
AUDIT, FINANCE AND RISK MANAGEMENT COMMITTEE

PURPOSE

The role of the Audit, Finance and Risk Management Committee (the "Committee") is to assist the Board of Directors (the "Board") of Metrolinx (the "Corporation") in fulfilling its oversight responsibilities with respect to the following:

A. Operating Principles**1. Function and Composition:**

- (a) The Corporation shall have an Audit, Finance and Risk Management Committee with three or more members named by the Board from time to time. All members of the Committee shall be Directors with representation from at least one member from each of the Board's Standing Committees.
- (b) Committee members shall be independent of management and the Corporation.
- (c) The Committee will carry out the duties outlined in these Terms of Reference and such other functions as are assigned or delegated to it by the Board.

2. Competencies - All members appointed to the Committee shall either:

- (a) Be financially literate upon appointment with 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 the issues that can reasonably be expected to be raised by the Corporation's financial statements; or
- (b) Undertake to become financially literate within a reasonable period of time after appointment to the Committee.

Where appropriate, Committee members will enhance their familiarity with financial, audit, accounting, risk management (including principles of safety risk

management), safety regulatory requirements, information technology (including cybersecurity), and other areas relevant to their responsibilities by keeping abreast of trends and best practices in these areas and by participating in educational sessions or other development opportunities. The Corporation and its internal and external auditors shall support Committee members in these efforts.

3. **Chair** - The Chair of the Committee will be selected by the Board. Where at any meeting the Chair is absent, one of the members of the Committee who is chosen to act by the members present shall preside and have all the powers of the Chair.
4. **Quorum** - The presence of the lesser of (a) three (3) members of the Committee, and (b) a majority of the then-current members of the Committee, constitutes a quorum for a meeting of the Committee. In the event any Committee member declares a conflict of interest with regard to any one or more matters under consideration by the Committee, such Committee member will not attend that portion of the meeting dealing with such matter(s) and the foregoing quorum requirement will be reduced by one (1) with regards to any decision or recommendation made with respect to such matter(s).
5. **Voting** - A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast. In the event of an equality of votes, the members shall attempt to resolve the matter by further discussion and consensus; however, in the absence of agreement, the Chair has a second vote.
6. **Procedure and Conduct** - Subject to other provisions of the Corporate By-law, these Terms of Reference and any Board resolution, the Chair shall determine the procedure at and conduct of meetings of the Committee.
7. **Minutes** - Once they have been approved by the Committee, copies of the minutes of the Committee proceedings shall be deposited into the Committee meeting Book by the Corporate Secretary. The Committee Minute Book shall be available to all of the Directors for inspection, upon request.
8. **Frequency and Calling of Meetings** - The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than four times each year.
9. **Committee Information Needs and Communications** - The Committee shall communicate to management, internal and the external auditors of the Corporation the Committee's expectations on the nature, timing and extent of its information needs. The Committee members expect to have direct, open and frank communications throughout the year with management, other committee Chairs, the external auditors, the internal auditors and key Committee advisers as applicable.

10. **Private Meetings** - The Committee shall meet privately as a committee and periodically with management and the head of the internal audit in separate private sessions.
11. **Meeting Agenda** - A written agenda and any related materials for each meeting of the Committee will be distributed to the members of the Committee at least five days in advance of the meeting date.
12. **Supplemental Attendees** - Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair or acting Chair to attend any meeting of the Committee.
13. **Secretary** - The Corporate Secretary shall act as the Secretary of all meetings of the Committee.
14. **Reporting** - The Committee will, where appropriate, provide an oral report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.
15. **Review of Terms of Reference** - The Committee shall review and assess the adequacy of these Terms of Reference at least annually. If the Committee considers amendments necessary, the Committee shall recommend such amendments to the Board for its approval.
16. **Self-assessment** - An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose of assessing whether the Committee fulfilled the responsibilities and duties.
17. **Independent Counsel or Other Advisors** - The Committee has the authority to engage outside advisors including, but not limited to, counsel, independent audit consultants and other experts, as needed, to review any matter under its responsibility.
18. **Advice and Recommendations to Board** - In discharging its duties and responsibilities, the Committee relies on the expertise of management and the Corporation's Internal Audit. Although it does not carry out internal or external audits or special examinations itself, the Committee shall monitor the audit and examination processes and review the reports, and make reasonable inquiries, to allow it to provide sound advice and recommendations to the Board.
19. **Investigation** - In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be

conducted into such matters as the Committee may deem appropriate.

B. Principal Duties and Responsibilities

1. Financial Reporting

The Committee will:

- Review with management the Corporation's annual financial statements;
- Review reports from the external auditor concerning the annual financial statements and any other matters and management's response to such reports;
- Review quarterly financial reporting;
- Recommend to the Board the approval of the audited annual financial statements; and
- Review with the external auditors and the Board any material issues that arise with respect to the quality of integrity of the Corporation's financial statements and the Corporation's compliance with the legal and regulatory requirements related thereto.

