Professional Engineers
Ontario

Meeting Minutes

2017/2018 Audit Committee, Meeting No. 2, October 19, 2017

Meeting Minutes issued (after feedback from Chair and Vice-Chair): November 13, 2017

Held at: Professional Engineers Ontario (PEO) office boardroom 1C, 40 Sheppard Avenue West, North York, Ontario

In attendance:

Audit Committee Members:
Ishwar Bhatia, M.Eng., P.Eng., Eastern Regional Councillor, Vice-Chair Audit Committee
Thomas Chong, M.Sc., P.Eng., FEC, FCAE, PMP, East Central Regional Councillor

Nancy Hill, P.Eng., L.L.B., FEC, FCAE**,** Vice President elected (by tele-conference, left the meeting at approximately 6:09 pm.)

Dan Preley, P.Eng., Northern Regional Councillor, Chair Audit Committee
Kelly Reid, P.Eng., IACCM, CCMP, Councillor-at-Large (arrived at approximately 5:54 p.m.)

Staff: Chetan Mehta, MS, MBA, Director, Finance
Peter Cowherd, CMA, CPA, Manager, Financial Services & Procurement
Lucy Capriotti, Administrative Assistant

Guests: Steve Stewart, CPA, CA, Partner, Deloitte LLP (part time attendance)

Regrets: Gerard McDonald, MBA, P.Eng., Registrar
Fern Goncalves, CHRL, Director – People Development
Ed Nelimarkka, MBA, BESc., P.Eng.
Craig Young, P.Eng., CPA, CMA

The meeting was called to order at 5:00 p.m. by Chair D. Preley.

2.1 Approval of the Meeting Agenda

D. Preley asked the committee members if they had any suggestions for changes to the meeting agenda. The committee members agreed there was none and agreed that a motion be passed to that effect.

MOTION

That the agenda be approved as presented.

Moved by I. Bhatia and seconded by N. Hill.

MOTION CARRIED

2.2 Review of Minutes from July 13, 2017 Meeting

D. Preley thanked staff for preparing and reviewing the minutes for the July 13, 2017 meeting and asked whether the minutes had been approved by the other committee members via the Doodle poll that was sent by staff.

C. Mehta clarified that all members had not confirmed their approval of the minutes via the Doodle poll. Subsequently, the minutes of the meeting from July 13, 2017 were briefly reviewed and approved by the committee members. A motion was passed to the effect.

MOTION

That the Minutes of the Audit Committee meeting held on July 13, 2017 be approved.

Moved by D. Preley and seconded by K. Reid.

MOTION CARRIED

2.3 Business arising from the July 13, 2017 Meeting Minutes

D. Preley asked the committee members if they had anything to add about business arising from the Minutes. The committee members affirmed that they had nothing to add.

2.4 Presentation of 2017 Audit Service Plan

S. Stewart gave a presentation to the Audit Committee members regarding the 2017 Audit Service Plan for the period ending December 31, 2017 that had been sent to the committee a week before. He began by providing an overview of the audit scope and terms of engagement. He indicated that Deloitte would be performing an audit of the financial statements of the PEO, the CAM (Common Area Maintenance) PEO's building at 40 Sheppard Avenue West and the financial statements of PEO's pension fund.

These financial statements would be prepared by management in accordance with the Accounting Standards for Not-for-Profit Organizations (ANSPOs).

S. Stewart clarified that these audits would be conducted in accordance with Generally Accepted Auditing Standards (GAAS). He advised that the current dates planned for the interim audit were the week of December 11, 2017 and that the year-end field work was scheduled for the week for February 5, 2018 with the latter date being scheduled for the audit of the financial statements of the PEO and CAM financial statements. The date of April 2, 2018 had been scheduled for conducting the audit of the pension plan statements. He went on to add that preparation of the financial statements was the responsibility of management and it was his job as PEO’s auditor to express an opinion on whether these statements are free from material misstatements. He also stated that during the course of the audit, Deloitte would review and test some but not all controls that are relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

S. Stewart then proceeded to talk about the threshold for materiality in the audit and the areas for audit risks. He went on to clarify that the level or threshold for materiality was based on professional judgement and the level that Deloitte would be using is 3% of the total revenue for the PEO, 3% of actual expenses for the Common Area Maintenance cost statements and 1% of the net assets available for the benefits for the pension fund. S. Stewart then went on to say that Deloitte would inform the committee of all misstatements greater than 5% of the materiality threshold and any other misstatements which in his opinion was qualitatively material. He clarified that Deloitte would advise the committee of any errors they find during the audit regardless of how small the error is.

