

Audit Committee Effectiveness: A Closer look at the SSBA Audit and Investment Committee

FEBRUARY 2020

Background

- At the SSBA Fall AGM in November 2019, Deloitte provided a presentation on Finance/Audit Committee Effectiveness.

<https://saskschoolboards.ca/events1/past-events/>

- Today, we will:
 - Review the key points on Finance/Audit Committee effectiveness
 - Provide you with detailed information about the SSBA's Audit and Investment Committee.

Recap of Key Areas of Finance/ Audit Committee Effectiveness

- Role of the Audit and Finance Committee
- Terms of reference
- Budget development and maintenance
- External audit and approval of the Financial Statements
- Internal controls and risk management

Role of the Audit and Finance Committee

- Financial:
 - Overseeing financial systems and internal controls
 - Recommend financial objectives and accounting policies to the board
 - Oversee investment policy and performance
 - Review and recommend annual budget for board approval
 - Review and recommend financial statements and reports for distribution
- Audit:
 - Helping to ensure that the audit is conducted in an efficient and cost-effective manner
 - Recommending to the board the independent auditor for appointment or replacement, approving and overseeing the independent auditor's activities, and approving the appropriate fee.
 - Oversee the internal and external audits
 - Recommending to the board approval of the annual audited financial statements
- Other
 - oversee risk management
 - facilitate integrated effective working relationships among all the parties responsible for the financial accountability of the School Board, including the board, this and other board committees, management, the external auditors and the Provincial Auditor

SSBA Audit and Investment Committee

Members of the Committee:

- Ken Kosolofski, CPA, CA (Chair)
 - external member with financial expertise to provide advice to the board
- Dr. Shawn Davidson
- Martin Prince, B.A., BSc.
- Melanie Sorensen



Staff Support:

- Catherine Vu, CPA, CA

Terms of Reference

Audit and Investment Committee
Terms of Reference

Purpose of the Committee:

The Audit and Investment Committee (Committee) provides general stewardship and oversight to the Association's audit and investment activity, functions and performance, and recommends audit and investment issues to be discussed by the Executive. Specifically, the Committee will:

- Primary responsibility for the financial reporting, information systems, risk management and day to day investment activity is vested in management and is overseen by this Committee.
- Provide financial oversight of the SSBA Insurance Plan, including making recommendations to the Executive on the management of investment funds, disposition of the self-funded loss pools, and recommendations on other policies related to the operation of the Insurance Plan.
- Provide financial oversight of the SSBA Employee Benefit Plan, including making recommendations to the Executive on the management of investment funds and recommendations on other policies related to the operation of the Employee Benefit Plan.

Background:

The Committee was established in 2014 as a standing committee of the SSBA Executive.

Composition of the Committee:

The Committee shall be composed of two members of the Executive, one member-at-large, and one external Financial Advisor to be appointed by the Executive. The Association Executive Director or Director of Corporate Services will attend meetings at the request of the Committee.

Roles and Responsibilities:

The Committee will be charged with the following advisory functions, duties and responsibilities with regard to investment:

1. Review and recommend to the Executive the Statement of Investment Policies and Goals.
2. Review and recommend to the Executive the appointment of investment managers.
3. Review the performance of the Association's investment portfolio.
4. Monitor the performance of the investment manager of the funds.
5. Monitor compliance with the Statement of Investment Policies and Goals and governing legislation.
6. Review investment portfolio investment comparisons.

The Committee will be charged with the following advisory functions, duties, and responsibilities with regard to finance, audit and risk management:

1. Review and recommend for approval of the Executive, the Association's audited financial statements and the content of the Annual Report.
2. Review and discuss:
 - a. the appropriateness of accounting policies and financial reporting practices,
 - b. any significant proposed changes in financial reporting and accounting policies and practices to be adopted by the Association,
 - c. any new or pending developments in accounting and reporting standards that may affect the Association,
 - d. management's key estimates and judgments that may be material to financial reporting.

