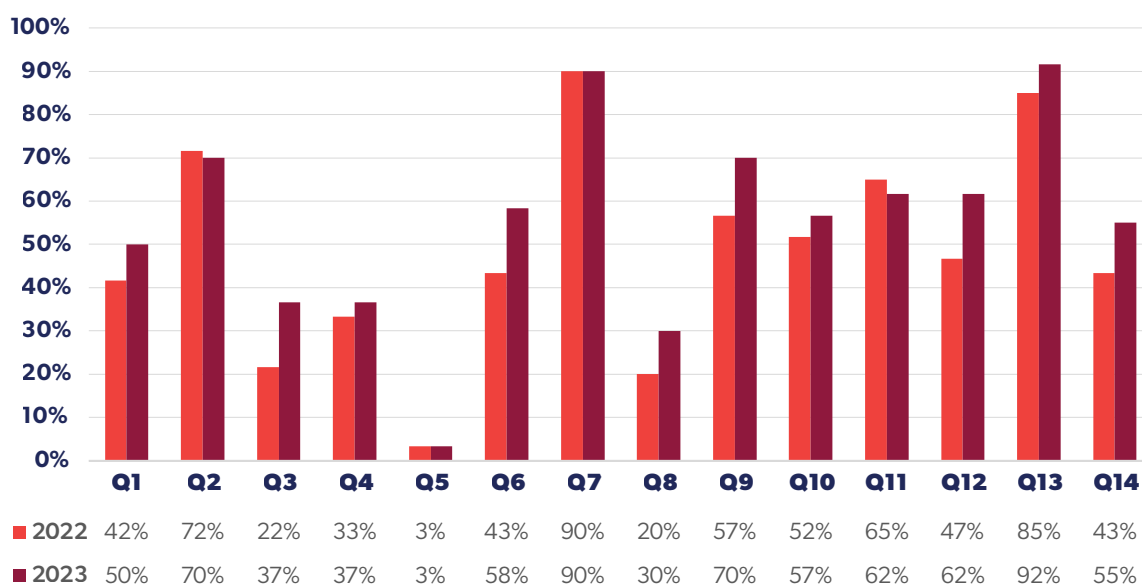
- Q11** Is it disclosed that the board of directors has a cybersecurity expert?
- Q12** Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?
- Q13** Is it disclosed that the board of directors has an ESG or sustainability expert?
- Q14** Is it disclosed that the Audit Committee is responsible for ESG oversight?



Our results summarized in the chart below, and further in **Appendix 1**, show that the largest companies in Canada have expanded on the detail provided in their proxy circular disclosure on key issues such as

the auditor assessment process and audit committee responsibilities over emerging issues such as ESG and cybersecurity.

TSX 60 Disclosure Trends 2022 - 2023



“Improved audit committee disclosures reflect progress, but more specific, detailed insights—beyond boilerplate language—are essential for empowering investors to make informed decisions.”

To evaluate the extent and quality of the proxy disclosures made, we have developed a series of questions to assess the quality and breadth of proxy disclosures for the TSX 60 in 2023 and 2022. Further information on the questions we used to assess the disclosures, and the resulting research, can be found in the next section.

We believe that opportunities still exist within the largest Canadian public companies to improve their audit committee disclosure in the proxy filings, and therefore

we have included some best practice disclosure examples in the Appendices for consideration. It is important that disclosure made by audit committees in the proxy not be boilerplate, vague or not specific to their company, its auditor, or its specific circumstances. Otherwise, the disclosure will have no real value to investors when they assess the performance of the audit committee and could result in investors resorting to using simple metrics to make voting decisions.



Audit Committee's Responsibility Over Audit Quality

The audit committee and the board of directors are responsible for the oversight of their company's financial statements and other corporate reporting. As part of this process, oversight over the external auditor is an important responsibility. Enhanced audit committee disclosure of the activities that they perform to discharge these responsibilities, as well as others, can lead to positive audit quality outcomes.

There is a "positive correlation between increased communication of audit committee oversight through disclosures in the proxy statement and increased audit quality"², and it has been observed that "institutional investors [have] expressed interest in learning more about certain matters related to the audit committee's oversight of the external auditor including audit strategy, discussions between the auditor and audit committee regarding significant risks identified in the auditor's risk assessment procedures, and the audit committee's awareness of certain matters relevant to the audit, such as material violations of laws [or] regulations"³. This phenomenon of increased engagement with the audit committee on their processes is important to investors in the Canadian market, particularly regarding auditor tenure.

An effective audit committee can use the opportunity in their MPC disclosure to communicate to investors the processes that they have developed to exercise their oversight over the external auditors, how they utilize those processes to exercise that oversight, and how audit committee members conclude on their performance assessment of the auditor and the overall audit quality of their financial information (Q1).

Discussion that could be helpful to investors to understand the audit committee's auditor assessment

process is what factors the audit committee considers when re-appointing an auditor, including tenure, partner rotation, audit firm and audit team industry knowledge, and the company's experience and relationships with the auditor. Another effective disclosure in the proxy communication could be whether the audit committee is implementing governance best practices on the assessment of auditor performance, including the performance of periodic comprehensive reviews at least every five years, along with the use of Audit Quality Indicators (AQIs)⁴. Many stakeholders and regulators believe that the performance of periodic comprehensive reviews by the audit committee at least every five years, along with the use of AQIs⁵, is the preferred approach to addressing institutional familiarity threats over mandatory firm rotation or a mandatory retendering process (Q4). The audit committee can utilize the annual MPC disclosure to communicate their commitment to good corporate governance and audit quality.