S. Stewart then spoke about the areas of audit risks that could result in misstatements or errors in the financial statements and some of the strategies that Deloitte would adopt to assess these risks. For fraud risk, S. Stewart said that Deloitte will talk directly to staff involved in the financial reporting process to make inquiries about any inappropriate or unusual activity. In addition, they will test several journal entries and adjustments made at the end of the reporting period. They will also make sure to adopt an element of unpredictability in selecting their audit procedures so that staff would not have any forewarning of what is going to be audited.

S. Stewart went on to add that in case Deloitte were to have any suspicion of fraud then they would immediately notify the Audit Committee and discuss the nature, timing and extent of audit procedures necessary to complete the audits.

T. Chong asked S. Stewart if he could provide the committee with a list of internal controls that PEO had along with information on the areas of risk that these controls were intended to mitigate. S. Stewart indicated this information could be provided by staff but said he would send staff a template that could be used to present this information to the members of the Audit Committee. S. Stewart also agreed to send the latest Deloitte booklet on governance practices for an effective “Not-for-Profit Board.

C. Mehta confirmed that PEO had several control policies such as the expense reimbursement policy, the procurement policy, etc. and that he would send this list to the committee members once he received this template from S. Stewart.

ACTION ITEM 2.4a: Finance to provide a list of internal controls in point form with information on risks these controls are expected to mitigate.

ACTION ITEM 2.4b: Finance to send the latest booklet by Deloitte on governance practices for an effective Not-for-Profit Board.

S. Stewart then asked the committee members if they had any concerns or if there were any areas such as procurement, staff expenses, volunteer expenses, etc. the committee members wished to have audited more thoroughly and in detail. The committee members responded that they had no such requests.

For accrued liabilities, S. Stewart said that Deloitte would determine the reasonableness of accruals involving a significant amount of management estimates such as Accounts Payable and Accounts Receivable. For this, Deloitte would test disbursements subsequent to year end to determine the reasonableness of accrued liabilities; assess the reasonableness of the underlying assumptions and compare the prior year estimates to the current year estimates.

For revenue, deferred revenue and contributions, S. Stewart said that Deloitte would assess the status of balances for the current and prior year along with the amount that was recognized as current year revenue and the amount that is deferred to see whether these have been correctly recorded. S. Stewart went on to add that for PEO, since a large part of its revenues was membership revenue, it was possible for Deloitte to check these figures in a fairly high level of detail.

S. Stewart then went on to speak about Appendix 3 in the presentation on changes in the audit standards to the wording of the auditor's report or opinion which is provided by an auditor after the conclusion of an audit. The current format of the audit report has five paragraphs. One paragraph on the scope of the audit, one paragraph on management's responsibility, two paragraphs on the auditor's responsibility and the final paragraph for the audit opinion. The new standard on the audit report which will come into effect in 2018 will modify this current presentation of the auditor's report in which the audit opinion will come first. In the paragraph on the auditor's responsibility, there would be additional wording on going concern issues in some cases but this will not be applicable to PEO. The biggest change is the inclusion of a section called "Communicating Key Audit Matters". For all public companies, auditors will now have to disclose in this section in the opinion areas that they felt were key audit issues and areas of significant risk and how they dealt with these risks. S. Stewart clarified that this requirement will not apply to PEO.

T. Chong asked S. Stewart whether it was acceptable from an audit perspective to have budget monies moved from one category to another as this issue had been pointed out during the last Council meeting in September. S. Stewart said that this was quite common and not an issue as long as the major category or classification of the expense type remained unchanged. He pointed out that it would be a problem if for example surplus budget monies for salaries and benefits were misclassified and moved to a category for office supplies to cover an over spend for this item.

C. Mehta clarified that the issue raised at Council was not a misclassification or a re-classification of a spend category and but a centralization of mobile phone expenses in the Information Technology department to allow for better tracking of the amount spent on mobile phones. Given that PEO is not a large organization and few senior staff had PEO supplied mobile phones, it made sense to centralize this item. C. Mehta also clarified that this change for centralization was being proposed for the 2018 draft budget for which Council approval is necessary.

