

## TERMS OF REFERENCE AUDIT AND FINANCE COMMITTEE

### Strategic Context

The role of the Committee is to provide financial oversight in the manner set out below and as detailed elsewhere in these Terms of Reference. This is undertaken within the context of BC Hydro's company-wide goals as advanced by the Board.

### Purpose

The purpose of the Committee is to assist the Board of Directors in fulfilling its obligations and oversight responsibilities while also providing strategic and policy level advice and direction to Management on matters that drive the Corporation's business results and financial performance. The Committee's areas of responsibility include, but are not limited to, corporate controls, audit processes (internal and external), financial reporting, treasury (including credit, debt, insurance and pension) and litigation.

In fulfilling its purpose, the Committee is to maintain free and open communication among itself, the external auditors, the internal auditors, and Management.

### Composition

The Committee will be composed of at least three Directors. Committee members will be financially literate<sup>1</sup>, and at least one Committee member or advisor should have accounting or financial management expertise.

The External Auditors will be invited to attend Committee meetings as appropriate. 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 faces a number of duties which must be completed to satisfy government reporting obligations of the Corporation. These, together with other critical functions related to corporate controls, audit, treasury, pension and other functions are specified in the Committee Timetable, and are to be addressed according to the intervals indicated.

In addition, in delivering on its purpose the Committee will from time to time engage in the following activities or perform the following duties. The frequency of the Committee's engagement with these activities and duties will be determined based on project timelines, government expectations, evolving circumstances and emerging issues.

- a) Make recommendations to the Board with respect to the Corporation's goals and targets on matters falling within its purpose;
- b) Provide advice and direction with respect to strategies, plans and objectives;
- c) Review initiatives and expenditures related to the Committee's mandate and provide the Board of Directors with a recommended course of action where applicable;

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<sup>1</sup> A member shall be considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth of accounting issues and level of complexity that are generally comparable to the breadth and complexity of the issues that can be reasonably expected to be raised by the Company's consolidated financial statements.

- d) Review and monitor programs and performance, as appropriate; and
- e) Ensure that principal risks associated with its mandate are appropriately identified and managed.

COMMITTEE TIMETABLE<sup>2</sup>

	Q1 (May)	Q2 (Aug)	Q3 (Nov)	Q4 (Feb)
<b>1. FINANCIAL REPORTING &amp; FORECASTS</b>				
a. Annual Financial Statements *	Recommend			
b. Quarterly Financial Reports *		Recommend	Recommend	Recommend (Jan)
c. Five Year Forecast (and quarterly updates), including 10 Year Rate Plan Update*		Recommend	Recommend	Recommend (Jan)
d. Quarterly Treasury Report *	Review	Review	Review	Review
<b>2. EXTERNAL AUDIT</b>				
a. External Auditors <ul style="list-style-type: none"> <li>• appointment</li> <li>• annual renewal of terms/fees</li> </ul>	Recommend Approve			
b. Audit/non-audit services to be provided by the External Auditor (in-camera)	Approve	Tabled Report	Tabled Report	Tabled Report
c. External Audit Plan			Review	
d. External Auditors' post-audit management letter, and Management's response	Review			
<b>3. INTERNAL AUDIT</b>				
a. Internal Audit Plan	Approve			
b. Audit Services Charter: appropriateness of mission, accountability and scope (even fiscal years)	Approve			
c. Quarterly Audit Reports *	Review	Review	Review	Review
d. Director of Audit Services:				
i. Performance assessment (input to the review process)				Review
ii. Final performance assessment and compensation implications	Review			
e. Employee Accounting and Audit Concerns Report	Tabled Report	Tabled Report	Tabled Report	Tabled Report
<b>4. PENSION PLANS</b>				
a. Corporate Pension Management Committee Reports (may be included in the Quarterly Treasury Report – item 1d)	Review	Review	Review	Review
b. Pension Plan Audited Statements	Approve			
<b>5. OTHER</b>				
a. Insurance program and management strategies <ul style="list-style-type: none"> <li>• Executive Liability Insurance</li> <li>• General and Property Insurance</li> </ul> (may be included in the Quarterly Treasury Report – item 1d)		Review		Review

<sup>2</sup> Note: "Recommend" means to consider the item and make a recommendation to the Board with respect to approval of that item.

COMMITTEE TIMETABLE<sup>2</sup>

	Q1 (May)	Q2 (Aug)	Q3 (Nov)	Q4 (Feb)
b. Summary of Significant Legal Claims	Tabled Report	Tabled Report	Tabled Report	Tabled Report
c. Risk Report ("key risks" related to the Committee's mandate)	Tabled Report	Tabled Report	Tabled Report	Tabled Report
d. <i>Financial Information Act</i> return (incl. expense reporting of Executive Officers and Directors)		Recommend		
e. Accounting Standards Update	Tabled Report	Tabled Report	Tabled Report	Tabled Report
f. Comparative Rates Report			Review	
g. Committee Terms of Reference			Recommend	

**\* Denotes further detail described in the sections below.**

## Financial Reports and Forecasts

**Annual Financial Statements (Timetable Item 1a)**

The Committee will review the annual consolidated financial statements and Management Discussion and Analysis, and recommend their approval to the Board of Directors. Such recommendation shall be guided by the requirement that public reporting represents a complete, accurate and balanced portrayal of BC Hydro's performance and financial situation. Moreover, the Committee will draw to the attention of the Board of Directors all financial matters it is aware of which may materially affect the current or future financial position of the Corporation.

