HALTON CATHOLIC DISTRICT SCHOOL BOARD

AUDIT COMMITTEE MEETING AGENDA

CHAIR: D. Morton
RESOURCE: A. Lofts

Date:	May 25, 2021
Time:	7:30 pm
Location:	Microsoft Teams

HALTON CATHOLIC DISTRICT SCHOOL BOARD CDSB

MINUTES OF THE AUDIT COMMITTEE MEETING

Date:	November 26, 2020
Time:	7:45 pm
Location:	Teleconference via TEAMS
Committee Members Present:	D. Morton, Chair, External Member J. Fahrer, External Member P. Murphy, Trustee Representative V. Iantomasi, Trustee Representative P. DeRosa, Trustee Representative
Committee Members Excused:	N/A
HCDSB Staff Present:	P. Daly, Director of Education and Secretary of the Board A. Lofts, Superintendent of Business Services and Treasurer of the Board A. Cross, Senior Manager, Financial Services
Invited Guests:	J. Baker, Manager, Regional Internal Audit Team (RIAT) M. Fisher, External Auditor, KPMG D. Marks, External Auditor, KPMG J. O'Hearn-Czarnota, Trustee
Recording Secretary:	K. Jones

1. Call to Order

1.1 Opening Prayer

The meeting opened with a prayer led by P. Murphy.

2. Approval of the Agenda

Moved By: V. Iantomasi
Seconded By: J. Fahrer
RESOLVED that the agenda be accepted as presented.

The Chair called for a vote, and it ***UNANIMOUSLY CARRIED.***

3. Declarations of Conflict of Interest

None.

4. Approval of Minutes - Audit Committee Meeting September 17, 2020

Moved By: V. Iantomasi
Seconded By: P. DeRosa
RESOLVED, that the minutes of the September 17, 2020 meeting be accepted as presented.
The Chair called for a vote, and it ***UNANIMOUSLY CARRIED.***

5. Presentations

None.

6. Business Arising from Previous Meetings

None.

7. Action Items

7.1 2019-20 Draft Audited Financial Statement (A. Lofts, A. Cross)

A. Cross reviewed the Financial Statements and the Notes to the Financial Statements. He reported that the financial statements are prepared by staff and then audited by the Board's external auditors, KMPG. Questions were asked and answered. D. Morton thanked the fiancé team for their hard work and dedication.

Moved By: P. Murphy
Seconded By: J. Fahrer

RESOLVED, *that the Audit Committee approve the 2019-20 Draft Audited Financial Statements for submission to the Board of Trustees at the December 1, 2020, Regular Board Meeting.*

The Chair called for a vote, and it ***UNANIMOUSLY CARRIED.***

7.2 2019-20 Audit Committee Annual Report to the Ministry

Moved By: V. Iantomasi
Seconded By: P. Murphy

RESOLVED*, that the Audit Committee approve the 2019-2020 Audit Committee Annual Report for submission to the Board of Trustees and forwarded to the Ministry of Education.*

The Chair called for a vote, and it ***UNANIMOUSLY CARRIED.***

8. Reports / Discussion Items

8.1 Compliance Report (A. Lofts)

On an annual basis, the Audit Committee is required to obtain confirmation from the Director of Education that all statutory requirements have been met as prescribed under Ontario Regulation 361/10 of the Education Act.

8.2 2019-20 Treasurer's Annual Investment Report (A. Lofts)

A. Lofts presented the Treasurer's Report.

8.3 Proposed 2020-21 Meeting Dates (A. Lofts)

Committee members are in support of a meeting in February / March 2021. K. Jones to email proposed dates.

9. Standing Reference Items

9.1 Ministry's Timing of the Audit Committee's Key Activities and proposed Audit Committee Meeting Agenda Topics

9.2 Ontario Regulation 361/10

10. Resolution re Absentees

None.

11. Adjournment

Moved By: P. DeRosa
Seconded By: P. Murphy
RESOLVED that the meeting move to Closed.

The Chair called for a vote, and it **UNANIMOUSLY CARRIED**.

Moved By: P. DeRosa
Seconded By: P. Murphy
RESOLVED that the meeting adjourn.

The Chair called for a vote, and it **UNANIMOUSLY CARRIED**.

The meeting adjourned at 9:45 pm.

Audit Committee Meeting

Action Report

2020-21 Year-End Audit Planning Report from KPMG	Item 7.1
May 25, 2021	

Alignment to Strategic Plan

This report is linked to our strategic priority of **Foundational Elements:** Optimizing organizational effectiveness.

Purpose

To provide the Audit Committee with the 2020-21 Year-End Audit Planning Report from KPMG, the Board's external auditors, and to recommend that it be forwarded to the Board of Trustees for approval.

Comments

1. The 2020-21 Year-End Audit Planning Report from KPMG is attached as Appendix A.

2. The Draft Financial Statements and the Audit Findings Report will be presented to the Audit Committee on November 11, 2021, and will go to the Board for approval on November 16, 2021.

3. A Ministry Memorandum regarding the 2020-21 Financial Statements Forms is expected to be released in September and will be forwarded to Audit Committee members.

4. 2020-21 completed Education Finance Information System (EFIS) forms are due at the Ministry by November 15; however, the Audited Financial Statements will not be brought forward to the Board of Trustees until the November 16, 2021, Regular Board Meeting. Therefore Staff will inform the Ministry that the Financial Statements will be submitted after receiving Board approval.

RECOMMENDATION	*Moved by:*
	Seconded by:

***RESOLVED**, that the Audit Committee approves the External Auditor's 2020-21 Year-End Audit Planning Report for submission to the Board of Trustees at the June 1, 2021, Regular Board Meeting.*

Report Prepared by:	A. Cross Senior Manager, Financial Services
Report Submitted by:	A. Lofts Superintendent of Business Services and Treasurer of the Board
Report Approved by:	D. Morton Chair, Audit Committee

Halton Catholic District School Board

Audit Planning Report
for the year ending
August 31, 2021

KPMG LLP

Licensed Public Accountants

Prepared May 17, 2021 for
presentation at the Audit Committee
meeting on May 25, 2021

kpmg.ca/audit

KPMG

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KPMG contacts

The contacts at KPMG in connection with this report are:

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Our refreshed Values

What we believe

Integrity

We do what is right.

Excellence

We never stop learning and improving.

Courage

We think and act boldly.

Together

We respect each other and draw strength from our differences.

For Better

We do what matters.

Executive summary

What's new in 2021

COVID-19 – COVID-19 is continuing to have an impact on many organization's operations, processes, internal controls and financial reporting. Our audit will consider the impacts of COVID-19 on Halton Catholic District School Board's (the "School Board") financial statements and internal controls. Potential financial reporting and audit implications have been detailed on pages 2 – 3.

New auditing standards – There is a new auditing standard that will have a significant impact on the audit of estimates *CAS 540, Auditing Accounting Estimates and Related Disclosures*. The new standard is applicable to all audits in Canada with fiscal year ends ending on or after December 15, 2020. This new standard is further described on page 4.

Audit, business and other risks

Our audit of the School Board is risk-focused. As part of our audit planning, we identify the significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we establish an overall audit strategy and effectively target our audit procedures.

Based on our assessment of the Board's operations as well as our experience with the organization in the past, we have not identified any unique significant financial reporting risks. This initial assessment will be re-evaluated upon the completion of our interim and year-end audit procedures.

These include:

- Revenue recognition
- Tangible capital assets and deferred capital contributions
- Accounts payable and accrued liabilities
- Retirement and other employee future benefits
- Expenses including salaries and benefits

See pages 5 – 7

Audit materiality

Materiality has been determined based on 2020 audited total expenses. We have determined materiality to be $8,300,000 for the year ending August 31, 2021.

See page 9.

Independence and Quality Control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols. We will also re-confirm our independence when we present our Audit Findings Report.

Current developments and audit trends

As previously discussed, *PSAS 3280 – Asset Retirement Obligations* is a new standard released in April 2018 which provides guidance on recognition, measurement, presentation and disclosure of obligations associated with the retirement of tangible capital assets. The application of this section was delayed one year as a result of COVID-19. Therefore, this standard will be effective to fiscal years beginning on or after April 1, 2022 (the School Board's August 31, 2023 year-end). Bailey Church, Partner, Accounting Advisory Services, is assisting KPMG's clients across Ontario with implementation of this standard. We will work with management to provide the expertise and assistance to ensure the School Board is prepared for implementation.

See Appendix 2 for KPMG's Public Sector Minutes from the December 2020 Public Sector Accounting Board meeting which is relevant to the School Board. Please refer to Appendix 5 and 6 for various links to recent Thought Leadership publications of interest for management and members of the Audit Committee.

This Audit Planning Report should not be used for any other purpose or by anyone other than the Audit Committee, Board of Directors, and Management of the School Board. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

COVID-19: Embedding Resilience & Readiness

COVID-19 has continued to have an impact on the School Board's operations and financial reporting. The following are potential implications with respect to financial reporting, disclosures, and internal controls that will need to be considered throughout our interim & yearend procedures to determine if they have impacted the School Board. Our overall approach will be consistent with the fiscal 2020 audit. The listing below is all-encompassing and not all items are expected to be applicable to the School Board.

Potential financial reporting implications

Refer to our [COVID-19 Financial Reporting]() site:

- Events or conditions that cast significant doubt regarding going concern
  - Determining plans to mitigate such conditions or events (e.g., debt restructuring)
  - Evaluating ability to carry out those plans in light of the current conditions
- Impairment of non-financial assets (e.g., PPE, intangible assets)
  - Analysis of triggering events and impairment testing (e.g. cash flow forecasts and assumptions)
- Impairment of financial assets (e.g., financial instruments)
- Hedge accounting
- Fair value measurements
- Employee benefits and employer obligations
- Government assistance
- Provisions, contingencies and onerous contracts
- Subsequent events

Potential implications on internal control over financial reporting

- Reconsideration of financial reporting risks, including fraud risks, given possible new pressures on management or new opportunities to commit fraud given changes in internal control over financial reporting ("ICFR") or to bias estimates
- New or enhanced controls, including those that may need to occur at year-end, to respond to new financial reporting risks or elimination of on-site preventative controls
- Consideration of changes in the individuals performing the control
- Consideration of the appropriateness of segregation of duties because of a potential reduction in the number of employees
- Reconsideration of ICFR impacts related to broader IT access given remote work arrangements

Potential financial reporting implications related to disclosures

Refer to our [COVID-19 Financial Reporting]() site:

- Events and conditions that cast significant doubt regarding going concern (including "close calls")
- New accounting policies
- Significant management judgements in applying accounting policies
- Major sources of estimation uncertainty that have significant risk

Other potential considerations

- Reporting material changes in ICFR
- Cyber security risks (e.g., wire transfers schemes)
- Possible delay in finalizing annual financial statements

COVID-19: Embedding Resilience & Readiness (continued)

Similarly, COVID-19 continues to be a major consideration in the development of our audit plan for your 2021 financial statements. The following are potential implications which will need to be considered to determine the impact on our audit approach. The assessment of the impact on our audit approach may have to be updated as we approach the year end timing.

Potential audit implications

Planning and risk assessment

- Understanding the expected impact on the relevant metrics for determining materiality (including the benchmark) and the implication of that in identifying the risks of material misstatement, responding to such risks and evaluating uncorrected misstatements
- Understanding the potential financial reporting impacts, the changes in the School Board's environment, and changes in the system of internal control, and their impact on our:
  - identified and assessed risks of material misstatement
  - audit strategy, including the involvement of others (e.g., our internal specialists or use of internal audit's work or internal audit in a direct assistance capacity) and the nature, timing and extent of tests of controls and substantive procedures including evaluation of additional funding received, and evaluation of the impact on operating expenses.

Executing

- Remote auditing
  - Increased use of other collaboration tools (Zoom, Microsoft Teams, Skype, KPMG's Clara, etc.) and the need for written management acknowledge for their use
  - Potential increased use of electronic evidence (and understanding the School Board's processes to provide such evidence to us)
- Timing of procedures may need to change

Reporting

- No foreseen concerns at this time regarding financial reporting.
- We will keep the Audit Committee apprised of anything that comes to our attention that may impact our reporting.

