



Minutes

2017/2018 Audit Committee Meeting No. 4 on April 17, 2018

Meeting Minutes issued:

Minutes of a meeting of the Audit Committee (AUC) held at the Professional Engineers Ontario office boardroom 1C, 40 Sheppard Avenue West, North York, Ontario, on April 17, 2018 commencing at 6:00 pm.

In attendance:

Audit Committee Members:

Chair: Dan Preley, P.Eng., Northern Region Councillor

Vice-Chair: Ishwar Bhatia, M.Eng., P.Eng., Eastern Region Councillor (via conference)

Nancy Hill, P.Eng., LLB, FEC, FCAE, Vice President (elected)
Kelly Reid, P.Eng. IACCM CCMP, Councillor-at-Large

Staff: Johnny Zuccon, P.Eng., Interim Registrar (Staff)
Olivera Tasic, CHRP, Acting Director, People Development (For F. Goncalves, Pension Plan Administrator)
Chetan Mehta, MS, MBA, Director, Finance
Lucy Capriotti, Administrative Assistant

Guests: Steve Stewart, CPA, CA (Deloitte)

Regrets: Fern Goncalves, CHRL, Director – People Development (Pension Plan Administrator)
Scott Clark, L.L.B., FEC, Chief Administrative Officer
Craig Young, P.Eng., CPA, CMA
Ed Nelimarkka, MBA, BEd, P.Eng.
Thomas Chong, M.Sc., P.Eng., FEC, FCAE, PMP, East Central Region Councillor

Audit Committee Items

The meeting was called to order by D. Preley at 6:00 pm and the agenda was presented to the members for feedback. The members unanimously agreed that the agenda be approved and a motion was passed to the effect.

1. Approval of Agenda

That the agenda as presented be approved.

MOTION

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

MOTION CARRIED

2. Approval of the joint AUC and FIC Minutes from March 6, 2018

D. Preley asked the AUC members if they had any additional comments. K. Reid asked to add a table showing action items from the AUC minutes of October 19, 2017 along with the items identified during the meeting on March 6, 2018.

D. Preley added that in the interest of continuity for the new AUC members, it would be good practice to have these items documented as part of the AUC work plan.

After some additional discussion, the committee members agreed that they had no additional feedback and unanimously agreed to approve the minutes as presented. A motion was passed to the effect.

MOTION

That the Minutes of the March 6, 2018 meeting as presented be approved.

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

MOTION CARRIED

3. Business arising from the Minutes

K. Reid inquired whether a status update had been provided on the action items identified during the AUC on October 19, 2017

C. Mehta clarified that deliverables identified as action items in the prior

AUC meetings were being tracked and an updated report was sent to the Chair and Vice-Chair prior to the last AUC meeting on March 6, 2018. He clarified that he would be happy to provide updates on any additional items the members may request. K. Reid stated that she would provide these action items. C. Mehta said that he would include these action items along with the earlier updates in the draft minutes for this current AUC meeting.

4. Audit report on 2017 Pension Plan Statements (presented by S. Stewart)

S. Stewart commenced with his presentation regarding The Fund of the Pension Plan for Employees of the Association of Professional Engineers of Ontario, Report to AUC on the 2017 Audit (attached). S. Stewart began by clarifying to the committee members that as PEO's auditor Deloitte's job was to audit the pension fund financial statements in accordance with Canadian auditing standards. He added that it was management's responsibility to prepare these statements. Since Deloitte is not responsible for any investment decisions of the pension fund and he clarified that he could not answer any questions related to investment decisions for the plan.

S. Stewart went on to say that the Financial statements of The Fund of the Pension Plan for Employees of the Association Professional Engineers of Ontario (Ontario Registration Number 0217117) (attached) audited by Deloitte are not complete financial statements but those of the pension fund only with no details on the pension liabilities. These statements were prepared in this format to comply with FSCO (The Financial Service Commission of Ontario) requirements according to which an annual statement of the fund has been prepared by management in this format, audited and filed with them (i.e. FSCO).

S. Stewart requested the committee members to refer to the year-end communication provided by Deloitte and pointed out that this was very similar to the communication sent to the committee for the year-end audit and which is why he would only walk them through the key parts. He said that unlike the audit opinion for the year-end financial statements, the audit opinion for the pension fund financial statements specifically states that these are for specific users (i.e. FSCO and plan administrator) and no other parties.

