

AUDIT AND FINANCE COMMITTEE CHARTER

Established September 18, 1980

Purposes

Pursuant to Article V, Section 5, of the Authority's By-laws, the purposes of the Audit and Finance Committee are to recommend the hiring of a certified independent auditing firm, including the compensation to be paid, and provide direct oversight of the performance of the independent audit performed; review the annual financial statements of the Authority prior to submission for approval to the Members of the Authority; and may examine and consider such other matters in relation to the internal and external audit of the Authority's accounts, the Authority's financings, and in relation to the financial affairs of the Authority and its accounts as the Audit and Finance Committee may determine to be desirable.

Powers of the Committee

The Committee will:

- recommend appointment, including compensation, and oversee the work, of the independent auditors and, as appropriate, any other public accounting firm employed by the Authority;
- conduct or authorize investigations into any matters within its scope of responsibility;
- seek any information it requires from Authority employees; and
- meet with Authority staff and independent auditors, as necessary.

The Committee shall have sufficient resources to carry out its duties.

Composition of Committee and Selection of Members

The Committee shall be established as set forth in and pursuant to Article V, Section 5, of the Authority's By-laws. The Committee shall be a standing advisory committee of the Authority. The Committee shall have not fewer than three nor more than six Members. The Committee shall consist of not less than three independent Members who shall constitute a majority on the Committee and who shall possess the necessary skills to understand the duties and function of the Committee, provided however, that in the event that there are less than three independent Members, the Members may appoint non-independent Members, provided that the independent Members constitute a majority of the Members of the Committee. In addition, the membership of

the Committee shall include the Chair of the Authority who shall serve ex-officio and who shall enjoy all the rights and privileges of membership, including the right to vote. A majority of the members of the Committee then in office, not including the Chair of the Authority, gathered together in the presence of each other or through the use of videoconferencing, shall constitute a quorum, and the Chair of the Authority if present shall be counted toward a quorum.

The Members of the Authority will appoint the Chair of the Committee.

Committee members shall be familiar with corporate financial and accounting practices and at least one should be a financial expert. The financial expert should have: (a) an understanding of generally accepted accounting principles and financial statements; (b) experience in preparing or auditing financial statements of comparable entities; (c) experience in applying such principles in connection with the accounting for estimates, accruals and reserves; (d) experience with internal accounting controls; and (e) an understanding of audit committee functions.

Meetings

The Committee will meet, as necessary, and special meetings may be called in accordance with the Bylaws. Members of the Committee are expected to attend each committee meeting, in person or by video conference. The Committee may invite other individuals to attend meetings and provide pertinent information, as necessary.

The Committee will meet with the independent auditor at least annually to discuss the financial statements of the Authority.

Notices of meetings will be prepared in accordance with the By-laws and agendas and briefing materials will be prepared and provided to the Committee members. To the extent practicable, briefing materials will be provided to the Committee members not less than 5 business days prior to each meeting. Minutes of each meeting will be maintained in a central location at the Authority's principal office.

Meetings will be conducted in accordance with the open meetings law.

Responsibilities

The Committee will be responsible for reporting on significant material matters related to its: (a) oversight of the independent auditors and financial statements; (b) oversight of internal audit activities; (c) oversight of management's internal controls, compliance, and risk assessment practices; (d) review and approval or recommendations concerning approval of Authority financings; (e) review and recommendations concerning approval of investments and investment activities; (f) oversight of special investigations and whistle blower policies; and (g) review or

oversight of any other issues related to the audit and finance practices of the Authority as it deems appropriate.

Independent Auditors and Financial Statements. The Committee will:

- recommend appointment and approval of compensation and oversee independent auditors retained by the Authority and approve all audit services provided by the independent auditor;
- review the procedures for the selection of the independent auditor to ensure compliance with procurement guidelines, internal controls, and any other applicable requirements. The independent auditors will be prohibited from providing non-audit services unless having received previous written approval from the Committee (Non-audit services include tasks that directly support operations, such as bookkeeping or other services related to the accounting records or financial statements of the Authority, financial information systems design and implementation, appraisal or valuation services, actuarial services, investment banking services, and other tasks that may involve performing management functions or making management decisions);
- review audited financial statements and the associated management letter, and report on internal controls and all other auditor communications;
- review significant accounting and reporting issues, new accounting requirements and understand their impact on the financial statements;
- meet with the independent audit firm and discuss any significant issues that may have surfaced during the course of the audit; and
- review and discuss any significant risks reported in the independent audit findings and recommendations and assess the responsiveness and timeliness of management's follow-up activities.