New audit standards

New auditing standards that are effective for the current year are as follows:

Relevant factors affecting our risk assessment

Complexity Estimate Related party transaction

Standard	Key observations	Reference
CAS 540, Auditing Accounting Estimates and Related Disclosures **Effective for audits of Entities with year-ends on or after December 15, 2020**	This revised auditing standard is required to set a globally consistent approach for the audit profession. As estimates become more complex, the revised standard will assist auditors in critically assessing estimates and their elements and design sufficient and appropriate procedures to address those elements. Expected impact on the audit: – more emphasis on the need for exercising professional skepticism – more granular risk assessment to address each of the components in an estimate (method, data, assumptions) – more granular audit response designed to specifically address each of the components in an estimate (method, data, assumptions) – more focus on how we respond to levels of estimation uncertainty – more emphasis on auditing disclosures related to accounting estimates – more detailed written representations required from management We anticipate there being incremental work associated with the adoption of this standard for the upcoming year-end audit both on our engagement team and on the part of management to ensure we appropriately consider and implement this requirement.	CPA Canada Client Briefing

Audit risks

Relevant factors affecting our risk assessment

Complexity Estimate Related party transaction

Professional requirements	Why is it significant?
Risk of material misstatement due to fraud resulting from fraudulent revenue recognition.	This is a presumed risk of material misstatement due to fraud. Audit standards require us to assume there are generally pressures & incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition. This can be perpetrated through revenue cut-off or manual journal entries and other adjustments related to revenue recognition. This audit risk is rebuttable.
Risk of material misstatement due to fraud resulting from management override of controls.	This is a presumed risk of material misstatement due to fraud. We have not identified any specific additional risks of management override relating to this audit. This audit risk is not rebuttable.

Our audit approach

We have rebutted the fraud risk over revenue recognition due to the fact that the School Board's performance is not measured in terms of year-over-year revenue growth. Additionally, there are limited perceived opportunities to commit fraud due to the fact that revenue transactions do not involve elements of significant judgment, and the majority of revenues come from provincial grants which provides direct confirmation of cash flowed to the School Board. We have also not identified any indicators that management possesses the attitude, character or ethical values that would result in knowing and intentional dishonesty.

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions.

Audit risks (continued)

Areas of Audit Focus

The following accounts have been identified as significant accounts, and our audit work will be focused on these items that represent the majority of assets, liabilities, revenues and expenses for the Board.

Significant account	Our audit approach
Cash Investments Investment income	– Confirmation with third parties for cash and investments – Review of bank reconciliations and vouch significant reconciling items to supporting documentation – Review of restrictions and disclosures
Government grants Accounts and grants receivable Deferred revenue	– Perform substantive analytical procedures over revenues and related accounts – Evaluate revenue recognition, revenue restrictions, deferral and presentation considerations – Vouch a selection of revenue transactions to supporting documentation to verify restrictions, if any – Direct confirmation of amounts received and receivable from the Ministry.
Capital assets Deferred capital contributions	– Significant additions / disposals vouched to supporting documentation – Assessment of assets for write-down – Amortization / interest on long-term debt, and amortization of deferred capital contributions recalculated – Examination of supporting documentation related to restriction of funds intended for capital asset additions and treatment of proceeds from any disposed contributed assets
Accounts payable and accrued liabilities Non-payroll expenses	– Perform substantive analytical procedures over payables and non-payroll expenses – Significant accruals vouched to supporting documentation – Search for unrecorded liabilities – Evaluate completeness and valuation of the liability for contaminated sites, if any
Long-term debt	– Confirmation of debt balances with third parties

Audit risks (continued)

Significant account	Our audit approach
Salaries and benefits Employee future benefits	– Test and evaluate design and operating effectiveness of controls related to payroll monitoring controls – Significant payroll-related accruals recalculated and vouched to supporting documentation – Perform substantive analytical procedures over salaries and benefits, and related accounts – Receipt and analysis of the actuarial report to independently verify employee future benefit accruals – We will review the assumptions used in the valuations and perform audit procedures on the underlying employee data provided to the actuary in the year of full valuation – A Lean in Audit session is recommended over the salaries and benefits process. We will work with management to perform a Lean in Audit process review at a mutually beneficial time over the next few months. Please refer to Appendix 4 for further details on KPMG's exclusive Lean in Audit approach and methodology.
Other revenues	– Perform substantive tests of details on other revenues and related accounts – Vouch a selection of other revenue transactions to supporting documentation – For amounts receivable at year-end, we will inquire of management as to the collectability of the receivable balance
Accumulated surplus	– Significant additions and disbursements vouched to supporting documentation – Ensure purpose-specific restrictions are recognized and accounted for appropriately
Contingencies	– Review of the Board of Trustees and Audit Committee meeting minutes and legal correspondence – Direct communication with external legal counsel to ensure that all significant contingent liabilities are appropriately disclosed and/or recorded
Financial reporting	– Review by the engagement team of the Financial Statements prepared by the School Board's management to ensure the disclosure is consistent with current public sector accounting, disclosure requirements, as well as industry practice.

These areas of audit focus may be revised because of new transactions or events at the School Board or changes in systems, people or structure, and/or the results of our audit procedures. We will communicate any changes to the Audit Committee in our Audit Findings Report.

Additional audit-related work

KPMG will perform the following services in addition to the audit of the consolidated financial statements of the School Board either as a required deliverable per the engagement letter, or per request from the Audit Committee.

Additional audit work required to support our audit opinion on the financial statements	
School generated funds and enrolment testing	KPMG will perform an analysis utilizing computer-assisted audit techniques on fund balances followed by discussion with management. We will select a sample of schools to audit school generated funds on a more granular level to obtain audit evidence over the adherence to the School Board's policies regarding school generated funds. We will report our findings in the Audit Findings Report and provide a Management Letter to management and the Audit Committee.

Other audits	
Ontario Youth Apprenticeship Program	KPMG will perform the audit of the Schedule of Revenue and Expenditures of the Ontario Youth Apprenticeship Program for the year ended August 31, 2021.
7th Month Specified Procedures	KPMG will prepare the Accountants' Report with respect to the period September 1, 2021 to March 31, 2022 7-month procedures as required by the Ministry of Education.
Literacy and Basic Skills	KPMG will perform the audit of the Statement of Revenues and Expenditures of the Literacy and Basic Skills Program for the year ended March 31, 2022.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

Materiality determination	Comments	Amount
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year was $8,400,000.	$8,300,000
Benchmark	Based on prior year audited total expenses as at August 31, 2020. The use of this benchmark is consistent with the prior year.	$417,938,949
% of Benchmark	The corresponding percentage for the prior year's audit was 2.0%.	2.0%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was $6,300,000.	$6,225,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the prior year was $420,000.	$415,000

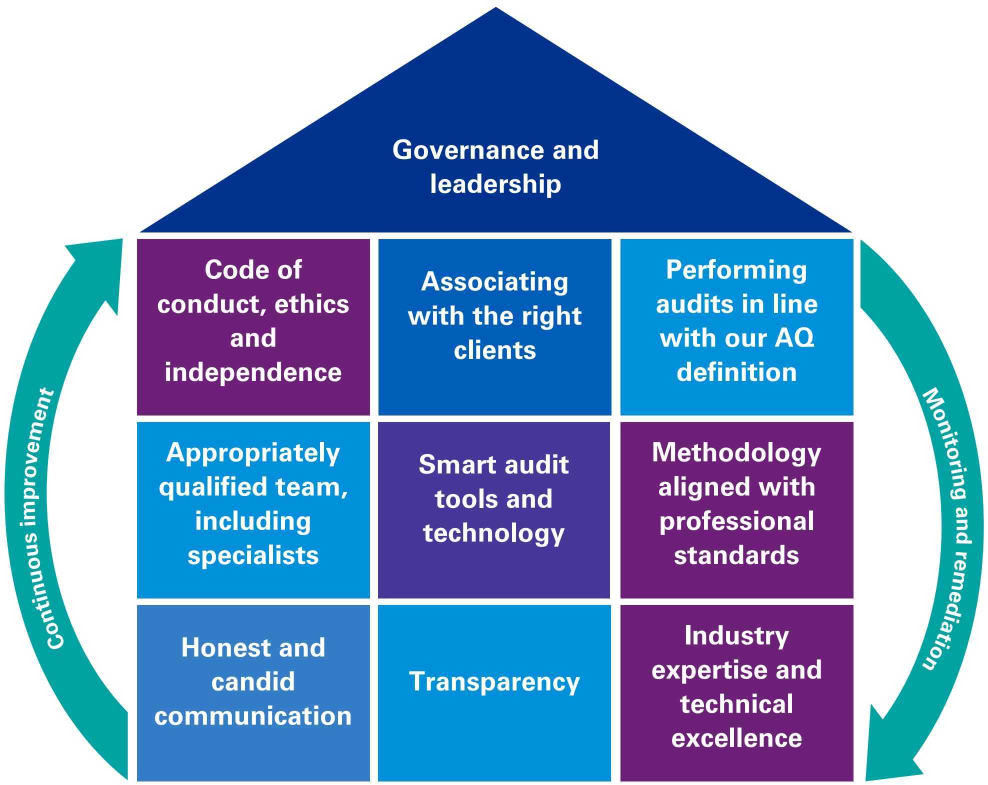
Materiality is used to scope the audit, identify risks of material misstatements and evaluate the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors. To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

We will report to the Audit Committee:

- Corrected audit misstatements
- Uncorrected audit misstatements

Audit quality and transparency

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.   Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarizes the key elements of our quality control system.



Audit Quality Framework

What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

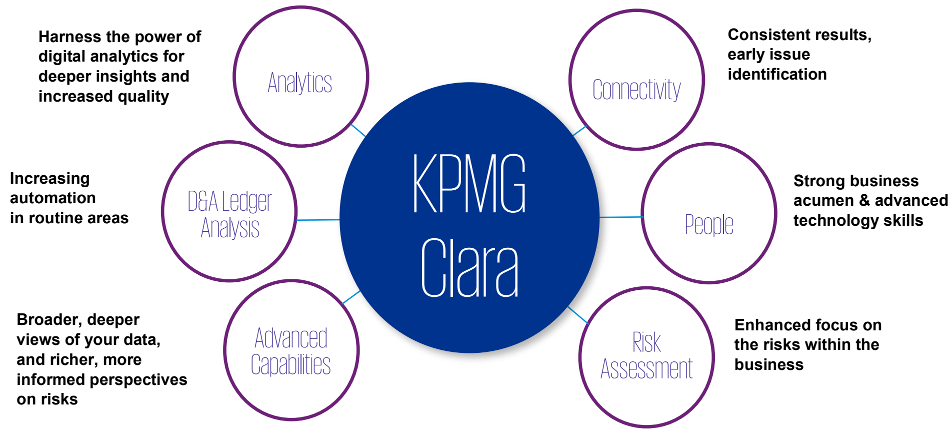
- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls, and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics,** and **integrity**.

Our AQ Framework summarises how we deliver AQ. Visit our Audit Quality Resources page for more information including access to our Audit Quality and Transparency report.