S. Stewart then went on to say that he had covered the key areas of the Audit Service Plan and that overall, this plan is consistent with what Deloitte had done the last year. He went on to add that based on his experience, he expected the audit to go smoothly and if there are any issues along the way, the Audit Committee will be intimated immediately. In addition, S. Stewart added that he would be presenting his audit findings to the committee once the audit is completed.

The Audit Committee then took take a fifteen-minute break commencing at 6:20 p.m.

2.5 Training Session by Steve Stewart from Deloitte

S. Stewart began the training session by elaborating on the roles and accountabilities of the Audit Committee. The handout prepared by Deloitte and which was included in the Audit Committee package was used as the reference material during this session. Referring to slide 1, he stated that while the actual responsibilities of the Audit Committee would be governed by its term of reference, this slide showed the generic roles and responsibilities of an Audit Committee. There are five key areas that fall within the ambit of the responsibilities of an Audit Committee.

1) Financial Reporting Process – Here, the Audit Committee is required to ensure that financial statements are prepared annually and that these get audited by an external auditor.

2) Internal Controls – These are controls the Audit Committee oversees. S. Stewart clarified that it was not the job of the Audit Committee to enforce internal controls but it is the job of the committee to hire capable people who could do this and to ensure that the relevant control policies and procedure are in place. The Audit Committee has a

governance or an oversight role to ensure there are controls are in place. He added that as PEO's auditor, he can give assurance that some internal controls were in place to the extent that he looks at those controls for an audit but apart from these, there are several other controls for both financial related and non-financial related matters that the auditor does not look at. It is necessary that the Audit Committee ensures that all such controls are in place.

3) External Auditor – For this function, the Audit Committee is responsible for appointing the auditor, assessing the auditor's performance and meeting with the auditor in relation to the audit, etc.

4) Compliance Matters – For this function, the Audit Committee needs to ensure that the relevant statutory filings such as payroll remittances, Harmonized Sales Tax and Goods and Services Tax, Not-for-Profit Organizations income tax return, etc. are being filed with the relevant regulatory authorities every year in a timely manner. S. Stewart stated that Deloitte will specifically report back to the Audit Committee on key compliance matters they are aware of and come across during an audit. Typically, the Audit Committee is expected to inquire of management annually whether they are following the relevant regulatory requirements and meeting filing deadlines.

5) Risk Management – S. Stewart stated that this can be an in-depth topic but at the Audit Committee level, risk management is focused on financial risks i.e. what are the financial risks to the organization, how are these risks being mitigated, how are these risks being identified, etc. S. Stewart advised there are risks beyond financial risks that may or may not fall within the purview of the Audit Committee and in some cases, may be the responsibility of a Risk Committee. He added that he would recommend that each organization should have an active risk management program in place and this could be done internally or with the help of an external company.

S. Stewart indicated that the auditor is required to review all in-camera PEO meeting minutes. Deloitte keeps all audit working papers and files for 8 years.

K. Reid asked C. Mehta what the PEO had in place for compliance and risk management. C. Mehta stated that as an example for compliance management for the financial statements, every year staff files an information return and a tax return with the Canada Revenue Agency (CRA). Once the filing has been done, PEO receives confirmation from the CRA for the information return and a notice of assessment for the tax return. Each year, these documents are shared with the auditor when they come in for the year-end audit. The auditor will report back to the Audit Committee in case these filings were not done.

K. Reid asked S. Stewart if there was anything else that PEO should be looking at. S. Stewart said that beyond the tax return and information for the financial statements, there would be some filings for the pension plan as well. He clarified that as PEO's auditor, he would not be familiar with any other filings that may or may not be mandated in the Professional Engineers Act and that PEO's legal team should be aware of such filings. He clarified that typically, such other statutory filings would typically not be the responsibility of the Audit Committee but some body in the organization must make sure that these other filings are filed in a timely manner with the relevant statutory bodies.

I. Bhatia stated that PEO was experiencing some human resource issues which had led to an application backlog and some process inefficiencies in the organization. He asked S. Stewart whether the Audit Committee had a role to play in these issues. S. Stewart said that these issues did not fall within the purview of the Audit Committee.