Although the results below show that many TSX 60 companies have very robust disclosure regarding their assessment of the auditor's performance, there is still an opportunity for improvement in the marketplace, particularly around the utilization of audit quality governance best practices.

2. Center for Audit Quality's 2023 Audit Committee Transparency Barometer published November 2023.

3. Ibid.

4. Please refer to the publication "Enhancing Audit Quality: Canadian Perspectives – Conclusions and Recommendations" jointly authored by CPA Canada and CPAB in May 2013, and supported by the Institute of Corporate Directors (ICD) and the Office of the Superintendent of Financial Institutions (OSFI).

5. Please refer to the tool developed for periodic comprehensive reviews of the external auditor by CPA Canada titled "Periodic Comprehensive Review of the External Auditor: Tool for Audit Committees", as originally published in January 2014 and updated in September 2018.



2023 and 2022 TSX 60 Filers: Audit Quality Assessment

Q1: Is there disclosure related to a discussion of Audit Committee considerations in appointing or (re)appointing the external auditor?



Q2: Is there disclosure of the length of time the auditor has been engaged?



Q3: Is there disclosure related to a discussion about how the Audit Committee considers length of auditor tenure?



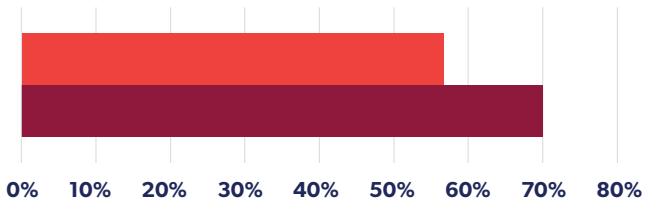
Q4: Is there disclosure related to a discussion of the use of Canadian regulatory best practices for the assessment of auditor performance, such as the use of a comprehensive review every five years? or the use of an AQI assessment?



■ 2022 TSX 60 Filers
 ■ 2023 TSX 60 Filers

2023 and 2022 TSX 60 Filers: Annual Auditor Assessment

Q9: Is it stated that the evaluation of the external auditor is atleast an annual event?



■ 2022 TSX 60 Filers
 ■ 2023 TSX 60 Filers



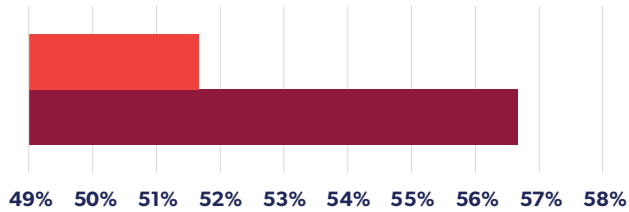
For public company auditors in Canada, there is a regulatory requirement to rotate the lead audit partner every seven years (five-years for SEC registrants) with a five-year cooling off period, and a requirement to rotate certain other partners on the audit every seven

years with a two-year cooling off period. A quality review partner is similarly subject to a mandatory rotation and cooling off period, which is the same as the engagement leader.

2023 and 2022 TSX 60 Filers: Mandatory Partner Rotation

Q10: Is there disclosure of a discussion on audit partner mandatory rotation requirements?

- 2022 TSX 60 Filers
- 2023 TSX 60 Filers



// Enhanced audit committee disclosures demonstrate a commitment to governance and audit quality, fostering transparency and investor confidence."



Audit Fees and Auditor Independence

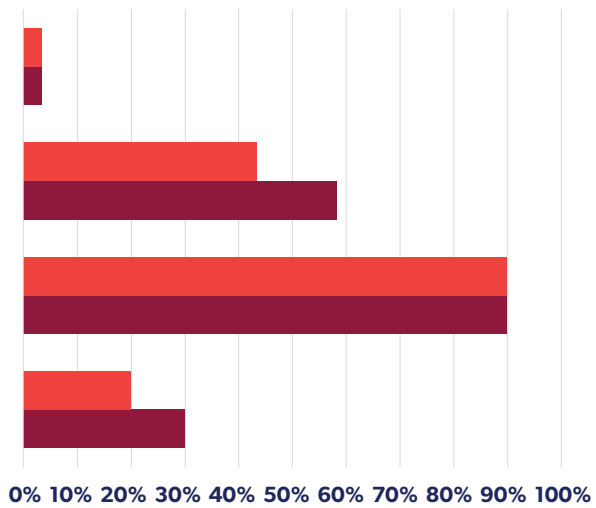
A key opportunity for improvement that we have observed in the MPC documents reviewed is discussion around the audit fees approved by the audit committee and the connection between those fees, auditor independence and overall audit quality (Q5, Q6, Q7). We believe that disclosure can be enhanced when there is a change in audit fees charged, where inflation is not the key factor. We also believe that disclosure can be enhanced when the fee increase is not expected to continue, such as costs related to regulatory activity, material transactions, ERP system implementation, changes in the control environment, etc. (Q8).

Disclosure on how the audit committee considers auditor independence and audit quality during fee

negotiations with the external auditor, particularly their policy on non-audit services, can provide key insights on how the audit committee engages with the auditor on services rendered. This also provides insights into whether the auditors are appropriately resourced or utilizing realized experiential and technological efficiencies to improve service and audit quality outcomes. If an audit committee provides additional disclosure on what it considered when approving either an increase or decrease in audit fees, it offers information on what factors contributed to higher or lower audit fees charged by the auditor and whether the audit committee was contemplating audit quality in that determination.

2023 and 2022 TSX 60 Filers: Auditor Fee Assessment and Negotiation

- Q5:** Is there disclosure related to a discussion of audit fees and its connection to audit quality?
- Q6:** Is there disclosure related to a discussion of how non-audit services may impact independence?
- Q7:** Is there a statement that the Audit Committee is responsible for fee negotiations?
- Q8:** Is there an explanation provided for a change in fees paid to the external auditor?



