



Minutes

Audit Committee & Finance Committee Joint Meeting on March 6, 2018

Meeting Minutes issued:

Minutes of a meeting of the Audit Committee (AUC) and Finance Committee (FIC) and held at the Professional Engineers Ontario office boardroom 1C, 40 Sheppard Avenue West, North York, Ontario, on March 6, 2018 commencing at 5:00 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)

Thomas Chong, M.Sc., P.Eng., FEC, FCAE, PMP, East Central Region Councillor

Nancy Hill, P.Eng., LLB, FEC, FCAE, Vice President (elected)

Kelly Reid, P.Eng. IACCM CCMP, Councillor-at-Large (via conference)

Craig Young, P.Eng., CPA, CMA

Finance Committee Members:

Chair: Michael Wesa, P.Eng., Northern Region Councillor

Vice-Chair: Michael Chan, P. Eng., Lieutenant Governor-in-Council Appointee

Warren Turnbull, P.Eng. (via conference), West Central Region Councillor

Ciro Tarantino, PMP, P.Eng.

Basel Jarrad, MBA, P.Eng.

Staff:

Chetan Mehta, MS, MBA, Director, Finance

Lucy Capriotti, Administrative Assistant

Scott Clark, L.L.B., Chief Administrative Officer

Olivera Tosic, CHRL, Human Resources Specialist

Guests: Steve Stewart, CPA, CA (Deloitte)

Regrets: Johnny Zuccon, P.Eng., Interim Registrar (Staff)

Fern Goncalves, CHRL, Director – People Development (Staff)

Peter Cowherd, CMA, CPA, Manager – Financial Services (Staff)
Ed Nelimarkka, MBA, BEng., P.Eng. (AUC member)
Frank Dicintio, CPA, CMA, MBA, P.Eng. (FIC member)
Noubar Takessian, FEC, BSc, ME, GSC, P.Eng. (FIC member)

2017/2018 Audit Committee, Meeting No. 3

Audit Committee Items

The meeting was called to order by D. Preley at 5:00 pm and the draft 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 draft agenda as presented be approved.

MOTION

Moved by T. Chong and seconded by N. Hill.

MOTION CARRIED

2. Approval of the AUC Minutes from October 19, 2017

D. Preley thanked staff for preparing the minutes. D. Preley stated that the draft minutes were reviewed by him and Vice-Chair I. Bhatia and had been subsequently circulated to the other AUC members for feedback. D. Preley asked the members if they had any additional comments but there were none after which the committee unanimously agreed to approve the minutes as presented. A motion was passed to the effect.

MOTION

That the Minutes of the October 19, 2017 meeting as presented be approved.

Moved by T. Chong and seconded by C. Young.

MOTION CARRIED

3. Matters arising from the Minutes

D. Preley thanked I. Bhatia for preparing the table listing outstanding items and asked C. Mehta whether the table on Page 17 of the minutes listing the deliverables outlined during the meeting on October 19, 2017 would be updated and included as part of these minutes. C. Mehta confirmed that all these items had been completed and that the updated status report which was sent to the Chair and Vice-Chair would be included as part of the minutes.

4. Deloitte report on the 2017 Audit (presented by S. Stewart)

S. Stewart commenced with his presentation to the committee members on Deloitte report on the audit findings for the 2017 year-end audit. He began by saying as PEO's auditor Deloitte's job is to perform an audit on the financial statements of the Association report on the audit findings to the Audit Committee but the draft financial statements provided in audit report were the responsibility of management. He stated that these statements were prepared in accordance with the accounting standards for NPOs (not for profit organizations) for the year ending December 31, 2017 and were audited by Deloitte in accordance with Canadian Generally Accepted Auditing Standards which remained unchanged from the last year.

S. Stewart said that when Deloitte conducted the audit, they focused on some key areas of risks which were identified in the audit plan that was presented to the Audit Committee on October 19, 2017 along with the controls in place to deal with these risks.

S. Stewart then spoke about the concept of materiality and indicated that the materiality threshold for this year was \$740,000 or 3 percent of total revenue. He added that deciding on a threshold was a matter of professional judgement and using a percentage of revenue was a typical practice for non-profit organizations. Deloitte has chosen a threshold of 3 percent of total revenues which is consistent with the prior year threshold. What this meant was that if during the audit, Deloitte found any cumulative or individual errors in excess of \$740,000 then they cannot

issue an opinion stating that the financial statements were free from material misstatement. S. Stewart added that regardless of the above threshold, he would be required to report to the AUC any errors that he found during the audit even if it was not a material error. He clarified that Deloitte did not find any such errors during the audit.

