

# OAKVILLE HYDRO CORPORATION

## FINANCE AND AUDIT COMMITTEE MANDATE AND CHARTER

Adopted: January 27, 2011

Revised: December 8, 2011

### The Board's Mandate for the Finance and Audit Committee

The Board of Directors (the “**Board**”) of **OAKVILLE HYDRO CORPORATION** is responsible for overseeing and monitoring all significant aspects of the management of the, business and affairs of Oakville Hydro Corporation and its affiliates (collectively, the “Corporation”). With respect to Oakville Hydro Electricity Distribution Inc. (“OHEDI”), this responsibility is shared with the Board of Directors of OHEDI.

### **MISSION STATEMENT**

The Finance and Audit Committee’s mission is to assist the Board in fulfilling its obligations by overseeing and monitoring the Corporation’s financial accounting and reporting process and the integrity of the Corporation’s financial statements and its internal control over financial reporting and the external audit process. To fulfill this mission, the Finance and Audit Committee has received this mandate and has been delegated certain authorities that it may exercise on behalf of the Board.

### **1. FINANCIAL REPORTING OBJECTIVE**

Financial reporting and disclosure constitutes a significant aspect of the management of the business and affairs of the Corporation. The objective of the Board’s monitoring of the Corporation’s financial reporting and disclosure (Financial Reporting Objective) is to gain reasonable assurance that:

- (a) the Corporation complies with all applicable laws, regulations, rules, policies and other requirements relating to financial reporting and disclosure, including those of the Ontario Energy Board (“OEB”);
- (b) the major accounting principles and policies, significant judgments and disclosures which underlie, or are incorporated in the Corporation’s financial statements, are the most appropriate in the prevailing circumstances;
- (c) the Corporation’s financial statements present fairly the Corporation’s financial position and performance in accordance with CGAAP and the policies of the OEB and constitute a fair presentation of the Corporation’s financial condition; and
- (d) appropriate information concerning the financial position and financial performance of the Corporation is disseminated to the Board and all other stakeholders in a timely manner.

The Board has established a committee of the Board, known as the Finance and Audit Committee (the “Committee”). This Committee has developed this Charter, which, inter

alia, describes the activities in which the Committee will engage for the purpose of gaining reasonable assurance that the Financial Reporting Objective is being met.

## **2. FINANCIAL MANAGEMENT OBJECTIVE**

The objective of the Committee is to gain reasonable assurance that:

- (a) there is appropriate fairness and transparency in financial reporting;
- (b) operating and capital budgets are appropriate to the needs of the Corporation;
- (c) there is proper control over assets and liabilities ; and
- (d) an appropriate review of operating statements is conducted by Management in a timely manner.

## **3. COMPOSITION OF THE COMMITTEE**

The Committee shall be appointed annually by the Board and consist of a minimum of three members and a maximum of five members, with a majority being members of the Board. The Board Chair, the President and CEO and the CFO shall be non-voting ex-officio members. The Committee Chair and the members of the Committee shall be nominated by the Advisory and Nominating Committee, and approved by the Board. The Chair shall be a Board member. The Committee may appoint ad-hoc non-voting members to the Committee, as required, to assist the Committee in fulfilling its mandate.

## **4. RELIANCE ON MANAGEMENT AND EXPERTS**

In contributing to the Committee discharging its duties under this Charter each member of the Committee shall be entitled to rely in good faith upon financial statements of the Corporation represented to him or her by Management of the Corporation or in a written report of the external auditors on the fair presentation of the financial position of the Corporation in accordance with CGAAP and any report of a lawyer, accountant, or other person whose profession lends credibility to a statement made by any such person.

Good faith reliance means that the Committee member has considered the relevant issues, questioned the information provided and assumptions used and assessed whether the analysis provided by Management or the expert is reasonable. Generally, good faith reliance does not require that the member question the honesty, competency and integrity of Management or the expert unless there is a reason to doubt their honesty, competency and integrity.