He added that due to scheduling issues at their end (i.e. Deloitte's), this audit was conducted slightly later than he would have liked. However, except for a few formalities, all the audit work had now been completed. Once Deloitte receives the signed management representation letter from PEO and final approval of the draft statements, they would be able to issue the financial statements. S. Stewart pointed out that the pension fund statements need to be signed and approved by the pension plan administrator and that approval by either a board member or the AUC was not necessary. He also added that the management representation letter had to be signed and sent to Deloitte before they could issue a final opinion.

S. Stewart added that there were no errors or issues encountered during the audit and they (i.e. Deloitte) are comfortable with the disclosures in the financial statements. The notes to the statements are basic and relate to the investments. Deloitte have confirmed with the custodian of the funds, Royal Bank of Canada the investment that the fund holds, some testing was done on those numbers to test their value to make sure the fair values of the investment have been reported correctly. S. Stewart then proceeded to walk the committee members through the financials and indicated that he would like to draw their attention to Note 8. There are two ways actuaries value pension funds. One is called a going concern basis and the other is a solvency basis. The going concerned basis presumes that the fund will carry on in the future and be a never-ending exercise. The solvency basis shows what would be owed if the pension plan was wrapped up today and PEO had to payout the plan participant what they were owed. On a going concerned basis PEO is in a surplus position whereas on a solvency basis as of January 1, 2017 the plan is in a deficiency of approximately five million dollars. Since FSCO uses the valuation on solvency basis to determine whether additional contributions to the fund are required, there is a requirement that PEO make additional payments to get out of the solvency situation. Item 8 Actuarial valuation in the Financial Statements indicates that the minimum annual special payments would be \$982,900 from January 1, 2019 to end of 2023. S. Stewart pointed out that these figures were based on the valuation that was done as January 1, 2017

and it is quite possible that these figures could change based on the results of the next valuation which was to be conducted as of January 1, 2018.

N. Hill asked why we are in this situation. S. Stewart explained that the last evaluation for solvency purposes was done January 1, 2017 and the results of that valuation would depend on the markets at that time and the investments PEO had then. If the markets did not do well then, the fair value of PEO's investments will drop and this will be one factor contributing to the results but this is not unusual.

S. Stewart then clarified that he was not an actuary or an actuarial expert and that it may be a good idea for the committee to meet with the actuary to walk the committee through how they arrived at the numbers. For specifics on the performance of the pension portfolio, the committee members could talk to the Investment Sub-committee and fund manager as well.

D. Preley stated that the committee members needed a simplified explanation of what has happened and where we are heading with the actuarial valuations.

N. Hill asked S. Stewart if the committee members should be concerned about the actuarial assumptions. S. Stewart said he would be less concerned about the assumptions but some of the questions that the actuary should be asked are:

- 1) When is the 2018 solvency evaluation being done?
- 2) When will we know the results?
- 3) What is the plan to handle the \$982,900 minimum annual special payments from January 1, 2019 to end of 2023?
- 4) What is the long-range forecast on the valuation?

S. Stewart suggested that another question the Audit Committee could ask the actuary are whether there are any alternatives to deal with this deficiency. There are options to deal with these funding requirements and he would presume that F. Goncalves who is pension plan administrator is aware of these options as well the

Investment Sub-committee is aware of these and that somebody has explored these and conclude for the benefit of PEO as to what the best course of action would be.

K. Reid and the other committee members agreed that it would be a good idea to have a joint meeting of the Audit Committee, Finance Committee, Investment Sub-committee, actuary and the fund manager to address the questions the committee members have.

K. Reid and I. Bhatia suggested that the committee members can send out a list of questions in advance to the actuary and the fund manager so they can come prepared to answer questions.

N. Hill said that a new Audit Committee would be voted on at the end of the week and that it is important to have an action item for a joint meeting to be carried forward. She added that it is possible that the Investment Sub-committee may already have answers to these questions.

C. Mehta clarified that there was no discussion about any actuarial valuation held at the last Investment Sub-committee meeting. This meeting was focused on discussions of the performance of the operating and pension fund investment portfolios with the respective fund managers from Scotia Asset Management and Mackenzie Investments.

D. Preley asked S. Stewart if it would be possible to have the audit of the pension fund be completed sooner in time for the joint Audit and Finance Committee meetings when the draft audited financial statements and audit are presented to the Audit Committee for approval. S. Stewart replied that prior to completing this audit (i.e. the audit of the pension fund) Deloitte requires investment information which then is used for sensitivity analyses and other protocols all of which take time and this is why the pension fund audit is typically done after the audit of the financial statement which need to be completed earlier since these statements need to be approved by Council in March prior to the AGM unlike the statements

for the pension fund which only require approval from the pension plan administrator (i.e. Fern).