Internal Audit and Other Activities.

To establish, maintain, and ensure that NYSERDA's internal audit function has sufficient authority to fulfill its duties, the Committee will:

- approve the appointment or removal of the Director of Internal Audit, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards;

- discuss with the Director of Internal Audit and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function;
- ensure that the internal audit function is organizationally independent from operations and that the Director of Internal Audit confirms, at least annually, the organizational independence of the internal audit activity;
- ensure the Director of Internal Audit has unrestricted access to and communicates and interacts directly with the Chairman of the Audit and Finance Committee and to the Board of Directors as necessary, including in private meetings without senior management present. Make appropriate inquiries of senior management and the Director of Internal Audit to determine whether scope or resource limitations exist and to determine whether they are inappropriate;
- participate in discussions with the Director of Internal Audit and senior management about the “essential conditions,” described in the Global Internal Audit Standards, which establishes the foundation that enables an effective internal audit function;
- approve the internal audit function’s charter (attached as Appendix A to the Internal Control Manual), which includes the internal audit mandate and the scope and types of internal audit services;
- review the internal audit charter annually (or as needed) with the Director of Internal Audit to consider changes affecting the organization, such as the employment of a new Director of Internal Audit or changes in the type, severity, and interdependencies of risks to the organization;
- approve the risk-based internal audit plan on an annual basis, and any significant changes as they arise;
- provide input to the internal audit function’s staffing, resources, and budget;
- receive communications from the Director of Internal Audit about the internal audit function including its performance relative to its plan;
- review the results of audit activities and approve procedures for implementing accepted recommendations of the internal auditor;
- review and provide input to senior management on the Director of Internal Audit’s performance;

- ensure a quality assurance and improvement program has been established and periodically reviewed. An independent formal review must occur every 5 years, following the requirements outlined in the Global Internal Audit Standards;
- make appropriate inquiries of senior management and the Director of Internal Audit to determine whether scope or resource limitations exist and to determine whether they are inappropriate; and

review the results of audits performed by the Office of the State Comptroller and any other federal or State agencies, and procedures for implementing accepted recommendations of the audit.

Internal Controls, Compliance, and Risk Assessment Practices. The Committee will:

- review internal controls policies and procedures; and
- review annually management's assessment of the effectiveness of internal controls; and review the report on compliance with internal controls by the independent auditors as a part of the financial audit engagement.

Authority Financings. The Committee will:

- review and approve declarations of intent;
- review Authority financings;
- review and make recommendations concerning proposals for issuance of debt; and
- review and make recommendations concerning approval of an annual bond sale report.

Investment Activities. The Committee will:

- require the Authority's independent auditors to perform a review of, and issue a report on, the Authority's compliance with Section 201.3 of Title Two of the New York Codes, Rules, and Regulations, under *Government Auditing Standards* issued by the Comptroller General of the United States;
- review the quarterly, annual, and any other periodic investment reports, and recommend to the Members of the Authority such changes in the annual investment report as it deems necessary or appropriate; and
- review not less frequently than annually the Investment Guidelines, and recommend to the Members of the Authority such changes in the Investment

Guidelines as it deems necessary or appropriate.

Special Investigations. The Committee will:

- ensure availability of an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest or abuse by the directors, officers, or employees and any persons having business dealings with the Authority, and breaches of internal control;
- review and recommend approval of procedures for the receipt, retention, investigation and referral of complaints concerning accounting, internal controls, and auditing to the appropriate body;
- request and oversee special investigations as needed and refer specific issues to the appropriate body for further investigation; and
- review all reports delivered to it by the Inspector General and serve as a point of contact with the Inspector General.

Other Responsibilities. The Committee will:

- report significant material issues to the Members;
- obtain information and assess training needs to enhance the Committee members' understanding of the role of internal audits and the independent auditor, the risk management process, internal controls, and familiarity with financial reporting standards;
- review the Committee's charter, reassess its adequacy, and recommend proposed changes, as it deems appropriate; and
- review and make recommendations concerning approval of the annual report required by the Public Authorities Law and such other guidelines, policies, procedures, and reports, as deemed appropriate.