

Terms of Reference for an Audit Committee

- 1. Purpose.** The HFHx Audit Committee could be a permanent Committee of the NSC¹. The purpose of the Committee is to help the NSC comply with its supervisory responsibility in relation to (i) the integrity of HFH financial statements and internal accounting and financial control systems; (ii) the performance of the internal auditing role; (iii) the commitment, performance, and independence of HFH's independent external auditors; and (iv) HFH compliance with legal and regulatory requirements. In the case of an NO required by bylaw or national law to have a fiscal committee, it is understood that this fulfills the same role as the Audit Committee described here.

- 2. Membership and composition.** The Audit Committee will be a permanent Committee of the NSC, composed of at least three members of the NSC and Assembly. Each Committee member must be independent and may not be employed by HFH nor related by blood or marriage to any HFH employee. In addition, a Committee member may not be an employee, director, partner, member, trustee or governor of any affiliate, partner organization or company with which HFH maintains a substantial commercial relation or related by blood or marriage to an employee, director, partner, member, trustee or governor of said entity. The head of Internal Auditing will act as personnel liaison with the Committee. All members of the Audit Committee must have financial literacy, as determined by the NSC, and at least one member of the Committee must have accounting or related finance management experience. The Committee's members and chair will be designated by the chair of the NSC and ratified by the Assembly in conformity with bylaws and for periods of one year. The members of the Audit Committee may not simultaneously form part of the Finance Committee.

¹ In some nongovernmental organizations, this body reports to the General Assembly. In such cases, it would be advantageous to consider it functioning as a permanent Committee that interacts with the NSC each time necessary, beyond reporting to the Assembly.

3. Responsibilities

i. Actions of the NSC

- a. Ensure full compliance with bylaws, as well as the agreements and regulations of the Civil Society Organization
- b. Monitor the action of NSC members and compliance with their responsibilities
- c. Submit an annual report to the General Assembly of Members
- d. Participate with voice, but not vote, in sessions of the NSC dealing with matters in which it has a bearing due to its duties

ii. Financial statements and disclosure issues

- a. Review and discuss audited annual financial statements with the administration and independent external auditors
- b. Discuss with independent external auditors matters related to the auditing, including matters such as:
 - New or modified accounting procedures, estimates, judgements, uncertainties or important unusual transactions
 - Issues posed due to any letter of “administration” or “internal control” by auditors
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 - Any significant disagreement with the administration and communications with the audit team regarding complex audit or accounting matters arising from the work
 - Any off-balance sheet transaction and relation with unconsolidated entities or any other person which may have a current or future material effect on the financial situation of HFHx

- c. At least annually, review and discuss with the administration and independent external auditors:
 - The effect of any regulatory and accounting initiative on the financial statements of HFHx
 - Its evaluation and review of HFHx's internal control structure and procedures for presenting financial reports, and the administration's conclusions regarding the effectiveness of those internal controls and procedures
 - d. Inform NSC Committee chairs of any audit result related to their responsibilities
- iii. Supervision of HFHx's relation with independent external auditors
- a. Hire independent external auditors of HFHx and approve in advance all auditing services and others, if applicable, fees and contracting terms in accordance with the relevant guidelines and procedures developed by the Committee. The authority in charge of prior approval may delegate this to one or more Committee members, and it must have been discussed with the Finance Committee. Independent external auditors will report directly to the Committee. The Audit Committee will consult the ND but will not delegate these responsibilities.
 - b. At least annually, review and discuss with the ND and independent external auditors the internal quality control procedures of independent external auditors, quality assurance reviews, any government consultation or investigation related to any of its audits and any relation between the independent external auditors and HFHx.
 - c. Review and discuss the scope and plan of the independent audit
 - d. Evaluate the qualifications, performance and independence of independent external auditors, taking into account the opinions of

the administration and head of Internal Auditing, and report their conclusions and recommendations to the NSC

- e. Review and evaluate the independent external auditor's lead partner, and whether to rotate the lead partner or the accounting firm itself
- f. Recommend a suitable policy on hiring employees or former employees of independent external auditors

iv. Supervision of Internal Auditing

- a. Review and approve the designation and replacement of the head of internal auditing
- b. Review and discuss the internal audit plan and any significant findings
- c. Evaluate the performance and effectiveness of the internal auditing area

v. Evaluation and review

- a. Examine all capital operations, accounting, inventory, bookkeeping, receipts, invoices, securities, and other documents produced while carrying out the activities of the organization's operations
- b. Report to the General Assembly of Members and NSC in a timely manner and in writing regarding irregularities noticed and suggest measures considered essential for correcting the irregularities reported.
- c. Review and evaluate the performance of the Committee itself on an annual basis
- d. Annually review and evaluate the suitability of this bylaw and recommend any proposed change to the NSC for its approval

- e. Review with the ND any legal or regulatory matter important to HFH
 - f. Review with the ND and independent external auditors the main financial risks of HFHx and plan to mitigate them
 - g. Establish and maintain procedures for receiving, retaining and addressing complaints received by HFHx with respect to accounting, internal controls or audit matters and the confidential and anonymous submission of concerns by HFHx employees or employees, officers or directors of affiliates or affiliated organizations regarding questionable accounting or audit issues
 - h. With management and the head of Internal Auditing, review and evaluate HFHx compliance with its code of ethics
4. **Meetings and reports.** It is recommended that the Audit Committee meet at least four times a year. Meeting agendas will be prepared and provided to members beforehand, when possible, along with any informational material. Minutes of the meeting will be recorded, and the chair will inform the NSC of meeting results.
- Periodically, the Committee will meet separately with the administration, the head of Internal Auditing and independent external auditors.
5. **Resources.** With prior authorization from the NSC, the Audit Committee may hire legal, financial, accounting or other type of advisors to support its work. The Committee may request an officer or employee of the organization, or external lawyer or independent auditor, to attend and participate in a meeting as guest, subject to prior coordination with the ND.