Audit quality and transparency (continued)

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

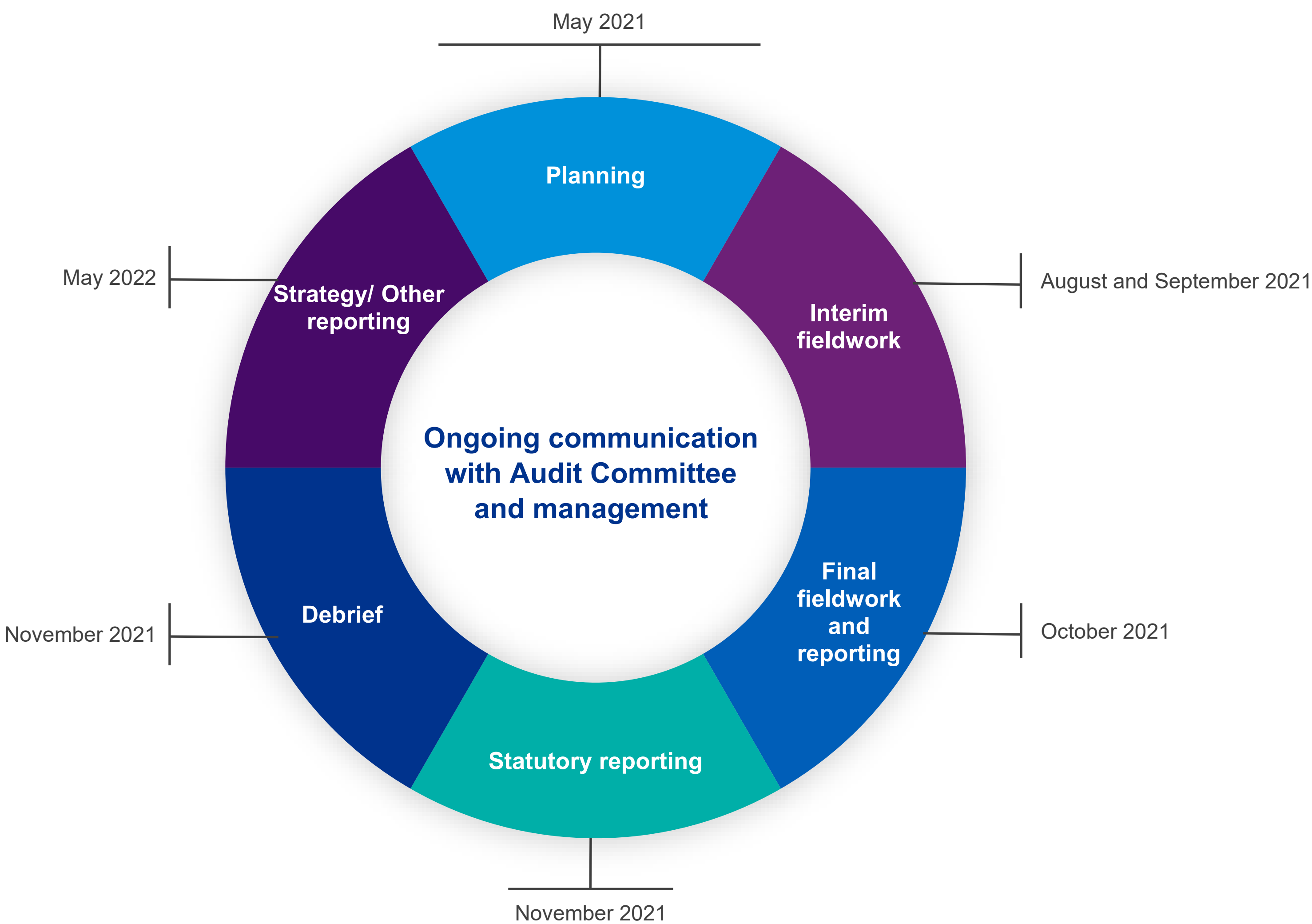
Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today

Tool	Benefit to audit
KPMG Clara Client Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.
Data & Analytics Routines	We will use D&A to increase our precision in testing school generated funds as described on page 8. This will allow us to audit school generated funds at a disaggregated level and will assist in identifying outliers which we will focus our testing to these anomalies.
Data Extraction & Analytics Tools	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.

Key deliverables and milestones



Appendices

Content

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

Audit Planning Report	Engagement terms
This report.	The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amended letters.
Audit Findings Report	**Representations of management**
At the completion of our audit, we will provide our Audit Findings Report	We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Audit Committee.
Independence	**Internal control deficiencies**
At the completion of our audit, we will re-confirm our independence with the Audit Committee.	Other control deficiencies, identified during the audit, that do not rise to the level of a significant deficiency will be, communicated to management.
Required inquiries	**Audit Quality**
Professional standards require that during the planning of our audit we obtain your views on the identification and assessment of risks of material misstatement, whether due to fraud or error, your oversight over such risk assessment, identification of suspected, alleged or actual fraudulent behaviour, and any significant unusual transactions during the period.	The following links are external audit quality reports for referral by the Audit Committee: • CPAB Audit Quality Insights Report: 2019 Annual Inspections Results • CPAB Audit Quality Insights Report: 2019 Fall Inspection Results >

Appendix 2: KPMG's Public Sector Accounting Minutes – January 2021 (see attached document)

Appendix 3: KPMG's audit approach and methodology

Collaboration in the audit
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team.

Issue identification
Continuous updates on audit progress, risks and findings before issues become events.

Data-driven risk assessment
Automated identification of transactions with unexpected or unusual account combinations – helping focus on higher risk transactions and outliers.

Deep industry insights
Bringing intelligence and clarity to complex issues, regulations and standards.

Analysis of complete populations
Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes.

Reporting
Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions.

Appendix 4: Lean in Audit™ (please also see attached document)

An innovative approach leading to enhanced value and quality

Our innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and management. For example, we may identify control gaps and potential process improvement areas, while management has the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit employs three key Lean techniques:

1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.

2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 5: Additional Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	**Learn more**
The business implications of coronavirus (COVID-19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	**Learn more**
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	**Learn more**
Accelerate 2019/20	Perspective on the key issues driving the Audit Committee agenda	**Learn more**
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	**Sign-up now**
Current Developments	Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US	**Learn more**
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	**Learn more**

Appendix 6: KPMG's Thought Leadership - Accelerate

KPMG

Accelerate

The key issues driving the audit committee agenda in the time of COVID-19

New world, new reality.

Kristy Carscallen, Canadian Managing Partner, Audit, KPMG in Canada

Our world has fundamentally changed because of the COVID-19 pandemic. Economic recovery will depend upon business being able to navigate this new environment and remain resilient. Management, boards and audit committees each have a role to play in leading their organizations forward through these times.

For many businesses, COVID-19 has been a great accelerator and transformation is taking place at breakneck speed. For others, months into the pandemic, they are moving from short-term business continuity and crisis plans to managing through ongoing uncertainty. Going forward, audit committees will be challenged to monitor, respond and adapt.

Issues that demanded attention before the pandemic have taken on new urgency. In this year's KPMG Accelerate campaign we look at some of the most important challenges facing audit committees right now. Risk management is the overarching theme — firms will need to look at how they've responded to the pandemic and ask themselves what they might need to do differently in the future.

In our Accelerate series, subject matter experts from across KPMG in Canada provide thought-provoking insights on the issue of risk management in a number of key areas: cyber risk; internal control of financial reporting, disclosure and regulation; digital disruption and the future of the finance function; enterprise risk management; and the evolution of environmental, social and governance issues.

> "A key to great oversight — and great leadership — is not to necessarily have all the answers, but to ask the right questions."

As organizations rapidly implemented new work from home models in response to the pandemic, it hastened their plans to initiate or accelerate digital transformation programs. This has placed organizations at greater risk of cyber threats and audit committees must ensure management is monitoring these risks and implementing proper controls.

Prior to the pandemic, there was already a growing emphasis on environmental, social and governance issues (ESG), with multiple stakeholders, including institutional investors, demanding that organizations devote more attention to them. There are also new developments in the move to create universal ESG metrics and reporting standards that companies can report on regardless of their industry or region. Since ESG issues are a useful way of getting the full picture of an organization's risk profile, audit committees will play a key role in this oversight effort.

Each organization will find a unique path to navigating these times and dealing with the key issues facing audit committees. But many of their challenges will be similar and many of their questions will be the same. In each section of our series, our experts highlight some of the questions audit committees should be asking themselves right now. After all, a key to great oversight — and great leadership — is not to necessarily have all the answers, but to ask the right questions.

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Rising to the challenge of a new risk environment

ICFR, disclosure and regulation in a time of disruption

Jim Newton, Audit Partner, Financial Institutions, and Co-Leader, Board Leadership Centre, KPMG in Canada

The key to handling uncertainty is asking the right questions. This can help audit committees spot issues in internal controls over financial reporting (ICFR) and ensure their organizations are satisfying regulatory requirements with timely and appropriate disclosures.

With the abrupt move to remote work in mid-March, regulators were concerned about changes that needed to be made to processes and internal controls. But it was a common, albeit not universal, experience of organizations that, because they were already using electronic systems for record-keeping and communication, there weren't material changes to their ICFR.

Regardless of their initial experience, ICFR is an iterative process, so organizations will need to continue monitoring for issues. This could include establishing a risk register in which they can log concerns and the changes made to address them. At the end of the quarter, an assessment can be made as to whether any changes to ICFR were material and need to be disclosed.

In the early days of the COVID-19 pandemic, there was wide variation in the depth and detail of disclosures. Now, there's much more publicly available financial reporting that organizations can use to benchmark disclosures against their peers, and regulators may question disclosures that stray too far from the mean. Audit committees will also need to monitor changes in regulation and ensure these are discussed with management, external auditors and legal counsel.

Tackling uncertainty

One of the main challenges to ICFR and disclosure in the current environment is the heightened uncertainty that has been introduced to accounting estimates and forecasts. It can be tempting to believe that existing models will not be helpful because the pandemic is unprecedented, but these models remain the best starting point. To adapt these models, management can use expert judgement and apply overlays to account for what in the current data is not reflected in the models.

Audit committees will want to thoroughly question and understand the process that management has used to arrive at those estimates. For example, they will want to determine if there has been a sensitivity analysis, how wide the range is, what point has been picked in that range, why it was picked and why it's the best estimate.

But the uncertainty in these numbers can heighten the risk of material misstatement. To be satisfied they're free of bias, additional questions will need to be asked if the point is always at the high or low end of the range. Regulators and other stakeholders can be expected to scrutinize the methods and assumptions used to arrive at these numbers and thorough disclosure will be necessary.

> “Organizations may be given a pass this time because very few predicted this pandemic, but they may not get a pass the second time — so what are they going to do differently?”

Jim Newton
Audit Partner, Financial Institutions,
and Co-Leader,
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Thinking differently about risk

Organizations need to start thinking in a new way about risk. They may have been given a pass this time because very few predicted this pandemic, but they may not get a pass the second time — so what are they going to do differently?

Audit committees will need to keep their knowledge base current and understand where the risk points are. Cyber risk isn't new but is now of greater importance. Environmental, social and governance (ESG) issues have also been growing in prominence; within the ESG framework, social issues have taken on greater importance during the pandemic.

Risk has always gone beyond cyber — but even more so in today's connected world. We need to enhance the conventional, two-dimensional way of looking at single points of risk in terms of their likelihood and severity and start looking at the interconnectivity of risks and the interplay between them — both globally and at an organizational level. This will require much more robust statistical and scientific analysis of data. While not directly within the purview of audit committees, lack of attention to the well-being of employees may present an ICFR risk. Employees experiencing excessive stress in the new work environment may become less vigilant about adhering to processes or oversight. And they might be more tempted to commit fraud with more opportunities and a greater ability to rationalize the behaviour in the current environment.

Overseeing your oversight

Audit committees will be asking internal audit leaders about their plans for the coming year, considering the new circumstances. Similarly, the pandemic may affect the scope and timing of external audits. For instance, any forecasts that result in a large change in income may affect materiality calculations and the work that needs to be done. And, particularly for far-flung operations, adaptations for remote work will need to be made.

The current level of uncertainty is daunting. But an audit committee can feel comfortable that they've done their job if they've been given a robust presentation, asked the right questions and are satisfied with the answers.

What should audit committees be asking?

- How has management arrived at its estimates? Did it conduct a sensitivity analysis, and, if so, what was the range and where is it within that range?
- What is our risk program doing to anticipate risks and the interrelationship between them at both a macro and micro level?
- What are our regulators doing and does this create an extra burden for us?
- What is our internal auditor's plan for the year given all this uncertainty?
- How are our external auditors adapting to the current circumstances such as working from home?

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ERM: Building a risk-resilient organization

Uncertain times provide an opportunity to pressure-test and future-proof the business to manage existing and emerging risks

Edouard Bertin-Mourot, Partner, Risk Consulting, KPMG in Canada

The COVID-19 pandemic has caused global disruption that is testing businesses' financial, operational and commercial resilience. Against this backdrop, organizations have had to mobilize swiftly and operate in new ways, making decisions to protect their assets and adapt to this evolving environment — from activating business continuity planning and protecting people to managing cash and liquidity.

While these strategies have allowed some organizations to further build resilience, there are structural and long-term implications that need to be better understood. A unique challenge for organizations is to progress from business continuity and crisis plans — typically designed for days and weeks — to manage and succeed through a period of extended uncertainty.

The changing ERM landscape

Businesses were already working hard to remain relevant in the face of transformative trends such as relentless technology innovation and changing customer expectations. COVID-19 is arguably accelerating these trends, where digitalization, remote working, tighter information security and supply chain rationalization may well become 'the way we do things.'

In addition to the pandemic, other risks have the potential to make or break organizations, such as geopolitical shifts (trade tensions, security threats), climate change and sustainability (greener technologies, chronic weather changes), disruptive technologies (artificial intelligence and the Internet of Things) and cyber threats.

The journey to this new reality will likely take a different trajectory across organizations and sectors. Some industries will need to transform by modifying their business-as-usual practices or even going through a hard reset (due to permanent market changes). Others may conversely benefit from exponential growth as altered customer behaviours are sustained in their favour.

In this climate, audit committees need to ensure leadership is pressure-testing and future-proofing their business model to manage existing and emerging risks — and to take advantage of emerging opportunities. With great uncertainties still ahead, they must take another look at the increasingly intertwined strategic and risk decision frameworks that hold it all together.