S. Stewart then referred to the fees for the audit and said that these were based on the quotation Deloitte had presented to PEO during the 2016 tendering process. He said that the fees included costs for CAM (Common Area Maintenance) audit which was now complete and that Deloitte had not encountered any issues for the 2017 CAM audit. The audit of the pension plan was to be completed sometime in April at a date to be confirmed.

Referring to page 2 of the audit report in terms of the status of the audit, S. Stewart said that the field work and testing for the audit was completed. However, Deloitte's audit opinion will be dated the date on which Council approves the draft 2017 financial statements and notes, which is March 23, 2018. There are a few other pending items which cannot be completed prior to that date such as the management representation letter, legal letters from selected legal firms for confirmation of outstanding legal claims and the subsequent review of events between the date of the financial statements (which is December 31, 2017) until the date when the audit opinion would be issued (which would be March 23, 2018, the date of the Council meeting). For uncorrected misstatements, S. Stewart advised the committee members that based on their sample testing, there were no errors identified in the audit that required adjustments to the financial statements.

S. Stewart stated that the not-for-profit standards require certain note disclosures to be included in the financial statements and as auditors, Deloitte is required to make sure that these disclosures have been made and are factual. He pointed out Deloitte found no issues or problems with the note disclosures in the financial statements. He added that there were no going-concern issues or any other matters identified during the audit which would require Deloitte to bring to the attention of the Audit Committee.

S. Stewart added that Deloitte did test some key (but not all) internal controls which were relevant to the financial reporting aspects and to the extent these controls were tested, there were no significant deficiencies found and that there was nothing to report to the Audit Committee on this aspect.

For fraud risk on Page 3 of the report, S. Stewart stated that a regular financial statement audit conducted per Canadian standards is not specifically designed to look for fraud but is designed to look for evidence to support the figures and disclosures in the financial statements. It is the job of a forensic auditor to identify fraud as the methods used in a forensic audit are very different from those used in a routine financial statement audit. However, Deloitte is still required to assess the risk of fraud and during their testing for the 2017 audit there were no additional factors that had come to his attention on this issue. S. Stewart then asked the Audit Committee members if they had any additional concerns on this topic they wished to discuss. Seeing that there were none, he stated that Deloitte had nothing more to add to the initial risk profile that he had reported to the Audit Committee during the audit planning stage.

S. Stewart then went on to speak about independence and stated that the professional standards require that Deloitte as PEO's auditors be independent. Stewart confirmed to the committee members that Deloitte was independent and therefore able to provide the Audit Committee with an audit opinion.

With regard to significant judgements and estimates, S. Stewart pointed out that in preparing financial statements, management is required to make some estimates, i.e. provision for uncollectable receivables, accrued amounts and potential liabilities which could not be known with certainty and required estimates. One of such account that would require estimates would be employee future benefits liability as this is the largest amount in the financial statements involving judgement. PEO engages an actuary to do the calculations and the liability is actuarially determined. The auditor's job is to make sure that the data sent to the actuary to make their calculations is accurate. Deloitte had tested some of this data and had no issues to report.

With regard to risks, S. Stewart said that there were three key areas that had been identified in the audit plan – there were accrued liabilities, revenue/deferred revenue and management override of controls. S. Stewart stated that their testing results were satisfactory and no issues were found in the above areas and he had nothing to report to the Audit Committee. For other reportable matters, since there were no issues to report as well. Overall, he added that the audit went well.

S. Stewart then requested C. Mehta to walk the committee members through the financial statements and pointed out that the first two pages of the financial statements were the auditor's report that would be issued by Deloitte on Mar 23, 2018 (the date on which Council approves the draft 2017 financial statements) and that Deloitte would be issuing an unmodified audit opinion.

5. Review and approval of 2017 Audited Financial Statements by AUC

Before commencing with the walk through of the draft 2017 financial statements, C. Mehta advised the committee members that the report sent to them a few days ago outlined the variances for current year versus the prior year actuals and the reason for doing this was because of the presentation format of the audited financial statements which show the current and prior year actuals. The budgeted or forecast figures are not shown in these statements as this data is typically not audited by Deloitte. He added that he would answer questions the committee members had on the variances for the actuals versus the 2017 forecast during the meeting today. C. Mehta then proceeded to walk the committee members through the draft audited financial statements and note disclosures and answered questions the members had. Some of the key highlights of the questions asked are as shown below.

K. Reid asked what was meant by the re-measurement amount on the income statement. C. Mehta explained that the re-measurement amount reflected the difference in the liabilities arising from the changes in the actuarial assumptions which actuaries are required to make each year for estimating the liabilities associated with employee future benefits. He then requested S. Stewart if there was any additional information he wished to add. S. Stewart further elaborated that each year depending on the changes in the interest rates, discount rates,

make-up of the plan, etc. the actuary arrives at liability estimates. Changes in these assumptions each year result in actuarial gains or losses which had to be charged to net assets instead of being reported in the income statement and this was the re-measurement amount.

