



**CARIBBEAN UTILITIES COMPANY, LTD.**

**AUDIT COMMITTEE MANDATE**

**March 2, 2006**



## Audit Committee Mandate

Approved by:

Effective date:

Page 1 of 8

### A. DEFINITIONS

In this mandate:

- (a) "Board" means the board of directors of the Corporation;
- (b) "CICA" means the Canadian Institute of Chartered Accountants or any successor body;
- (c) "Committee" means the Audit committee of the Board;
- (d) "Corporation" means Caribbean Utilities Company, Ltd. (CUC);
- (e) "Director" means a member of the Board;
- (f) "External Auditor" means the firm of chartered accountants appointed by the shareholders to act as External Auditor of the Corporation;
- (g) "Financially literate" means having 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 in the Corporation's financial statement;
- (h) "Management" means the senior officers of the Corporation; and
- (i) "Member" means a member of the Committee.

### B. STATEMENT OF POLICY

The Committee shall provide assistance to the Directors in fulfilling their responsibility to the shareholders, potential investors and the investment community generally related to the following oversight responsibilities:

- 1) Integrity of the Corporation's financial statements,
- 2) Corporation's compliance with legal and regulatory requirements, including assistance to the Board in compliance with the Continuous Disclosure Obligation as required by the Canadian Securities Administrators (CSA) rules and policies.
- 3) External Auditor's qualifications and independence, and
- 4) Performance of the Corporation's internal audit function and External Auditors.

The Caribbean Utilities Company, Ltd. (CUC) audit committee focuses on ensuring integrity of financial information, the clarity in reporting and greater transparency in disclosure. In doing so, it is the responsibility of the audit committee to maintain free and open means of communication with the Directors, External Auditor, Internal Auditors and the senior Management of the Corporation.

### C. AUTHORITY

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of the public accounting firm employed by the organization to conduct the annual audit. This firm will report directly to the audit committee.
- Resolve any disagreements between Management and the External Auditor regarding financial reporting.
- Pre-approve all auditing and permitted non-audit services performed by the Corporation's external audit firm.
- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.



## Audit Committee Mandate

Approved by:

Effective date:

Page 2 of 8

- Meet with Management, Internal Auditor, External Auditors, or outside counsel, as necessary.
- The committee may delegate authority to subcommittees, including the authority to preapprove all auditing and permitted non-audit services, providing that such decisions are presented to the full committee at its next scheduled meeting.

### D. ORGANIZATION & COMPOSITION

1. The Committee shall review and reassess the adequacy of the charter annually and recommend any proposed changes to the Nominating and Corporate Governance Committee.
2. The Committee shall be appointed annually by the Board and shall be comprised of three (3) or more Directors:-
  - (a) none of whom is a member of Management or an employee of the Corporation;
  - (b) the majority of whom are independent of Management and free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with their ability to act with a view to the best interest of the Corporation;
  - (c) the Chair and/or Vice Chair of the Board shall be a member of the Committee;
  - (d) every audit committee member must be financially literate.
  - (e) a member shall be appointed Chair of the Committee by the Board.

### E. MEETINGS

1. The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require.
2. Meetings of the Committee shall be held at the call (i) of the Chair of the Committee, or (ii) of any two (2) members, or (iii) of the External Auditor.
3. The President & Chief Executive Officer, the Senior Vice President, Finance & Chief Financial Officer, External Auditor and Internal Auditor shall receive notice of, and (unless otherwise determined by the Chair of the Committee) shall be entitled to attend all meetings of the Committee.
4. A quorum shall be a majority of the Members at any meeting of the Committee.
5. The Committee will meet without Management present if so determined by the Chair of the Committee.
6. The Committee shall meet separately with Management, with Internal Auditors and with External Auditors at least once in each year.
7. The Chair of the Committee shall act as chair of all meetings of the Committee at which the Chair is present. In the absence of the Chair from any meeting of the Committee, the Members present at the meeting shall appoint one of their members to act as Chair of the meeting.
8. The Secretary of the Corporation shall act as secretary of all meetings of the Committee unless otherwise determined by the Chair of the Committee.