2. Safety Management Reporting

To promote the safety, efficiency, and protection of the Corporation's transit program, the Committee will periodically (quarterly or as otherwise required) review the design and implementation of the Corporation's safety management systems to ensure effective safety management, performance, and compliance with applicable legislation.

3. **Internal Controls** - The Committee will periodically review the adequacy of financial internal controls and provide reports of recommendations to the Board on such adequacy. Such periodic review will be directed by the Committee based on reviews completed by the internal audits with assistance for the external and government auditors.

4. External Auditors

The Committee shall:

- Recommend external auditor for appointment by the Board;

- Recommend the remuneration and terms of engagement of the external auditors;
- Review the performance and independence of the external auditors annually
- If appropriate, recommend the removal of external auditors and their replacement; and
- At least annually, review and approve the overall scope of the external auditors' audit plans.

5. Internal Audit and Safety Regulatory Audit

The Committee will:

- Ensure that the internal audit and safety regulatory audit functions report directly to the Committee and is independent from management;
- Provide internal audit and safety regulatory audit with unrestricted access to the Committee;
- Review and approve the overall scope of the internal auditor's annual audit plans and ensure the coordination of the internal auditor's involvement with the external auditors;
- Review reports issued by the internal auditor and management's response to these reports to ensure management has implemented any corrective action;
- Review and approve the overall scope of the safety regulatory audit Annual Inspection Plan;
- Receive reports issued by safety regulatory audit and management's response to these reports to ensure management has implemented any corrective action;
- Review and approve Internal Audit Charter annually;
- Endorse the appointment and dismissal of the head of Internal Audit; and
- Review the performance of the internal auditor at least annually.

6. Government Audits

The Committee will:

- Review the reports issued by any government auditor and management's response to these reports;
- Meet, if necessary, with government auditors after the completion of their audits; and
- Monitor the coordination of government auditors' involvement with the role of the Corporation's external and internal auditors.

7. Finance - The Committee will regularly review significant matters involving the financial status of the Corporation and make recommendations to the Board with respect to various material financial matters affecting the Corporation, including:

- The financial aspects of annual and longer term budgets and any significant variances thereon;
- The business plans, periodic forecasts, long term financial plans and revisions thereto;
- The adequacy of financial resources and cash flow of the Corporation;
- Review and advise the Board on the Corporation's investment policies;
- Review and advise the Board on the quality of the Corporation's business case methodology and policies;
- Review and advise on the Corporation's non-fare revenue strategies;
- The financing of various projects and development as may be requested by the Board from time to time; and
- Review reports from management on various financial measures and reports requested by the Board.

8. Enterprise Risk Management

- (a) The Committee will provide oversight of the Corporation's enterprise risk management ("ERM") program by:
- reviewing and recommending Board approval of the Company's enterprise risk management policy and framework, including overseeing the identification, measurement, monitoring and controlling of the Corporation's enterprise risks and ensuring that appropriate systems to manage these risks are in place;

- annually reviewing and recommending to the Board for approval the risk appetite, risk tolerances, and related metrics used to define the acceptable risk parameters for the Corporation;
- annually leading a Board discussion on the Corporation's enterprise risks, aligned with the Corporation's strategic annual plan review and including review of the enterprise risks that affect the strategy.
- ensure that appropriate risk and performance management governance structures, processes, measures, controls and limits are in place to measure the Corporation's risk exposures and to identify, evaluate and manage the enterprise risks to which the Corporation is exposed;
- ensuring that enterprise risks are reported to the appropriate standing committee of the Board consistent with their respective mandates;
- review, on a regular basis, the Corporation's risk management performance and obtain reasonable assurance that the Corporation's risk management response for enterprise risks is effective and is being adhered to.

The Committee shall:

- Ensure that it fully understands key risks any related to the Committee's principal duties and responsibilities as set out in these Terms of Reference to which the Corporation is exposed, the Corporation's enterprise risk management (ERM) framework, and the policies, procedures and controls used by management to identify, monitor, assess and manage these risks; and
- Ensure that key risks related to the achievement of the Corporation's financial, internal controls environment, internal and external audit functions and government audits, information technology(including cybersecurity), and safety (including significant enterprise risks) are identified, documented, and reviewed on a quarterly basis with mitigating strategies, and monitored in reaching its proposed targets.

9. Ethical and Legal Compliance

The Committee shall:

- (a) Review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;
- (b) Ensure oversight for ethics and integrity and preservation of the Corporation's reputation by reviewing management reports on compliance with the

Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a loss or liability to the Corporation;

- (c) Establish a process for: (i) the receipt, retention and treatment of complaints or concerns regarding accounting, internal controls or auditing matters and (ii) the confidential and anonymous submission by the Corporation's employees of concerns regarding questionable accounting or auditing matters; and
- (d) Investigate any allegations that any officer or director of the Corporation, or any other person acting under the direction of such a person, took any action to influence, coerce, manipulate or mislead any person engaged in the performance of an audit of the financial statements of the Corporation and, if such allegations prove to be correct, recommend to the Board appropriate disciplinary action.

Approved by the Board of Directors on February 16, 2023