

TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

1. PURPOSE

Primary responsibility for the Authority's financial reporting, accounting systems and internal controls is vested in management and is overseen by the Board. The purpose of the Finance and Audit Committee (the "Committee") is to assist the Board in fulfilling its oversight responsibilities by:

- 1.1 Maintaining effective relations with management and the external auditor;
- 1.2 Maintaining effective relationships with Internal Audit, including receiving regular reports on audit work performed, audit findings, and status of the annual internal audit plan;
- 1.3 Objectively monitoring the quality and effectiveness of the external auditor's relationship with management and the Committee;
- 1.4 Recommending the annual budget (Section 3.4) and the financial statements to the Board (Section 3.5) and overseeing the external audit and (Section 3.6) the systems of corporate controls that management and the Board have established, the audit process, and compliance with the relevant laws, regulations and policies;
- 1.5 Reviewing the financial information that will be provided to the public and others;
- 1.6 Reviewing the Authority's long term financial model, including its underlying capital and operating assumptions, and the impact on the Authority's long term financial position of each material capital project proposed to the Board; and,
- 1.7 Reviewing and recommending to the Board any proposed changes to the fundamental structure of the Authority's finances, in particular, the issue of new debt or the retirement of existing debt.

2. COMPOSITION

- 2.1 The Committee will be composed of three or more non-management Directors and will include the nominee of the Chartered Professional Accountants of British Columbia, unless the Board Chair and that nominee

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agree otherwise. All members of the Committee will have a basic level of financial literacy, including:

- 2.1.1 an understanding of Audit Committee functions;
 - 2.1.2 an understanding of financial statements and the principles of Generally Accepted Accounting Principles (GAAP), specifically, Accounting Standards for Not-For-Profit Organizations, used in their preparation; and
 - 2.1.3 the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; and, an understanding of internal controls and procedures for financial reporting.
- 2.2 The Corporate Secretary will be secretary to the Committee.

3. DUTIES AND RESPONSIBILITIES

- 3.1 The Committee will have unrestricted access to Authority personnel and documents and will be provided with the resources necessary to carry out its responsibilities, and will annually evaluate its own effectiveness with particular attention to whether Committee members need any further resources or assistance.
- 3.2 The Committee will have a regular practice of setting aside a portion of each meeting to meet:
- 3.2.1 *in camera*,
 - 3.2.2 with the external auditors without management present,
 - 3.2.3 with management without the external auditors present,
 - 3.2.4 with the internal auditor alone, and
 - 3.2.5 with the Chief Executive Officer alone.
- 3.3 The Committee Chair will meet in person, or by any agreeable communication facility, not less than quarterly with the Chief Financial Officer.

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- 3.4 Following the annual Board Budget Workshop, the Committee will consider any matters arising from that session which have been delegated to the Committee for further review, and will make recommendations to the Board. As part of its post-Workshop review, the Committee will consider whether management's presentation at the Workshop adequately addressed the following matters:
- 3.4.1 whether the assumptions supporting the projected revenues and projected expenses, and the resulting performance targets, are reasonable;
 - 3.4.2 the forecasts of passenger numbers, aircraft movements and general economic conditions;
 - 3.4.3 whether the annual budget meets the financial requirements arising from the Trust Indenture, bank financing and any other financial commitments arising from credit and debt obligations;
 - 3.4.4 whether any elements of the annual budget will materially affect the current or future credit rating of the Airport Authority; and
 - 3.4.5 whether the annual budget is consistent with the Long Term Financial projection model, the Strategic Plan and the annual business plan.
- 3.5 Subject to the powers and duties of the Board, the Committee will review the annual financial statements and recommend their approval or disapproval to the Board. The Committee will provide an explanation if it cannot recommend approval. The review must include:
- 3.5.1 determining whether appropriate accounting methods are being applied;
 - 3.5.2 discussing with management and with the external auditor all proposed major changes in accounting principles or policies or government reporting regulations affecting this Authority, the import and presentation of all large risks, uncertainties and all estimates, the degree of aggressiveness or conservatism and the quality of the underlying accounting policies or judgments of management that may be material to financial reporting;
 - 3.5.3 questioning management and the external auditor regarding significant

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- financial recording or presentation issues that were discussed during the fiscal period and the manner of their resolution; and
- 3.5.4 examining the audited annual financial statements in conjunction with the report of the external auditor, with particular reference to whether the statements:
 - 3.5.4.1 properly reflect the significant accounting policies selected,
 - 3.5.4.2 reflect estimates and other financial statement elements that are reasonable and consistent,
 - 3.5.4.3 adequately disclose all major transactions and issues,
 - 3.5.4.4 disclose all post-year-end significant events, and
 - 3.5.4.5 are understandable, relevant, reliable and comparable.
 - 3.6 Subject to the powers and duties of the Board, the Committee will oversee the external audit, including:
 - 3.6.1 determining whether the performance of the external audit has effectively met the requirements of the Authority;
 - 3.6.2 recommending to the Board the retention or replacement of the external auditor and, if the Committee recommends replacement, evaluating candidates for the appointment;
 - 3.6.3 reviewing all issues related to any change of external auditor and the planned steps for an orderly transition;
 - 3.6.4 reviewing the terms of the external auditor's engagement, and the appropriateness and reasonableness of the proposed audit fees;
 - 3.6.5 reviewing the audit plan with the external auditor and management;
 - 3.6.6 determining whether management has provided full and open disclosure to the auditor's enquiries;
 - 3.6.7 reviewing problems experienced by the external auditor in performing the audit, including any restriction imposed by management and all significant accounting issues on which there was a disagreement with management; and
 - 3.6.8 reviewing the post audit or management letter containing the

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recommendations of the external auditor and reviewing management's response and subsequent follow-up to all identified weaknesses.