## Audit Committee Mandate

Approved by:

Effective date:

Page 3 of 8

9. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

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### F. RESPONSIBILITIES

The committee will carry out the following responsibilities:

#### 1. Financial Statements

- 1.1. Review Management's and the External Auditor's reports of significant accounting and reporting issues and understand their impact on the financial statements. These issues include:
  - a) Complex or unusual transactions and highly judgmental areas.
  - b) Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles.
  - c) The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.
- 1.2. Review analyses prepared by Management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- 1.3. Review with Management and the External Auditors the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the External Auditor's activities or on access to requested information, and any significant disagreements with Management.
- 1.4. To use reasonable efforts to satisfy itself, at least annually, as to the adequacy of the Corporation's accounting personnel and senior financial Management responsible for financial reporting;
- 1.5. Review with Management and the External Auditor any correspondence with regulators and any employee complaints or published reports which raise material issues regarding the Corporation's financial statements or accounting policies;
- 1.6. To meet periodically with Management to review and understand the Corporation's structure, industry risks and major financial exposures of the Corporation. Use reasonable efforts to satisfy itself as to the adequacy and implementation of the Corporation's policies for the Management of the risk related to foreign currency transactions, interest rate fluctuations and the use of derivative financial instruments.
- 1.7. Review the annual audited financial statements and quarterly financial statements with Management and the External Auditors, including the Corporation's disclosures under MD&A and interim earnings press releases before the issuer publicly discloses this information.
- 1.8. The audit committee must be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statement, other than the public disclosure referred to in 1.7



## Audit Committee Mandate

Approved by:

Effective date:

Page 4 of 8

and must periodically assess the adequacy of those procedures.

- 1.9. Review disclosures made by CEO and CFO during the quarterly and annual disclosure certification process about significant deficiencies in the design or operation of internal controls or any fraud or untoward conduct that involves Management or other employees who may or may not have a significant role in the Corporation's internal controls. (CSA MI 52-109)

### **2. Internal Control**

- 2.1. Consider the effectiveness of the Corporation's internal control system, including information technology security and control.
- 2.2. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.

### **3. Internal Audit**

- 3.1. Review with Management and the Internal Auditor the charter, plans, activities, staffing, internal audit reports and organizational structure of the internal audit function.
- 3.2. Ensure there are no unjustified restrictions or limitations on, and review and concur in the appointment, replacement, or dismissal of the Internal Auditor.
- 3.3. Review the assessment of the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing. Engage external quality assessment reviews of the internal audit activity every five years in order for the audit activity to declare that it meets the Standards.
- 3.4. On a regular basis, meet separately with the Internal Auditor to discuss any matters that the committee or internal audit believes should be discussed privately.

### **4. External Audit**

- 4.1. Review the External Auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- 4.2. Review the performance of the External Auditors, and exercise final approval on the appointment or discharge of the Auditors. In performing this review, the committee will:
  - a) At least annually, obtain and review a report by the External Auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the External Auditor's independence) all relationships between the External Auditor and the Corporation.
  - b) Take into account the opinions of Management and Internal Auditor.
  - c) Review and evaluate the lead partner of the External Auditor.
  - d) Present its conclusions with respect to the External Auditor to the Board.



## Audit Committee Mandate

Approved by:

Effective date:

Page 5 of 8

- 4.3. Ensure the rotation of the lead audit partner every five years and other audit partners every seven years, and consider whether there should be regular rotation of the audit firm itself.
- 4.4. Present its conclusions with respect to the External Auditor to the full board.
- 4.5. Set clear hiring policies for employees or former employees of the External Auditors.
- 4.6. On a regular basis, meet separately with the External Auditors to discuss any matters that the committee or Auditors believe should be discussed privately.
- 4.7. The External Auditor should communicate the following with the Committee prior to the completion of the audit:
  - (a) the audit and non-audit services that the External Auditor is providing to the Corporation;
  - (b) the level of responsibility assumed by the External Auditor under generally accepted auditing standards; and
  - (c) a summary of the planned audit approach:
    - i. the general approach to the audit;
    - ii. areas of the financial statements identified by the Auditor, Management or the audit committee as having a high risk of material misstatement and the Auditor's response thereto;
    - iii. the materiality and audit risk levels;
    - iv. the preliminary assessment of internal control, the planned extent of audit work related to internal control and the effect of any control reliance on year-end procedures;
    - v. how matters communicated with the Committee during the planning process affect the planned nature and scope of the audit;
    - vi. the effects of any new developments in accounting standards or regulatory requirements on the entity's financial reporting;
    - vii. planned reliance on other Auditors, how the expectations will be communicated to the other Auditors and how their findings will be communicated to the Committee;
    - viii. use of specialists, if any;
    - ix. the timing of the audit;
    - x. the experience and qualifications of the senior members of the External Auditor team and the quality control procedures of the External Auditor;
    - xi. the External Auditor's engagement letter; and,
    - xii. the estimated External Auditor's fees.
- 4.8. The Committee shall discuss with the External Auditor matters arising out of the audit upon completion of the audit.

