

TERMS OF REFERENCE FOR THE AUDIT AND RISK MANAGEMENT COMMITTEE

Purpose

Primary responsibility for the Corporation's financial reporting, accounting systems, risk management, management plans and budgets, internal controls and treasury is vested in management and overseen by the Board of Directors.

The purpose of the Audit and Risk Management Committee (the "Committee") is to assist the Board of Directors in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of the Corporation's pension plans, internal audit functions, risk management, and legal and environmental compliance programs and when required, make recommendations to the full Board of Directors for approval.

In the process of overseeing the Corporation's audit procedures, the Committee will have unrestricted access to the Corporation's personnel and documents, and will be provided with the resources necessary to carry out its responsibilities, including the authority to engage independent counsel and other advisers as part of this resource requirement.

In fulfilling its purpose, it is the responsibility of the Committee to maintain free and open communication between the Committee, the external auditors, the internal auditors, and management of the Corporation, and to determine that all parties are aware of their responsibilities.

The Board of Directors of BC Hydro's subsidiary, Powerex Corp., has appointed its own Audit and Risk Management Committee. That committee has its own terms of reference and reports directly to the Powerex Corp. Board of Directors.

Composition

The Committee will be composed of at least three independent Directors. Determination as to whether a particular Director satisfies the requirements for membership on the Committee shall be made by the full Board of Directors.

Committee members will have a working familiarity with finance and accounting practices, and at least one Committee member will have accounting or related financial management expertise.

The External Auditors will attend Committee meetings. The External Auditors will be notified of the Committee's meeting schedule and receive the appropriate meeting materials in advance of meetings.

The Corporate Secretary will be secretary to the Committee.

Duties and Responsibilities

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to monitor the overall corporate 'tone' for quality financial reporting, sound business risk practices, and ethical behaviour.

Subject to the powers and duties of the Board, the Committee, which shall hold a minimum of four meetings per year, will perform the following duties:

Financial Reporting

Annual Financial Statements

The Committee will review the consolidated financial statements and Management Discussion and Analysis, and recommend their approval or disapproval to the Board of Directors. The Committee will provide an explanation if it cannot recommend approval. The review must include:

- a) determining whether appropriate accounting methods are being applied;
- b) discussing with management and with the External Auditors:
 - all proposed changes in accounting policy,
 - the import and presentation of all large risks or uncertainties,
 - compliance with accounting standards,
 - significant adjustments arising out of the audit process,
 - related party transactions, and discuss with management the business rationale for the transactions and whether appropriate disclosures have been made,
 - major issues as to the adequacy of the Corporation's internal control over financial reporting and any specific remedial actions adopted in light of significant deficiencies or material weaknesses,
 - consideration of the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements,
 - consideration of the judgment of both management and the external auditors about the quality, not just the acceptability of accounting principles, and
 - the clarity of the disclosures in the financial statements,
 - all estimates or judgements of management that may be material to financial reporting;
- c) discussing with management and the External Auditors significant financial reporting, recording or presentation issues discussed during the fiscal period and the manner of their resolution, and
- d) examining the consolidated audited annual financial statements in conjunction with the report of the External Auditors, which may include determining whether the statements:
 - properly reflect the significant accounting policies selected,
 - reflect estimates and other financial statement elements that are reasonable and consistent,
 - adequately disclose all major transactions and issues,
 - disclose all post-year-end significant events, and
 - are understandable, relevant, reliable and comparable.

Quarterly Financial Reports

The Committee will review quarterly financial reports and related information and recommend their approval or disapproval to the Board of Directors. The Board of Directors has delegated approving authority of the quarterly financial report to the Committee, in the event the Board meeting schedule proves untimely.

The quarterly financial reports are required to be reviewed by the External Auditors prior to their submission to the Committee, the results of which are discussed with the Committee.