## **5. LIMITATIONS ON THE COMMITTEE'S DUTIES**

In contributing to the Committee's discharging of its duties, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which

all Board members are subject. The essence of the Committee’s duties is monitoring and reviewing to gain reasonable assurance, but not to ensure, that its Financial Reporting Objective and Financial Management Objective are being met and to enable the Committee to report thereon to the Board.

## **FINANCE & AUDIT CHARTER**

The Committee’s Charter outlines how the Committee will satisfy the requirements set forth by the Board in its Mandate. This Charter comprises:

- Operating Principles
- Operating Procedures
- Specific Responsibilities and Duties

### **6. OPERATING PRINCIPLES**

The Committee shall fulfill its responsibilities within the context of the following principles:

#### **6.1 Committee Values**

The Committee members will act in accordance with the Board’s policies and industry best practices, as applicable.

#### **6.2 Communications**

The Chair and members of the Committee expect to have direct, open and frank communications throughout the year with assigned Management, the Board Chair, other Committee Chairs, the external auditors, the internal auditors, and other key Committee advisors, as applicable.

#### **6.3 Financial Literacy**

All Committee members shall be financially literate, which shall mean that they have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements. The role of the Committee can only be fulfilled if its members are well informed. A process of continuing education shall be maintained that includes briefings and information on emerging issues and risks.

#### **6.4 Work Plan**

The Corporate Secretary in consultation with the Committee, Board Chair and Management, shall develop an annual Committee Work Plan responsive to the Committee’s responsibilities as set out in this Charter.

The Committee will review its annual work plan at its third quarter meeting in each fiscal year. In addition, the Committee, in consultation with assigned Management, the Board Chair, the external auditors, and the internal auditors shall develop and participate in a process for review of significant accounting and reporting issues, including complex or unusual transactions and other areas that have the potential to impact the Corporation's financial disclosure.

#### **6.5 Meeting Agenda**

The Committee meeting agendas shall be the responsibility of the Committee Chair. The Corporate Secretary will develop meeting agendas in consultation with Committee Chair, Committee members, assigned Management, Board Chair, the external auditors, and the internal auditors as applicable from time to time.

#### **6.6 Committee Expectations and Information Needs**

The Committee shall communicate its expectations to assigned Management, the external auditors, and the internal auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written material supporting agenda items will be received from assigned Management, the external auditors, and the internal auditors at least seven days in advance of meeting dates. The President and CEO and the CFO are required to attend the meetings of the Committee. The Committee Chair may request the attendance of other Corporation Officials.

#### **6.7 External Resources**

To assist the Committee in discharging its responsibilities, the Committee may, in addition to the external auditors and the internal auditors, at the expense of the Corporation, retain one or more persons having special expertise.

#### **6.8 In-Camera Meetings**

At each meeting of the Committee, the members of the Committee shall meet at their discretion in private sessions that allow the Committee to discuss matters (a) amongst themselves, (b) with Management, (c) with internal auditor and (d) with external auditors. Actionable items resulting from these sessions will be recorded in the minutes.

#### **6.9 The External Auditors**

The external auditors shall be accountable to the Board through the Committee. The external auditors shall report on all material issues or potentially material issues to the Committee.

#### **6.10 The Internal Auditor**

The internal auditor shall be accountable to the Board through the Committee. The internal auditor shall report on all material issues or potentially material issues to the Committee.

#### **6.11 Access to Carry Out Committee's Duties**

The Committee working in consultation with the CFO shall be given full access to the Corporation's internal accounting staff, Management, other staff, external auditors, and internal auditors as necessary to carry out the Committee's duties. While acting within the scope of its stated purpose, the Committee shall have all the authority of, but shall remain subject to, the Board.

#### **6.12 Adequate Resources**

The Committee should have adequate resources to discharge its duties as mentioned in this mandate subject to prior budget provision. Members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may determine from time to time consistent with its remuneration policies for all Board and Committee members. The Committee may hire external consultants to assist with specific matters to fulfill its responsibilities, subject to prior budget approval.

