



Memorandum

To: ISO Board of Governors

From: Roger Collanton, Vice President, General Counsel and Corporate Secretary

Date: March 8, 2017

Re: **Decision on Audit Committee Charter**

This memorandum requires Board action.

EXECUTIVE SUMMARY

The Audit Committee operates under a charter, approved by the ISO Board of Governors, which establishes the responsibilities and administration of the Audit Committee. In 2010, the Board approved updates to the Charter, including several revisions that granted the Audit Committee certain responsibilities for the oversight of the internal audit function. Upon a recent review of the Charter, discussions with the Director of Internal Audit, and review of the Institute of Internal Auditors' Model Audit Committee Charter, Management determined that the Charter should be revised to better align the Charter with the Model Charter, by expressly providing the committee with specific oversight of the appointment, replacement or dismissal of the Director of Internal Audit, and review of the Director of Internal Audit's performance review and compensation. Management recommends that the Board approve the revised Charter, which further defines and enhances the Committee's oversight responsibilities and reflects current corporate best practice. Management proposes the approval of the revised charter and recommends the following motion:

Moved, that the ISO Board of Governors approves the proposed Audit Committee Charter, as attached to the memorandum dated March 8, 2017.

DISCUSSION AND ANALYSIS

The 2010 revisions to the Audit Committee Charter implemented certain provisions pertaining to internal audit function oversight based upon the Institute of Internal Auditors' Internal Auditing Standards and Guidance and Model Audit Committee Charter. At that time, Management decided to propose approval of all but two of the internal audit oversight provisions from the model charter, both of which related to the Committee's direct oversight of the chief audit executive, at that time the Manager of

Internal Auditing. Specifically, the Model Charter recommends the following two provisions:

- The Committee's review and concurrence in the appointment, replacement, or dismissal of the chief audit executive; and
- The Committee's annual performance review and concurrence with the annual compensation and salary adjustment of the chief audit executive.

In 2016, the Director of Internal Audit conducted benchmarking activities regarding the internal audit function, including a review of Audit Committee Charter best practices. That review revealed that other ISOs and RTOs had adopted audit committee charters with oversight provisions similar to the ISO's charter, but they also included the additional provisions from the Model Charter that Management now proposes. Based on this survey and the recommendations of the Director of Internal Audit and FERC audit staff, Management recommends Board approval of the attached Audit Committee Charter as described in this memorandum. Both redline and clean copies of the proposed Charter are attached.

CONCLUSION

Management recommends the Board approve the proposed Audit Committee Charter, as detailed above.