

Audit Committee Meeting – Public Session
October 19, 2016 – 5:00 p.m.
Head Office of the Near North District School Board
963 Airport Road, North Bay, ON

Committee Members Present

James Beatty, Committee Chair (Videoconference)
Michelina Beam, Trustee
Gary Jodouin, External Member
Judy Kleinhuis, External Member
David Thompson, Trustee

Staff Present

Liz Therrien, Superintendent of Business
Lianne Bettiol, Executive Assistant
Wende Proulx, Manager of Finance
Jackie Young, Director of Education

Guests

Liz Chirico, BDO Dunwoody
Dean Decaire, BDO Dunwoody
Melissa Dodge, Regional Internal Audit Manager
(Teleconference)

1.0 OPENING – PUBLIC SESSION

1.1 Call to Order

Committee Chair Jim Beatty called the meeting to order at 4:58 pm.

1.2 Nomination and Election of Chair

Director Jackie Young resumed the meeting during nomination and election of Chair.

Trustee Michelina Beam and Trustee David Thompson nominated Jim Beatty as Chair of the Audit Committee Meeting. Nomination was accepted by Trustee Jim Beatty.

2016-10-01 *Moved by Trustee Michelina Beam, seconded by Trustee David Thompson that Jim Beatty be appointed as Chair of the Audit Committee for the 2016/2017 fiscal year.*

CARRIED

Jim Beatty presided the meeting.

1.3 Adoption of the Agenda

2016-10-02 *Moved by Trustee Michelina Beam, seconded by External Member Gary Jodouin that the agenda for public session be approved as presented.*

CARRIED

1.4 Declaration of Conflict of Interest

No Declaration of Interest declared.

1.5 Adoption of the Previous Minutes of Proceedings of Public Session

2016-10-03 *Moved by External Member Gary Jodouin, seconded by Trustee Michelina Beam that the Committee approve the Audit Committee minutes as presented for the Public Session held on June 13, 2016.*

CARRIED

- Chair Jim Beatty questioned action item from prior meeting regarding the Board's by-laws and language therein in regard to necessary language in regard to compliance with respective regulations. As per Melissa Dodge, Regional Internal Audit Manager, there is a conference in November and this item will be discussed along with common issues with other regions and setting leading practices.
Action: Lianne Bettiol: bring forward as an agenda item under internal auditor at the next Audit Committee meeting

2.0 ITEMS FOR DISCUSSION AND/OR ACTION

2.1 2015/2016 Planning Report to Audit Committee Dean Decaire and Liz Chirico, BDO Dunwoody

Dean Decaire, External Auditor, highlighted areas of BDO's Planning Report:

- Letter dated October 19, 2016 to the Audit Committee presenting audit service plan for the audit of the financial statements for year ended August 31, 2016.
- Executive Summary details the terms set in the Engagement Letter, responsibilities of Audit Committee, engagement objectives, audit strategy, materiality and risks and planned audit responses.
- It is important for the Audit Committee to understand responsibilities that rest with external auditors and those charged with governance.
- There are four (4) primary Engagement Objectives: Express an opinion as to whether the financial statements are presented fairly, in all material aspects in accordance with Canadian Public Sector Accounting Standards (PSAB); Present significant findings to Audit Committee including key audit and accounting issues, any deficiencies in internal control and any other matters arising from BDO's work; Provide timely and constructive management letters including deficiencies in internal control identified during the audit; and Consultation regarding accounting, indirect taxes and reporting matters.
- Audit Strategy (Appendix B) will perform a risk based audit that allows external auditors to focus on audit efforts on higher risk areas and other areas of concerns for management and the Audit Committee. Auditors will choose audit procedures that are the most effective and efficient to reduce audit risk to an acceptably low level.
- The Board spends approximately \$12,000,000 a month in operating expenditures based on approximate annual budget of \$140,000,000.
- Materiality calculation is based on the Board's preliminary results. For this purpose, preliminary materiality is set at \$2,800,000 for the Board and preliminary performance materiality at \$2,100,000.