■ 2022 TSX 60 Filers
 ■ 2023 TSX 60 Filers



Composition of the Board and Audit Committee

In addition to the traditional oversight responsibilities over the external auditor, financial information and internal controls, audit committee members have increasingly had to expand their risk management roles to other emerging issues and statutory requirements.

For Canadian issuers, upcoming international standard setting and the newly proposed Canadian sustainability disclosure and assurance standards require committee members to quickly educate themselves on sustainability and governance related risks throughout the company's value chain. Additionally, the Government of Canada has passed the **Fighting Against Forced Labour and Child Labour in Supply Chains Act**, which came into force January 1, 2024, requiring entity level reporting on activities or supply chains that carry a risk of forced or child labour, measures taken to manage or remediate those risks, and the process for assessing the effectiveness of those measures, to name a few⁶. Bill C-59: **Competition Act** was also amended in June 2024 to combat misleading environment benefit claims, or green washing. Both the **Fighting Against Forced Labour and Child Labour in Supply Chains Act** and the amendments to Bill C-59 will carry significant monetary and reputational penalties if violated.

Investor pressure to disclose ESG-related information and the additional legislative and regulatory compliance requirements throughout the value chain, which could result in significant monetary penalty if violated, will put additional pressure on management and the auditors when assessing if an accrual or contingent liability disclosure is required for non-compliance with laws and regulations. Therefore, it is vital that the audit committee develops or acquires expertise (Q13 and Q14) in these new regulatory and legislative requirements. Being comfortable that an appropriate risk management structure exists within the company to address these emerging issues and engagement with other stakeholders will help to lower the risk that their companies suffer monetary or reputational harm. Almost all entities have ensured that their board contains a director with expertise in "ESG", however that has not yet translated to an audit committee oversight mandate over these matters in their proxy disclosure.

6. Pollack, Andrew. "Canada enacts legislation to fight modern slavery in supply chains". Norton Rose Fulbright. Published May 4, 2023. Link: <https://www.nortonrosefulbright.com/en-ca/knowledge/publications/cf2ace2e/canada-enacts-legislation-to-fight-modern-slavery-in-supply-chains>

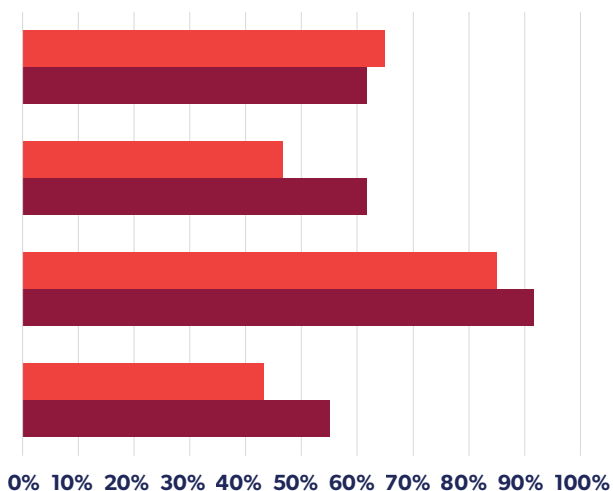
2023 and 2022 TSX 60 Filers: Board and Audit Committee Composition

Q11: Is it disclosed that the board of directors has a cybersecurity expert?

Q12: Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?

Q13: Is it disclosed that the board of directors has an ESG or sustainability expert?

Q14: Is it disclosed that the Audit Committee is responsible for ESG oversight?



■ 2022 TSX 60 Filers

■ 2023 TSX 60 Filers

As noted above, another topical issue that requires the presence of a strong risk management framework is cyber security. Large and small Canadian business and publicly traded companies can be similarly affected by the volume and growing sophistication of cyber-attacks. Therefore, expertise, or familiarity at the very least, is recommended at both the board and the audit committee level to ensure that the company has a robust risk management process in place to protect the company's data integrity (Q11 and Q12).

Although a majority of the TSX 60 have directors with expertise in cyber and digital security, and they have disclosed that the audit committee has oversight responsibility over cyber-related matters, there is still

an opportunity for improvement while the cyber threat intensifies, as over 40% of entities did not provide this disclosure.

Disclosure of the areas of expertise of both board and audit committee members, and detailed disclosure of the audit committee's responsibilities over emerging threats, regulatory and legislative change, such as cybersecurity and ESG, and any associated training is another opportunity to demonstrate the audit committee's commitment to its oversight role.

This disclosure also acts as a window into whether the Board of Directors is ensuring that it is nominating individuals who have expertise in a variety of topic areas, including emerging issues.



Conclusion

The audit committee plays an important and vital role in the capital markets by discharging their oversight responsibilities of the auditor and the financial information produced by management. They are also responsible for ensuring that there is a risk management process in place that combats all current and emerging internal and external threats to the integrity of the company's financial information. For companies listed on the TSX, the audit committee should be composed of individuals who are independent in accordance with appropriate securities regulation, who are financially literate, and who are not only adequately experienced in the industry in which the company operates, but also in emerging issues and threats such as sustainability and cyber security.

We have observed an increase in 2023 over 2022 in the level and detail of disclosure in the audit committee's assessment of the auditor and factors it considers in that assessment, as well as in the disclosure of expertise and audit committee responsibilities over identified

emerging issues and threats. At the same time, there is still room for improvement in disclosure across the areas previously identified, and particularly with audit fee negotiation and its linkage to auditor independence and audit quality. We have also included in **Appendices 2 through 4** examples of effective disclosure in an audit committee's assessment of the auditor, fee negotiation and board and audit committee composition and responsibilities. **Appendix 5** also includes a template for best practice disclosure for how an audit committee assesses the positive and negative attributes of a long-tenured auditor as published by the CAQ.