Why standard risk management doesn't work anymore

The maturity of an organization's resilience has real potential to dictate success or failure. Standard risk management, often siloed, static, focused on discrete events and residing several levels below top decision-makers, is just not good enough.

COVID-19 has revealed how connected our world is: We live in multiple intertwined networks, both physical and digital. In simple terms, it means that elements of a network interact with each other, and any change in one area of that network can and will influence the rest

> "The maturity of an organization's resilience has real potential to dictate success or failure. Standard risk management, often siloed, static and focused on discrete events, is just not good enough."

Edouard Bertin-Mourot
Partner, Risk Consulting
KPMG in Canada

of the network — similar to the chain analogy where the strength of a chain is only as strong as its weakest link.

While connectivity offers opportunities — social media connects people and the Internet connects ideas and knowledge — it also presents risks. COVID-19 has demonstrated the significant risks of being part of a network, as it continues to affect all aspects of our life from health and wellbeing to the economy, employment and financial markets. The Great Depression, dot-com bubble, 9/11 and 2008 financial crisis were all disruptive events that created unprecedented, severe aggregate downside scenarios.

Connecting the dots for true risk management

Risk lies in the gap between the highly interconnected world we live in and traditional risk management programs. Audit committees need to connect the dots and bridge that gap to drive greater value, insights and accuracy from their risk management. They need to develop true strategic risk management capabilities by integrating them with strategy development.

Imagine a risk management scenario that recognizes an organization not as a single 'entity' but rather as one, if not several, complex networks. Imagine if risks aren't managed in isolation; they're analyzed by how they aggregate and influence each other to uncover key pain points. Imagine if risk management goes beyond 'known knowns' to identify extreme scenarios or stress events that would put the organization at risk.

Risk management is not about being immune to every risk, but rather being prepared and resilient to adverse events. If there's a silver lining to COVID-19, it's that organizations are now looking at overall resilience, extreme scenarios and risk interconnectivities. And there's a renewed focus from the board and management in building resources and analytical capabilities for future risk and resilience.

What should audit committees be asking?

- What are our key strategic objectives and how much risk is the organization willing to take in order to achieve these objectives?
- What are the key networks in which the organization operates in? What are the critical interconnectivities or dependencies?
- What factors could create extreme stress to the organization?
- How resilient is the organization to withstand such extreme events, while remaining nimble to opportunities in light of uncertainties and changing circumstances?
- How is the organization working across the risk function, compliance, technology and business continuity planning to manage risks and increase overall resilience?

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Digital transformation opens door to more cyber risk

Cyber threats and attacks have only increased since the start of the pandemic, particularly ransomware and COVID-themed phishing attacks

John Heaton, Partner, Cybersecurity Advisory Services, KPMG in Canada

As organizations move toward remote work, digital processes and cloud-based technology, the levels of risk they are exposed to naturally increase. Add a global pandemic into the mix and those risks have been even further exacerbated.

The audit committee plays a crucial role in overseeing risk management activities and monitoring management's preparations to respond to cyber threats. These responsibilities include assessing cyber-risk mitigation investments and how the organization will respond in the event of a breach.

Three cybersecurity challenges in the COVID-19 era

Audit committees should be aware of three major challenges facing organizations in the realm of cyber risk: the move to digital processes; the move to cloud; and an increasing number of cyber threats and attacks. These challenges existed before the COVID-19 pandemic, but the abrupt, unplanned migration to remote work arrangements — including digital processes and cloud-based technology — at the start of the pandemic has opened the door to additional risk.

Almost overnight, organizations moved their digital transformation into overdrive. Everyone — whether adequately prepared, willing or not — started using video conferencing platforms, enterprise collaboration solutions and consumer social media applications, often from home-based Wi-Fi that employees might be sharing with the rest of their family. In many cases, core business operations now happen on home-based IT, where there are weaker security controls in place. And, an organization's security team (if one exists) is now tasked with managing security outside of the office and in employees' homes.

Cyber threats and attacks have only increased since the start of the pandemic, particularly ransomware and COVID-themed phishing attacks. These prey on people's anxieties and insecurities, enticing them to click on links related to vaccines or financial support, for example. There are costs associated with these attacks, both from downtime and potentially from the loss of data, but there are also soft costs, such as reputational damage. Some organizations might not even be aware they've been attacked and their data is up for sale on the dark web. In many organizations, it's therefore up to the audit committee to ask whether the right controls are in place to detect and thwart such attacks and challenge management into taking the necessary steps to ensure their organization's digital assets are safeguarded.

With the move toward remote digital processes and cloud-based technology, audit committees need to consider how the organization's risk tolerance may have changed (and how that's being monitored). A year ago, they may not have considered running enterprise applications in the cloud. Today, faced with fewer alternatives given the pandemic, they might be willing to accept more risk.

> "People may be the weakest link in your organization's cybersecurity efforts but they can also be your best line of defence. Organizations need to ensure their employees are educated on cyber risks and what to do if they're the victim of an attack."

John Heaton
Partner, Cybersecurity
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Taking control over existing and emerging risks

Audit committees should make sure management has considered what's being done, or could be done, to monitor existing and emerging risks and put additional controls in place where necessary. This includes controls to authenticate and validate anyone who accesses the network, whether they are employees, suppliers or customers, as well as assurance from cloud service providers that proper security controls are in place.

People may be the weakest link in an organization's cybersecurity efforts but they can also be the best line of defence. Organizations need to ensure their employees are educated on cyber risks and what to do if they're the victim of an attack. For example, if they're the victim of a ransomware attack while working remotely, do they know who to call and what to do? The IT team can put the best tools and technologies in place to secure the organization's data, but if an employee clicks on a malicious link, none of it matters.

Ultimately, cyber risk is a business problem, not an IT problem, and should be ranking high on the audit committee agenda to monitor and challenge management on how they are managing risk. Security used to involve building a virtual fortress around a physical building to protect the IT infrastructure within it. But with workers at home and data in the cloud, there is no fortress anymore. This may be our 'new' reality, but organizations aren't likely to go back to the fortress once employees get used to the convenience of on-demand cloud applications they can access anytime, anywhere.

Dealing with cyber risk, during COVID-19 and into the future, means audit committees will need to ensure the organization's processes are robust as they move further into this digital, cloud-based world. But there's value in doing this. There's opportunity in cloud and digitization to transform the business and be better prepared for whatever is to come.

What should audit committees be asking?

- How have we changed our cyber risk tolerances, monitoring tools and processes with the move to a digital world?
- How are we ensuring that we have appropriately authenticated and validated users, customers and partners who use our digital tools?
- How have we evaluated the risks of cloud solutions when moving from an on-premise solution?
- How do we obtain assurance that the cyber controls are in place and performed at the cloud provider?
- How have we educated our people and enhanced our processes to take account of the new reality of working to identify and respond to these new threats?

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Digital disruption and the future of the finance function

Emerging technologies offer huge benefits but bring new risks

Chris Hough, Partner, Management Consulting, KPMG in Canada

Organizations have more data than ever before. At the same time, there are new tools and technologies that allow them to consume, process and analyze that data to make more informed decisions. That's raised expectations for the finance function to provide more insights to stakeholders, including the audit committee.

Most organizations were already on the path to digital transformation, or at least thinking about it, before the pandemic hit. But COVID-19 has forced them on that path, whether they were ready or not. More than ever before, a successful enterprise is a "Connected Enterprise."

During COVID-19, many finance functions moved from forecasting monthly or quarterly to forecasting on a weekly, daily or even hourly basis. This amplified the need for the right tools and processes as audit committees saw their organizations struggle to generate timely, accurate forecasts.

While the finance function still requires a core transactional system, there are other complementary technologies that enable greater analysis and insight. The challenge is figuring out how to piece together these technologies into an ecosystem that will support what you need to do without driving unnecessary complexity.

Making the move to cloud

While organizations rushed to create instant work-from-home (WFH) solutions, this wasn't necessarily done in a systematic way. Moving to the cloud is a more sustainable, flexible solution for key finance applications, but it isn't easy to do in a short period of time. The priority for finance functions now is to mature those pandemic-driven fixes into more permanent solutions, including the cloud.

Recognizing WFH as the new normal, organizations need to either replace those 'duct tape and baling wire' solutions with something more fit for purpose for the long term or invest in new solutions they weren't able to do in the rush to deliver on immediate needs.

The rise of artificial intelligence

Forecasting and predictive analytics through emergent technologies such as artificial intelligence, cognitive and machine learning are also changing the game. In the early days of COVID-19, these cutting-edge solutions didn't always perform well because there was no previous precedent to learn from — we'd never experienced anything like this before. Now that we're further along in the pandemic cycle, the technology is catching up. Intelligent forecasting solutions are able to do a better job of identifying the underlying drivers of performance and more accurately predict future results.

To support the finance function's controllership and stewardship mandate, AI and machine learning also have huge potential in terms of risk management. With these disruptive technologies, we're moving towards 100 percent sampling, where tools can analyze every single transaction processed in a given year. They can immediately identify any anomalies, patterns or unusual transactions worthy of more human-centric investigation. This will be useful for risk identification and mitigation as much as it will be for forecasting and forward-looking analysis.

> "For audit committees, AI and machine learning have huge potential to identify potential risk and provide greater insights."

Chris Hough
Partner, Management Consulting
KPMG in Canada

Keeping an eye on blockchain

We hear about blockchain a lot in the finance function. As a distributed ledger technology, there's an obvious use case for blockchain in finance: reliably tracing and authenticating transactions either within or between organizations. But before this can happen, there needs to be greater alignment around which distributed ledger platforms will be adopted as the standard, and how they will be used. That takes time.

In the world of audit, blockchain has huge potential to be a certifiable, lock-tight source of data, but that evolution is going to take longer than some of these other disruptive technologies. While the finance function should consider diving into all emerging technologies, there is greater short-term momentum behind cloud and AI than blockchain.

It's important to be intentional about these investments in innovation. Since the ROI is less certain, you can expect to have some fast fails — but if you're not investing in innovation, then you risk being left behind. Organizations finding that right balance between investment and cost containment will be key to weathering the COVID-19 storm and coming out on the other side stronger than their competitors. As the owners of the capital budget and forecasting process, finance has a critical role to play in ensuring that the right investment profile is maintained, and business cases are robust.

What should audit committees be asking?

- Is the finance function comfortable with the risk profile and the level of investment in innovation within the capital plan?
- Do our people have the right skills to manage innovation and new technologies?
- What are the risks if we fall behind on our plans to digitally transform?
- Are there any risks related to COVID-19 we should be thinking about retrospectively as we close our books for the year?

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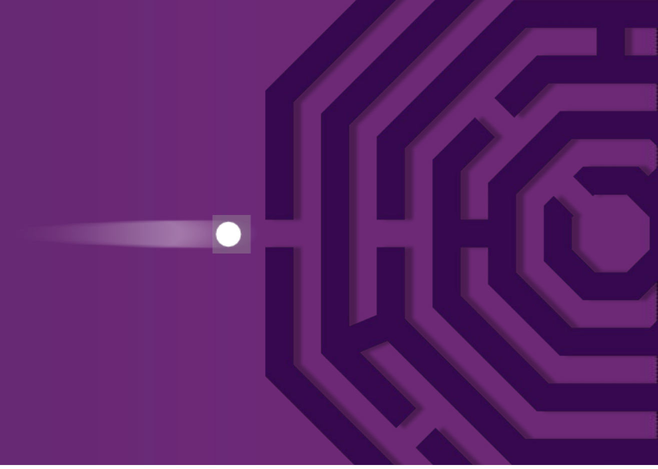

The evolution of ESG and disclosures

Social issues now take centre stage

Roopa Davé, Partner, Sustainability and Impact Services, KPMG in Canada

The types of risks facing organizations have evolved tremendously over the past decade. Ten years ago, economic risks dominated the Global Risk Report by the World Economic Forum (WEF), which identifies the top threats facing our world by likelihood and extent of impact. In the 2020 report, seven of the top 10 risks by likelihood and eight of the top 10 risks by impact are related to environmental, social or governance (ESG) issues.

Topics such as climate change and social inequity are transforming the business environment and driving the evolution of ESG risks and opportunities for organizations. Stakeholders — including investors, regulators, customers and employees — increasingly expect organizations to manage the impacts of these issues.

Audit committees have a key contribution to make. An organization's strategy to manage and report on ESG performance links to essential functions of the audit committee, including governance, reporting and disclosure, risk management and internal controls.

