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Minutes

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Audit Committee & Finance Committee Joint Meeting on March 7, 2017

Meeting Minutes issued: June 23, 2017

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 7, 2017 commencing at 5:00 pm.

In attendance:

Finance Committee Members:

Roger Jones, P. Eng., Councillor-at-large (Chair)
Ravi Gupta, P.Eng.
Christian Bellini, P.Eng., FEC, Councillor-at-large (left at 6:30 p.m.)
Nick Colucci, P.Eng., BASc., MBA, FEC
Ken McMartin, P.Eng.(via conference)
Changiz Sadr, P.Eng., FEC, East Central Regional Councillor

Audit Committee Members:

Danny Chui, P.Eng., FEC, West Central Regional Councillor (Chair)
Ewald Kuczera, (Vice-Chair) M.Sc., P.Eng.,Western Regional Councillor (via conf)
Thomas Chong, M.Sc., P.Eng., FEC, PMP, East Central Regional Councillor
Ed Nelimarkka, MBC, BESc., P.Eng. (via conference)
Craig Young, P.Eng., CPA, CMA
Gary Houghton, P.Eng., Western Regional Councillor
Dan Preley, P.Eng.,Northern Regional Councillor

Staff: Chetan Mehta, MS, MBA, Director, Finance
Peter Cowherd, Manager, Financial Services & Procurement
Fern Goncalves, CHRL, Director – People Development
Lucy Capriotti, Administrative Assistant

Guests: Steve Stewart, CA (Deloitte)

Regrets: Gerard McDonald, P.Eng., MBA, Registrar
Warren Turnbull, P.Eng., Western Central Regional Councillor

The joint AUC-FIC meeting commenced with D. Chui officiating as the Chair.
D. Chui welcomed everyone to the meeting and requested all participants to briefly introduce themselves. D. Chui advised the attendees that since the first part of the meeting was audit related, the FIC members would be present as observers and that the AUC members would also act as observers when the FIC part started.

T. Chong requested that the in-camera session with the auditor be included as a specific agenda item 5b.

R. Gupta asked that an item to consider having at least one joint AUC-FIC meeting each year be added as item 10(c).

Audit Committee Items

1. Approval of AUC Agenda

The amended AUC agenda be approved as presented.

MOTION

That the amended agenda as presented be approved:

1) In-Camera Session with Auditor be added as item 5(b)

2) Consider the possibility of having at least one joint AUC-FIC each year be added as item 10(c)

Moved by G. Houghton and seconded by T. Chong.

MOTION CARRIED

2. Approval of the AUC Minutes from November 2, 2016

The Minutes for the AUC meeting held on November 2, 2016 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 November 2, 2016 meeting as presented be approved.

Moved by D. Preley and seconded by C. Young.

CARRIED

3. Matters arising from the Minutes

C. Mehta advised there was a spelling error which has been corrected and has been presented to the committee members as Rev 1 in the Minutes, the incorrect word was **find** and was corrected to **fund**.

4. Deloitte report on the 2016 Audit (presented by S. Stewart)

S. Stewart started his presentation by advising since the FIC members were also present and that this may be the first time they would be attending an AUC, he wanted to clarify that the financial statements are the responsibility of management of PEO and that he is not responsible for the statements. His job is to perform an audit on the financial statements and to provide an opinion which was provided in Appendix 2 along with the draft 2016 financial statements (attached).

S. Stewart proceeded to provide key highlights of the audit process. He stated that the financial statements of PEO were prepared in accordance with Canadian accounting standards for not-for-profit (NPO). The approach adopted for the audit by Deloitte is risk based and that the Deloitte team focuses on areas where things were likely to go wrong or where there were risks for errors. There were approximately 150 to 200 areas of risk that were tested but he would speak to about 3 to 4 key areas in this meeting.

S. Stewart then spoke about the concept of materiality and indicated that the materiality threshold for this year was about $724k – which means that had Deloitte found any cumulative or individual errors in excess of $724k then he could not issue an opinion that the statements were not materially misstated.

S. Stewart clarified 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.

S. Stewart then proceeded to talk about the status of the audit. He advised that all field work for the audit has been completed and the testing was done. The items that were awaited were the management representation letter, legal letters from the legal firms and the subsequent review of events between the date of the financial statements until the date the audit opinion would be issued (which would be the date of the Council meeting).

Regarding any 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 or that remained unadjusted.

S. Stewart went on to point out that based on the testing done, Deloitte found that there were no significant deficiencies in the internal controls. He clarified that Deloitte looked at key controls related to the financial statement preparation and not all controls. He indicated that based on the testing done by Deloitte, he was satisfied that PEO has adequate controls in place for day to day operations.

S. Stewart walked the committee members through some of the other key areas that they had tested such as reasonableness of management estimates, journal entry controls, etc. and indicated that based on the sample testing that was done no issues were identified.

S. Stewart pointed out that due to the Aptify go-live in April in 2016, Deloitte had done additional work to test whether the data conversion (the financial part) from the old system properly got into the new system without problems. Deloitte also tested the financial interface between the Aptify and the accounting system to test whether the relevant financial information was flowing from Aptify to the accounting system correctly.