2.1 2015/2016 Planning Report to Audit Committee (Continued)
Dean Decaire and Liz Chirico, BDO Dunwoody

- External auditors have identified the areas of revenue recognition, tangible capital assets, deferred capital contributions, employee future benefits and management override of controls as areas of significant risk that will require special audit consideration given the complexity of accounting rules and extent of estimation and judgement involved in valuation of these items in the financial statements.
- BDO Dunwoody consults with the Finance Department to determine if there are schools that require auditing from a school generated funds perspective. Approximately \$2,700,000 is included in the Board's revenue which is generated from School Generated Funds.
- Migration of the Board's accounting system from BAS2000 to K212 was discussed. It is common to have audit risks when switching accounting programs. BDO will engage their experts to conduct additional audit testing on transactions to ensure ending balances of one accounting system (BAS200) are properly converted to new accounting system (K212).
- Audit will include search for outstanding litigation.
- Bank Confirmation Agreement with RBC has been signed by Liz Therrien, Superintendent of Business. This will permit BDO to review line of credit and banking funds at the end of the school year.
- Employee/retirement future benefits included in financial statements is approximately \$13,000,000.00. This amount will be reduced over the next five (5) to six (6) years.
- Other areas of review and audit will include consolidated expenditures of Transportation Consortium and Charity Works (currently has approximately \$1,000,000.00 in assets).
- Fraud risk looks to misappropriation of funds (i.e. focus on paper fraud, manipulation of financial statements, disclosure or measurements) and aggressive management style.
- Dean Decaire questioned the Audit Committee if they are aware of any illegal activities or allegations of fraud and whether any instances of actual suspected or alleged fraud has been brought to their attention during the year. The Audit Committee and Melissa Dodge, Regional Internal Auditor are not aware of any such activities.
- Accounts Payable system is effective for cut off purposes and ensuring transactions are recorded in proper accounting periods. BDO will review and question if all bills have been received and recorded by end of August 31, 2016. BDO also reviews vendors to ensure there are no vendors that should not be there.
- Trustee Jim Beatty questioned if there is an area of the internal audit program that BDO can rely on. As per Dean Decaire, there are opportunities to pull in information in some areas of internal audit.
- BDO proposes that audit fees be set at \$27,500 for the audit, excluding taxes as per tender. They do not anticipate going over this set amount.
- Theresa Graham and her team at BDO have been conducting testing in the field for interim audit conducted the week of August 15, 2016.
- Audit work for year end is scheduled to be conducted the week of October 31, 2016.
- The audit work typically takes six (6) weeks to complete. There are various levels of testing and reporting to be conducted and completed.

2.1 2015/2016 Planning Report to Audit Committee (Continued)
Dean Decaire and Liz Chirico, BDO Dunwoody

- A requirement of Canadian Generally Accepted Audited Standards (GASS) requires that BDO Dunwoody communicates annually with Audit Committee regarding relationships between the Board and BDO that, in their professional judgement, may reasonably be thought to bear on their independence. BDO has communicated that they are not aware of any relationships between the Board and their firm that, in their professional judgement may reasonably be thought to bear on their independence and therefore confirm their independence.
- Communication Requirements document lists 22 items that are required to be communicated. BDO recommends that the listing of 22 items be reviewed with the Regional Internal Auditor. Dean Decaire focused on the following key requirement: Going Concerns Matters and Disagreements with Management.
- There are no changes in new accounting standards this year.
Action: Bring forward to next Audit Committee Meeting follow up of fees for audit as contained in Appendix H (Independence Letter) and completed Appendix I – Communication Requirements Checklist

