

## **FINANCE, AUDIT & PERFORMANCE COMMITTEE MANDATE**

### **A. Composition**

The Finance, Audit & Performance Committee (FAP) is a Board Committee which shall be comprised of members of the Board who are capable of understanding Stewardship Ontario's (SO) financial information.

### **B. Terms of Reference**

The FAP Committee's role is to oversee the financial affairs of SO and to assist the Board in monitoring the organization's financial reporting and disclosure as well as its adherence to the regulatory targets and requirements set out in its approved stewardship program plans (Blue Box and Municipal Hazardous or Special Waste). The objective of the Board's monitoring is to gain reasonable assurance of the following:

1. That SO complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies relating to financial reporting and disclosure and the targets and requirements of its approved stewardship program plans;
2. That the accounting principles, significant judgments and disclosures which underlie or are incorporated in SO financial statements are the most appropriate in the prevailing circumstances;
3. That SO's interim and annual financial statements present fairly SO's financial position as a result of its operations in accordance with Accounting Standards for Not-for-Profit Organizations (ASNPO) and together with Management Discussion and Analysis (i.e. the document containing a complete and integrated view of the organization's historical operations, prospective analysis and financial condition explaining the 'why' behind performance and prospects) constitute a fair presentation of SO's financial condition; and
4. That appropriate information concerning the financial position and program performance of SO is disseminated to the Board in a timely manner.

#### **a) Fundamental Activities**

The Board is of the view that the Financial Reporting Objective cannot be reliably met unless the following activities (the "Fundamental Activities") are conducted effectively:

1. SO's accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of the SO's financial transactions;
2. SO's internal financial controls are regularly assessed for effectiveness and efficiency;

Approved: March 17, 2009

Revised: March 21, 2014

Revised: June 16, 2016

This revision approved by the Board: June 27, 2019

3. SO's interim and annual financial statements are in accordance with ASNPO and promptly prepared by management;
4. SO's investments are managed sufficiently to protect SO's capital assets; and
5. SO's interim and annual reporting against program performance targets is conducted in a manner that is consistent with the requirements of the approved program plans.

The FAP Committee shall develop and present to the Board for the Board's approval a process which, amongst other things, will describe the activities in which the FAP Committee will engage for the purpose of gaining reasonable assurance that the Fundamental Activities are being conducted effectively and that the Financial Reporting Objective is being met.

**b) Financial Reporting**

1. Review and provide guidance to the full Board and management about:
  - a) Policies relating to SO's cash flow, cash management and working capital, and investments;
  - b) Working capital and cash flow management;
  - c) Policies for managing interest rate, foreign exchange, and investment risk; and
  - d) Other transactions or financial issues that management desires to have reviewed by the Committee.
2. Review SO's annual financial statements with management and the external auditors to gain reasonable assurance that the statements are (i) prepared in accordance with ASNPO; (ii) are complete; (iii) represent fairly SO's financial position and performance; (iv) together with the Annual Report ensure fair presentation of SO's financial condition; and (v) report thereon to the Board before such financial statements are approved by the Board;
3. Review SO's interim financial statements with management to gain reasonable assurance that the statements are (i) prepared in accordance with ASNPO; (ii) are complete; (iii) represent fairly SO's financial position and performance; (iv) ensure fair presentation of SO's financial condition; and (v) report thereon to the Board before such financial statements are approved by the Board;
4. Receive from the external auditors reports on their review of the audited annual financial statements;
5. Receive from management a copy of the engagement letter provided to the external auditors;

Approved: March 17, 2009

Revised: March 21, 2014

Revised: June 16, 2016

This revision approved by the Board: June 27, 2019

6. Receive from the external auditors a copy of the “management letter” and management’s response to it;
7. Receive from management any additional representations required by the FAP Committee;
8. Review and, if appropriate, recommend approval to the Board of all public disclosure documents containing material audited or unaudited financial information, including material change disclosures of a financial nature;
9. Satisfy itself that adequate procedures are in place for the review of SO’s disclosure of financial information extracted or derived from SO’s financial statements (especially ratio and trend analyses) in order to satisfy itself that such information is fairly presented and periodically assess the adequacy of these procedures;
10. Obtain summaries of complex financings and other significant transactions and other potentially difficult matters whose treatment in the annual financial statements merits advance disclosure; and
11. Advise and provide guidance to the full Board about the performance of individual investments and the investment portfolio as a whole.