Detailed and robust disclosure within the annual MPC provides investors with vital information on the responsibilities of the audit committee in discharging its duty to investors and processes that it undertakes to ensure that it can perform its role with confidence and with the appropriate level of expertise.



Appendix 1: Summary of Disclosure Results

MANAGEMENT PROXY CIRCULAR DISCLOSURE QUERY		YEAR	TSX 60
Q1	Is there disclosure related to a discussion of Audit Committee considerations in appointing or (re)appointing the external auditor?	2023	50%
		2022	42%
Q2	Is there disclosure of the length of time the auditor has been engaged?	2023	70%
		2022	72%
Q3	Is there disclosure related to a discussion about how the Audit Committee considers length of auditor tenure?	2023	37%
		2022	22%
Q4	Is there disclosure related to a discussion of the use of Canadian regulatory best practices for the assessment of auditor performance, such as the use of a comprehensive review every five years, or the use of an Audit Quality Indicator (AQI) assessment?	2023	37%
		2022	33%
Q5	Is there disclosure related to a discussion of audit fees and its connection to audit quality?	2023	3%
		2022	3%
Q6	Is there disclosure related to a discussion of how non-audit services may impact independence?	2023	58%
		2022	43%
Q7	Is there a statement that the Audit Committee is responsible for fee negotiations?	2023	90%
		2022	90%
Q8	Is there an explanation provided for a change in fees paid to the external auditor?	2023	30%
		2022	20%
Q9	Is it stated that the evaluation of the external auditor is at least an annual event?	2023	70%
		2022	57%
Q10	Is there disclosure of a discussion on audit partner mandatory rotation requirements?	2023	57%
		2022	52%



MANAGEMENT PROXY CIRCULAR DISCLOSURE QUERY	YEAR	TSX 60
Q11 Is it disclosed that the board of directors has a cybersecurity expert?	2023	62%
	2022	65%
Q12 Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?	2023	62%
	2022	47%
Q13 Is it disclosed that the board of directors has an ESG or sustainability expert?	2023	92%
	2022	85%
Q14 Is it disclosed that the Audit Committee is responsible for ESG oversight?	2023	55%
	2022	43%

Appendix 2: Examples of Effective Disclosure on the Assessment of Firm Performance

- Q1** Is there disclosure related to a discussion of Audit Committee considerations in appointing or (re) appointing the external auditor?
-
- Q2** Is there disclosure of the length of time the auditor has been engaged?
-
- Q3** Is there disclosure related to a discussion about how the Audit Committee considers length of auditor tenure?
-
- Q4** Is there disclosure related to a discussion of the use of Canadian regulatory best practices for the assessment of auditor performance, such as the use of a comprehensive review every five years, or the use of an Audit Quality Indicator (AQI) assessment?
-
- Q9** Is it stated that the evaluation of the external auditor is at least an annual event?
-
- Q10** Is there disclosure of a discussion on audit partner mandatory rotation requirements?
-

EXAMPLE 1

Source: Metro: Notice of 2024 Annual General Meeting of Shareholders and Management Proxy Circular (Dated January 30, 2024)

AUDITORS TENURE (pg 13)

The Auditors are currently responsible for the audit of the consolidated financial statements of the Company.

The Audit Committee strongly supports limits to the tenure of key senior partners involved in the Company's audit. The Audit Committee has concluded that continually having fresh sets of eyes at the partner level is an important contributor to audit quality and auditor independence. The Audit Committee actively oversees the tenure of the partners involved in the audit, the plan for their rotation off the audit, and the selection of their replacements.

The current partners involved in the audit are:

- Lead audit engagement partner
- Senior advisory partner
- Engagement quality control review partner
- Impairment and valuations partner
- Tax audit partner
- Information technology partner

The partners involved in a given year might change depending on the needs and the circumstances of that particular audit.

The average tenure of these partners is five (5) years.

Whereas the active management of the rotation of key partners involved is of critical importance to audit quality and independence, the Audit Committee has determined that shareholders would not be best served through arbitrary limits on the

tenure of audit firms. The Audit Committee would support rotating the firm of Auditors, and the consequent replacement of all partners in a single year, only if the Audit Committee were dissatisfied with the quality, performance and/or independence of the key partners on the Company's audit, which is not the case at the moment.

The Audit Committee has examined the quality of the work performed by the Auditors and their independence, and has declared itself satisfied therewith.

The Auditors were first appointed as auditors of the Company on January 27, 1998, and have been acting in that capacity ever since. Under **National Instrument 52-108 - Auditor Oversight**, the Auditors are a participating audit firm with CPAB which governs the independence and objectivity of external auditors and provides oversight of accounting firms that audit Canadian reporting issuers.

...

The Audit Committee concluded that it was satisfied with the audit quality, effectiveness and quality of external audit services provided by the Auditors for 2023 and that the Auditors continue to be independent such that it is in the shareholders' best interest for the Auditors to continue to serve as the Company's independent auditor.

...

REVIEW OF THE QUALITY OF THE WORK AND INDEPENDENCE OF THE AUDITORS (pg 14)

The Audit Committee has examined the qualifications, performance and independence of the Auditors and has ensured that the Auditors are registered with the Canadian Public Accountability Board as compliant participants. The Audit Committee meets with all of the Auditors' senior personnel engaged on the audit, and actively oversees their selection, rotation and credentials. The Audit Committee's objective is to establish a reasonable balance between the continuity of relevant audit knowledge and the enhanced skepticism and diversity that new senior personnel bring to the audit methodology.

