



Minutes

Audit Committee Meeting

Minutes of the Meeting of Audit Committee

Date: Wednesday, March 5, 2014

Time: 4:00 pm.

Location: Room 8A, 40 Sheppard Avenue, North York, Toronto, ON, M2N 6K9

Audit Committee Members:

Dave Adams, P.Eng. (via conference)
Ishwar Bhatia, P.Eng. (Chair)
Thomas Chong, P.Eng.
Bill Kossta
Changiz Sadr, P.Eng., FEC
Ewald Kuczera, M.Sc., P.Eng.

Staff: Gerard McDonald, P.Eng., CEO/Registrar
Michael Price, MBA, P.Eng., Deputy Registrar Licensing and Finance
Lucy Capriotti, Administrative Assistant

Regrets: Maria Cellucci, CPA, CA, Controller – Maternity Leave
Annette Bergeron, P.Eng., President (Ex-officio)
Diana Lowe, CMA, P.Eng.
Chetan Mehta, Manager Financial Services and Business Planning
Peter Cowherd, Manager, Financial Services and Procurement

Guest: Steve Stewart, Partner, Deloitte & Touche

1. Approval of Agenda

A motion to approve the agenda was passed by the members.

MOTION

That the agenda as presented be approved.

Moved by T. Chong and seconded by E. Kuczera

MOTION CARRIED

2. Approval of Minutes for the meeting held on November 12, 2013

MOTION

That the Minutes as presented be approved.

Moved by T. Chong and seconded by C. Sadr

MOTION CARRIED

3. a) Review draft audited statements for FY2013 (presented by S. Stewart from Deloitte).

M. Price discussed in detail the 2013 Year End Financial Statements (page 3).

D. Adams asked about the application registration and examination fees that were increased in the past, is the increase this year more from a volume standpoint?

M. Price confirmed it was a volume increase and mentioned that the fees are the same as in 2010.

C. Sadr asked about Purchased Services. M. Price mentioned that some of the items in that category include printing costs, election costs, enforcement surveys, branding activities, council workshop, council election material, the cost for meals and audiovisuals at regional congresses, includes the marking, setting and invigilation for exams.

C. Sadr asked M. Price for a few examples of transaction fees. M. Price mentioned these are the commissions that we pay when somebody pays by credit cards or online. We have to pay for the service. ie. when a P.Eng. pays for their renewal we lose approximately 2.5%.

T. Chong asked that some of the items have notes and others don't. M. Price responded by saying that the notes are only provided where there is a detailed calculation to arrive at the number that is in the report.

S. Stewart gave the auditor's perspective. These are management's financial statements, management can put any number of notes that they want. He said that as an auditor he would make sure that all the required disclosures be included

in the financial statements which they have. Chapters is an important note disclosure because it's a large number and we are not consolidating the financial activities of the individual chapters because that would be a significant undertaking and so that needs to be disclosed. S. Stewart said that to try to put a note that explains why a number was up or down from last year is not something that would be put in financial statements. This would be something that goes into a management discussion and analysis document, this is available at the annual meeting for members to see what those variances are.

T. Chong asked S. Stewart if there were any major concerns that he may have. S. Stewart discussed that M. Price went through every line in the financial statement explained why it went up or down from last year. S. Stewart said he highlighted six items that he had answers for and M. Price's answers were consistent with what he would have said. (contract staff, postage and courier, consultants, professional development, staff expenses and advertising). S. Stewart said that his job is to audit the financial statements and in his opinion these statements are not materially misstated. As an auditor they have to make sure there are internal controls in place. One of the controls that they do rely on is that there is a formal budget process, the budget is established and that throughout the year management is comparing budgets to actual. From an audit perspective, S. Stewart said he makes sure that process and evaluation is going on and that is a good control.

T. Chong suggested combining a few of the items so it's easier to understand. The advice from the auditor is that the financial statements are representations of management. It's entirely up to management to determine how they want the statements to appear as long as they disclose the requirements under the accounting standards. The statements have gone through several iterations over the years and presentation formats all of which were looked at and have not violated the accounting rules. S. Stewart said he is comfortable with the presentation as it is. S. Stewart said that if they start to combine things it makes it more difficult to answer variance explanations. S. Stewart thinks this is an appropriate number of items, it's been consistent for a few years and his personal suggestion is to leave it as is.

G. McDonald said he supported what S. Stewart said. Annual consistency is very important when you are presenting financial statements. The idea is for our members and Council to be able to see from year over year what is happening with each category. If we are changing presentation on a year over year basis you lose that perspective and it becomes difficult to analyze what is happening to the financial statements, it becomes difficult to extract that information in an efficient manner. It's important that we maintain that consistency.

M. Price discussed the Balance Sheet Page 4.

D. Adams asked about marketable securities at fair value and that we should pay down more of the mortgage. M. Price discussed that our mortgage rate is 4.95%,

ten year fixed rate. After some brief discussion D. Adams agreed that it would be best to leave it the way it is.

T. Chong asked why we have a lot more cash. M. Price said that we didn't convert it to marketable securities by the end of the year.