The Committee shall be advised on at least the following:

- (a) identification and discussion of audit assurance standards concerning:
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## Audit Committee Mandate

Approved by:

Effective date:

Page 6 of 8

- i. knowledge of any fraud and misstatements arising from error (Section 5135);
  - ii. any illegal or possibly illegal acts (Section 5136);
  - iii. identification of any significant weaknesses in internal control identified by the Auditor (Section 5220); and
  - iv. related party transactions identified by the Auditor which are not in the normal course of operations and which involve significant judgments made by Management concerning measurement or disclosure (Section 6010).
- (b) matters that have a significant and material effect on the accounting principles used in the Corporation's financial reporting;
- i. the selection of and changes in any significant accounting policies;
  - ii. the effect of significant accounting policies in controversial areas or those unique to the industry;
  - iii. the existence of acceptable alternative policies and methods, and the acceptability of the particular policy or method used by Management;
  - iv. the effect on the financial statements of significant unusual transactions;
  - v. the use of accruals, provisions or estimates that have a significant effect upon the financial statements, the reasonableness of significant adjustments and the clarity of the disclosures in the financial statements;
  - vi. the basis for the External Auditor's conclusions regarding the reasonableness of the estimates made by Management;
  - vii. factors affecting the asset and liability carry values and the Auditor's conclusion regarding reasonableness of assumptions made by Management.
- (c) summary of all unadjusted differences and the effect on the financial statements.

- 4.9. To use reasonable efforts to satisfy itself that any litigation, claim or other contingency, including tax assessments, that could have a material effect on the financial position or operating results of the Corporation have been appropriately disclosed in the Corporation's audited financial statements;
- 4.10. Approve the retention of the External Auditor for any non-audit service and the fee for such service;

### 5. Compliance

- 5.1. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of Management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- 5.2. Establish procedures for: (i) The receipt, retention, and treatment of complaints received by the listed issuer regarding accounting, internal accounting controls, or auditing matters; and (ii) The confidential, anonymous submission by employees of the listed issuer of concerns regarding questionable accounting or auditing matters.
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## Audit Committee Mandate

Approved by:

Effective date:

Page 7 of 8

- 5.3. Review the findings of any examinations by regulatory agencies, and any Internal/External Auditor's observations.
- 5.4. Review the process for communicating the code of conduct to Corporation's personnel, and for monitoring compliance therewith.
- 5.5. Obtain regular updates from Management and corporate legal counsel regarding compliance matters.

### 6. Reporting Responsibilities

- 6.1. Regularly report to the board of directors about committee activities and issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the Corporation's External Auditors, and the performance of the internal audit function.
- 6.2. Provide an open avenue of communication between Internal Auditor, the External Auditors, and the board of directors.
- 6.3. Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- 6.4. Review any other reports the company issues that relate to committee responsibilities.

### 7. Whistle-Blower Policy

- 7.1 The Chair of the Audit Committee shall have direction to call a meeting of the Committee to review suspected violations of the Whistle-Blower Policy of the Company, and shall have the authority to engage independence counsel before presenting such violations to the committee.

### 8. Other Responsibilities

- 8.1. To review and report annually to the Board with respect to the expenses of the Chair of the Board and President of the Corporation; and
  - 8.2. Discuss with Management the Corporation's major policies with respect to risk assessment and risk Management.
  - 8.3. Perform other activities related to this mandate as requested by the board of directors.
  - 8.4. Institute and oversee special investigations as needed.
  - 8.5. Review and assess the adequacy of the committee mandate annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
  - 8.6. Confirm annually that all responsibilities outlined in this mandate have been carried out.
  - 8.7. Evaluate the committee's and individual members' performance at least annually.
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