### **7. OPERATING PROCEDURES**

- (a) The Committee shall annually review, discuss and assess its own performance and individual member's performance as part of Board self assessment process. In addition, the Committee shall annually review its role and responsibilities, as set out in this Charter.
- (b) The Committee shall meet at every quarter, or more frequently as circumstances dictate. Meetings shall be held at the call of the Committee Chair or upon the request of two members of the Committee, or the Management or at the request of the internal auditors or external auditors. The request to be made to the Chair of the Committee and the Chair of the Committee may determine the necessity of the meeting.
- (c) A quorum shall be a majority of the voting members of the Committee. Each voting member will be entitled to one vote and the Committee Chair will not have a second or casting vote in the case of an equality of votes. No Proxies shall be permitted.
- (d) Unless the Committee otherwise specifies, the Corporate Secretary, shall act as Secretary of all meetings of the Committee. In the absence of the Corporate Secretary the Chair of the Committee shall designate a person to act as the Secretary of the meeting.

- (e) In the absence of the Chair of the Committee at any meeting of the Committee, the Chair may delegate a Committee member to perform the duties of the Chair or the Committee members present may elect one among them to perform the duties of the Chair.
- (f) A copy of the Minutes of each meeting of the Committee shall be provided to each member of the Committee, within twenty (20) calendar days from the meeting date. Once the Committee approves the Minutes, a copy of the Minutes will be available to the Board upon request.
- (g) The Committee, through its Chair, will provide verbal reports outlining issues, actions, and recommendations to the Board at regular Board meetings.

## **8. SPECIFIC RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Committee shall:

### **8.1 Financial Reporting**

- (a) While the Committee has the responsibilities and powers set forth in this Mandate, it shall not be its duty to plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and in accordance with CGAAP and applicable rules and regulations; these are responsibilities of Management and the external auditors. Management, not the Committee or the external auditors, is responsible for preparing complete and accurate financial statements and disclosures in accordance with CGAAP and other applicable rules and regulations. The Committee needs to understand and assess the financial statements and related information. Accordingly, the Committee must review the Corporation's interim and annual financial statements and the annual Management Representation Letter with assigned Management and the external auditors (annual statements only) to gain reasonable assurance that the statements, present fairly the Corporation's financial position and performance, are in accordance with CGAAP and the policies of the OEB, and constitute a fair presentation of the Corporation's financial condition, and report thereon in a timely manner to the Board before such statements are approved by the Board;
- (b) receive from the external auditors reports on their audit of the annual financial statements;
- (c) receive from Management a copy of the Representation Letter, provided to the external auditors, and receive from Management any additional representations required by the Committee;
- (d) review and, if appropriate, recommend approval to the Board prior to publication of all news releases and publications issued by the Corporation with respect to the Corporation's financial statements including, if applicable, the Annual Report and Management Discussion & Analysis; and

- (e) if applicable, satisfy itself that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements in order to satisfy itself that such information is fairly presented.

## **8.2 Financial Management**

- (a) Review the appropriateness of all of the Corporation's present and proposed accounting policies and all major issues regarding accounting principles and financial statement presentations (including any significant changes in the Corporation's selection or application of accounting principles).
- (b) receive from Management, and review, the Corporation's annual business plan, together with the operating and capital budgets, to ensure that they are appropriate for the needs of the Corporation; receive and review quarterly updates on capital spending progress.
- (c) review banking arrangements, signing authorities, and cash management controls to ensure that they are appropriate to the needs of the Corporation. Review issues relating to liquidity, capital resources and contingencies that could affect liquidity. Review all plans for treasury operations including financial derivatives and hedging activities. Review all material off-balance-sheet transactions, contingent liabilities and transactions with related parties;
- (d) review annually the financial staff succession planning;
- (e) receive periodic reports from Management for information on significant changes to current pricing and any related implications on profitability;
- (f) consider any other matter relating to the financial management of the Corporation referred to the Committee by the Board; and
- (g) review the report prepared by management on all Ontario Energy Board cost of service rate filings.

