

## Board of Trustees Finance and Audit Committee Mandate

Approved by the Board of Trustees: February 4, 2021

### Committee Membership

The Board of Trustees Finance and Audit Committee (FAC or the Committee) of the North American Electric Reliability Corporation (NERC) shall be composed of not less than three and not more than six of the Independent members of the Board of Trustees (Board). In addition, the FAC membership shall include the Chair of NERC's Enterprise-wide Risk Committee (EWRC). The members of the FAC shall be appointed or reappointed by the Board at the regular meeting of the Board following each Annual Meeting of the Member Representatives Committee. Each member of the FAC shall continue to be a member thereof until a successor is appointed, unless a member resigns, is removed, or ceases to be a member of the Board of the corporation. When a vacancy occurs at any time in the membership of the FAC, it may be filled by the Board.

### Purpose

The purpose of the FAC is to assist the Board in fulfilling its oversight responsibilities for (i) NERC's audits and related governance, risk management and control processes performed by NERC Internal Audit;<sup>1</sup> (ii) financial results and reporting process; (iii) system of internal financial and accounting controls and financial audit process; (iv) its oversight of the NERC, Regional Entities, and Western Interconnection Regional Advisory Board business plans and budgets; and (v) performing such other responsibilities as directed by the Board or this Mandate.

### Committee Authority and Responsibilities

To carry out its purpose, the FAC shall have the following authority and responsibilities:

#### Business Plan and Budgets

1. The FAC shall review and make recommendations to the Board with respect to (i) the annual NERC and Regional Entities' and WIRAB business plan and budget preparation and approval, including associated assessments, (ii) any other special budget and assessments of the corporation or a Regional Entity, and (iii) such other matters as are deemed necessary and advisable by the FAC in connection with the preparation and approval thereof, in each case consistent with applicable requirements of the NERC Rules of Procedure (ROP) or any applicable laws, rules, regulations, or directives of governmental and regulatory authorities with that jurisdiction.
2. The FAC shall review and make recommendations to the Board regarding the authorization for NERC management to enter into loan agreements, including, but not limited to, lines of credit.
3. The FAC shall provide oversight of NERC management's compliance with the corporation's

<sup>1</sup> NERC's EWRC shall have primary responsibility overseeing the development and implementation of NERC's oversight that is performed in coordination with the Compliance and Certification Committee (CCC).

working capital and operating reserve policy and make recommendations to the Board regarding expenditures or transfers of working capital and operating reserves which require Board authorization as set forth in such policy.

### **Audits, Financial Reports, and Reporting**

1. The FAC shall oversee NERC management's maintenance of the quality, credibility, and objectivity of the corporation's financial reports.
2. The FAC shall oversee the development, review, and ultimately approve the annual and three year audit plans from the Director of Internal Audit (IA), consistent with the Standards for Internal Auditing and Board processes and procedures.
3. The FAC shall approve the internal audit charter.
4. The FAC shall approve the internal audit budget and resource plan.
5. The Director of IA will report administratively to NERC's General Counsel and functionally to the Chair of the FAC.
6. The Chair of the FAC shall provide input as to the performance of the Director of IA and be notified of any employment-related issues related to the Director of IA.
7. The Director of IA shall report on matters regarding governance, risk, and controls and audit activity, which may include, but is not limited to: (i) access to information, (ii) internal audit scope, (iii) objectivity and independence, (iv) perception or potential of impairment, (v) audit budget and resources, and, (vi) subject matter expertise.
8. To the extent that an audit relates to matters for which the Board has a subject matter specific committee (e.g., security, human resources), those audit results will be shared with such committee. Such committee will also monitor the implementation of any management corrective measures or program enhancements.
9. The FAC shall conduct an annual executive session meeting with the corporation's Director of IA, without management present, to discuss the corporation's strategic, financial and operational controls and performance of risk management and internal audit functions. The corporation's general counsel shall hold an annual executive session with the Board.
10. The FAC shall review the adequacy and integrity of the corporation's internal accounting, financial and operational controls, which shall include (i) approving on an annual basis the design, implementation and timing of the internal and/or external reviews of such controls, (ii) the review of any internal audit or risk assessments / risk management reports relating to such controls and any mitigation plans or other responses by management relating to such assessments and reports, and (iii) the annual review of the organization, staffing and resource requirements of the internal audit function as it relates to internal accounting and financial controls.
11. The FAC shall appoint, receive reports from, and monitor the independent external auditor (independent auditor), which shall report to the FAC on behalf of the Board for purposes of the annual independent audit and such other matters that may be assigned to the independent