Question Period

- Jim Beatty questioned if total fees charged to the Board during the period of November 19, 2015 to October 2016 for audit services and non-audit services in the amount of \$13,500 and \$5,400 were part of \$27,500 audit fees. Subsequent clarification was provided by Liz Chirico of BDO Dunwoody and communicated to Audit Committee members noting that the fees for assurance services totaling \$13,500 were comprised of the following: \$4,500 for 2016 interim audit work, \$1,500 for ABL (Adult Basic Literacy) audit work, \$2,500 for March Report, \$1,500 for OYAP audit and \$3,500 for Charity Works year-end audit. Further, \$5,400 was for assurance services for specified audit procedures on the employee benefits data and FTE costing workbook. Therefore, the \$13,500 was not the remainder of the 2015 audit fee.
- Trustee David Thompson questioned if there are common trends across all school boards. As per Dean Decaire, there are common trends such as decreases in enrolment numbers occurring provincially. Data analytics looks at trends and deviations.
Action: BDO will review data from three (3) other school boards and present at next Audit Committee Meeting
- Trustee David Thompson stated we are looking at partnerships with other government agencies and questioned how that would be reported from an accounting perspective. BDO recommends that school boards have a conversation with auditors regarding financial statements if entering into partnership agreements. Auditors review agreements to see if any partnership agreements have any effects on financial statements.
- External member Judy Kleinhuis questioned if auditors look at users and internal controls as part of audit as well as if capital assets are reviewed if schools are not disposed of. Dean Decaire confirmed that assets declared surplus are reviewed for their appropriate accounting treatment, if recorded at lower of cost or net realizable value. Although no impact on financial statements, such are reviewed.
- Currently one vacant property has been declared surplus as of March 31, 2016. Namely Victory Public School.
- Questioned if there are any risks for expense reports.

2.1 2015/2016 Planning Report to Audit Committee (Continued)
Dean Decaire and Liz Chirico, BDO Dunwoody

Action: Dean Decaire: bring forward specific test results performed as part of testing for expense reports

- Chair Jim Beatty questioned sufficiency of insurance coverage with OSBIE. As per Dean Decaire, this area is not one that auditors review.
- *Action: Dean Decaire: review insurance policies and coverage and bring back information at next Audit Committee Meeting*

2016-10-04 *Moved by Trustee Michelina Beam, seconded by External Member Judy Kleinhuis that the Audit Committee recommend to the Board of Trustees, to accept the Audit Plan for 2015-2016 as presented by BDO at the Audit Committee Meeting on October 19, 2016.*

CARRIED

2.2 2015/2016 Annual Audit Report

Melissa Dodge, Regional Internal Audit Manager provided an overview of the 2015/2016 Annual Internal Audit Report:

- Noted the report will be updated to reflect the Near North District School Board (report currently states Rainbow District School). Although Rainbow is stated on the report, Melissa Dodge advised the information in the report is that of the Near North District School Board.
Action: Melissa Dodge: Correct report and resubmit
- Online training occurred and is accessible on the OESC's website: <http://modules.ontarioschooltrustees.org/en/internal-audit-and-the-role-of-audit-committees.htm>
- The Regional Internal Audit Team supports eight (8) school boards in the region.
- The Team completed eight (8) audits in the region and follow up work on outstanding management implementation plans.
- Internal Audit Budget has deferred revenue in the amount of \$737,669, of which \$20,056 was used toward audits during the 2015-2016 school year. Deferred revenue is carried forward to the next fiscal year. Total budget used for 2015-2016 was in the amount of \$470,884.
- During 2015/2016, a School Generated Funds process review was continued to support a board that is currently in the process of implementing cashless accounting.
- Audits completed to date included 52 recommendations. As of August 31, 2016, of the 52 recommendations: 33 have been implemented,; 15 management action plans are past due and four (4) management action plans were not yet due or to be followed-up (IT back up).
- External Member Gary Jodouin questioned if internal audit can conduct review on insurance coverage that was brought forward to the attention of BDO earlier on the agenda. As per Melissa Dodge, there are Regional Teams across the Province that do these audits
Action: Melissa Dodge: Bring forward additional information about insurance audit at a future Audit Committee Meeting

2.2 2015/2016 Annual Audit Report (Continued)

- Chair Jim Beatty questioned next steps in moving forward with Management Action Plans which are past due or requires follow-up. Melissa Dodge, Internal Audit Manager, met with Superintendent Liz Therrien in August 2016 to review outstanding action plans and closed many of the outstanding recommendations. In terms of next steps, Melissa Dodge, Regional Internal Audit Manager, will meet with management in November and December to review outstanding action plans.