The Audit Committee examines every year the quality of the work performed by the Auditors and their independence in order to make an informed recommendation concerning the appointment of the audit firm which will act as external auditors of the Company. In 2023, this evaluation, which was discussed with the Auditors, focused on:

- the quality of the Auditors' annual audit plan and team;
- the depth and breadth of relevant public company and industry experience of the Auditors' engagement partners responsible for the Company's audit, including the depth of experience and engagement of specialists partners for complex areas;
- the quality of the Auditors' quarterly review, annual audit examination and evaluation of internal controls;
- the transparency, timeliness and quality of the Auditors' communications to the Audit Committee and management;
- the Auditors' demonstration of professional skepticism, most particularly in its review of the Company's accounting estimates and areas involving significant auditor and management judgment;
- management feedback as to the timeliness and quality of the Auditors' work;
- the limitations on non-audit services and the fact that the Auditors provide no services other than audit, audit-related and tax services as well as the reasonableness of the Auditors' fees in that respect;
- the desired balance of the Auditors' experience and fresh perspective through mandatory audit partner rotation and periodic rotation of other audit management personnel. The rotation of the Lead audit engagement partner in charge, the Engagement quality control review partner and the Senior advisory partner is required at least every seven (7) years under independence standards. For the Company, the last rotation of the Lead audit engagement partner occurred for the audit of fiscal 2018 and the rotation of the Engagement quality control review partner, during fiscal 2023. In addition to these three (3) partners, there are three (3) other partners involved in the audit with specific expertise which brings additional independence to the team;
- reports from the Auditors describing its compliance with its internal policies and procedures, including the presentation of audit quality indicators to the Audit Committee on a semi-annual basis;
- quarterly and annual written confirmation from the Auditors of their independence and objectivity with respect of the Company, pursuant to the **Code of Ethics** of the Quebec Order of Chartered Professional Accountants;
- external data on audit quality and performance, including recent CPAB reports; and

- the Auditors' capability and expertise in handling the breadth and complexity of the Company's business, and the Auditors' significant institutional knowledge and deep expertise of the Company's accounting policies and practices and internal controls which enhance audit quality.

Lastly, the Audit Committee is of the opinion that any concerns with the Auditors' tenure are mitigated by a strong external regulatory framework as well as the Auditors' strong internal independence policies and procedures assessed through the annual auditor evaluation. The regulatory requirements in Canada continue to mandate audit and other partners rotation every seven (7) years with a five-year cooling off period. Recent publications and research by CPAB continue to support this practice rather than broadening the statutory scope to require periodic audit firm rotation. The rotation of the audit partners reduces the risk of over-familiarity and self-interest and promotes objectivity without imposing significant costs and disruption to the Company. It also allows for a fresh set of eyes on the overall audit approach.

EXAMPLE 2

Source: Emera: Notice of Annual Meeting of Common Shareholders and Management Information Circular (Dated May 23, 2024)

APPOINTMENT OF AUDITORS (pg 14):

The Audit Committee has assessed the performance and independence of Ernst & Young LLP ("EY") and the Board of Directors recommends that EY be re-appointed as auditor of the Company and serve until the next Annual Meeting.

The independence of the auditors is of utmost importance to the Audit Committee. Consistent with best practices and its mandate, the Audit Committee annually reassesses the performance and independence of the auditors, with a comprehensive review conducted every five years. These reviews align with the recommendations of the Chartered Professional Accountants of Canada ("CPA Canada"), the Canadian Public Accountability Board ("CPAB") and the Institute of Corporate Directors. CPA Canada and CPAB recommend periodic comprehensive reviews as the preferred alternative to mandatory firm rotation or re-tendering to address the threat of institutional familiarity and to enhance audit quality.

To help ensure independence, the Audit Committee also reviews and pre-approves any non-audit services to be provided by EY and has a policy restricting the hiring by the Company of former EY partners and employees.

In recommending the appointment of auditors, the Audit Committee considers the benefits and risks of auditor tenure, and the controls and processes in place to help ensure the auditor's independence, such as mandatory partner rotations. The lead audit partner with EY is rotated at least every five years, with the current lead audit partner having commenced their rotation in 2021.

EY has been Emera's auditors since 1998. However, until 2018, PricewaterhouseCoopers served as auditors for Tampa Electric Company, Peoples Gas System, and New Mexico Gas Company, which together represent more than 70 per cent of the Company's total assets at the end of 2023. In addition, until 2012, Grant Thornton, LLP served as auditors for Nova Scotia Power Incorporated. In 2017, the Company initiated a competitive process for external audit services. The process was overseen by the Audit Committee, which selected EY as auditors for Emera's full business starting in 2018.

The recommendation to appoint EY as auditor for 2024 is based on a comprehensive review of EY's performance conducted by the Audit Committee in 2022, and an updated annual review by the Audit Committee in 2023.

EXAMPLE 3

Source: Canadian National Railway: 2024 Management Information Circular and Notice of Annual Meeting of Shareholders (Dated April 26, 2024)

AUDIT QUALITY AND COMPREHENSIVE REVIEW OF EXTERNAL AUDITOR (pg 96)

The Audit, Finance and Risk Committee oversees and monitors the qualifications, independence and performance of our external auditor. In 2022, the Audit, Finance and Risk Committee conducted a comprehensive review of CN's external auditor to ensure audit quality as required by the Committee's Mandate. The comprehensive review was prepared in accordance with guidance published by Chartered Professional Accountants Canada, the Institute of Corporate Directors and the Canadian Public Accountability Board.

