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**Saskatchewan School Boards  
Association**  
Finance/Audit Committee Effectiveness  
November 2019

## Finance/Audit Committee effectiveness

- Audit Committee
- Combined Audit and Finance Committee
- Terms of reference
- Budget development & maintenance
- External audit & approval of the Financial Statements
- Internal controls & risk management
- What about internal audit?

# The role of the Audit Committee

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## The role of the Audit Committee

The audit committee's responsibilities include:

- Helping to ensure that the audit is conducted in an efficient and cost-effective manner
- Overseeing financial systems and internal controls
- Recommending to the board approval of the annual audited financial statements and
- Recommending to the board the independent auditor for appointment or replacement, approving and overseeing the independent auditor's activities, and approving the appropriate fee.
- Although a governance best practice is to have separate audit and finance committees, in smaller organizations the finance or resources committee often assumes the audit committee's responsibilities

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# The role of the combined Audit and Finance Committee

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5

## The role of a combined Audit and Finance Committee

The committee typically will:

- review and recommend financial statements and reports for distribution
- oversee the internal and external audits
- recommend financial objectives and accounting policies to the board
- review and recommend annual budget for board approval
- oversee risk management
- oversee investment policy and performance
- 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

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6

## The role of a combined Audit and Finance Committee

Each member of the audit committee should be financially literate (able to read and understand financial statements), which can be learned through training and education, and, to the extent possible, there should be at least one financial expert (able to prepare financial statements.)

## Members of the Committee

- Internal Members
- External Members
- Voting Members
- Advisory Members

It is recommended that the Audit committee or combined Audit & Finance Committee have external members with financial expertise to provide advice to the board

# Terms of reference

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## Terms of reference

### **Sample Structure**

The audit committee consists of a minimum of three members, all of whom are members of the Board of Education, are independent of management and are financially literate.

Committee members are appointed for a two-year term.

The board shall appoint one of the committee members to be the committee chair.

The committee meets at least five times each year. The committee may choose to hold additional meetings if it considers them necessary for it to carry out its responsibilities effectively. If members cannot participate in person, they may participate in the meeting via the telephone.

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## Terms of reference

### Sample Structure

The independent auditor is to be provided notice of every meeting and is entitled to attend and participate in each meeting.

At each meeting, time is to be allocated for the committee to meet separately with management and with the independent auditor.

Minutes of each meeting must be prepared and circulated to the Board of Education within 14 days of the committee's meeting.

## Terms of reference

### Sample Responsibilities

The audit committee reports to the Board of Education. The audit committee has responsibility for:

1. Oversight of the reliability and integrity of the accounting principles and practices used by the School Division
2. The School Division's financial statements and other financial reporting, including:
  - a. Reviewing and discussing with management and the independent auditor the School Division's annual and quarterly financial statements
  - b. Recommending to the Board of Education approval of the audited financial statements
  - c. Reviewing major issues regarding accounting principles and financial statement presentation
  - d. Reviewing all critical accounting policies and practices, including all alternative treatments of financial information etc.

## Terms of reference

### Sample Responsibilities

3. Disclosure principles and practices followed by management.
4. Oversight of the independent auditor's qualifications, independence and performance, including:
  - a. Recommending the independent auditor for appointment or replacement to the Board of Education
  - b. Recommending compensation of the independent auditor to the Board of Education
  - c. Reviewing and pre-approval of all audit and non-audit services to be performed by the independent auditor
  - d. Reviewing the overall scope of the independent audit plan at least annually
  - e. Receiving all reporting from the independent auditor (i.e., the independent auditor reports to the audit committee)

## Terms of reference

### Sample Responsibilities

- f. Periodically reviewing the status and findings of the independent auditor's audit program
- g. Confirming the independent auditor's independence, including reviewing the School Division's hiring policies for employees or former employees of the independent auditor.
5. Overseeing management's establishment of an adequate system of internal controls and procedures and effective performance of those internal controls and procedures.
6. Establishing a whistleblower policy and oversight of the receipt, retention and treatment of complaints received regarding questionable matters.
7. Overseeing the performance of the internal audit function.
8. Other decisions delegated to it by the Board of Education (for example risk management or investment policy).

## Terms of reference

### **Sample Committee performance**

The performance and effectiveness of the audit committee and its individual members will be assessed annually as part of the board's evaluation process.




The board will review the committee's charter on an annual basis to ensure that it remains appropriate to the circumstances of the School Division.

# Budget development & maintenance



## Budget development & maintenance

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	What do we plan to do? What resources do we need to do it?	Budget Preparation
Planning	<hr/>	
	How we are doing? • Did we do what we said we were going to do? • Is our spending in line?	Budget Maintenance (regular reporting)
Actions	<hr/>	
	How did we do?	Financial Statements
Results	<hr/>	

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## Budget development & maintenance

- Budget preparation is about planning your corporate “todo” list for the coming year, then putting resources in place to do them.
- Some items are non-negotiable.
  - Legal agreements
  - Legislative requirements
  - Collective agreement provisions
  - Other
  - Long Term vs Short Term
- Some items are priorities based on your strategic plan – re-evaluate these each year

**Hardest choices are among equally good programs. This ultimately comes down to the directions set in your strategic plan.**

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## Budget development & maintenance

### Questions to ask:

- What are our non-negotiables?
- What are the priorities we are funding beyond the non-negotiables?
- What other priorities have been identified?
- How do our choices of priority fit with our strategic plan?
- Are we running programs that have accomplished their goals and now need to be celebrated and the funds reallocated to higher priorities?
- What do we do with priorities that don't fit into our budget?
- What do we do when we receive unanticipated funding?