Action: Melissa Dodge: To touch base with management to provide up to late listing of outstanding recommendations and report back at the January 2017 Audit Committee Meeting

- Chair Jim Beatty questioned if we receive feedback from the Ministry to advise how we are doing as a school board and who evaluates audits and implementation plans. As per Melissa Dodge, there is no evaluation process. However, there is a self-evaluation process for the Audit Committee. In Melissa Dodge's observation, our school board is aligned with other school boards with the number of audits that have now been completed.

2.3 2016: SB31 – Ministry Memo – Update on Regional Internal Audit Consistency Measures

Melissa Dodge, Regional Internal Audit Manager provided an overview of the 2016: SB31 Ministry memo:

- A memo from the Ministry of Education was forwarded to Directors of Education and Senior Business Officials advising boards on measures being taken to promote more consistency amongst Regional Internal Audit Teams.
- Regional Internal Audit Performance Review consists of evaluation forms completed by 1. Each audit committee in the regions; 2. Each senior business official in the region and 3. Self-assessment by the RIAM (Regional Internal Audit Manager). This will help with evaluation of regional assessment.
- Regional Internal Audit Mandate has been updated. All school boards in the province should adopt updated version of the mandate in 2016/2017. The revised mandate should be presented at the audit committee annually and re-signed.
- Regional Internal Audit Coordinator identifies areas that have been difficult for audit teams. This position will continue to address concerns with regional internal audit structure in an effort to increase consistency and assist to standardize efforts, facilitate knowledge sharing between auditors, coordinate the development of a regional internal audit quality assurance and improvement program, organize the annual internal audit professional development conference, provide support and advise to the RIATs and mediate any disputes related to internal audit.

2.4 Regional Internal Audit Mandate

Melissa Dodge, Regional Internal Audit Manager provided an overview of the Regional Internal Audit Mandate:

- No concerns were expressed by the Audit Committee.
- Chair Jim Beatty questioned if we should review in detail at the next meeting. Given no issues were expressed, the Mandate was reviewed and will be signed by Director of Education and Chair of Audit Committee. It was further noted that Mandate needs to be posted to Board's website.

Action: Jim Beatty and Jackie Young: Sign and submit the Regional Internal Audit Mandate to Melissa Dodge, Regional Internal Audit Manager

3.0 OUTSTANDING ITEMS

- Trustee Michelina Beam questioned if there was an update on the payroll repository. Melissa Dodge, Regional Internal Audit Manager, advised that it is her understanding that the repository website may be ready and that an email has been sent out to advise how to access.
- Liz Therrien, Superintendent of Business has not received information from the Ministry with regard to payroll repository and has requested that Melissa Dodge provide link or copy of email as has not seen as of yet.

Action: Melissa Dodge: Forward additional information to Liz Therrien re: payroll repository

4.0 IN-CAMERA SESSION

2016-10-05 *Moved by Trustee Michelina Beam, seconded by external member Gary Jodouin that the Audit Committee move into Private Session at 6:12 p.m.*

CARRIED

5.0 RATIFICATION OF BUSINESS TRANSACTED IN PRIVATE SESSION

2016-10-09 *Moved by Trustee Michelina Beam, seconded by Trustee David Thompson that the Audit Committee ratify items from private session.*

CARRIED

6.0 ADJOURNMENT

2016-06-10 *Moved by Trustee David Thompson, seconded by External Member Gary Jodouin that the Public/Private Audit Committee Meeting of October 19, 2016 adjourn at 6:32 p.m.*

CARRIED

Jim Beatty
Committee Chair

Jackie Young
Director of Education