The review covered the five-year period ended December 31, 2021 with emphasis on the last two years. The comprehensive review was broader and deeper than the Audit, Finance and Risk Committee's annual auditor assessment and focused on the following key factors affecting audit quality:

- independence, objectivity and professional skepticism of the external auditor;
- quality of the external auditor's engagement team; and
- quality of the communications and interactions between the Audit, Finance and Risk Committee and the external auditor.

The comprehensive review was led by the Chair of the Audit, Finance and Risk Committee with discussion and review by the full committee at three committee meetings in 2022. The Audit, Finance and Risk committee engaged CN's internal auditor to collect data, conduct interviews and summarize findings in connection with the comprehensive review. In total, interviews were conducted with 19 participants including representatives from CN management, KPMG LLP and Audit, Finance and Risk Committee members (including two former Chairs of the committee). The interview questions and the additional documents and data collected were all linked to an Audit Quality Indicators Framework to facilitate the Audit, Finance and Risk Committee's review and discussion.

The Audit, Finance and Risk Committee determined that a key consideration of the comprehensive review was to address any possible risk of institutional familiarity resulting from KPMG LLP serving as the external auditor of CN since 1992. The Audit, Finance and Risk Committee reviewed this item through the following lenses:

- **Regulatory Requirements and Trends** – in Canada and the U.S., the regulatory requirement continues to be audit partner rotation every seven and five years, respectively, with a five year cooling off period. Recent publications and research in both countries continue to support this practice along with the periodic comprehensive review of the external auditor rather than broadening the statutory scope to require periodic audit firm rotation;
- **Audit Tenure Benchmarking** – as part of the data gathered in connection with the comprehensive review, the auditor tenure of the top 25 TSX listed companies and the Class I North American Railroads was reviewed. In both cases, the average audit tenure was greater than 25 years.
- **Analysis of audit partner rotation** – the Audit, Finance and Risk Committee reviewed a detailed analysis of the partner rotation schedule including rotations and cooling off periods for each of the lead engagement partner as well as all other audit partners assigned to the CN audit to confirm that mandatory rotation schedules had been followed.

The Audit, Finance and Risk Committee completed the comprehensive review in July 2022 and determined it was satisfied with the audit quality provided by KPMG LLP. To further enhance the quality of the audit, the Audit, Finance and Risk Committee recommended the following improvements to the process:

- Effective for 2022, the amount of non-audit services provided to CN by KPMG LLP must be less than 25% of the total. This threshold will be reviewed annually by the Audit, Finance and Risk Committee as part of its ongoing oversight.
- Audit partner rotation to include partners from offices other than Montreal, even if not required by rules, to further enhance audit partner independence.
- Comprehensive review to be conducted every five years with annual assessments based on audit quality indicators following each audit.
- Enhanced communication to shareholders and other stakeholder with respect to Audit, Finance and Risk Committee oversight of external auditor.

Appendix 3: Example of Effective Disclosure on the Auditor Fee Assessment and Negotiation

- Q5** Is there disclosure related to a discussion of audit fees and its connection to audit quality?
-
- Q6** Is there disclosure related to a discussion of how non-audit services may impact independence?
-
- Q7** Is there a statement that the Audit Committee is responsible for fee negotiations?
-
- Q8** Is there an explanation provided for a change in fees paid to the external auditor?
-

EXAMPLE 4

Source: Scotiabank Management Proxy Circular Annual Meeting of Shareholders (Dated April 9, 2024)

APPOINT AUDITOR (pg 8 and 9)

...

The bank has robust policies and procedures in place to assess auditor performance, objectivity, and independence. The audit and conduct review committee, which is composed entirely of independent directors, oversees and evaluates the external auditor. The committee recognizes the importance of maintaining auditor independence while balancing a need for continuity of institutional knowledge to ensure the auditor has the necessary experience to effectively audit an international organization of significant size and complexity. When assessing auditor independence, the committee considers a number of factors, including an annual performance and independence review of the external auditor, the nature and amount of any non-audit services, mandatory partner rotations, and a comprehensive review of the auditor performed by the bank.

The bank has numerous processes in place in order to ensure auditor independence:

- **Audit and Conduct Review Committee Review (Performance):** The audit and conduct review committee conducts a fulsome annual assessment on the performance of the auditor as per the bank's Policy on the Assessment of the External Auditor with inputs from management, prior to its recommendation to the board on the auditor's proposed appointment. The committee reviews the audit quality, auditor tenure, reasonableness of the audit fees, and the credibility of the auditor in the financial markets and with regulators.
- **Audit and Conduct Review Committee Review (Independence):** The audit and conduct review committee takes into consideration both the high standards of independence that the bank employs in reviewing relationships with the auditor, which further mitigate potential concerns of familiarity due to auditor tenure, and the importance of the auditor's institutional knowledge. The committee also considers the nature and extent of any non-audit service fees when assessing independence, which only represent 4.55% of the total auditor's fees in 2023.

...

AUDITOR'S FEES (pg 9)

The table below lists the services KPMG provides and the fees we paid to them for the fiscal years ended October 31, 2023 and 2022. The increase in audit fees was in line with labour market changes and also driven by an increase in the scope of certain services. The increase in fees associated with mutual funds was driven by an increase in the scope of audit services, as KPMG only audited certain mutual funds in fiscal 2022, and in fiscal 2023 transitioned to audit all mutual funds. The audit and conduct review committee can pre-approve services if they are within the scope of the policies and procedures approved by the committee.