K. Reid asked to have information regarding the mortgage rate be added to Section 5 of the statements. C. Mehta pointed out that the rate was provided as a disclosure in the second paragraph of note 5 on page 10 in the draft financial statements.

N. Hill pointed out that the additional clarification needed to be added in the report to Council for the monies paid to the consultant who was hired for vetting the integrity of the 2017 elections as she was under the impression that the fees for the consultant were to be paid to the vendor providing the election services. C. Mehta clarified that the fees paid to the consultant hired by PEO had been offset by not paying remainder of his fees to the vendor managing the 2017 elections.

C. Young inquired if PEO has a capital reserve set aside in case of a contingency. S. Clark stated that there is no reserve but PEO's property manager provides PEO with a 20-year rolling asset plan which is updated each year and the monies required for additional capital expenditures are requested during the relevant budgeting cycle. S. Stewart clarified that based on his experience some organizations such municipalities have reserves but this practice was not common for not-for-profits.

D. Preley referred to Balance Sheet page 4, Assets, Current assets, 2017 Cash in interest bearing accounts \$2,353,902 and 2017 Market securities \$6,806,699. He asked what the guidelines are regarding the minimum amounts for these two items. Chetan indicated that the Cash in interest bearing accounts were the monies set aside in a high interest account to meet operating contingencies for some capital projects which were underway, whereas the marketable securities were PEO's investment portfolio and these monies were invested in accordance with the investment policy approved by Council in November 2016.

D. Preley asked S. Stewart about the pros and cons of PEO having a separate financial audit on the building. S. Stewart advised there would be no benefit from doing this.

D. Preley thanked Deloitte for preparing the Audit and PEO staff for assisting Deloitte.

After a few additional questions, the committee members decided to proceed with the in-camera session with S. Stewart and all staff were asked to leave the meeting room.

IN-CAMERA SESSION WITH DELOITTE (NOT RECORDED)

After the conclusion of the in-camera session the Audit and Finance Committee members had with S. Stewart, staff was requested to come back to the meeting room. Staff were not advised of any concerns or issues after this session.

S. Stewart excused himself and departed from the meeting at this time.

S. Clark excused himself and departed from the meeting at this time.

O. Tasic excused herself and departed from the meeting at this time.

The Audit committee members then unanimously agreed to approve and recommend to Council the approval of the draft 2017 audited statements and passed a motion to the effect.

MOTION

That the Audit Committee approves the Audited Financial Statements for the year ended December 31, 2017 and recommends to Council that it approve the Audited Financial Statements for the year ended December 31, 2017, and the Auditor's report thereon.

Moved by T. Chong and seconded by N. Hill.

MOTION CARRIED

6. Recommendation of auditor for FY 2018 by AUC

The Audit committee members unanimously agreed to recommend to Council the appointment of Deloitte as PEO's auditor for FY 2018 and passed a motion to that effect.

MOTION

That the Audit Committee recommend to Council that Council recommend to members at the April 21, 2018 Annual General Meeting the appointment of Deloitte LLP as PEO's auditor for 2018 to hold office until the next annual meeting or until their successor is appointed.

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

MOTION CARRIED

7. Other Business

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

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 6:35 p.m.

MOTION

That the session of the Audit Committee meeting be adjourned.

Moved by I. Bhatia and seconded by T. Chong.

MOTION CARRIED

Finance Committee, Meeting

M. Wesa called to order a meeting of the Finance Committee. The agenda items discussed were #1 and #2.

1. Approval of FIC Minutes from October 18, 2017

The minutes for the FIC meeting held on October 18, 2017 were presented and reviewed by the committee members. The Chair asked the members for their comments but there were none and the committee unanimously agreed to approve the minutes as presented.

MOTION

That the minutes of the October 18, 2017 meeting as presented be approved.

Moved by M. Chan and seconded by W. Turnbull.

MOTION CARRIED

2. Matters arising from the Minutes

No other matters were discussed.

3. Date of Next Meeting

The committee members agreed to not set a meeting date at this time.

The Finance committee members had no further questions and they unanimously agreed to adjourn the meeting.

4. Adjournment

MOTION

That the session of the Finance Committee be adjourned.

Moved by T. Chong and seconded by C. Young.

MOTION CARRIED

The Meeting Minutes were digitally recorded.

Meetings Minutes prepared by: Lucy Capriotti

Attachments:

- 1) Agenda
- 2) Minutes from AUC Oct 19, 2017
- 3) Minutes from FIC Oct 18, 2017
- 4) Auditor's report/audit results and draft 2017 FS
- 5) Report to the Audit and Finance Committees with appendix A1 and A2