## Budget development & maintenance

- Spending money is checking off your “to-do” list
- Expenditure patterns:
  - 12 months – Administration salaries, maybe Teacher salaries
  - 10 months – Other Salaries, Maintenance contracts
  - Beginning of Semester – School and Office supplies
  - Irregular and Weather related
- Cash flow

### Questions to ask:

- What is the expenditure pattern for our major expense items?
- Is our remaining budget sufficient?
- What haven't we spent?
- Do we have any miss-matches between cash inflows and cash out flows? How do we manage those?

# External audit & approval of the Financial Statements

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## External audit & approval of the Financial Statements

### **The Audit Committee can Support the Board of Education 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



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## External audit & approval of the Financial Statements

### Assets, Liabilities & Surplus

#### Questions to ask:

#### 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 – TCA vs Operating Surplus
- Do our internal reserves make sense?
- How much working capital do we really have?

## External audit & approval of the Financial Statements

### Revenues & Expenses

#### Questions to ask:

#### 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 & approval of the Financial Statements

### Accounting disclosures

Ensure disclosures are complete and appropriate.

#### Questions to consider:

- 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 & approval of the Financial Statements

### Significant accounting policies

Ensure understanding and comfort with the significant accounting policy choices reflected in the financial statements.

#### Questions to consider:

- 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 & approval of the Financial Statements

### Other questions to ask

In addition to specific questions on the financial reporting you should discuss the execution of the audit and any changes from the audit plan as previously presented. Professional standards require the communication of a number of matters which will provide the basis for most discussion

### Questions to consider:

- Did you receive full cooperation and open access from management?
- 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 & approval of the Financial Statements

### Other questions to ask

1. How is your audit firm addressing the consistency of execution?
2. What are the business and industry risks our school division is facing that may affect financial reporting?
3. What is your audit firm doing to assess our risk management processes that could affect financial reporting?
4. 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?
5. 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 & approval of the Financial Statements

Other questions to ask

6. 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?
7. How is your audit firm addressing IT risks in your audit approach and how would the firm rate our IT controls?
8. In what areas is your audit firm maximizing collaboration with our internal auditors to fully utilize their knowledge of our risk and operating environments?
9. How would your audit firm characterize the School Division's accounting policies compared to its peers (aggressive or conservative)?

## Internal control & risk management

## Internal control & risk management

### Internal control responsibilities

The Board of Education has a responsibility to oversee management's assessment of internal control over financial reporting

To fulfill this responsibility, the Board of Education must, at a high level, understand how controllable risks are managed and be familiar with the processes and controls management has put in place.

This is a key area where the Audit Committee can help support the board.



## Internal control & risk management

### Questions

The Board of Education probes to gain satisfaction that the School Division has adequate internal controls over its major risks:

- 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?

**What could go wrong?**

**Who will stop it?**





## Internal control & risk management

### Accountability questions to ask

In addition to fulfilling its responsibilities, the Board of Education can ask questions to ensure that the Board of Education and management are held accountable.

Questions to consider:

- Is there consistency to explanations and messages on performance across the financial statements?
- Are there sufficient safeguards against conflicts of interest?
- Are the School Division's 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 control & risk management

### Risk management responsibilities

Board of Education are responsible for financial risks and overseeing the process for identifying and addressing those risks

There is a responsibility to discuss risk assessment and risk management policies with management

## Internal control & risk management

### Risk management questions to ask

To assist in fulfilling risk management responsibilities, the Board of Education should consider asking:

- 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?

## Internal control & risk management

### Risk management questions to ask

- 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?

# What about internal audit?

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## What about internal audit?

1. Should our School Division have an internal audit function?
2. How does Internal Audit maintain its independence and objectivity?
3. To whom should Internal Audit Report?
4. What are the top priorities in the Internal Audit plan?
5. How should management be held accountable to address/resolve audit findings?
6. How should Internal Audit deal with concerns of management (and even Board) misconduct?
7. How does Internal Audit determine what risks and control issues should be reported to the board?
8. Effectively utilizing the in-camera session, "Are there any other matters that you wish to bring to the Board's attention?"
9. How should the Board evaluate Internal Audit function?

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## Sources and resources

### Sources

- Deloitte The Effective Not-for-Profit Board
- Saskatchewan School Boards Association Governance Handbook for School Board Members
- CPA "20 Questions" Series
- CPAB Top 10 questions audit committees should ask their auditors

### Resources

- Centre for Corporate Governance
  - [www.corpgov.deloitte.ca](http://www.corpgov.deloitte.ca)
- DeloitteLINK
  - [www.deloitte.com/ca/DeloitteLINK](http://www.deloitte.com/ca/DeloitteLINK)
- Deloitte Update
  - [www.deloitte.com/ca/update](http://www.deloitte.com/ca/update)
- Directors' Series
  - [www.deloitte.com/ca/DirectorsSeries](http://www.deloitte.com/ca/DirectorsSeries)
- Standard-Setting Activities Digest
  - [www.deloitte.com/ca/standards](http://www.deloitte.com/ca/standards)

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