COVID-19 has significantly influenced how stakeholders and organizations approach ESG. While climate risk has remained front and centre, the impacts of the pandemic have been well documented and now place social risks on an equal footing in their ESG priorities. In KPMG's 2020 Canadian CEO Outlook report, 76 percent of Canadian CEOs agree that they need to take a lead role in driving change on societal issues, and 64 percent say the pandemic has shifted their focus to the social component of ESG.

Despite the recognized importance of ESG performance and reporting, many organizations are overwhelmed and challenged by the array of existing ESG standards and frameworks – there remains an overall lack of a universally accepted approach. Regulators, investors and third-party ESG ratings providers often request different disclosures or data, leading to a lack of consistency and comparability. Audit committees need to stay attuned to what's happening in this rapidly evolving and overcrowded space.

The drive to standardize

Important developments occurred in September 2020, all aimed at tackling the patchwork approach to reporting. The International Business Council of WEF, working closely with KPMG and other accounting firms, recommended a universal set of material ESG metrics and disclosures for companies. Further, the International Federation of Accountants called for the creation of an International Sustainability Standards Board alongside the International Accounting Standards Board under the IFRS Foundation. Finally, five of the organizations which have created ESG-related standards and frameworks announced a shared vision for a comprehensive corporate reporting system and a commitment to collaborate to achieve it.

While momentum continues to build for a common set of consistent and comparable social and environmental metrics, audit committees can't afford to wait for a global consensus. Institutional investors already expect organizations to follow best practices and industry-specific guidelines set out by such organizations as the Sustainability

> "Audit committees play a critical role in ensuring that companies understand the growing investor attention on ESG and how these issues affect business risk, performance and access to capital."

Roopa Davé
Partner, Sustainability and Impact Services
KPMG in Canada

Accounting Standards Board and the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

Investors care about ESG

An increasingly significant stakeholder group is the institutional investor who is steadily adopting sustainable investing strategies and, in some cases, moving towards investor activism. The United Nations Principles for Responsible Investment, representing 2,300 institutional investors with more than $85 trillion in assets under management, states that many are now calling for a more human-centric model, or perhaps a "new social contract" for business, that addresses the economic and health impacts, as well as the inequalities of current systems.

As access to capital is becoming more reliant upon the approach taken by these institutional investors, audit committees need to ensure that the organization is identifying, managing and responding to ESG risks and opportunities, both within the organization and within the broader value chain. Audit committees should play a role in ensuring that management conducts a prioritization assessment to identify which ESG topics matter most to both stakeholders and the organization, and uses these to guide their reporting and disclosure strategy.

The role of the audit committee

The audit committee's deep understanding of internal controls, policies and reporting puts it in a good position to challenge management, including the finance function, to develop systems and processes for ESG risk and opportunity identification, create resilient strategies to manage these risks and seize these opportunities, and develop metrics and reporting to monitor these topics.

What should audit committees be asking?

- What are the ESG frameworks, management standards and reporting standards most commonly adopted in our industry and jurisdiction?
- What are the ESG disclosure requirements of our providers of capital and are we adequately responding to their needs?
- Are material ESG risks and opportunities sufficiently integrated into our strategy, and are we staying up to speed on how management is progressing toward achieving related targets?
- Are material ESG risks sufficiently integrated in our ERM framework, and do all three lines of defence sufficiently understand these non-traditional risks?
- Do we obtain any assurance over ESG data? Are we aware of what is being assured and by whom?
- Do we understand how emerging ESG issues may be transforming our business environment, and what the impact could be on our strategy and business model?

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Public Sector Accounting Minute

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January 2021

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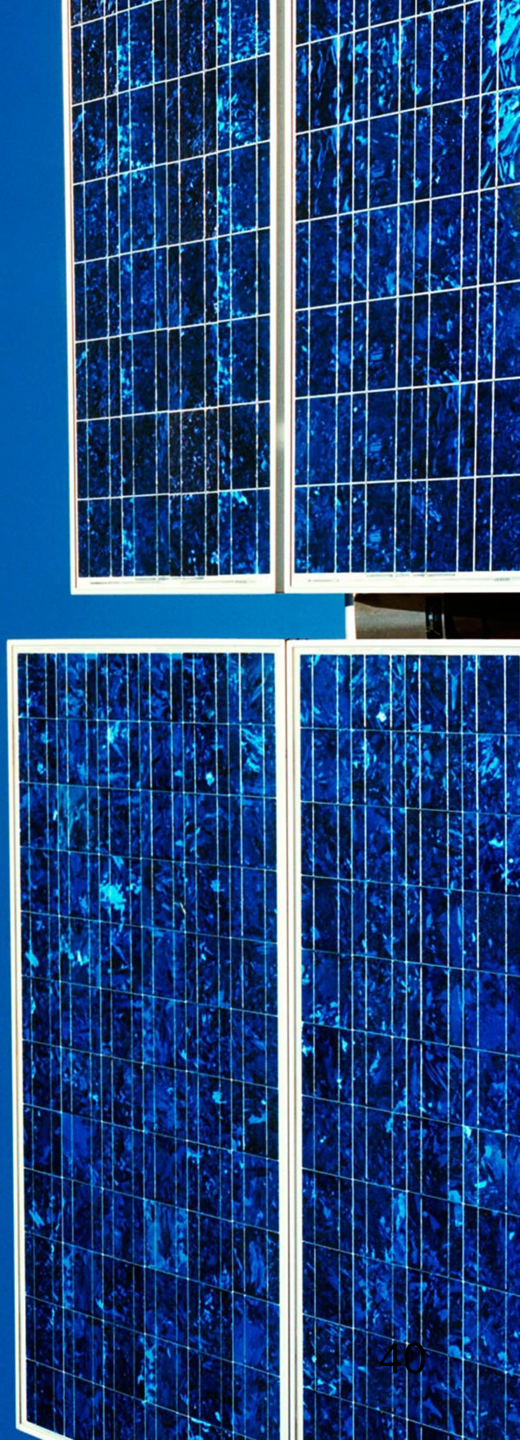

Agenda

Public Sector Accounting Board December 2020 Session

– Session Highlights

– Don't Miss – New Developments

Public Sector Accounting Discussion Group November 2020 Session

– Session Highlights

Time to Think About

– Thoughts to shape your new year reporting priorities

Public Sector Accounting Standards Update

Highlights

The PSAB Board has had a very busy agenda at its recent sessions. New Chair Clyde MacLellan recently provided a Fall update, which summarizes a lot of the good work underway:

Link to the fall update

The Fall update outlined 5 key initiatives coming in the new year:

1. **Conceptual Framework and Reporting Model:** Expect exposure drafts on the proposed Conceptual Framework and Reporting Model, as this project heads into a final round of consultations. This model will set the foundation for future standards developments. The exposure drafts should be out in January 2021, with comments due by mid-May 2021.
2. **Government Not-for-Profit Strategy:** A second consultation paper is coming from the Board on its Government Not-for-Profit (GNFP) strategy, detailing the path for GNFP reporting going forward. The paper should be out in January 2021, with comments due by mid-May 2021.
3. **International Strategy:** Earlier this year, PSAB voted to reference International Public Sector Accounting Standards (IPSAS) principles when developing future PSAS standards. This landmark move will be implemented April 1, 2021.

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Highlights

4. **Next Strategic Plan:** The Board is both working to complete the objectives in its [2017-2022 Strategic Plan], and consulting with stakeholders on the next five-year plan.

5. **Connect.FRASCanada.ca:** The Board has launched a new online community platform, which will make it easier for stakeholders to take part in the standard-setting process.

Key insights: These initiatives will be important to the standard setting process going forward. It is critical that stakeholders make their voices heard, as our standards for the foreseeable future will be shaped by the discussions in 2021.

Highlights

The Board's December agenda was very full, with a number of projects linked to these key initiatives:

Public Private Partnerships ("P3"): The Board considered and approved final handbook section PS 3160, Public Private Partnerships, and the associated Basis for Conclusions document and Consequential Amendments. Expect to see the final section released by April 2021.

Key insights: It is great to see this handbook section approved. Special thanks to the experts who volunteered their time for this project over the past 5 years, as well as the PSAB staff who worked hard to guide us through the project. In 2021, public sector entities should create an inventory of what may qualify as a P3 arrangement for their entity in preparation of this new handbook section. Public sector entities should be prepared to review the accounting for their existing P3 arrangements, and evaluate whether they are consistent with the requirements of PS3160.

Highlights

Financial instruments: The Board approved final amendments and Basis for Conclusions for narrow scope amendments related to Presentation and Foreign Exchange.

Key insights: These amendments are intended to address certain concerns from senior governments on the application of this standard. Key concerns raised in the past have included the applicability of the standard to the federal government's foreign currency account. These amendments are expected to be very specific to these stakeholder concerns, and will likely not have a significant impact on other public sector entities.

Employment Benefits: The Board considered the Employment Benefits project, including the approach to core topics. In its June 2020 session, the Board committed to a principles-based employment benefits standard, which would be made available through multiple releases. The first release exposure draft is expected for 2021, and focuses on foundational issues including deferral provisions and discount rate guidance. Principles from International Public Sector Accounting Standard (IPSAS) 39, Employment Benefits are being used as a starting point. IPSAS 39 was issued to maintain convergence with IAS 19, Employment Benefits.

Key insights: IPSAS 39 removed deferral provisions for the recognition of changes in the net defined benefit liability, otherwise known as the corridor approach. The standard also emphasized that discount rates should reflect the time value of money, in reference to currency and estimated term of the post-employment benefit obligations. IPSAS 39 also amended certain disclosure requirements. It will be interesting to see how many of these principals carry over to the PSAB exposure draft.

Highlights

Other Business: The Board reviewed the Interim 2020-21 Performance Report, and the 2021-22 Annual Plan and Risk Assessment. An update on the strategic planning process was also provided. The Board's response letter on the IFRS Foundation Trustees' Consultation Paper on Sustainability Reporting was also reviewed.

Key insights: Sustainability reporting has become a heightened priority for many public sector entities. A strong body of guidance is developing internationally with respect to standards and frameworks, including the work of the Sustainability Accounting Standards Board. PSAB's voice is critical to represent the interests of Canadian public sector entities. Additional interpretative guidance may also benefit our public sector community.

Don't Miss - New Developments

Purchased Intangibles: The Board has released Public Sector Guideline 8, to provide guidance regarding purchased intangibles. Effective for fiscal years beginning on or after April 1, 2023, this guideline enables public sector entities to recognize intangibles acquired through an arm's length exchange transaction as an asset where they meet the asset definition and the general recognition criteria in PS 1000, Financial Statement Concepts.

Modification of Canadian GAAP Hierarchy: The Board has recently issued an Exposure Draft regarding the Proposal to Modify the Canadian Public Sector GAAP Hierarchy. This includes items not covered by primary sources of GAAP or assistance in applying a primary source of GAAP to specific circumstances. Stakeholders can submit comments up to February 15, 2021:

Link to the exposure draft

Public Sector Accounting Discussion Group

PSADG November Session

The Discussion Group debated a few impactful matters at its November session:

GNFPs: Changing Financial Reporting Frameworks: The focus of the discussion was on circumstances where a GNFP could change its government organization type to reclassify as a GBE (Government Business Enterprise) or an OGO (Other Government Organization). The Discussion Group considered the relevance of the requirement in the GNFP definition for an entity to have counterparts in the private sector. The Discussion Group also considered the impact on the classification of an entity as a GNFP if it has controlled entities that earn a profit. CRA's guidance around registered charity business activities was noted as helpful and comparable guidance for GNFPO may help clarify some of these questions.

Key insights: This is a very relevant matter for many GNFP's, who have profit-oriented controlled entities linked to their overall not-for-profit mandate. Consideration needs to be given to the substance of the entity at the consolidated level. The nature of its mandate and purpose needs to be balanced with the financial results. Where controlled entities are earning a profit, the attention should be on two things: (1) Is that profit consistent over a multi-year period? (2) How significant is that controlled entity to the overall consolidated operations? Organization type cannot be determined based on the trends in one year alone.

PSADG November Session

Effective dates and transitional provisions were discussed for two general application standards, Sections PS 3200 (Liabilities) and PS 3210 (Assets). In particular, it was noted that no method of application (i.e., prospective, retroactive) is indicated in either section. The Discussion Group posed two questions: (1) If a public sector entity is already accounting for an asset or liability because of the general application standards and then a new specific Public Sector Accounting Standard (PSAS) is issued for that type of asset or liability, what effective date applies? (2) Since the method of application is not specified in either general application standard, should these standards be applied retroactively or prospectively?