K. Reid said that it is important to get an update on the January 1, 2018 valuation and then to have a joint meeting with the actuary and fund manager and then have an update provided to Council once the committee members had a better understanding of the valuations and when these are necessary.

C. Mehta provided an overview of his understanding of the funding actuarial valuation timing to the committee and said that a funding valuation was held once every three years if certain criteria for the pension plan assets and liabilities were met and that it became necessary to have a valuation each year certain ratios fell below a threshold. He added that it was his understanding that for the 2017 valuation, there was a deterioration in some criteria which has led to the need for an additional valuation as of January 1, 2018. C. Mehta further clarified that his information on this topic was limited he was not privy to any additional information on these funding valuations as operational responsibility for the management of the pension plan fell under the purview of the Payroll and Benefits team which was part of the Corporate Services Department. He added that he had data on the top ups to the pension fund for the past five years but beyond this, if the committee members had any additional questions or specifics then they would need to avail themselves of the expertise of the People Development team.

D. Preley inquired if all of the action items identified in this meeting were captured. C. Mehta said that he had the following action items noted down:

ACTION ITEMS:

- 1) To have a joint meeting of the Audit, Finance and Investment Sub-committee as soon as is feasible with the actuary and pension fund manager to answer all questions the committee members may have.
- 2) The status and copies report of the actuarial evaluation for funding purposes dated January 1, 2018 to be sent to the AUC once it's available.

- 3) That the Work Plan for the AUC be updated and modified to include a review of the pension plan which is identified as a specific action item in the work plan. The wording will be shared with the committee and to ensure all agree, specifically the actuarial evaluation.
- 4) Requested by K. Reid to ensure that Audit Committee recommendations made by Steve Stewart, CPA, CA (Deloitte) at the AUC meeting on October 19, 2018 were included in the Audit Committee work plan.

5. Other Business

The committee members agreed that there was no other business to discuss.

D. Preley thanked the AUC members and staff for all for their great effort in this committee and wished everyone the best.

6.0 Date of Next Meeting

The committee members agreed that a doodle poll will be sent out to schedule the next meeting.

Adjournment

All were in favor of adjourning the meeting. The meeting was adjourned at 7:30 pm.

MOTION

That the session of the Audit Committee meeting be adjourned.

Moved by K. Reid and seconded by I. Bhatia.

MOTION CARRIED

Attachments: Report to AUC and Financial statements of The Fund of the Pension Plan for Employees of the Association Professional Engineers of Ontario (Ontario Registration Number 0217117)

ACTION ITEMS TABLE ON FOLLOWING PAGE

Status Additional items requested at AUC Meeting on April 17, 2018.

Item	Action	Action by	Status
1	Joint meeting of AUC, FIC and Investment sub-comm with actuary and fund manager as soon as feasible	C. Mehta / O. Tasic	TBD - A meeting will be arranged once the committees have been fully selected.
2	Modify work-plan to reflect the deliverable on the review of the pension plan and actuarial valuation	AUC / C. Mehta	TBD - Suggested changes will be incorporated in the new work plan and presented to the new AUC for review.
3	Status on 2018 actuarial valuation AND copy of actual report to be sent to the AUC	O. Tasic	Update awaited.
4	Status of items listed in Minutes of AUC Oct 19 meeting - please see below	C. Mehta	Please see action item list for AUC meeting on Oct 19, 2017.
4(a)	Audit committee to confirm independence of auditor and whether management has placed any restrictions during an audit	Audit Comm	Complete - Please see item 1.14 in action item list for AUC meeting on Oct 19, 2017.

4(b)	Audit committee to develop its work-plan and account what it did or did not do per work plan	Audit Comm	Complete - The work plan for 2017-2018 was approved by the AUC at its meeting on July 13, 2017. The status of specific deliverables per the work plan was listed and an update has been provided - Please see item 1.14 in action item list for AUC meeting on Oct 19, 2017.
4(c)	Audit committee to ensure that all relevant controls in place	Audit Comm	Complete - Please see item 2.4a in action item list for AUC meeting on Oct 19, 2017.
4(d)	Audit comm to inquire of staff on whether all relevant statutory filings (tax returns, information returns, etc.) are being filed	Audit Comm	Complete - Please see item 1.14 action item list for AUC meeting on Oct 19, 2017.
4(e)	Status on risk management program	Audit Comm	Complete - At the 515th Council meeting in Nov 2017, a BN note along with a risk register was presented to Council as part of PEO's risk management program.