\$ millions	2023	2022
Audit services: Audit services generally relate to the statutory audits and review of financial statements, regulatory required attestation reports, as well as services associated with registration statements, prospectuses, periodic reports, and other documents filed with securities regulatory bodies or other documents issued in connection with securities offerings.	33.0	30.4
Audit-related services: Audit-related services include special attest services not directly linked to the financial statements, review of controls and procedures related to regulatory reporting, audits of employee benefit plans and consultation and training on accounting and financial reporting.	1.0	2.6
Tax services outside of the audit scope: Tax services outside of the audit scope relate primarily to specified review procedures required by local tax authorities, attestation on tax returns of certain subsidiaries as required by local tax authorities, and review to determine compliance with an agreement with the tax authorities.	0.4	–
Other non-audit services: Other non-audit services are primarily for the review and translation of English language financial statements into other languages and other services.	0.9	0.4
Total Bank and Subsidiaries	35.3	33.4
Mutual Funds	3.2	1.2
Total Fees	38.5	34.6



Appendix 4: Example of Effective Disclosure on the Board and Audit Committee Composition

- Q11** Is it disclosed that the board of directors has a cybersecurity expert?
- Q12** Is it disclosed that the Audit Committee is responsible for cybersecurity risk oversight?
- Q13** Is it disclosed that the board of directors has an ESG or sustainability expert?
- Q14** Is it disclosed that the Audit Committee is responsible for ESG oversight?

EXAMPLE 5

Source: Magna 2024 Management Proxy Circular – Annual Meeting (Dated May 9, 2024)

NOMINEE SKILLS AND EXPERTISE (pg 24)

The GNSC seeks to recruit candidates who reflect a diversity of skills, experience, perspectives and backgrounds that are relevant to Magna’s business. While the specific mix may vary from time to time and alternative categories may be considered in addition to or instead of those below, the following skills matrix lists the types of experience generally sought by the GNSC and includes each nominee’s self-assessed ranking of their experience level for each item.

	Mary S. Chan MSc	Hon. V. Peter Harder P.C., LLD 2022	Jan R. Hauser BBA, CPA	Seetarama S. Kotagiri MSc	Jay K. Kunkel BBA	Robert F. MacLellan CPA, MBA.	Mary Lou Maher FCPA, FCA	William A. Ruh MSc	Dr. Indra V. Samarasekera PhD, PEng	Matthew T sien MSc	Dr. Thomas Weber PhD	Lisa S. Westlake MBA
Accounting/Audit: technical expertise with financial statements and financial reporting matters; understanding of critical accounting policies, technical issues relevant to the internal and external audit, as well as internal controls.	3	2	1	3	2	1	1	2	3	3	3	2
Automotive: practical experience with automobile manufacturers or suppliers; solid understanding of industry dynamics on a global or regional basis; knowledge of automotive/ industrial manufacturing; or experience in comparable capital-intensive manufacturing industries.	1	3	3	1	1	2	3	3	3	1	1	3



Lisa S. Westlake MBA	2	2	2	3	3	3	2	1	3	3	2	2
Dr. Thomas Weber PhD	2	2	2	3	3	3	2	1	3	3	2	2
Matthew Tsien MSc	3	2	1	2	1	1	1	2	3	3	3	1
Dr. Indra V. Samarasekera PhD, PEng	3	1	1	2	1	1	1	2	1	2	2	1
William A. Ruh MSc	1	2	3	1	1	1	3	2	2	1	2	1
Mary Lou Maher-FCPA, FCA	2	1	1	1	1	1	3	2	2	1	2	1
Robert F. Maclellan CPA, MBA.	3	1	1	1	1	1	3	2	2	1	2	1
Jay K. Kunkel BBA	3	2	1	1	1	1	3	2	2	1	2	1
Seetarama S. Kotagiri MSc	3	2	1	2	1	1	3	2	2	1	2	1
Jan R. Hauser BBA, CPA	2	2	1	2	1	1	3	2	2	1	2	1
Hon. V. Peter Harder P.C., LLD 2022	2	2	1	2	1	1	3	2	2	1	2	1
Mary S. Chan MSc	2	2	1	2	1	1	3	2	2	1	2	1

Cybersecurity: an understanding of digital, data management, technology and/or cyber security issues in large, complex enterprises; and/or experience in cybersecurity oversight, including cybersecurity frameworks, risk mitigation strategies and controls.	2	2	2	3	3	3	2	1	3	3	2	2
Environmental, Social and Governance (“ESG”): sophisticated understanding of environment/climate change, as well as social issues, including human rights and supply chain; ESG governance/ oversight; and/or general familiarity with ESG regulatory requirements and reporting frameworks.	3	1	2	3	2	1	1	2	1	3	2	2
Finance/Financial Advisory: senior financial management roles and/or financial advisory roles; expertise related to capital allocation, capital structure or capital markets.	3	2	1	2	1	1	1	2	3	3	3	1
Governance/Board: sophisticated understanding of corporate governance practices and norms; prior board experience; expertise with stakeholder management or engagement.	2	1	1	2	1	1	1	2	1	2	2	1
High-Growth Markets: a track record of operational success or other experience in markets other than North America and Western Europe, such as China.	1	1	1	1	1	3	3	2	2	1	2	1
Large Cap Company: board, management and/or other applicable experience with companies that have a market capitalization in excess of \$10 billion.	1	1	1	1	1	1	1	1	1	1	2	1
Legal/Regulatory/Public Policy: experience with legal and regulatory compliance oversight; experience in relevant areas of government or public policy.	3	1	2	3	1	2	2	2	1	2	3	2



Lisa S. Westlake MBA												
Dr. Thomas Weber PhD												
Mathew Tsien MSc												
Dr. Indra V. Samarasekera PhD, PEng												
William A. Ruh MSc												
Mary Lou Maher FCPA, FCA												
Robert F. Maclellan CPA, MBA.												
Jay K. Kunkel BBA												
Seetarama S. Kotagiri MSc												
Jan R. Hauser BBA, CPA												
Hon. V. Peter Harder P.C., LLD 2022												
Mary S. Chan MSc												

Mergers & Acquisitions (“M&A”): management or board-level experience with complex M&A in different industries and/or different geographic regions.