**c) Accounting Policies**

1. Review with management and the external auditors the appropriateness of SO’s accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto and obtain reasonable assurance that they are presented fairly in accordance with ASNPO; and
2. Review major issues regarding accounting principles and financial statement presentation including any significant changes in the selection or application of accounting principles to be observed in the preparation of the accounts of SO.

**d) Compliance with Legal, Ethical and Regulatory Requirements**

1. Obtain reasonable assurance that SO has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively by:
  - a) Inquiring about the policies and procedures the company has in place for monitoring compliance with laws and regulations and SO’s own Code of Conduct;

Approved: March 17, 2009

Revised: March 21, 2014

Revised: June 16, 2016

This revision approved by the Board: June 27, 2019

- b) Informing senior management and external auditors which matters the FAP Committee wishes them to report should such matters come to the auditors' attention during the course of the auditors' work; and
- c) Requiring CSSA to provide a due diligence report attesting to compliance and summarizing any changes in the acts or regulations governing SO.

**e) Internal Audit**

- 1. Assess periodically the need for an internal audit function and, if needed, ensure is adequately staffed and effectively carried out by the FAP Committee; and
- 2. If applicable, review the terms of reference, activities and resources of the internal audit function to ensure its primary reporting relationship to the FAP Committee.

**f) Financial Controls**

- 1. Review both management's overall approach to control and the plans of the Chief Financial Officer (CFO) and external auditors to gain reasonable assurance that the combined evaluation and testing of internal financial controls is comprehensive, coordinated and cost-effective;
- 2. Inquire specifically about Canadian Stewardship Services Alliance's (CSSA) compliance with SO's internal control policies and procedures; and
- 3. Receive regular reports from management, CSSA, the external auditors and SO's legal advisors on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto.

**g) Relationship with External Auditors**

- 1. Recommend to the Board the terms of engagement of the external auditors;
  - a) Review the performance of the external auditors annually or more frequently as required;
  - b) If deemed necessary, receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services for SO;
  - c) Review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit and the materiality levels which the external auditors propose to employ;
  - d) Meet with the external auditors in the absence of management to determine, that no management restrictions have been placed on the scope and extent of the audit

Approved: March 17, 2009

Revised: March 21, 2014

Revised: June 16, 2016

This revision approved by the Board: June 27, 2019

examinations by the external auditors or the reporting of their findings to the FAP Committee;

- e) Establish effective communication processes with management and SO's CFO and external auditors to assist the FAP Committee in monitoring objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee;
- f) Oversee the work of the external auditors and the resolution of disagreements between management and the external auditors with respect to financial reporting; and
- g) Request that the external auditors provide to the FAP Committee, at least annually, an oral and/or 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.

#### **h) Performance Reporting**

- 1. In conjunction with the quarterly financial reporting, review the collection and diversion reporting for each approved steward program as appropriate; and
- 2. Receive and review the quarterly and annual Waste Diversion Ontario (WDO) regulatory reporting and recommend their approval to the SO Board.

#### **C. Other Responsibilities**

- 1. Approve semi-annually the reasonableness of the expenses of the Chair of the Board;
- 2. Review and recommend to the Board of Directors for approval the human resources policies and procedures of SO and any significant changes in them;
- 3. Investigate any matters that, in the FAP Committee's discretion, fall within the Committee's duties;
- 4. Perform such other functions as may from time to time be assigned to the FAP Committee by the Board;
- 5. Review and recommend approval (if appropriate) of the annual budget, fees, fee-setting methodologies and financial forecasts to the Board of Directors;
- 6. Review the Investment Policy and make recommendations for changes to the Board as necessary;
- 7. Meet with the Investment Manager annually; and
- 8. Review the terms of reference of the FAP Committee annually.