External Audit

The Committee shall have the direct responsibility for the appointment, compensation, retention and oversight of the External Auditors (including nominating the External Auditors to be proposed for Board approval). The Committee shall serve as the ultimate authority to which the Corporation's External Auditors are accountable. The Corporation shall provide appropriate funding, as determined by the Committee, for payment of compensation to the External Auditors and any experts or advisors employed by the Committee.

The Committee shall meet with the External Auditors, as the Committee may deem appropriate, to consider any matter which the Committee or External Auditors believe should be brought to the attention of the Board or the Shareholder.

The Committee will oversee the external audit process, including:

- a) determining whether the performance of the external audit is satisfactory, effective and meets the requirements of the Corporation;
- b) reviewing all issues related to any proposed change in External Auditors and the planned steps for an orderly transition;
- c) reviewing the terms of the External Auditors' engagement, and the appropriateness and reasonableness of the proposed audit fees;
- d) review on a quarterly basis the amount of fees paid to the External Auditors and their affiliates for audit related and non-audit consulting services provided to the Corporation and its subsidiaries in accordance with best practices at public corporations;
- e) at the request of management, pre-approve fee levels for audit related and non-audit related services provided to the Corporation by its External Auditors. The Committee has delegated such pre-approval to the Committee Chair on its behalf and requested management to report to the Committee on a quarterly basis;
- f) reviewing the audit plan with the External Auditors and management;
- g) determining whether management has provided full and open disclosure to the External Auditors' inquiries;
- h) reviewing problems experienced by the External Auditors in performing the audit, including any restriction imposed by management and all significant accounting issues on which there was a disagreement with management;
- i) reviewing the post-audit or management letter containing the recommendations of the External Auditors and reviewing management's response and subsequent follow-up to any significant identified weaknesses.
- j) review and discuss with the External Auditors all relationships that the External Auditors and their affiliates have with the Corporation and its affiliates in order to determine the External Auditors' independence, including, without limitation (i) requesting, receiving and reviewing, on a periodic basis, a formal written statement from the External Auditors delineating all relationships that may reasonably be thought to bear on the independence of the External Auditors with respect to the Corporation (ii) discussing with the External Auditors any disclosed relationships or services that the External Auditors believe may affect the objectivity and independence of the External Auditors, and (iii) recommending that the Board take appropriate action in response to the External Auditors' report to satisfy itself of the External Auditors' independence;

- k) at least annually, obtain and review a report by the External Auditors describing the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review or peer review of the auditing firm or by any inquiry or investigation by government or professional authorities within the preceding five years respecting one or more independent audits carried out by the External Auditors and any steps taken to deal with any such issues and all relationships between the External Auditors and the Corporation;
- l) After reviewing the foregoing report and the External Auditors' work throughout the year, the Committee shall evaluate the External Auditors' qualifications, performance and independence. Such evaluation should include the review and evaluation of the lead audit partner and take into account the opinions of management and the Corporation's personnel responsible for the internal audit function.

Accounting System and Internal Controls

Through discussions with management and the External and Internal Auditors, the Committee will obtain reasonable assurance that the Corporation's accounting systems are reliable and internal controls are adequate. For this purpose, the Committee may wish to direct the Auditors' examinations to particular areas and may request the Auditors to undertake special examinations.

The Committee will review the evaluation of internal controls by the External Auditors, including any recommendations for improvement of the Corporation's accounting procedures and internal controls, together with management's response.

Internal Audit

The Committee will annually review the Internal Audit Plan and the Audit Services Charter.

The review of the Internal Audit Plan should include an examination of the key risks identified for the organization and the appropriateness of Internal Audit resources. The review of the Audit Services Charter should ensure appropriateness of mission, accountability and scope of work for Internal Audit.

The Committee will also review audit reports issued by Internal Audit, management's response and subsequent follow-up of identified weaknesses. The review of audit reports will include:

- a) identification of significant risk exposures;
- b) assessment of the adequacy of the Corporation's internal controls, and
- c) recommendations for the improvements of the Corporation's internal controls.