Key insights: This debate highlights why PS2120 should be considered for an update. Transitional provisions are becoming increasingly complex, and many new standards are building in their own modifications to the transition provisions to supplement PS2120.

A roundtable on emerging issues was hosted.

Key insights: A great new initiative from the Discussion Group that considered several matters which may influence the Board's strategic plan going forward.

Time to Think About…

Time to Think About

As we close out 2020, and head into 2021, lets take a pause and consider some of the things that might shape your finance priorities.

Have you thought about the following?

- With Asset Retirement Obligation (“ARO”) implementation projects in full gear, have you considered the connection between your asset management systems and processes and ARO’s? This isn’t a one-shot implementation – your processes need to sustain ARO reporting every year. Incorporating this within your asset management system is the best way to position yourself for success.
- You should be building an audit binder to support the assumptions and process you are following for ARO’s. This will be key to answer the auditor’s challenge on completeness. Its also vital for your cost factors applied for ARO measurement!
- There are a number of new standards coming into effect over 2022 and 2023 – ARO’s, Revenues and Financial Instruments are all significant undertakings, and many entities may wish to recognize assets under the Purchased Intangibles guidance. Don’t leave it all to the last minute – consider early adoption of 1-2 of these standards to clear your plates.
- The remote working environment has brought some lasting changes to our processes. Have you challenged your processes to make sure they are efficient and effective in this environment? For example, if your chart of accounts is not effectively designed, or your reporting processes too manual, it strains your finance team. Efficiency makes your finance team nimble and more responsive, and better able to meet the challenges ahead.

KPMG

Questions?

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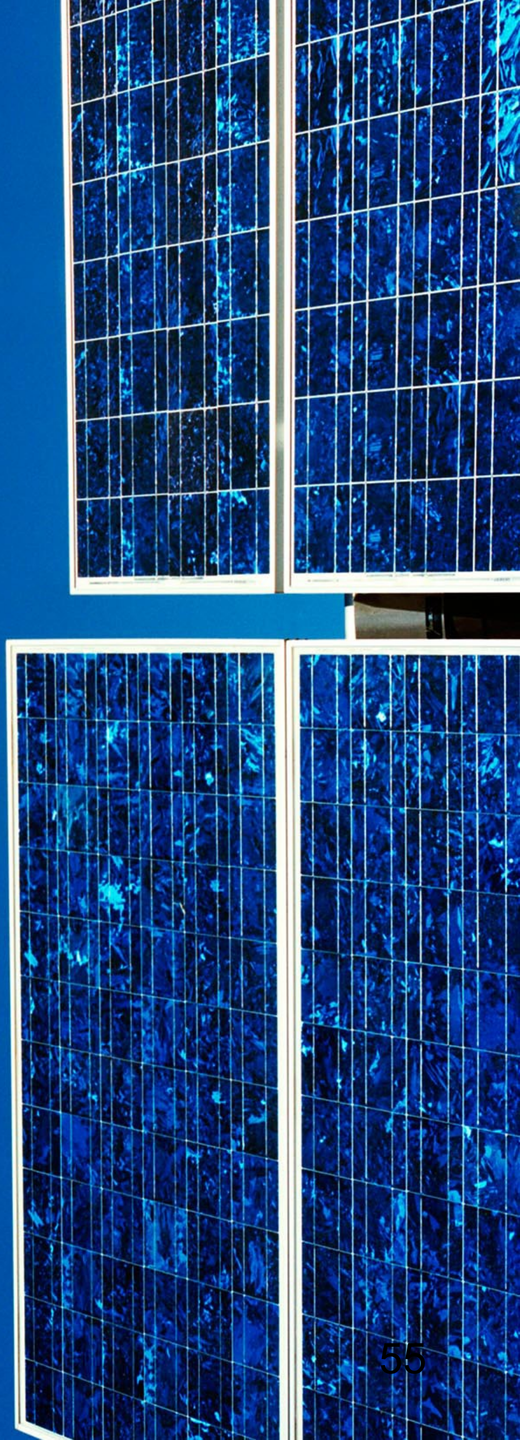
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.



KPMG

Using Lean to Drive Continuous Improvement

The education sector is undergoing substantial change in the wake of shifting learning models and government funding limitations. Today's focus is on delivering more with less through innovative approaches which can balance short-run needs with long-term opportunities to create as much value as possible for students.

Eliminating waste and driving efficiencies

Is your school board struggling with challenges in enrollment tracking impacting revenue, financial forecasting, cash flow, and budget projections? Are outdated paper-based methods for processing payroll and timesheets creating inefficiencies that frustrate staff on a monthly basis?

Lean thinking is the belief that there is a simpler, better way through a continuous drive to identify and eliminate waste, inefficiencies, and errors in our day-to-day work. It is about making your work environment more efficient and effective, so you focus on what matters most – fostering student achievement and well-being in an environment of inclusivity and innovation. A quality improvement mindset improves safety, quality, costs, efficiencies, and program delivery, helping create time for quality improvement to be part of everyday routine activity.

One of the first steps in the Lean journey is to start to "see" the wastes in the process you are aiming to improve and eliminate it to improve efficiency. Waste is considered any activities that are non-essential to complete the work or service, causing inefficiencies and frustrations for staff and students. An easy way to remember the 8 Wastes is to remember the acronym: DOWNTIME.

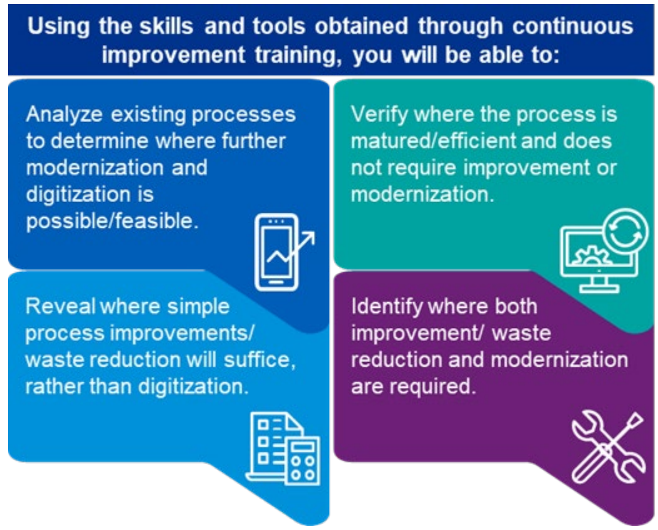
Type of Waste		Finance Example
Defects – work or services that are not completed correctly the first time; errors	D	Incorrect or missing information on forms, sending information to the wrong department
Overproduction – additional tasks added to the process that add no value and consume resources	O	Producing reports that are not used, excess sign-offs
Waiting – idle time when material, information, people or equipment are waiting	W	Waiting for the ledger to close before completing month end processes, delay in billing or cash collection
Non-utilized Talent – not utilizing the skills of the employees, skilled people involved in administrative tasks	N	Having staff with diverse skill sets and not using them, qualified accountants spending time copying and pasting or retrieving data
Transportation – moving equipment, supplies, or information from place to place	T	Copying information from one spreadsheet to another without materially changing it
Inventory – more material, supplies, equipment, on hand than what is needed; storing, batching, bulking	I	Accounts payable storing invoices
Motion – unnecessary movement by employees to complete an activity, including walking	M	Walking to the printer, walking around the office to find things, searching shared drives for information
Extra processing – Any work completed for the client that was not asked for by the client or that the client does not see value in	E	Spending unnecessary time creating presentations or reports that the client has not requested

Maximizing ROI on technology

Do you want to enhance technology integration and utilization? Are you maximizing your outputs from your IT systems?

Does your school board struggle with outdated, misunderstood and complex processes, in addition to siloed functions and lacking technological integration that slow down and hinder potential improvements, resulting in fragmented, inconsistent, and paper-based processes impeding collaboration, data consistency, and inefficiencies resulting in inefficiencies and increased costs?

The COVID-19 pandemic has forced many organizations to embrace new methods of work. Many previously paper-based processes have now been modernized as a result of a predominantly virtual work environment since March 2020. It should be noted that there is still work to be done to evaluate these processes and determine if they are still appropriate, if the they add value, and if they can be streamlined to create additional efficiency and capacity for staff.



For processes that cannot be automated, the application of Lean methodology will reveal opportunities for improvement in operating efficiency.

As the school board processes improve and efficiencies are realized, staff can begin to focus on Value-Add activities. This new capacity provides your board with the ability to maximize existing human resources to accommodate growth and become more agile to respond to future needs. Lean is not a one-time event but rather a journey to continually improve your processes and always strive to supply the customer/student with value, from their perspective.

Operational Excellence Roadmap

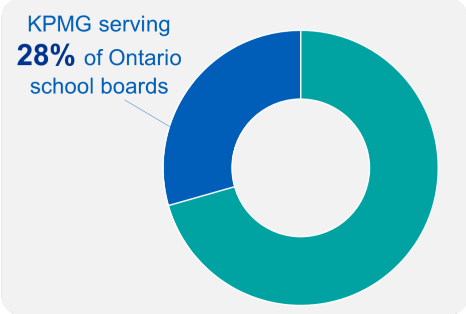
It is imperative to develop an approach that builds a solid foundational knowledge of continuous improvement across departments, leverages the capabilities of emerging leaders by training them in facilitating their own continuous improvement training programs, then provides a support system for staff upon completion of the training to sustain the organization's continuous improvement culture. When implemented together, these phases build capacity for Lean thinking at all levels and will take the school board a big step towards becoming a beacon in Lean Management within the Canadian education sector.

KPMG uses Lean Six Sigma methodology to support our clients in their journey to continuous improvement. An organization can begin their journey at any one of these steps. Applying this holistic approach, KPMG will partner with you to help identify what is working well, address gaps, and create a future state roadmap to achieve operational excellence. We have recently completed similar work at major institutions across the county.

Our Experience

KPMG is a leading service provider to the education sector in Canada and understands your fiscal and operational challenges.

Our education clients are served by the full resources of KPMG in Canada – including an active Global Education Sector Network across the world. Whether you are engaging in an IT restructuring, driving for efficiencies, sourcing capital funding, or partnership opportunities, our team of trusted and experienced professionals can help you achieve the levels of growth, efficiency and assurance required for continued success. Our proven track record of applying Lean methodology in education and our ability to help our clients improve performance and achieve bottom line efficiencies is recognised across the country.



KPMG's Education sector clients include school boards, universities and colleges; we have a leading market share in Ontario's education sector serving 28% of Ontario school boards, with over 140 education sector clients in Ontario alone.

KPMG is your firm of choice to partner with you in achieving your continuous improvement goals.

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INTERNAL AUDIT TEAM

MEMO

To: Halton Catholic District School Board Audit Committee
From: Jenny Baker, Regional Internal Audit Manager
Date: May 25, 2021
Subject: Regional Internal Audit Status Report – Public Session

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This memorandum will serve to update the Audit Committee of the Regional Internal Audit Team's work since February 25, 2021.

A. Other

Annual Independence Assertion

In compliance with S1110 of the International Standards for the Professional Practice of Internal Auditing, I am confirming that the regional internal audit team is organizationally independent and has been allowed to carry out its' responsibilities in an unbiased manner, free from interference in determining the scope of internal audit projects, performing work, and communicating results.

HALTON CATHOLIC DISTRICT SCHOOL BOARD

2021-22 Audit Committee Meeting Schedule

- Thursday, September 23, 2021
- Thursday, November 11, 2021
- Thursday, February 24, 2022
- Thursday, May 26, 2022

Français

Education Act

ONTARIO REGULATION 361/10

AUDIT COMMITTEES

Consolidation Period: From July 10, 2015 to the e-Laws currency date.

Last amendment: 204/15.

Legislative History: 204/15.

This is the English version of a bilingual regulation.

Interpretation

1. (1) This Regulation applies in respect of audit committees established by district school boards under subsection 253.1 (1) of the Act. O. Reg. 361/10, s. 1 (1).

(2) In this Regulation,

"external auditor" means an auditor appointed by a board under subsection 253 (1) of the Act to perform the duties referred to in subsection 253 (4) of the Act; ("vérificateur externe")

"internal auditor" means a contractor or employee of a board who examines and evaluates a board's records and procedures related to the board's risk management, internal controls and governance processes and makes recommendations on ways to improve the board's risk management**,** internal controls and governance processes; ("vérificateur interne")

"reporting entity" means, with respect to a board, an organization that is required to prepare reports for the purposes of the board regarding the organization's financial affairs and resources; ("entité comptable")

"senior business official" means a senior business official described in subsection 3 (2) of Regulation 309 of the Revised Regulations of Ontario, 1990 (Supervisory Officers) made under the Act. ("cadre supérieur de l'administration des affaires") O. Reg. 361/10, s. 1 (2).