- 3.7 The Committee will oversee the engagements of the External Auditor for non-audit services by following these procedures:
- 3.7.1 Each engagement of the External Auditor for non-audit services must be approved by the Chief Financial Officer (the "CFO");
 - 3.7.2 Prior to making such an engagement, except for minor routine matters, the CFO will describe to the Chair of the Committee the proposed engagement, its nature and purpose, the amount of the expected fees and any other implications such an engagement might have upon the independence of the external auditor; and
 - 3.7.3 The Chair of the Committee shall consider the proposed engagement and its materiality to the financial dependence of the External Auditor and in his or her sole discretion shall determine whether the CFO may go ahead and make the engagement, or, if the CFO must first receive the approval of the Committee.
- 3.8 Through discussions with management, the external auditor and the internal auditor, the Committee will obtain reasonable assurance that the Authority's accounting systems are reliable and internal controls over financial reporting are appropriately designed and implemented. For this purpose, the Committee may wish to direct the auditor's examinations to particular areas and may request the auditor to undertake special examinations.
- 3.9 The Committee will review the evaluation of internal controls by the External Auditor, including any recommendations for improvement of the Authority's accounting procedures and internal controls, together with management's response.
- 3.10 The Committee will review the terms of reference of the internal audit process. The review should include:
- 3.10.1 an examination of the internal auditor's approach to risk assessment, including the methods used to assess risk;

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- 3.10.2 the adequacy of the Authority's internal controls;
 - 3.10.3 recommendations for the improvement of the Authority's accounting procedures and internal controls; and
 - 3.10.4 an assessment of the independence of the internal auditor and internal audit reporting.
- 3.11 The Committee will oversee the internal audit function. The Committee will:
- 3.11.1 review the reports issued by the internal auditor and management's response and subsequent follow-up to all identified weaknesses;
 - 3.11.2 approve the annual Internal Audit work and resource plan;
 - 3.11.2 approve the annual Internal audit plan;
 - 3.11.3 receive communications on the Internal Audit activity's performance relative to its plan and other matters;
 - 3.11.4 review the remuneration of the Internal auditors; and
 - 3.11.5 the Chair of the Committee will approve decisions regarding the appointment and removal of Internal Auditors.
- 3.12 The Committee will:
- 3.12.1 review the financial performance of the Authority's active operating subsidiaries quarterly;
 - 3.12.2 review the status of pending or threatened material litigation;
 - 3.12.3 ascertain whether the Authority's financial results and condition satisfy the criteria for lenders, material agreements, applicable laws and insurers;
 - 3.12.4 review before public disclosure any statement on the financial condition or results of the Authority including the quarterly financial statements to bond holders;
 - 3.12.5 draw to the attention of the Board all financial matters of which the Committee has knowledge and which may materially affect the current or future position of the Authority;
 - 3.12.6 determine whether systems are in place to identify and monitor

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major business risks, including reviewing the Enterprise Risk Management approach, risk register, risk appetite statement and risk tolerance matrix at least four times per year and at least annually reviewing those risks on the Enterprise Risk Management Program's risk register which fall within the mandate of this Committee; [*Note: the risk appetite statement and risk tolerance matrix is under development and will be brought forward to this Committee and the Board – this presupposes that these tools will be adopted as part of the ERM Program*]

- 3.12.7 review insurance coverage of significant business risks and uncertainties;
- 3.12.8 review the appropriateness of, and the adherence to, the delegations of authority concerning expenditures, leases and contracts, collectively called "the Signing Authorities" set forth at Tab 20;
- 3.12.9 review the appropriateness of, and adherence to, the delegations of authority concerning banking functions, referred to as "the Bank Signing Authorities";
- 3.12.10 determine whether there is adequate planning to minimize taxes of all types;
- 3.12.11 endeavour to identify to the Board matters that expose Directors to claims for which Directors could be held personally liable;
- 3.12.12 ascertain whether the Conflict of Interest Guidelines, Privacy Guidelines and Whistleblower Policy are strongly maintained;
- 3.12.13 review and approve annual audited statements of Pension Funds, along with the regular actuarial evaluations;
- 3.12.14 review the Authority's investment policy; and
- 3.12.15 review post-completion reviews of Project Definition Reports for Capital Projects, focusing on the financial portion thereof, and the lessons learned.

4. ACCOUNTABILITY

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- 4.1 The Committee will report its discussions to the Board by distributing the minutes of its meetings and, where appropriate, by oral report at the next meeting of the Board of every major matter considered since the Board's last meeting.
- 4.2 The Committee will annually review and recommend changes to its Terms of Reference, following completion of each annual audit.
- 4.3 The Chair of the Committee will certify annually in writing that the Committee has discharged its duties as described in these Terms of Reference.