In order to focus on key risk areas, the Committee will only review the full audit report for reports identified as high risk by Internal Audit. However, executive summaries will be reviewed for all reports issued and the Committee will be provided with low and medium risk internal audit reports upon request.

The Committee Chair will meet privately with the Director, Internal Audit in advance of each Committee meeting to discuss all items to be presented.

In accordance with the Procedures for Confidential Reporting of Financial Concerns (an attachment to the *Director and Employee Code of Conduct*), Internal Audit will provide quarterly reports to the Committee and to the Code of Conduct Advisor.

Other Responsibilities

The Committee will:

- a) review the status of pending or threatened material litigation and confirm with management whether there has been any reported evidence of a material violation of any laws or breach of fiduciary duty or similar violation that may not have reached the litigation stage;
- b) ascertain whether the Corporation's financial results and condition satisfy the criteria for lenders, material agreements, applicable laws and insurers;
- c) before public disclosure, review any formal financial reports on the condition or results of the Corporation including the Annual Report;
- d) annually review a listing of all expenditures incurred by the Corporation with external audit firms, other than those fees related to BC Hydro's own External Auditors which will be reported as previously described;
- e) draw to the attention of the Board of Directors all financial matters of which the Committee has knowledge and which may materially affect the current or future financial position of the Corporation;
- f) confirm that appropriate policies and procedures are in place for monitoring compliance with legislation, applicable laws, business and industry practices and ascertain their adequacy and the levels of compliance;
- g) receive reports on the status of any investigations underway pertaining to fraud, illegal acts or other compliance issues;
- h) review and recommend the annual Service Plan to the Board of Directors for approval;
- i) review and recommend the Five Year Forecast to the Board of Directors for approval;
- j) annually review executive management and Board of Director expense reporting,
- k) review and approve the hiring policies of the Corporation regarding any partners and employees, and former partners and employees of the present and former External Auditors of the Corporation;
- l) review such other matters that the Committee or the Board of Directors deems advisable or timely; and
- m) the Committee shall review and reassess the terms of reference at least annually.

Pension Plans

The Committee will:

- a) establish and review membership, procedures and Terms of Reference for the corporate Pension Management Committee (PMC);
- b) review with management the annual pension report and financial statements of the Corporation's pension plans including the actuarial valuation, Plan funded status, asset/liability forecast, asset allocation, manager performance and Plan operating costs;
- c) review and recommend to the Board of Directors any proposed changes to accounting and investment policies of the pension plans;
- d) adopt, and revise from time to time, a Funding Policy for the British Columbia Hydro and Power Authority Pension Plan;
- e) approve the actuarial methods and assumptions used for funding valuations of the BC Hydro Pension Plans and approve BC Hydro's contributions to the BC Hydro Pension Plans;
- f) review and recommend to the Board of Directors the termination of investment managers;

- g) review the appointment and termination, for the BC Hydro pension plans, of actuaries, fund holders, advisors, administrators, External Auditors, investment managers; and performance measurement services;
- h) review and recommend changes to the Board of Directors with respect to the design and benefit levels of the pension plans; and
- i) at the request of the Board of Directors, and as appropriate, delegate to the PMC such other tasks relating to the operation of the pension plans that may be required from time to time.

Risk Management

The Audit and Risk Management Committee reviews the management of principal risks not identified as the responsibility of other Committees of the Board of Directors. This Committee is the lead Committee for ensuring systems are in place to identify, manage, and monitor principal risks. Through its review of reports from the corporate Risk Management Committee, corporate Pension Management Committee and other areas of the Corporation, the Audit and Risk Management Committee will assess the appropriateness and consistent application of systems to manage principal risks within the Corporation and ensure that key matters of risk are brought forward for action by the Board and management.

The Corporate Governance and Human Resources Committees of the Board of Directors take responsibility for monitoring risks directly related to their respective mandates.