Establishment of audit committee

2. (1) Subject to subsection (3), every board shall establish an audit committee in accordance with this Regulation no later than January 31, 2011. O. Reg. 361/10, s. 2 (1).

(2) The first meeting of an audit committee established under subsection (1) shall be held no later than March 31, 2011. O. Reg. 361/10, s. 2 (2).

(3) A board established after the day this Regulation comes into force shall establish an audit committee in accordance with this Regulation no later than October 1 of the school year following the calendar year in which the board's members are first elected. O. Reg. 361/10, s. 2 (3).

(4) The first meeting of an audit committee established under subsection (3) shall be held no later than December 1 of the school year following the calendar year in which the board's members are first elected. O. Reg. 361/10, s. 2 (4).

Composition of audit committee

3. (1) An audit committee of a board shall consist of the following individuals appointed in accordance with the board's by-laws:

1. If the board has fewer than eight board members, the audit committee shall consist of four members, including two board members and two persons who are not board members.
2. If the board has eight or more board members, but less than fifteen, the audit committee shall consist of five members, including three board members and two persons who are not board members.
3. If the board has fifteen or more board members, the audit committee shall consist of seven members, including four board members and three persons who are not board members. O. Reg. 361/10, s. 3 (1).

(2) In the absence of a by-law setting out an appointment process, the board shall appoint the members of the audit committee in accordance with paragraphs 1, 2 and 3 of subsection (1). O. Reg. 361/10, s. 3 (2).

(3) If the number of persons required by paragraphs 1, 2 and 3 of subsection (1) is not appointed to the audit committee, the Minister may appoint a person to each vacant position. O. Reg. 361/10, s. 3 (3).

(4) A person appointed under subsection (3) holds the position until the board appoints another person to the position. O. Reg. 361/10, s. 3 (4).

(5) An appointment made under subsection (3) must comply with paragraphs 1, 2 and 3 of subsection (1) and section 4. O. Reg. 361/10, s. 3 (5).

Eligibility for appointment of persons who are not board members

4. (1) A person who is not a board member is eligible to be appointed to the board's audit committee only if he or she,

(a) has accounting, financial management or other relevant business experience that would enable him or her to understand the accounting and auditing standards applicable to the board;

(b) is not an employee or officer of the board or of any other board at the time of his or her appointment;

(c) does not have a conflict of interest, as described in subsection (2), at the time of his or her appointment; and

(d) was identified by the selection committee described in section 5 as a potential candidate for appointment to the audit committee. O. Reg. 361/10, s. 4 (1).

(2) For the purposes of clause (1) (c), a person has a conflict of interest if his or her parent, child or spouse is employed by the board. O. Reg. 361/10, s. 4 (2).

(3) Clause (1) (d) does not apply if the person is appointed by the Minister under subsection 3 (3). O. Reg. 361/10, s. 4 (3).

Selection committee

5. (1) Each board shall have a selection committee for the purpose of identifying persons who are not board members as potential candidates for appointment to the board's audit committee. O. Reg. 361/10, s. 5 (1).

(2) The selection committee shall be composed of,

(a) the board's director of education;

(b) a senior business official of the board; and

(c) the chair of the board or a board member designated by the chair. O. Reg. 361/10, s. 5 (2).

Chair of the audit committee

6. (1) At the first meeting of the audit committee in each fiscal year, the members of the committee shall elect the chair of the committee for the fiscal year of the board from among the members appointed to the committee. O. Reg. 361/10, s. 6 (1); O. Reg. 204/15, s. 1.

(2) If at any meeting of the audit committee the chair is not present, the members present may elect a chair for that meeting. O. Reg. 361/10, s. 6 (2).

Term of appointment

7. (1) The term of office of a member of the audit committee who is a board member shall be determined by the board but shall not exceed four years. O. Reg. 361/10, s. 7 (1).

(2) The term of office of a member of the audit committee who is not a board member shall be determined by the board but shall not exceed three years. O. Reg. 361/10, s. 7 (2).

(3) Subject to subsection (4), a member of the audit committee may be reappointed. O. Reg. 361/10, s. 7 (3).

(4) An individual who is not a board member may not be appointed to the audit committee more than twice unless,

(a) the board advertised the position for at least 30 days; and

(b) after the 30 days, the selection committee did not identify any potential candidates. O. Reg. 361/10, s. 7 (4).

(5) When the term of a member of the audit committee expires, he or she continues to be a member until a successor is appointed or the member is reappointed. O. Reg. 361/10, s. 7 (5).

Vacancies

8. (1) A member who is a board member vacates his or her position on the audit committee if,

(a) he or she is convicted of an indictable offence; or

(b) he or she is absent from two consecutive regular meetings of the committee and the committee has not authorized those absences by a resolution at the first regular meeting of the committee that follows the second absence. O. Reg. 361/10, s. 8 (1).

(2) A member who is not a board member vacates his or her position on the audit committee if,

(a) he or she is convicted of an indictable offence;

(b) he or she is absent from two consecutive regular meetings of the committee and the committee has not authorized those absences by a resolution at the first regular meeting of the committee that follows the second absence;

(c) he or she becomes an employee or officer of the board or of any other board; or

(d) it is discovered that he or she had a conflict of interest as described in subsection 4 (2) at the time of his or her appointment and failed to disclose it. O. Reg. 361/10, s. 8 (2).

(3) Despite any by-law of a board, if a position on the audit committee becomes vacant, the position shall be filled as soon as possible in accordance with this Regulation. O. Reg. 361/10, s. 8 (3).

(4) A person who is appointed to fill a vacancy shall hold the position for the remainder of the term of the member whose position became vacant. O. Reg. 361/10, s. 8 (4).

Duties of an audit committee

9. (1) An audit committee of a board has the following duties related to the board's financial reporting process:

1. To review with the director of education, a senior business official and the external auditor the board's financial statements, with regard to the following:
   i. Relevant accounting and reporting practices and issues.
   ii. Complex or unusual financial and commercial transactions of the board.
   iii. Material judgments and accounting estimates of the board.
   iv. Any departures from the accounting principles published from time to time by the Canadian Institute of Chartered Accountants that are applicable to the board.
2. To review with the director of education, a senior business official and the external auditor, before the results of an annual external audit are submitted to the board,
   i. the results of the annual external audit,
   ii. any difficulties encountered in the course of the external auditor's work, including any restrictions or limitations on the scope of the external auditor's work or on the external auditor's access to required information,
   iii. any significant changes the external auditor made to the audit plan in response to issues that were identified during the audit, and
   iv. any significant disagreements between the external auditor and the director of education or a senior business official and how those disagreements were resolved.
3. To review the board's annual financial statements and consider whether they are complete, are consistent with any information known to the audit committee members and reflect accounting principles applicable to the board.
4. To recommend, if the audit committee considers it appropriate to do so, that the board approve the annual audited financial statements.
5. To review with the director of education, a senior business official and the external auditor all matters that the external auditor is required to communicate to the audit committee under generally accepted auditing standards.
6. To review with the external auditor material written communications between the external auditor and the director of education or a senior business official.
7. To ask the external auditor about whether the financial statements of the board's reporting entities, if any, have been consolidated with the board's financial statements.
8. To ask the external auditor about any other relevant issues. O. Reg. 361/10, s. 9 (1).

(2) An audit committee of a board has the following duties related to the board's internal controls:

1. To review the overall effectiveness of the board's internal controls.
2. To review the scope of the internal and external auditor's reviews of the board's internal controls, any significant findings and recommendations by the internal and external auditors and the responses of the board's staff to those findings and recommendations.
3. To discuss with the board's officials the board's significant financial risks and the measures the officials have taken to monitor and manage these risks. O. Reg. 361/10, s. 9 (2).

(3) An audit committee of a board has the following duties related to the board's internal auditor:

1. To review the internal auditor's mandate, activities, staffing and organizational structure with the director of education, a senior business official and the internal auditor.
2. To make recommendations to the board on the content of annual or multi-year internal audit plans and on all proposed major changes to plans.
3. To ensure there are no unjustified restrictions or limitations on the scope of the annual internal audit.
4. To review at least once in each fiscal year the performance of the internal auditor and provide the board with comments regarding his or her performance.
5. To review the effectiveness of the internal auditor, including the internal auditor's compliance with the document *International Standards for the Professional Practice of Internal Auditing*, as amended from time to time, published by The Institute of Internal Auditors and available on its website.
6. To meet on a regular basis with the internal auditor to discuss any matters that the audit committee or internal auditor believes should be discussed.
7. To review with the director of education, a senior business official and the internal auditor,
    i. significant findings and recommendations by the internal auditor during the fiscal year and the responses of the board's staff to those findings and recommendations,
    ii. any difficulties encountered in the course of the internal auditor's work, including any restrictions or limitations on the scope of the internal auditor's work or on the internal auditor's access to required information, and
    iii. any significant changes the internal auditor made to the audit plan in response to issues that were identified during the audit. O. Reg. 361/10, s. 9 (3).

(4) An audit committee of a board has the following duties related to the board's external auditor:

1. To review at least once in each fiscal year the performance of the external auditor and make recommendations to the board on the appointment, replacement or dismissal of the external auditor and on the fee and fee adjustment for the external auditor.
2. To review the external auditor's audit plan, including,
    i. the external auditor's engagement letter,
    ii. how work will be co-ordinated with the internal auditor to ensure complete coverage, the reduction of redundant efforts and the effective use of auditing resources, and
    iii. the use of independent public accountants other than the external auditor of the board.

2.1 To make recommendations to the board on the content of the external auditor's audit plan and on all proposed major changes to the plan.

3. To review and confirm the independence of the external auditor.
4. To meet on a regular basis with the external auditor to discuss any matters that the audit committee or the external auditor believes should be discussed.
5. To resolve any disagreements between the director of education, a senior business official and the external auditor about financial reporting.
6. To recommend to the board a policy designating services that the external auditor may perform for the board and, if the board adopts the policy, to oversee its implementation. O. Reg. 361/10, s. 9 (4); O. Reg. 204/15, s. 2.

(5) An audit committee of a board has the following duties related to the board's compliance matters:

1. To review the effectiveness of the board's system for monitoring compliance with legislative requirements and with the board's policies and procedures, and where there have been instances of non-compliance, to review any investigation or action taken by the board's director of education, supervisory officers or other persons employed in management positions to address the non-compliance.
2. To review any significant findings of regulatory entities, and any observations of the internal or external auditor related to those findings.
3. To review the board's process for communicating any codes of conduct that apply to board members or staff of the board to those individuals and the board's process for administering those codes of conduct.
4. To obtain regular updates from the director of education, supervisory officers and legal counsel regarding compliance matters.

5. To obtain confirmation by the board's director of education and supervisory officers that all statutory requirements have been met. O. Reg. 361/10, s. 9 (5).

(6) An audit committee of a board has the following duties related to the board's risk management:

1. To ask the board's director of education, a senior business official, the internal auditor and the external auditor about significant risks, to review the board's policies for risk assessment and risk management and to assess the steps the director of education and a senior business official have taken to manage such risks, including the adequacy of insurance for those risks.
2. To perform other activities related to the oversight of the board's risk management issues or financial matters, as requested by the board.
3. To initiate and oversee investigations into auditing matters, internal financial controls and allegations of inappropriate or illegal financial dealing. O. Reg. 361/10, s. 9 (6).

(7) An audit committee of a board shall report to the board annually, and at any other time that the board may require, on the committee's performance of its duties. O. Reg. 361/10, s. 9 (7).

(8) An audit committee shall make all reasonable efforts to ensure that a copy of this Regulation is posted on the board's website. O. Reg. 361/10, s. 9 (8).

Powers of an audit committee

10. In carrying out its functions and duties, an audit committee of a board has the power to,

(a) with the prior approval of the board, retain counsel, accountants or other professionals to advise or assist the committee;

(b) meet with or require the attendance of board members, the board's staff, internal or external auditor or legal counsel or representatives from a reporting entity of the board at meetings of the committee, and require such persons or entities to provide any information and explanation that may be requested;

(c) where the committee determines it is appropriate, meet with the board's external or internal auditor, or with any staff of the board, without the presence of other board staff or board members, other than board members who are members of the committee;

(d) require the board's internal or external auditor to provide reports to the committee; and

(e) have access to all records of the board that were examined by the internal or external auditor. O. Reg. 361/10, s. 10.