Saskatchewan School Boards Association
Audit & Investment Committee
2020 Meeting Schedule
(Updated November 2019)

DATE/LOCATION	EVENT	POTENTIAL AGENDA ITEMS
Jan 15	Executive Strategic Planning Retreat	
Jan 16-17	Executive Meeting	
February 6 9:00AM – 1:00PM SSBA Boardroom Regina (and videoconference)	Audit & Investment Committee Meeting	<ul style="list-style-type: none"> • Review Q4 2019 investment results and cash flow • Executive and Staff Expense and Remuneration Report Jan-Dec 2019 (to present to BCC at Spring Assembly) • Review reserves • Review Committee Terms of Reference (21) • Obtain reasonable assurance that information systems are reliable and systems of internal controls are designed, implemented and managed appropriately (7) • Review the adequacy of accounting and finance resources (10)
Mar 5-6 Regina	Executive Meeting	
TBD Late March	Provincial Budget Day	
March 19 9:00AM – 12:00PM SSBA Boardroom Regina (and videoconference)	Audit & Investment Committee Meeting	<ul style="list-style-type: none"> • Review the adequacy of insurance resources (16) • Review and discuss insurance policies that are material to operating the SSBA Insurance Plan (17) • Review development of new or closure of existing self-funded loss pools (15) • Review actuarial valuation and/or funding analysis of loss pools (14)
Apr 6 Saskatoon	Executive Meeting	
Apr 7-8 Saskatoon	Spring Assembly	

Budget Development & Maintenance

- Budget preparation is about planning the corporate “to do” list for the coming year, then putting resources in place to do them.
 - The SSBA budget is based on the annual strategic plan approved by the Executive
- Financial reporting occurs regularly throughout the year where comparisons of actuals to budget is completed.

Budget Development

SSBA Annual Financial Cycle



External audit and approval of financial statements

Assets, Liabilities & Surplus

- Are there any new assets or liabilities?
 - If yes, why have they been added and do they make sense?
- Do balances make sense?
 - Are cash balances too low or too high?
 - Are accounts receivable growing? And do we have a collectability issue?
 - Do liabilities make sense?
- Surplus
 - What are the components of surplus – Total Capital Assets vs Operating Surplus
 - Do our internal reserves make sense?
 - How much working capital do we really have?

External audit and approval of financial statements

Revenues & Expenses

- Am I surprised?
- Are there any new accounts?
 - If yes, why have they been added and do they make sense?
- Do the types of revenues/expenses make sense to my knowledge of the School Division's operations?
 - Why has an account increased or decreased significantly compared to prior year and/or budget?
 - Percentage of Expenses Ratio's – Where is the School Division spending its money? Is this consistent with the School Division's strategic plan?
- What is significant?
 - Is there anything that will change how the School Division operates in the future?

External audit and approval of financial statements

Accounting disclosures

- Are you satisfied that the disclosures are complete and appropriate?
- Are there any complex matters disclosed in a way that is unclear, or prevents transparency?
- Is the revenue recognition disclosure adequate to ensure stakeholder understanding?
- Are all significant commitments disclosed? (for example: lease agreements, possible results of litigation, loan agreements...)

External audit and approval of financial statements

Significant accounting policies

- Are the major accounting policy matters identified?
- Are policy choices appropriate or aggressive? Consider specifically revenue recognition.
- Do they provide relevant and reliable information to the user?
- Are all transactions accounted for to allow comparability?
- If there has been a policy change does it provide more relevant information than the prior policy?
- Has the impact of any change on the financial statements and disclosures been clearly identified?

External audit and approval of financial statements

Other questions to ask

- Did you receive full cooperation and open access from management?
 - Good governance practice includes an in camera or closed session with the auditors.
- What was the cause of the errors identified, if any?
- What was the resolution of the work done around risks identified in the planning process?
- Specific questions on financial reporting and internal control?
- Is there good cooperation and planning between the external auditor?

External audit and approval of financial statements

Other questions to ask

- How is your audit firm addressing the consistency of execution?
- What are the business and industry risks our school division is facing that may affect financial reporting?
- What is your audit firm doing to assess our risk management processes that could affect financial reporting?
- Does your audit firm plan any significant changes in the scope of the audit compared to last year, and, if so, please provide details, including identifying the high-risk areas of our audit, and describing your firm's audit approach to them?
- What are some of the different business practices, customs and governance matters that have been identified in prior years and how is your audit firm mitigating these risks?

External audit and approval of financial statements

Other questions to ask

- Which areas of the School Division's operations does your audit firm believe are particularly susceptible to fraud, how has the firm modified its audit approach to address this risk and how does it determine whether any illegal payments are being made?
- How is your audit firm addressing IT risks in your audit approach and how would the firm rate our IT controls?
- In what areas is your audit firm maximizing collaboration with our internal auditors to fully utilize their knowledge of our risk and operating environments?
- How would your audit firm characterize the School Division's accounting policies compared to its peers (aggressive or conservative)?