K. Reid asked that from a risk management perspective, what were the biggest risks facing PEO. S. Stewart said that in his opinion the biggest risk facing PEO was reputation risk - i.e. PEO does something and it's in the news for the wrong reasons that lead to an erosion of the public's confidence. Another area of risk was the ownership of the building as PEO was generating rental revenue from it. CRA could take the position as a regulatory body. PEO should be billing members for the services it is legislated to do and not collect rental revenues. And in theory, CRA could revoke PEO's not-for-profit status and treat it as for-profit for having a revenue stream that has nothing to do with its legislated mandate. The other risk was that CRA not only starts taxing the building surplus but PEO's entire surplus. S. Stewart added that based on the conversations he has had with his colleagues; the risk of this happening was low for now. He also added that PEO had not been making any profit on the building over the past few years.

D. Preley asked C. Mehta what was being done for finance related matters to ensure that staff had the relevant training and up to date knowledge on internal controls, audit functions, compliance and other matters. C. Mehta stated that staff remained in regular touch with the auditor for inputs on best practices. In addition, staff made sure that they receive regular updates from Chartered Professional Accountants Ontario.

S. Stewart then proceeded to guide the committee members through the roles and responsibilities of the key entities involved in the financial reporting and auditing process: The Audit Committee, PEO management and the external auditor.

K. Reid asked if Deloitte had made any audit observations, actions or recommendations during the prior years. S. Stewart stated that there have been no such findings over the past several years.

S. Stewart then proceeded to talk about the objective of an external audit which was to have an auditor express an opinion on the balance sheet, the statement of revenue and expenses, the statement of cash flows and the summary of significant accounting policies and other explanatory information. He went on add that the audit is conducted in accordance with GAAS.

As part of its responsibilities, the Audit Committee must review the experience of the lead partner and senior members of the audit team and assess their qualifications. In addition, the Audit Committee is also required to discuss and review the independence of the auditor, the proposed audit plan and inquire as to whether management has placed any restrictions during an audit. S. Stewart then briefly spoke about the concepts of materiality and fraud and added that he had spoken extensively about this while speaking on the audit plan.

S. Stewart then spoke about the responsibilities of an external auditor related to internal controls. He stated that the audit standards require that the auditor look at internal controls that are relevant to the preparation and fair presentation of the financial statements and as a risk assessment tool. Any internal control deficiencies identified during an audit must be communicated with the Audit Committee.

S. Stewart then went on to speak about the elements of Audit Committee effectiveness. He stated that it was important to have the right people on the Audit Committee. While it is good to have an accountant on the Audit Committee, it is not a requirement. It is also important that the Audit Committee receives relevant information on a timely basis and that there are good processes in place. S. Stewart added based on his experience, he was satisfied that there were good processes in place at PEO.

S. Stewart said that it was a good practice to have a work plan in place and have the Audit Committee hold itself accountable by measuring what it did or did not do as outlined in the work plan.

S. Stewart then walked the committee members through the key components of the roles and responsibilities of the Audit committee. He then proceeded to talk about the attributes of an effective committee chair. He stated that in his experience, some committee chairs were overbearing and intimidating to the point that other members did not feel like talking whereas some committee chairs are weak to the point that they are unable to control the other members during a meeting. S. Stewart added that it was important to achieve a balance such that Audit Committee meetings proceeded smoothly and all committee members have a chance to voice their thoughts without straying off the agenda. He added that over the past several years, he has noticed a significant improvement in the quality of the Audit Committees at PEO.

After this overview, S. Stewart concluded the training session. D. Preley and the other committee members thanked S. Stewart for his time.

S. Stewart left the meeting at around 7pm.

2.6 Review of Expense Reimbursement Policy Draft

D. Preley thanked staff for their work on the research on the expense policies of other organizations and asked C. Mehta to provide an overview of the changes made in the draft PEO expense policy that was presented to the Audit Committee.

C. Mehta stated that the changes to the draft policy which was being presented to the committee for review had been made after reviewing the expense policies for the following 5 organizations: Association of Professional Engineers and Geoscientists of Alberta, Association of Professional Engineers and Geoscientists of British Columbia, Engineers Canada, l'Ordre des Ingénieurs du Québec and the Province of Ontario. Changes had also been made based on the feedback received from various other stakeholders such the management team, Chapters and volunteers (through their staff advisors). He clarified that additional feedback will be sought from the Finance Committee and the Advisory Committee on Volunteers as well, and hence, the draft was likely to be revised. Additional feedback from other stakeholders will be incorporated in this document which will then be presented to the Audit Committee for its feedback before the draft policy is presented to Council for approval sometime early next year.