#### **D. Operating Principles**

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

Approved: March 17, 2009

Revised: March 21, 2014

Revised: June 16, 2016

This revision approved by the Board: June 27, 2019

1. Committee Values

The FAP Committee expects the management of SO to operate in compliance with SO's Code of Conduct and policies with laws and regulations governing SO, and to maintain strong financial reporting and control processes.

2. Communications

The Chair and members of the FAP Committee expect to have direct, open and frank communications throughout the year with management, other Committee Chairs, the external auditors, the CFO and other key FAP Committee advisors as applicable.

3. Financial Literacy

All FAP Committee members shall 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 SO's financial statements.

4. Annual FAP Committee Work Plan

The FAP Committee, in consultation with management and the external auditors, shall develop an annual Committee Work Plan responsive to the FAP Committee's responsibilities as set out in this Mandate. In addition, the FAP Committee, in consultation with management and the external auditors, shall develop and participate in a process for review of important financial topics that have the potential to impact SO's financial disclosure.

5. Meeting Agenda

FAP Committee meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members, senior management and the external auditors.

6. Committee Expectations and Information Needs

The FAP Committee shall communicate its expectations to management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the FAP Committee at its meetings will be received from management and the external auditors within a reasonable time frame in advance of each Committee meeting (e.g. five days).

7. Reliance on Experts

In contributing to the FAP Committee's discharging of its duties under this mandate, each member of the FAP Committee shall be entitled to rely in good faith upon:

- a) The financial statements of SO represented to him or her by an Officer of SO or in a written report of the external auditors to present fairly the financial position of SO in accordance with generally accepted accounting principles; and

Approved: March 17, 2009

Revised: March 21, 2014

Revised: June 16, 2016

This revision approved by the Board: June 27, 2019

b) Any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

8. External Resources

In addition to the external auditors, the FAP Committee may, after consultation with the Chair of the Board, retain one or more persons having special expertise that will assist the FAP Committee in discharging its responsibilities.

9. In Camera Meetings

The members of the FAP Committee shall meet in private session and separately with the external auditors annually; and, as part of each meeting, with the FAP Committee members only (i.e. without management present). The Committee shall meet in private session as often as it deems necessary.

10. Reporting to the Board

The FAP Committee, through its Chair, shall report after each Committee meeting to the Board at the Board's next regular meeting.

11. Committee Self-Assessment

The FAP Committee shall annually review, discuss and assess its own performance. In addition, the FAP Committee shall periodically review its role and responsibilities.

12. The External Auditors

The FAP Committee expects that, in discharging their responsibilities to the Board, the external auditors shall be accountable to the Board through the FAP Committee. The external auditors shall report all material issues or potentially material issues to the FAP Committee.

**E. Operating Procedures**

1. The FAP Committee shall meet at least four times annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair, or upon the request of two members of the Committee or at the request of the external auditors;
2. Quorum means 50% of the members of the Committee and a minimum of two people;
3. Unless the FAP Committee otherwise specifies, the CFO shall act as Secretary of all meetings of the Committee;
4. To accommodate the planned and unplanned absences of the FAP Committee Chair, he or she should appoint an Acting Chair at the start of his or her term of office. In the absence of the Acting Chair, the Committee members present shall appoint an Acting Chair; and
5. A copy of the minutes of each meeting of the FAP Committee shall be provided to each member of the Committee and to each Director of SO in a timely fashion.

**F. Limitations on the Audit and Finance Committee's Duties**

Approved: March 17, 2009

Revised: March 21, 2014

Revised: June 16, 2016

This revision approved by the Board: June 27, 2019

In contributing to the FAP Committee's discharging of its duties under this mandate, each member of the FAP 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 mandate is intended, or may be construed, to impose on any member of the FAP 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 FAP Committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the Fundamental Activities are being conducted effectively and that the Financial Reporting Objective is being met and to enable the FAP Committee to report thereon to the Board.