The third area that Deloitte tested was general computer controls such as user administration, change management process, the backup management system, etc. and at the end of the day they were satisfied that there were adequate computer controls.

Overall, S. Stewart indicated that the audit was performed in accordance with Canadian Auditing Standards and no issues came up during the audit that impacted the plan presented to the Audit Committee in November.

S. Stewart indicated that after completion of the remaining formalities (i.e. management representation letter, legal letter and subsequent events review) and after approval of the financial statements by Council approval on Mar 24, 2017, Deloitte would be issuing its audit opinion, a copy of which was on page 1 of the draft financial statements.

S. Stewart then indicated that he would be happy to answer any questions that the committee members may have.

D. Preley inquired whether S. Stewart had any update on the action item that was identified during the AUC meeting on November 2, 2016 where he was requested to check on Canada Revenue Agency (CRA) rules that could impact NPOs like PEO who owned their own building and rented out a part of it.

S. Stewart stated that renting of building space was not part of PEO's NFP mandate to regulate the practice of engineering. Hence, CRA could potentially take the position that by renting out property, PEO was going beyond its NFP mandate and hence could be deemed a taxable entity that would be required to pay taxes.

S. Stewart added that a few years ago, CRA had started scrutinizing several NPOs with a view to identify those organizations that were not real NPOs but were set up with a view to avoid paying taxes. They also went to legitimate NFP organizations such as one client of his and advised them to rectify the situation where the client had a revenue stream from outside of their known area of business.

That campaign by the CRA now appears to have gone away and that as far as S. Stewart was aware, there has been no further action or follow through by CRA on this matter and that none of those organizations or his NPO clients were subsequently treated as taxable entities. So, at the end of day, short of getting a formal opinion from the CRA, which also has its hazards, there is no answer to say there is no risk. S. Stewart indicated that a few years ago Deloitte provided some guidance on this matter and one option would be to consider putting the building operations off into a separate for-profit company which could be owned by PEO.

D. Preley asked how did PEO compare with other NPOs in terms of its mandate, finances and whether was it typical for NPOs to own their building. S. Stewart said that based on what he knows, there were a few NPOs that did own buildings but he wasn't aware of many such NPOs. He also stated that PEO's building operations were running at a net loss so there would be no taxes to be paid. While there were NPOs who owned their own building, he wasn't aware of how many of these NPOs were renting out space and whether such information would be available easily.

D. Preley asked if there was any advice that S. Stewart had in terms of how PEO could conduct its business to minimize its risk of being deemed as for profit by CRA because of having rental income from the building it owns.

S. Stewart said that moving the ownership of the building to a separate for-profit entity that is 100 per cent owned by PEO could eliminate this risk. **He said he would provide additional information to PEO on this option but indicated that this would be a lot of work to do and that he wasn't sure if it was worth the exercise.**

There were additional questions by members of the other members on this topic and S. Stewart said that overall, renting out space in the PEO owned building did not pose a great risk to PEO as it was created as a NFP by an act of legislation unlike other self-created NPOs which are often created solely for the purpose of avoiding taxes.

C. Sadr asked S. Stewart that as PEO's auditor for the past several years, could he comment on whether PEO's finances have improved over the past four years.

S. Stewart said that as PEO's auditor, it was not for him to opine PEO's finances, however, overall after having audited the association's financial statements for the past several years, he felt that overall things were in a pretty good shape.

D. Chui asked whether PEO's purchasing policy and practices had been reviewed by Deloitte. S. Stewart said that taking an in-depth look at the procurement policy and practices was not done on an annual basis. However, per the Audit Committee's request for the 2015 audit, Deloitte had looked at the procurement policy and process, and had conducted random testing for compliance. The results of this testing had found no issues. However, this had not been done for the 2016 audit.

D. Chui asked about the reasonableness of accruals for the current whether these were reasonable in comparison to those for the prior year. S. Stewart said that as part of the audit, Deloitte does look at accruals that have a high degree of management estimates such as provisions for law suits, provisions for uncollected receivables, etc. and compare these to the prior year estimates to make sure that these are reasonable. If there are any significant discrepancies that are not identified, then Deloitte would investigate further and ask management for clarifications to confirm that the variation/s, if any, had a legitimate explanation.

D. Chui asked if there were any concerns that Deloitte had in this area and S. Stewart advised that there were none.

C. Mehta was then asked to walk the committee members through the 2016 draft audited statements.

5. (a) Review and approval of 2016 Audited Financial Statements by AUC

C. Mehta walked the committee members through the draft audited financial statements and answered questions from the members. The Audit Committee members unanimously agreed to recommend the 2016 draft audited statements be presented to Council for approval.

D. Preley asked which line item in the income statement showed the funding provided to OSPE. C. Mehta said that this spend would be captured in the Recognition, Grants and Awards line item in the income statement and that this amount was estimated to be approximately $60k. He also pointed out that F. Goncalves, Director – People Development who controlled this budget was present in the meeting to answer any specific questions on this spend.