C. Mehta indicated that one proposed change to the draft policy was the prohibition of alcohol for all committee meetings except for certain hosted events like the Annual General Meeting (AGM), Council retreat, Council meetings or in situations where prior approval from the Registrar has been obtained. He added that it was important to have some flexibility in the policy to allow for such exceptions as it was highly unlikely that alcohol can be eliminated from all events. He also clarified that except for the Province of Ontario, none of the other organizations whose policies had been reviewed prohibits the consumption of alcohol.

D. Preley added that it may be a conflict of interest to have alcohol served at Council meetings. C. Mehta clarified that the suggestions made in this draft could be revised at any time and that the Audit Committee could make any revisions it deems as fit and appropriate as this is one of the several key control policies over which the Audit Committee has a say.
The committee members agreed to review the changes to the policy document on page by page basis.

On Page 2 - K. Reid indicated that the following last sentence on page 2 of the draft expense reimbursement policy in the last paragraph has been repeated and needs to be deleted – "***Council, PEO committees/task force meetings or PEO training sessions, conferences or workshops***."

On Page 4 – K. Reid had a question why were the words "***include receipts"*** deleted. C. Mehta clarified that for the organizations whose expense policies had been reviewed, some had a policy such that there was no need for an itemized receipt if the amount spend for meals was under a certain threshold. Itemized receipts were only required if meal claims were made up to the permitted maximum amount.

K. Reid stated that itemized meal receipts should be provided for all claims. D. Preley added that there could be different points of view and that at his prior place of work the elimination of receipts had led to a great simplification in the reimbursement process. D. Preley then asked the committee members for their thoughts on retaining or eliminating meal receipts.

K. Reid stated that from the perspective of the membership, it would be a good idea to retain the requirement for itemized meal receipts as otherwise it could lead to a perception that PEO was not managing its finances well.

D. Preley asked whether the administrative burden involved in checking and tabulating meal receipts outweighed the benefits. C. Mehta responded by stating for staff, this issue has been greatly simplified as all staff was now required to use Certify, the online expense tool. This tool had inbuilt functionalities that could detect duplicates, automatically read and populate fields, etc. This level of automation had to some extent reduced the administrative workload associated with checking meal receipts. However, since the use of Certify was not mandatory for volunteers, checking and verifying meal receipts could sometimes take time.

D. Preley asked what was the likelihood an increase in expenses by way of people claiming the maximum amount if meal receipts were eliminated. C. Mehta stated that it was quite possible that eliminating receipts could lead to people claiming the maximum amount as there had been instances in the past wherein suggestions had been made for an increase in the current allowance for meals.

K. Reid suggested putting this requirement for meal receipts could be put out as an option to council for discussion and decision with a listing of the pros and cons.

ACTION ITEM 2.6a: Finance to provide the pros and cons on requirement for itemized meal receipts.

On Page 7 – K. Reid inquired about the inclusion of the following sentence "***For the Registrar, appeals shall be submitted to the President-elect and Past President for decision***" in the APPEAL PROCEDURES section. C. Mehta clarified that the current version of the policy has no such direction and this clause was included to deal with this situation in case it was to arise.

K. Reid inquired about the inclusion of the words *"**except for Annual General Meeting (AGM)***" for Air travel insurance coverage in the NON-REIMBURSABLE EXPENSES section.

C. Mehta stated that this input had been provided by the volunteer management team and he would speak to them to find out the rationale for this change.

K. Reid requested that a cost-benefit analysis be done on current air-fare and cancellations costs for both the AGM and the Ontario Professional Engineers Awards (OPEA) Gala to assess the merits of including this clause. C. Mehta stated that he would check some historical spend data and report back to the committee.

ACTION ITEM 2.6b: Finance to provide rationale for the inclusion of the words "except for AGM" and cost benefit analysis for air-fare with and without air travel insurance for AGM and the OPEA gala.