In considering the financial statements, the Committee shall:

- a) obtain assurance, through communication with Management, Internal Auditors and External Auditors, that accounting systems are reliable, and internal controls adequate;
- b) determine whether appropriate accounting methods are being applied;
- c) discuss with Management and with the External Auditors such things as follows:
  - all proposed changes in accounting policy,
  - material risks or uncertainties associated with financial matters or business processes,
  - compliance with accounting standards,
  - significant adjustments arising out of the audit process,
  - related party transactions, including business rationale and applicable disclosures,
  - major issues as to the adequacy of the Corporation's internal control over financial reporting and any specific remedial actions adopted as a result,
  - consideration of the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements,
  - all estimates or judgements of Management that may be material to financial reporting,
  - judgement of both Management and the External Auditors about the quality of accounting principles, and
  - the clarity of the disclosures in the financial statements;
- d) discuss with Management and the External Auditors significant financial reporting, recording or presentation issues discussed during the fiscal period and the manner of their resolution;

- e) examine 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.
- f) consider Management's assessment of how the annual financial results impact the risks faced by the Corporation, and
- g) consider any recommendations brought forward by Management in terms of their impact on the risks faced by the Corporation.

#### ***Quarterly Financial Reports (Timetable Item 1b)***

The Committee will review quarterly financial reports and related information and recommend their approval to the Board of Directors. The Board of Directors delegates to the Committee the authority to approve such quarterly financial reports at times when such approval is required outside of regularly scheduled quarterly meetings.

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.

#### ***Five Year Forecasts (Timetable Item 1c)***

The Committee will review the annual Five Year Forecast, as well as any quarterly updates, and recommend approval to the Board of Directors. The Board of Directors delegates to the Committee the authority to approve such forecasts at times when such approval is required outside of regularly scheduled quarterly meetings.

In reviewing or approving the Five Year Forecast or quarterly updates, as the case may be, the Committee shall review Management's assessment of how the forecasts will likely impact the principal risks faced by the organization.

#### ***Treasury Report (Timetable Item 1d)***

The Committee will review the Quarterly Treasury Report, which reports on the following identified risk areas:

- a) Credit Exposure
- b) Foreign Exchange
- c) Debt
- d) Pension Plan
- e) Insurance

#### **External Audit**

The Committee shall have the direct responsibility for the appointment, compensation, retention and oversight of the External Auditors. This shall include nominating the External Auditors to be proposed for Board approval as well as ensuring an efficient and orderly transition upon change in External Auditor). The Committee shall serve as the ultimate authority to which the Corporation's External Auditors are accountable, and shall assess the ongoing relationship between the External Auditors and Management. 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.

### ***External Auditor Independence***

The Committee shall 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.

### ***External Auditor Quality Control***

In this respect, the Committee shall, 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.

### **Internal Audit**

#### ***Reports of Internal Audit (Timetable Item 3c)***

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

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.

#### ***Meeting with the Director, Audit Services***

The Committee Chair will meet with the Director, Audit Services in advance of each quarterly Committee meeting to discuss all items to be presented. During quarterly Committee meetings, the Committee shall meet with the Director, Audit Services, without Management present.

### ***General***

The Committee shall, in consultation with Senior Management, review the performance of the Audit Services department. The Committee shall also review and approve, in consultation with Senior Management, proposed changes in the position of the Director, Audit Services.

In addition, the Committee shall, from time to time, assure itself that the internal audit function has adopted recognized standards such as the Institute of Internal Auditors International Professional Standards.

## Pension

In addition to the items specified on the Committee Timetable, other Pension Plan related matters as follows are to be addressed by the Committee as required:

- a) Monitoring the health of the Pension Plan (including holding periodic tutorials)
- b) Approve changes to the British Columbia Hydro and Power Authority Pension Plan Funding Policy
- c) Make recommendations to the Board respecting plan design, benefit levels, investment policies, etc.
- d) Review actuarial valuation and assumptions
- e) Recommend pension fund asset allocation to Board (as required)
- f) Review and recommend to the Board of Directors the appointment and termination of investment managers, actuaries, fund holders, administrators, External Auditors, and investment managers

## Accountability

At every quarterly meeting of the Board, or more often if required, the Committee shall provide a report on its deliberations and recommendations since its last such report. Minutes of the Committee's meetings will also be made available to all Directors.