auditor from time to time, and conduct reviews of the performance of such independent auditor.

12. The FAC shall review and recommend for Board approval the corporation's audited annual financial statements. This review shall include:
  - a. Discussing with NERC management and the auditor the adequacy and effectiveness of the internal accounting and financial controls, including the corporation's system for monitoring and managing business risk;
  - b. Reviewing and discussing the audited financial statements of the corporation with management and the independent auditor, including their judgment about the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements;
  - c. Reviewing with NERC management, the auditor, and legal counsel the corporation's procedures to comply with applicable laws, regulations, and any significant litigation, claim, or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the corporation, as well as the disclosure or impact on the results of any such matters in the annual financial statements;
  - d. Discussing the results of the annual audit, any matters required to be communicated to the FAC by the auditor under generally accepted auditing standards, and any other matters that the independent auditor feels should be communicated to the FAC;
  - e. Reviewing with the independent auditor any significant emerging accounting and reporting issues and their potential impact on the corporation's financial statements; and
  - f. Meeting with the independent auditor, with and without management present, to discuss the annual audit.
13. The FAC shall review and approve the independent auditor's estimated annual audit fees and expenses.
14. The FAC shall review with NERC management all interim and unaudited financial statements prepared for external distribution, including reports summarizing any variances from the business plan and budget, and recommend acceptance of any such statements to the Board.
15. The FAC shall review the results of the company's annual savings and investment plan audit and, if necessary, make recommendations to the Corporate Governance and Human Resources Committee and management in connection with any audit findings or recommendations.

#### **Other Matters**

1. The FAC shall review the financial aspects of the corporation's Form 990 prior to it being filed with the Internal Revenue Service.
2. The FAC shall review and recommend approval by the Board of an investment policy governing the investment of funds held by the corporation.
3. The FAC shall review policies for the approval of NERC senior management expenses, including those of the CEO of the corporation.

4. The FAC shall, whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the FAC as the FAC may consider appropriate.
5. The FAC shall perform such other functions as may be delegated from time to time by the Board.

### **Committee Meetings**

The FAC shall meet at least quarterly by conference call or in person. Meetings may occur at the same place in conjunction with the regular Board meetings of the corporation, or as determined by the members of the FAC, using the same meeting procedures established for the Board. Meetings may be held in either open or closed session as set forth in the Bylaws of the corporation.

A majority of the Committee members shall constitute a quorum. Except where prescribed differently by law: (a) any action or decision of the FAC requires a vote of a majority of the Committee members then in attendance at any Committee meeting provided a quorum is present; and (b) participation may be telephonic or by Action without a Meeting. The Committee may hold special meetings as circumstances require. Minutes of each Committee meeting shall be maintained as part of the Committee's record.

### **Governance**

The Board, or in the event of their failure to do so, the members of the FAC, shall appoint a Chair from among their members. The FAC Chair shall be responsible for leadership of the Committee, including scheduling of meetings, setting agendas, presiding over Committee meetings, and making reports to the Board. A member(s) of the NERC staff shall assist the Chair and shall serve as the non-voting secretary.

### **Review**

The FAC shall review this mandate annually and recommend to the Board Corporate Governance and Human Resources Committee any changes it considers advisable. Any changes must be approved by the full Board. The FAC shall complete a self-assessment annually to determine its effectiveness. The FAC shall annually review the IA charter. The meeting minutes shall reflect if no changes to the charter result from the annual review.