On Page 9 – K. Reid suggested that for travel by other than economy class for Train or Bus Travel should also have the same exception as that for air travel.

For Rental vehicle usage, the second bullet be replaced with the following sentence: "***Only mid-sized vehicles are permitted unless there is a group of more than four people or there is a need to carry material/equipment for meeting set-up."***

On Page 14 - Appendix C: K. Reid stated that in cases where more than one meal was consumed in a day, she agreed that the amount spend on an individual meal could be exceeded if the total aggregate spend on meals was less than or equal to the total spend permitted for meals in a day and if itemized receipts were submitted.

K. Reid added that any increase in amounts for meals would need to go to Council for approval along with the rationale for an increase.

D. Preley stated that he did not agree with including the section on receipt less reimbursement for meals as it was punitive and based on his experience, it was rare for such an event to occur. And if such a situation did arise then the person can be reimbursed for the full amount he/she spent on the meal if an explanation is submitted and such an occurrence is not a frequent event. All the committee members agreed with this suggestion and asked that this section on reimbursement of receipt-less meals be removed.

K. Reid requested that a rationale be provided for the inclusion of the 100km radius requirement for the reimbursement of en-route meals.

ACTION ITEM 2.6c: Finance to provide a rational for inclusion of 100km radius requirement for the reimbursement of en-route meals.

Page 15 Appendix D: Other/Miscellaneous Expense Reimbursement
K. Reid asked what was a “reasonable” length for a long-distance call within Canada. C. Mehta said this was open to discussion. K. Reid stated that an hour was reasonable and that there needed to be some clarity on the distinction between a personal phone call which could be for up to an hour. However, if the call was for PEO business then the limit of one hour should not apply.

For taxis, K. Reid suggested that a gratuity of 10% be permitted and the allowance for tips, porter/hotel room services be restricted to a maximum $10/day.

For Child care or care giver expenses – K. Reid suggested that the following sentence replace the current sentence ***“Child care or care giver expenses for PEO volunteers***

(not partners or spouses) participating on committees to attend PEO functions and meetings shall be reimbursed up to a limit of $1,500 per annum. The reimbursement request must be supported by a signed receipt or a contact phone number. The caregiver cannot be a family member."

On Page 16 – K. Reid asked why the following sentence was deleted ***"Prior approval for such meetings or event must be approved by the President for the Registrar and by the President-elect for the President."***

C. Mehta replied that this was to allow more flexibility to the President and Registrar for hosting guests especially when they are travelling on PEO business.

K. Reid said that there should be control for the amount spend on this item and the approval authority could be extended to additional people. D. Preley and the other committee members concurred with this suggestion.

On Page 19 – Meal Expenses. K. Reid inquired why was reimbursement for non-group meals changed to non-reimbursable. C. Mehta said that he would inquire and report back to the committee.

ACTION ITEM 2.6d: Finance to provide a rational for reimbursement for non-group meals changed to non- reimbursable.

D. Preley asked if PEO still issued checks for expense reimbursements. C. Mehta stated that reimbursement via Electronic Fund Transfer EFT was mandatory for staff but not for volunteers and there were still some volunteers who were being reimbursed by check.

D. Preley suggested making reimbursement of expenses by EFT mandatory across the board for both staff and volunteers. The committee members agreed that this would be a good idea and that exceptions be allowed for those volunteers who are unwilling or not comfortable to sign up.

2.7 Other business

The members agreed that there was no further discussion for other business.

2.8 Next Meeting Date

A Doodle Poll will be sent out for the next meeting which will take place sometime in February or March, 2018 depending on the availability of S. Stewart from Deloitte. The Finance Committee will be invited to the meeting.

2.9 Adjournment

D. Preley thanked the staff and committee members for attending the meeting and their active participation.

The members agreed to adjourn the meeting at 8:30 p.m.

The audio of the Meeting was digitally recorded.

Meetings Minutes: Prepared by: Lucy Capriotti
Reviewed by: Chetan Mehta, Dan Preley, Ishwar Bhatia

Attachments: 2017 Audit Service Plan, October 12, 2017
Deloitte Training Handout, PEO Audit Committee, October 19, 2017
PEO Expense Reimbursement Policy, with draft revisions

cc: Meeting Attendees
Audit Committee
Gerard McDonald, MBA, P.Eng., Registrar