Meetings

11. (1) An audit committee of a board shall meet at least three times in each fiscal year at the call of the chair of the committee, and at such other times as the chair considers advisable. O. Reg. 361/10, s. 11 (1).

(2) The first meeting of the audit committee in each fiscal year after the 2011 year shall take place no later than September 30. O. Reg. 361/10, s. 11 (2).

(3) Each member of the audit committee has one vote. O. Reg. 361/10, s. 11 (3).

(4) The audit committee shall make decisions by resolution. O. Reg. 361/10, s. 11 (4).

(5) In the event of a tie vote, the chair is entitled to cast a second vote. O. Reg. 361/10, s. 11 (5).

(6) A majority of the members of the audit committee that includes at least one member who is not a board member constitutes a quorum for meetings of the committee. O. Reg. 361/10, s. 11 (6).

(7) The chair of the audit committee shall ensure that minutes are taken at each meeting and provided to the members of the committee before the next meeting. O. Reg. 361/10, s. 11 (7).

(8) Despite subsection (1), an audit committee of a board is required to meet only twice during the 2010-2011 fiscal year. O. Reg. 361/10, s. 11 (8).

Codes of Conduct

12. Any code of conduct of the board that applies to board members also applies to members of the audit committee who are not board members in relation to their functions, powers and duties as members of the committee. O. Reg. 361/10, s. 12.

Remuneration and compensation

13. (1) A person shall not receive any remuneration for serving as a member of the audit committee. O. Reg. 361/10, s. 13 (1).

(2) Subsection (1) does not preclude payment of an honorarium under section 191 of the Act that takes into account the attendance of a board member at an audit committee meeting. O. Reg. 361/10, s. 13 (2).

(3) A board shall establish policies respecting the reimbursement of members of its audit committee for expenses incurred as members of the committee. O. Reg. 361/10, s. 13 (3).

(4) A board shall reimburse members of its audit committee for expenses incurred as members of the committee in accordance with the policies referred to in subsection (3). O. Reg. 361/10, s. 13 (4).

Declaration of conflicts

14. (1) Every member of an audit committee shall, when he or she is appointed to the committee for the first time and at the first meeting of the committee in each fiscal year, submit a written declaration to the chair of the committee declaring whether he or she has a conflict of interest as described in subsection 4 (2). O. Reg. 361/10, s. 14 (1).

(2) A member of an audit committee who becomes aware after his or her appointment that he or she has a conflict of interest, as described in subsection 4 (2), shall immediately disclose the conflict in writing to the chair. O. Reg. 361/10, s. 14 (2).

(3) If a member or his or her parent, child or spouse could derive any financial benefit relating to an item on the agenda for a meeting, the member shall declare the potential benefit at the start of the meeting and withdraw from the meeting during the discussion of the matter and shall not vote on the matter. O. Reg. 361/10, s. 14 (3).

(4) If no quorum exists for the purpose of voting on a matter only because a member is not permitted to be present at the meeting by reason of subsection (3), the remaining members shall be deemed to constitute a quorum for the purposes of the vote. O. Reg. 361/10, s. 14 (4).

(5) If a potential benefit is declared under subsection (3), a detailed description of the potential benefit declared shall be recorded in the minutes of the meeting. O. Reg. 361/10, s. 14 (5).

Reporting

15. (1) An audit committee of a board shall submit to the board on or before a date specified by the board an annual report that includes,

(a) any annual or multi-year audit plan of the board's internal auditor;

(b) a description of any changes made to a plan referred to in clause (a) since the last report of the committee;

(c) a summary of the work performed by the internal auditor since the last annual report of the committee, together with a summary of the work the auditor expected to perform during the period, as indicated in the plan referred to in clause (a);

(d) a summary of risks identified and findings made by the internal auditor; and

(e) a summary of any enrolment audits planned by the internal auditor. O. Reg. 361/10, s. 15 (1); O. Reg. 204/15, s. 3 (1).

(2) A board who receives a report under subsection (1) shall submit the information described in clauses (1) (c) and (e) to the Minister in each fiscal year on or before a date specified by the Minister. O. Reg. 204/15, s. 3 (2).

(3) An audit committee of a board shall submit a report to the board in each fiscal year on or before a date specified by the board, and at any other time as may be requested by the board, that includes,

(a) a summary of the work performed by the committee since the last report;

(b) an assessment by the committee of the board's progress in addressing any findings and recommendations that have been made by the internal or external auditor;

(c) a summary of the matters addressed by the committee at its meetings;

(d) the attendance record of members of the committee; and

(e) any other matter that the committee considers relevant. O. Reg. 361/10, s. 15 (3).

16. OMITTED (PROVIDES FOR COMING INTO FORCE OF PROVISIONS OF THIS REGULATION). O. Reg. 361/10, s. 16.

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Timing of the Audit Committee's Key Activities

This document lists key activities the audit committee is required to undertake under Ontario Regulation 361/10, along with a suggested schedule for these activities (schedule may vary for each board). Audit committees may choose to engage in other activities or hold additional meetings, the timing of which is at the discretion of the individual committee.

September

- Internal auditor performance evaluation (prior fiscal year)
- Internal audit mandate review (current fiscal year)

November

- Review of financial statements (prior fiscal year)
- Review of external auditor's management letter (prior fiscal year)
- External auditor performance evaluation (prior fiscal year)
- Review of compliance report (prior fiscal year)
- Audit committee self-assessment (prior fiscal year)
- Detailed annual report to the Board of Trustees (prior fiscal year)
- Annual report to the Ministry (prior fiscal year)*

June

- Review of external auditor's audit plan (next fiscal year)
- Review of internal audit plan (next fiscal year)

When Available

- Review of current external and/or internal audit plan where any major changes are proposed
- Review of internal audit reports
- Review of reports on audits or other engagements conducted by regulatory entities

*Note: This report should be reviewed by the audit committee at or before the November meeting. Report should be presented to the Board of Trustees no later than November 30th and submitted to the Ministry of Education by January 15th of the following year.

Proposed Audit Committee Meeting Agenda Topics

Audit committees can use this tool to assist in planning annual activities and meeting agendas, based primarily on actions or responsibilities outlined in Ontario Regulation 361/10 (the regulation). Note that the meeting dates are only a suggestion and that the actual schedule may vary by board.

A one-page document outlining the timing of key responsibilities has also been developed. Please refer to “Timing of the Audit Committee’s Key Activities” on the School Business Support Branch (SBSB) website.

For guidance on whether to discuss an agenda item in open or closed session, please refer to the Deloitte report “Open vs. closed sessions of audit committee meetings”. This report is also available on the SBSB website.

General Responsibilities

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
3.(1) - Ensure committee composition complies with the regulation	Current	September and as required			
4.(1) – Ensure newly appointed external members meet eligibility requirements	Current	As required			
6.(1) - Elect the chair and appoint a secretary for the year	Current	September			
7.(2) - Ensure external members have not exceeded the maximum term of appointment	Current	Each meeting			
8.(1) & 8.(2) - Review committee members’ compliance with membership rules listed in the regulation	Current	Each meeting			
9.(7) - Report as required to the Board regarding the execution of duties and responsibilities	Current	As required			

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(8) – Ensure the regulation is posted on board's website	Current	Annually			
10.(a) - As necessary (and with Board approval), retain counsel, accountants or other professionals to advise or assist the committee	Current	As required			
10.(c) - Meet with management privately to discuss any necessary matters	Current	Private session at each meeting			
11.(6) – Ensure a quorum is present	Current	Each meeting			
11.(7) - Maintain minutes, review and approve the minutes of prior meetings	Current	Each meeting			
14.(3) – Members declare any potential financial benefits relating to agenda items	Current	Each meeting			
15.(1) &15.(3) – Annual report to the Board	Previous	November			
15.(2) – Annual report to the Ministry of Education	Previous	November			

Financial Reporting

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(1) 1 - Review: - relevant accounting and reporting practices and issues - complex or unusual transactions - material judgments and accounting estimates - any departures from PSAB	Current	As required			

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(1) 2i - Review the external audit results	Previous	November			
9.(1) 2ii - Review any difficulties encountered in the course of the audit	Previous	November			
9.(1) 2iii – Review any significant changes made to the external audit plan in response to issues identified during the audit	Previous	November			
9.(1) 2iv - Review significant disagreements between external audit and management and how those disagreements were resolved	Previous	November			
9.(1) 3 - Review the annual financial statements	Previous	November			
9.(1) 4 - Recommend to the Board the approval of the annual audited financial statements	Previous	November			
9.(1) 5 - Review all external auditor communications required under GAAS	Previous	November			
9.(1) 6 - Review any material written communication between the external auditor and management	Previous	November			
9.(1) 7 – Ask the external auditor whether all reporting entities were consolidated into the board's financial statements	Previous	November			

Internal Controls

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(2) 1 & 9.(2) 3 - Enquire about significant financial risks and the measures taken to manage such risks (reviewing the overall effectiveness of board's internal controls)	Current	Each meeting			
9.(2) 2 - Review the scope of the internal and external auditor's reviews of the board's internal controls, as well as any significant findings and recommendations made and management's response to these	Current	Each meeting			

Internal Audit

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(3) 1 - Review their mandate, activities, staffing and organizational structure	Current	September			
9.(3) 2 - Make recommendations to the Board on the content of the internal audit plan	Next	June			
9.(3) 2 - Make recommendations to the Board on all proposed major changes to the internal audit plan	Current	As required			
9.(3) 4 - Review internal auditor performance and provide comments to the Board and host board	Previous	September			

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(3) 5 - Review internal audit's effectiveness, including compliance with professional internal auditing standards. This could include a review of the quality assurance and improvement program results, which may use tools such as peer reviews and/or periodic external assessments.	Current or Previous	As available			
9.(3) 6 - Meet with internal audit privately to discuss any necessary matters	Current	Private session at each meeting, as required			
9.(3) 7i - Review significant findings and recommendations made by internal audit and management's response to the recommendations	Current	Each meeting			
9.(3) 3 & 9.(3) 7ii - Discuss significant difficulties, disagreements or scope restrictions/limitations encountered by the internal auditor	Current	As required			
9.(3) 7iii - Review any significant changes internal audit made to the audit plan in response to issues identified during the audit	Current	As required			

External Auditor

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(4) 1 – Review external auditor performance	Current	Annually			

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(4) 1 – Make recommendations to the Board on the appointment, replacement or dismissal of the external auditor and on the external auditor’s fee and fee adjustment	Current	Annually			
9.(4) 2 – Review the external audit plan (engagement letter, coordination with internal audit, use of other independent accountants)	Next	June			
9.(4) 2.1 - Make recommendations to the Board on the content of the external audit plan	Next	June			
9.(4) 2.1 - Make recommendations to the Board on all proposed major changes to the external audit plan	Current	As required			
9.(4) 3 - Review and confirm external auditor’s independence	Current	November			
9.(4) 4 - Meet with the external auditor to discuss any necessary matters	Current	Private session at each meeting, as required			
9.(4) 5 - Oversee the resolution of any disagreements between the external auditor and management	Current	As required			
9.(4) 6 - Recommend a policy on services the external auditor may perform and oversee its implementation	Current	As required			

Compliance

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(5) 1 - Review the board's system for monitoring compliance with legislative requirements, board policies and procedures	Current	September			
9.(5) 1 & 9.(5) 4 - Review instances of non-compliance with legislative requirements and board policies and procedures, as well as actions taken	Current	As required			
9.(5) 2 - Review any legal matters or findings of regulatory entities	Current	As required			
9.(5) 3 - Review the board's process for communicating and administering any codes of conduct	Current	September			
9.(5) 5 - Receive confirmation that all statutory requirements have been met, e.g., through the annual compliance report signed by the Director	Previous	September			

Risk Management

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(6) 1 - Enquire about significant risks, review and assess the board's risk management policies	Current	September			
9.(6) 2 - Perform other activities related to the oversight of the board's risk management issues or financial matters as requested by the Board	Current	As required			

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
9.(6) 3 - Initiate and oversee investigations into auditing matters, internal financial controls and allegations of inappropriate or illegal financial dealings (including fraud)	Current	As required			

Other Leading Practices

Action or Responsibility	Fiscal Year	Suggested Meeting	Open/Closed Session	Completed? (Yes/No/N/A)	Comments
Develop work plan and meeting schedule for the next fiscal year	Next	June			
Succession planning for audit committee members	Next	June			
Perform a self-assessment of the audit committee	Previous	September			
Appropriate continuing education	Current	As required			
Review interim financial reports	Current	As information is available			