2	3	1	1	1	1	2	2	2	2	2	1
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R&D/Innovation/Technology: domain expertise and skill in technology/innovation; practical experience with technological transformation and disruption.

1	2	3	1	1	3	3	1	1	1	1	2
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Risk Oversight: practical expertise in risk governance, including enterprise risk management frameworks; knowledge/understanding of risk monitoring and mitigation.

2	1	1	2	2	1	1	1	2	2	1	1
---	---	---	---	---	---	---	---	---	---	---	---

Senior/Executive Leadership: demonstrated track record of leadership, mature judgement, operating success and value creation in complex organizations and/or in progressively challenging roles.

1	1	1	1	1	1	1	1	1	1	1	1
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Strategy Development: board, senior management and/or other experience in strategy development, analysis or oversight.

1	1	1	1	1	1	1	1	1	1	1	1
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Talent Management/Compensation: hands-on experience developing, managing, compensating and motivating employees.

1	1	1	1	1	1	1	1	2	1	1	1
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Ranking Legend

- 1 Significant expertise/experience
- 2 Strong familiarity
- 3 General understanding



REPORT OF THE AUDIT COMMITTEE (pg 84)

Mandate

The Audit Committee's primary role is to satisfy itself on behalf of shareholders that the company's financial statements are accurate in all material respects and can be relied upon by shareholders. This necessarily involves diligent oversight of the company's: system of internal controls; finance and accounting policies; internal and external audits; relationship with the independent auditors; financial risk mitigation strategies; and the integrity of its financial reports and disclosures.

Composition

The Audit Committee Charter requires that the committee be composed of between three and five Independent Directors, each of whom is "financially literate" and at least one of whom is a "financial expert", as those terms are defined under applicable law. Audit Committee members cannot serve on the audit committees of more than three boards of public companies in total.

The Audit Committee complied with these requirements throughout 2023.

...

In appointing members to the Audit Committee, the Board considers the relevant expertise brought to the Audit Committee by each member, including through the financial leadership and oversight experience gained by each of them in their principal occupations and/or other boards on which they serve.

2023 Accomplishments and Key Areas of Focus

Through the Audit Committee's work during 2023 and the first few months of 2024, the Audit Committee has fulfilled all of the requirements under its Charter, including satisfying itself regarding the integrity of Magna's financial statements and financial reporting. Early in 2023, the Audit Committee also oversaw and approved amendments to its Charter which expressly define the Audit Committee's responsibilities with respect to enterprise and manufacturing environment cybersecurity, as well as financial statement disclosure of sustainability matters.

Appendix 5: Example of Best Practice Disclosure for the Benefits of a Longer-Tenured Auditor⁷

Benefits of a longer-tenured auditor:

Enhanced audit quality: deeper institutional knowledge and expertise, better geographic overlap plus limited other options due to [the Company's] size, complexity, and geography.

Continuity and avoidance of switching costs: management time to bring new auditors up to speed generally but also with respect to the hundreds of countries that require review.

No disruption of non-audit workflows: avoids conflicts from consulting contracts with other audit firms that would need to be modified or ended in order to enable that other firm to become the company's auditor.

Competitive fees: due to efficiencies and familiarity.

Auditor-specific commentary:

- [Audit Firm]'s deep institutional company and industry knowledge, experience, and expertise
 - » [Audit Firm]'s and key engagement team members' extensive professional qualifications, experience, and expertise
 - » [Audit Firm]'s depth and breadth of understanding of the (technology and semiconductor industries), [the Company's] unique business model (global integrated device manufacturer and foundry service provider), and complex accounting policies and practices
- Length of [Audit Firm]'s service
 - » Potential positive and negative impact on independence and objectivity
 - » More effective audit plans and better audit service quality and productivity offered by [Audit Firm] due to greater familiarity with the industry, business, segments, and policies and procedures
 - » Current Canadian independence requirements regarding mandatory audit partner and audit quality partner rotation provides an effective "fresh look" that mitigates long standing familiarity threats
- Impact of engaging a new auditor
 - » Significant costs, time commitments, disruption to continuity, and distraction of management associated with bringing on and extensively educating a new auditor

7. Please note that this section was taken from the pg. 27 of the Center for Audit Quality's 2023 Audit Committee Transparency Barometer published November 2023, with some minor edits and additions to fit the Canadian environment.



About the Canadian Centre for Audit Quality

The Canadian Centre for Audit Quality (CCAQ) is an independent not-for-profit Canadian corporation dedicated to supporting Canadian audit firms and public accountants in fulfilling their public interest role, and investors and other stakeholders with public policy and public interest issues. The CCAQ's founding members are the seven largest Canadian independent registered CPA accounting firms.

Methodology

We reviewed the Management Proxy Circulars (MPC) of the TSX 60 as published from October 1, 2023 through September 30, 2024. This index comprises the TSX 60 and WSP Global Inc (WSP), as WSP was added to the TSX 60 in April 2023 as a replacement for Shaw Communications (SJR.B) which merged with Rogers Communications (RCI.B) at that time. For comparability, WSP's 2022 proxy disclosure was included in the previous year's assessment in place of Shaw Communications, despite not yet being part of the TSX 60. To present our findings, we analyzed disclosures located in the audit committee report or elsewhere in the MPC.