## **8.3 Investment Monitoring**

- (a) Review the Investment Policy at least annually and make necessary amendments;
- (b) evaluate and recommend to the Board, the appointment of Investment Managers, if required, taking into account criteria including relevant experience and expertise, structure of the organization, suitability of investment style, turnover of personnel, capacity and servicing capabilities, investment performance record, including consistency of performance and risk, and investment management fees;
- (c) monitor investment results on a minimum of a quarterly basis according to the return objectives defined in the Investment Policy;
- (d) review, at least annually, the Investment Manager's performance;

- (e) report quarterly on the Corporation's investment status and holdings to the Board; and
- (f) review all investments and transactions that could adversely affect the return on the Corporation's investments that are brought to the Committee's attention by, including but not limited to, the external auditor or Management.

#### **8.4 Financial Risk and Uncertainty**

The Committee shall gain reasonable assurance that financial risk is being effectively managed and mitigated by:

- (a) reviewing with Management the Corporation's tolerance for financial risk;
- (b) identifying and monitoring significant financial risks facing the Corporation;
- (c) evaluating and considering the Corporation's policies and any proposed changes thereto for managing these significant financial risks;
- (d) reviewing plans, processes and programs to manage and mitigate such risks;
- (e) reviewing policies, and compliance therewith, that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
- (f) receiving and review a report from Management and the Corporations Insurance broker consultants on the adequacy of insurance coverage maintained by the Corporation for general liability, employee fidelity, and business interruption;
- (g) regularly reporting its findings to the Board; and
- (h) reviewing regularly with Management, the external auditors, the internal auditors and the Corporation's legal counsel, any legal claim or other contingency that could have a material effect on the financial position of the Corporation and the manner in which these matters have been disclosed and/or provided for in the financial statements.

#### **8.5 Financial Controls and Control Deviations**

- (a) Review the processes Management has put in place to maintain appropriate internal controls and monitor compliance with internal control policies;
- (b) receive from the internal auditor and external auditors, at least annually, their assessment of the control environment; and
- (c) receive regular reports from Management, the internal auditor, the external auditors and the Corporation's legal counsel on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto.

## **8.6 Internal Control and Information Systems**

- (a) Review and obtain reasonable assurance that the internal control and information systems are operating effectively to produce materially accurate, appropriate, and timely management and financial information;
- (b) obtain reasonable assurance by discussions with and reports from Management, the internal auditor and the external auditors that the information systems, security of information and business recovery plans are adequate and reliable, and that the internal control systems and procedures are properly designed and effectively implemented;
- (c) review adequacy of accounting and finance resources, as required; and
- (d) undertake any and all required investigations, and other actions, in relation to the suspected material non-compliance with accounting policies, internal controls or use of the services of external and/or internal auditors or other third parties, as deemed appropriate, to ascertain whether any non-compliance has occurred and thereafter, if deemed appropriate, report on such matters to the Board.

## **8.7 Compliance with Laws and Regulations**

- (a) Review regular reports (Statutory Declarations) from Management with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including: tax and financial reporting laws and regulations; legal withholding requirements; other laws and regulations which expose the members of Board to liability;
- (b) confirm with Management that the Corporation is in compliance with laws and regulations having a material impact on the financial statements including: tax and financial reporting laws and regulations; legal withholding requirements; other laws and regulations which expose the members of Board to liability; and
- (c) discuss with Corporation's legal counsel any significant legal, compliance or regulatory matters that may have a material effect specifically related to the financial statements of the Corporation or on the compliance policies of the Corporation.

## **8.8 Relationship with the External Auditors**

- (a) Recommend to the Board and Shareholder the selection and appointment of the external auditors;
- (b) recommend to the Board the remuneration and the terms of engagement of the external auditors;
- (c) if necessary, recommend to Board the removal of the current external auditors and replacement with new external auditors;