D. Preley inquired about the remeasurement amount on page 6 in the financial statement. C. Mehta explained that each year, an actuarial valuation is conducted by an actuary for the two pension plans and post-retirement benefits plan based on certain actuarial assumptions. The resulting actuarial gains and losses resulting from the valuation were aggregated as remeasurement amounts. S. Stewart clarified that every year when the actuarial valuations are conducted by the actuaries, there are often some changes that are made to the actuarial assumptions, there can be substantial changes to the liabilities. Until two years ago, per CICA standards, these resulting actuarial gains or losses had to be amortized through the income statement over fourteen years. However, per recent changes to the standards, these gains or losses are no longer amortized through the P&L but put directly through net assets as remeasurements.

E. Kuczera asked whether the pension plan statement was to be presented at the current meeting to which S. Stewart replied that work was underway on the pension plan audit and the financial statements for the assets of the pension plan would be presented to the audit committee in a separate meeting.

The committee members unanimously agreed to approve and recommend to Council the approval of the draft 2016 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, 2016 and recommend to Council that Council approve the Audited Financial Statements for the year ended December 31, 2016, and the Auditor’s report thereon.

Moved by D. Preley and seconded by T. Chong. Vote was unanimous.

MOTION CARRIED

5. (b) IN CAMERA SESSION WITH DELOITTE (NOT RECORDED)

Staff were asked to leave at this time so that the committee members could have an in-camera meeting with the auditor.

6. Recommendation of auditor for FY 2017 by AUC

MOTION

That the Audit Committee recommend to Council that Council recommend to members at the April 22, 2017 Annual General Meeting the appointment of Deloitte LLP as PEO's auditor for 2017 to hold office until the next annual meeting or until their successor is appointed.

Moved by G. Houghton and seconded by D. Preley.

MOTION CARRIED

7. Other Business

Review of red lined version of terms of reference for AUC

MOTION

That the red lined version presented be accepted with one minor change under the section called Quorum to delete the words "***present at the meeting***."

Moved by G. Houghton and seconded by D. Preley

MOTION CARRIED

Finance Committee Items

R. Jones now assumed the role of Chair of the Finance Committee and commenced the proceeding of the Finance Committee.

8. Approval of FIC Minutes from October 25, 2016

That the FIC Minutes as presented be approved.

Moved by K. McMartin and seconded by N. Colucci

9. Matters arising from the Minutes

No other matters were discussed.

10. a) Review of report (attached) on the implications of a $20 fee reduction to the annual membership fee on PEO finance and FIC recommendations.

C. Mehta discussed the various options and related financial outcomes outlined in the report – which were: a retroactive fee refund and reduction in the membership fee effective May 1, 2008; a fee reduction as of Jan 1, 2017 and the third option of maintaining the status quo until 2019 when the mortgage becomes due.
C. Mehta suggested that the third option of maintaining the status quo would be preferable to the other two options as PEO could seek inputs from experts in 2019 to decide on the best way forward on $20 fee increase which came into force on May 1, 2008.

C. Sadr suggested that the $20 fee could be adjusted against the fee increase that would result after accounting for inflation from 2008 onwards till 2019. He also indicated that the fee can be adjusted for inflation each year. C. Mehta pointed out that an annual fee increase to adjust for inflation will not be possible without a change to the by-law since the current by-law requires a membership referendum for any fee changes.

N. Collucci indicated that he was not in favour of having any options in the report as the question that was asked was the impact of a $20 fee reduction. He stated that he was on Council when the $20 fee was implemented and there was no discussion or any intent on returning the $20 at any later point in time. Instead, it would be preferable to have option 3 in the report to Council which was to revisit the $20 fee in 2019 and include a short blurb on option 2 in the report.
After additional discussion, all the members agreed that the report to Council be modified to include option 3 with a short blurb on option 2 but without any reference to the word refund.

MOTION

That the report on the impact of the $20 fee reduction be amended as above and presented to Council.

Moved by N. Colucci and seconded by R. Gupta.

CARRIED

Some committee members wanted to discuss the likelihood of a 25% membership loss with the implementation of CPD. However, they all agreed that this item could be deferred until a later meeting.

10. b) Changes to FIC Terms of Reference

The members then proceed to discuss the FIC Terms of Reference and agreed that under **Constituency & Qualifications** section, the last sentence should read "The Finance Committee is expected to include backgrounds or working experience in accounting, finance, investment or chapter finances". For the term limits for the Finance Committee members agreed that the same term limits as that for the audit committee should apply to the Finance Committee as well.

MOTION

That the Finance Committee Terms of Reference be amended as proposed.

Moved by N. Colucci and seconded by R. Gupta

MOTION CARRIED

10. c) Consider the possibility of at least one joint AUC FIC meeting each year

Discussion on this item was deferred until a later meeting.

11. Date of Next Meeting

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

12. Adjournment

The members agreed to adjourn and the meeting was adjourned at 8:00 p.m.

The Meeting Minutes were digitally recorded.

Meetings Minutes prepared by: Lucy Capriotti

Attachments:

AUC: 2016, PEO Audit, Prepared by Deloitte

FIC: Report on a $20 fee reduction to PEO membership fee