External audit and approval of financial statements

SSBA Process

Selecting the external auditor

- External auditor is identified through an RFP process (at minimum every 5 years)
- The AIC reviews submissions and provides a recommendation to the Executive
- The Executive approves and appoints the auditor.

Audit planning

- The AIC reviews the annual audit plan each year with the auditors.

External audit and approval of financial statements

SSBA Process

Financial Statements

- SSBA staff prepares the financial statements in advance of the auditors completing their field work.
- The AIC receives draft financial statements prior to the completion of the audit and provides guidance to SSBA staff, as required.
- SSBA staff works with the auditors to complete interim and year-end audit field work.
- The AIC reviews the audited financial statements with the auditors.
- The AIC provides a recommendation to the Executive

Internal controls

- Were significant weaknesses in internal controls identified?
- Are internal controls sufficient to deter fraudulent activities?
- What improvements can be to internal controls to reduce the risk of fraud?
- Does the control structure of the organization consist primarily of preventative or detective controls?

Internal controls

Accountability questions to ask:

- Is there consistency to explanations and messages on performance across the financial statements?
- Are there sufficient safeguards against conflicts of interest?
- Are the procurement processes appropriate?
- What are the requirements for transparency and reporting in the public sector?
- Has there been cooperation between management and the external auditor?
- Do the audit findings or errors detected by the external auditors, in conducting their audits, support or contradict management's conclusion on the effectiveness of internal control?
- How can the Board of Education continually improve their communications with the external auditor and management?

Internal controls

SSBA Process

- Management confirms to the AIC and the auditors on an annual basis that internal controls are adequate. Examples include:
 - Cash controls are in place (e.g. dual signatories, segregation of duties, bank reconciliation, etc.)
 - Budgetary and expense controls are in place (e.g. financial signing authority guide, review of expenses exceeding thresholds, regular reporting to AIC and Executive including variance analysis, etc.)
- As part of the audit, the auditors review that processes adhere to the controls that management have put in place.
 - Review of financial policies
 - Management representation letter

Risk Management

- How effective is the process for identifying, assessing and managing business risks?
- How is risk management coordinated across the School Division?
- What are some early warning signs that the Board of Education should be looking for?
- Are there any indications of early warning signs in the current financial statements?
- What mechanisms does management use to monitor emerging risk? What are the early warning mechanisms, and how effective are they? How, and how often are they calibrated?
- Are there any anticipated government policy changes that will affect how the government exercises its directive power with respect to the School Division?

Risk Management

- What is going on in the world that could affect the School Division?
- How does the School Division monitor and evaluate changes in the external environment and their impact on Board of Education's strategy and risk management practices?
- Does scenario planning include both individual and aggregate risk views?
- How does the Board of Education ensure that the School Division is performing according to the budget and within appropriate risk tolerance limits?
- What information about the risks facing the School Division does the Board of Education get to help it fulfill its stewardship and governance responsibilities?
- How does the Board of Education know that the information it gets on risk management is accurate and reliable?

Risk Management

SSBA Process

- The SSBA Executive reviews its Enterprise Risk Management (ERM) and risk register on an annual basis.
- The ERM and Risk Register is provided to the AIC for information only, as the whole Executive completes this exercise.
 - The AIC may identify areas of risk. As Executive members sit on the AIC, this information is shared with the whole Executive.

Are we effective?



The Audit Committee can support the Executive by:

- Overseeing the integrity of the financial statements
- Overseeing the external auditor's qualifications and independence
- Overseeing the performance of the external auditor
- Overseeing the system of internal controls over financial reporting

Additional References

- CPA - Guidance and tools for audit committees:
<https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/enhancing-audit-quality/publications/guidance-and-tools-for-audit-committees>
- CPA - Oversight of the external auditor: Guidance for audit committees
<https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/enhancing-audit-quality/publications/external-auditor-oversight-audit-committee-guidance>
- Deloitte – Audit Committee Resource Guide
<https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-corporate-governance/us-aers-audit-committee-resource-guide-2018-041818.pdf>
- KPMG Audit Committee Handbook
<https://assets.kpmg/content/dam/kpmg/no/pdf/2017/11/ie-aci-handbook-2017.pdf>

Feel free to contact the SSBA Audit and Investment Committee for assistance!

Questions?



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