- (d) review the performance of the external auditors at least annually;
- (e) receive annually from the external auditors an acknowledgement in writing that their primary responsibility and accountability are to the Committee (Engagement Letter);
- (f) receive a report annually from the external auditors with respect to their independence (Independence Letter), such report to include a disclosure of all engagements and fees related thereto for non-audit services provided to the Corporation;
- (g) establish a policy with Management which non-audit services do not require pre-approval. Bring to the attention of the Chair of the Committee all requests for all other non-audit services to be performed by the external auditors for the Corporation before such work is commenced and a policy for permitting the Committee Chair to approve such services up to an amount of \$10,000 without consulting the Committee.
- (h) be satisfied that there is no threat to the external auditors objectivity and independence in the conduct of the audit from providing such services;
- (i) review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, the materiality levels which the external auditors propose to employ, areas of audit risk, staffing of the audit, and timetable;
- (j) meet at least annually in-camera with the external auditors in the absence of Management to discuss any matters that the Committee believes should be discussed. In addition it should determine, inter alia, that no management restrictions have been placed on the scope and extent of the audit examination by the external auditors or the reporting of their findings to the Committee;
- (k) be satisfied of the existence of effective communication processes between Management and external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, Management and the Committee;
- (l) receive reports on the work of the external auditors and the resolution of disagreements between Management and the external auditors with respect to financial reporting. Obtain explanations from management and where necessary the external auditors, as to why certain issues might remain unadjusted; and
- (m) request that the external auditors provide to the Committee, at least annually, a written report describing the external auditors' internal quality assurance policies and procedures as well as any material issues raised in the most recent internal quality assurance reviews, or any inquiry or investigation conducted by government or regulatory authorities (including the Ontario Energy Board).

## **8.9 Relationship with the Internal Auditor**

- (a) Establish with the internal auditor the Committee's expectations of the internal audit function;
- (b) appoint the internal auditor;
- (c) review the performance and reports of the internal auditor on a quarterly basis;
- (d) receive annually from the internal auditor an acknowledgement in writing that their primary responsibility and accountability are to the Committee (Engagement Letter);
- (e) annually review a report on the internal audit function with respect to the terms of reference, organization, staffing, independence, performance and effectiveness of the internal audit services, receive, approve and monitor the execution of the annual internal audit plan, including the financial risk management measures proposed by the internal auditor, and obtain assurances in respect of conformity with the Canadian Institute of Chartered Accountants (CICA)'s professional standards and with the Institute of Internal Auditors (IIA) and other regulatory bodies' requirements, and recommendations of management and of the internal auditor;
- (f) review significant internal audit findings and recommendations and management's response thereto;
- (g) to perform integrated financial risk management with the assistance of internal auditor once in every twelve months.

## **8.10 Other Responsibilities**

- (a) Investigate any matters that, in the Committee's discretion, fall within the Committee's duties;
- (b) review and approve the Corporation's policies with respect to the hiring of partners, employees and former partners and employees of the current and former external auditors;
- (c) work with the CEO on any appointment or any dismissal of the CFO or internal auditor and then recommend to the Board the applicable appointment or removal of the CFO or internal auditor and a report to be provided to the Committee;
- (d) any changes to the internal audit functions to be intimated to the Committee;
- (e) establish procedures for the confidential receipt, retention and treatment of complaints received by the Corporation and/or Board regarding the Corporation's accounting, internal accounting controls or auditing matters; and the confidential anonymous submission, retention and treatment of concerns by employees regarding questionable accounting or auditing matters; and require that all such

matters be reported to the Committee together with a description of the resolution of the complaints or concerns and thereafter report these matters to the Board; and

- (f) monitor the key financial performance indicators set out in the annual business plan.

**9. ACCOUNTABILITY:**

- 9.1 The Committee shall review corporate policies that are within the scope of the roles and responsibilities specified by these terms of reference prior to submission for approval by the Board; monitor compliance on a regular basis; and ensure these policies are periodically reviewed and kept current.
- 9.2 The Committee shall perform such other duties as may be assigned to it by the Board from time to time or as may be required by applicable law.
- 9.3 The Committee will annually review its Mandate and Charter, policies and procedures each year at its third quarter meeting to assess its adequacy and endeavour to keep them abreast of “best practices” for a Finance and Audit Committee. Any proposed amendments to the Mandate and Charter, policies or procedures will be submitted to the Board through the Governance and Risk Committee and if agreed to by the Board, will thereafter be put into effect.