The Chief Executive Officer and Chief Financial Officer of the Corporation, with advice from the Chief Risk Officer and the corporate Risk Management Committee ("RMC") are responsible for establishing processes, procedures and mechanisms by which key matters of risk are identified, and ensuring that strategies are developed to manage such risks.

The Committee will receive quarterly reports from the RMC, and from other areas of the Corporation as considered appropriate or timely by the Committee or by the Board of Directors.

In particular, the Committee will review with management to determine whether policies and procedures are in place to identify, manage and monitor material risk including, but not limited to:

- a) interest rates, foreign exchange, debt, credit and commodity prices and hydro inflows;
- b) risks of low probability and high impact events and disaster preparedness;
- c) environmental policies and practices including the sufficiency of the Corporation's environmental management system;
- d) security of electricity supply including asset risk;
- e) aboriginal negotiations and major consultations;
- f) directors' and officers' liabilities, as well as processes to mitigate them, including indemnification and insurance as appropriate;
- g) insurance management strategies;
- h) information technology strategies, and
- i) such other risk issues of concern to the Committee, the Board of Directors and management.

Accountability

The Committee will report its discussions to the Board of Directors by distributing the minutes of its meetings, and where appropriate, by oral report to the Board of Directors with respect to every major matter considered since the last meeting.

Committee Timetable

The timetable below outlines the Committee's schedule of activities during the year.

COMMITTEE TIMETABLE

	Q1	Q2	Q3	Q4
Review and recommend Board approval of the Audited Financial Statements	✓			
Review and recommend Board approval of quarterly financial reports		✓	✓	✓
Review External Auditor independence and quality control procedures		✓		
Recommend appointment of External Auditors to Board, monitor performance and determine whether External Auditors are satisfactory		✓		
Review the terms of the External Auditors' engagement, proposed audit fees and the experience and qualifications of senior audit personnel		✓		
Annually approve audit/non-audit pre-approval policy and receive quarterly summaries of pre-approvals by Chair (in-camera)	<i>Policy Approval</i>	✓	✓	✓
Review audit plan with External Auditors, ascertaining whether management has provided full and open disclosure		✓		
Through communication with management, Internal Auditors and External Auditors, obtain assurance that accounting systems are reliable, and internal controls adequate	✓	✓	✓	✓
Review annual Internal Audit Plan		✓		
Review Internal Audit reports, management response and any subsequent follow-up	✓	✓	✓	✓
Ascertain that financial results satisfy criteria for lenders, material agreements, applicable laws and insurers, and review before public disclosure	✓	✓	✓	✓
Receive quarterly summary of any reporting of financial concerns to the Code of Conduct Advisor	✓	✓	✓	✓
Review and recommend approval of the annual Service Plan to the Board				✓
Review and recommend Five Year Forecast to the Board of Directors for approval;	✓	✓	✓	✓
Review executive expense reporting.			✓	
Receive annual and quarterly standing reports from the corporate Pension Management Committee, approve changes to Committee membership, its terms of reference and to the British Columbia Hydro and Power Authority Pension Plan Funding Policy as required	Annual	✓	✓	✓

COMMITTEE TIMETABLE

	Q1	Q2	Q3	Q4
Make recommendations to the Board respecting pension plan design, benefit levels and investment performance etc. and: <ul style="list-style-type: none"> • review Pension Plan Audited Statements • review Statement of Investment Policies • approve actuarial methods and assumptions • approve BC Hydro's contributions to the Pension plans • receive actuarial valuation of Plan on a tri-annual basis • Receive pension fund asset allocation review, and make recommendations to Board (every 3-5 years) 	✓			
Receive standing report from corporate Risk Management Committee	✓	✓	✓	✓
Review Environmental Policies & Practices	✓	✓	✓	✓
Review Information Technology & Telecommunication Strategies	✓	✓	✓	✓
Review Insurance Management Strategies		✓		✓
Review status of pending/threatened litigation	✓	✓	✓	✓
Review External Reporting of Financial Information				✓