I. Bhatia asked about capital cost and CCA. S. Stewart responded by saying that CCA is not applicable because PEO is a NPO. If PEO decided to sell the building, if we sold it for more than we paid for it there would be a gain, it wouldn't be taxable because we are a not for profit organization. There is no distinction between capital gains or anything else in a non taxable situation. We don't pay tax on it so it's irrelevant.

S. Stewart discussed the Cash Flow Statement. The cash flow statement shows the continuity of where your cash was in the beginning of the year to end of the year. It shows a breakdown between operating, financing and investing.

I. Bhatia asked about a separate pension committee. M. Price discussed that the Finance Committee was looking into this and they took a Terms of Reference to the ACV on setting up an investment subcommittee. At this time the pension falls under the HRC.

3. b) Year End Communication

S. Stewart discussed the executive summary. Under Status of our audit there are four things that are listed as outstanding. None of these things can be completed because auditing standards require that they date their opinion the date that the statements are approved by Council which is scheduled for March 21, 2014. On March 21, 2014, Management will be asked to sign a representation letter. Deloitte sends out legal letters to certain firms that PEO does business with. The purpose of this is to identify if there is any unrecorded liabilities, potential legal actions, and outstanding lawsuits. These letters have been sent already and Deloitte was advised that nothing is going to come back but this exercise must be done right up to March 21, 2014. This is part of the subsequent events review. Subsequent events have to be assessed from the date they finish field work to the opinion date to see if anything has occurred that might impact on the financial statements. Quality control process which is done in the office is 95% done and needs to be signed off. These are formalities and cannot be done until March 21, 2014.

Audit Risk – S. Stewart discussed that there are hundreds of audit risks they identify and they test these. Within the PEO file they identify 150 – 200 risks. The plan only includes those that they identify as being more significant or important, listed on page 5. S. Stewart advised that everything is satisfactory.

Internal Controls – S. Stewart ensures that controls are properly designed and implemented. Not every control is looked at e.g. cash, there is a risk that cash

comes in the door that doesn't get recorded in the general ledger, this is a risk. The control that prevents this from happening is that there is a bank reconciliation process that is undertaken monthly, a bank reconciliation is prepared and it's reviewed by somebody independent. This is the control that Deloitte uses to prevent this cash problem from happening. S. Stewart said he looked at controls and did not find significant deficiencies in internal controls.

S. Stewart discussed one area that the handbook says they must presume there is a risk. The area of management's override of controls. The handbook says we will assume management will override the internal control system. You can have the best internal controls with cheques and balances and independent people doing bank requisitions but if someone in management has the ability to go in and override that system all those great controls can be gotten around. The area they focus on and the procedure to address this presumption is in respect of journal entry testing. A listing of all journal entries that were recorded during the year by PEO and profile the information and look for certain characteristics and they identify those journal entries which have some of those characteristics i.e. large amounts going to control accounts, they look for words and explanation to adjust actual would cause some concern. After this has been profiled they select those entries that have some characteristics which are a bit odd, they go and look at the entry and make sure that the process in place for processing journal entries was properly followed in terms of documenting and approval and they also look at this from a business perspective. This process is done as part of the audit and nothing came to Deloitte's attention during the audit that indicated that management was over-riding the control system.

S. Stewart discussed page 6 internal control matters. When S. Stewart presented the audit plan there was a request from the Finance Committee that two things be looked at as part of the audit. S. Stewart said that when he does an audit he looks at everything. He's looking for assurance that the financial statements are not materially misstated. Additional work was done in two specific areas. The travel policy was looked at and they made sure that the appropriate documentation was attached and that everything was done in accordance with PEO policy. There were no problems. The other area was in respect to procurement, Request for Proposals. The policy that is in place was last updated January 31, 2007 and suggests that if a purchase is made in excess of \$20,000 a formal RFP process should be undertaken. What they found was that two of the three incidences where they selected items this did not occur. Backup support was provided and there was adequate justification. S. Stewart recommended that PEO update the Request for Proposal policy. It was also recommended that a thorough documentation process be in place for any exception for any rule.

M. Price discussed that an updated travel policy is under review by the Finance Committee. There should be an updated travel policy for the June Council meeting and staff will also be updating the procurement policy this year as well.

MOTION

A motion was made to request an in camera session.

Moved by T. Chong and seconded by C. Sadr

MOTION CARRIED

After the Audit members and S. Stewart met in camera a couple of things were brought up for discussion:

- Improving the Procurement Policy as its very old going back to 2007
- RFP for Aptify

MOTION

A motion was made from the Audit Committee to Council to forward the auditor's report to Council for approval on March 24, 2014.

Moved by B. Kossta and seconded by T. Chong

MOTION CARRIED

4. Other Business

No other business.

5. Date of Next Meeting

The next meeting will be a joint FIC and AUC meeting on April 24, 2014 at 10:30 a.m.

6. Adjournment

The committee agreed to adjourn the meeting at 6:17 p.m. and a motion was passed to that effect. I. Bhatia thanked everyone for attending the meeting.

MOTION

That meeting be adjourned

Moved by E. Kuczera and seconded by C. Sadr

MOTION CARRIED