

Minutes of the Finance, Audit, and Risk (FAR) Committee Meeting

December 14, 2022 11:30 am – 1:30 pm (ET) | Virtual

Committee members in attendance	
Arjan Arenja (Chair) Maxime Belletête Victor Benz	Dawn Nedohin-Macek Steve Vieweg
Regrets	
K. Giles, KPMG	
Observers	
Andrew Newman, KPMG	
Staff and support	
Gerard McDonald, Chief Executive Officer Derek Menard, Director, Finance Christina Mash, Interim Manager, Governance and Board Services Joan Bard Miller, Manager, Governance and Board Services	Heidi Theelen, Director, Strategic Planning and Organizational Excellence Mélanie Ouellette, Manager, Strategic and Operational Planning

1. Call to order and approval of agenda

A. Arenja, FAR Committee Chair, opened the meeting at 11:30am (ET) and welcomed the committee members. He reminded committee members that given the small size of the committee, it is not necessary to have a seconder for each motion.

Moved

THAT the agenda be approved, and the chair be authorized to modify the order of discussion.

Carried

2. Last meeting review

2.1 Approval of minutes (October 21, 2022)

Moved

THAT the minutes from October 21, 2022, be approved as amended.

Carried

2.2 Review of action table

The Committee noted that there were no current outstanding actions.

3. Review audit plan

D. Menard introduced A. Newman of KPMG who presented the pre-circulated *Audit Planning Report for the year ended December 31, 2022*. In his presentation, A. Newman highlighted the newly effective auditing standards outlined in Appendix 2; and environmental, social and governance (ESG) considerations outlined in Appendix 5.

In its discussion, the committee

- recognized the need to discuss ESG at future committee and Board meetings,
- confirmed with management that at present there was no significant capitalization of cloud computing/software as a service impacting either procurement or accounting,

- discussed the 13% increase in audit fees which reflect inflation and the additional audit work resulting from Canadian Auditing Standard (CAS) 315, and
- noted the forthcoming request for proposals for audit services for 2023-2028.

4. Review of SWOT and in-depth risks analysis

A. Arenja invited H. Theelen, Director, Strategic Planning and Organizational Excellence, and M. Ouellette, Manager, Strategic and Operational Planning, to present for approval the strengths, weaknesses, opportunities, and threats (SWOT) handout and in-depth risk analysis. The two documents for approval were pre-circulated to the committee with a briefing note that describes the main changes to the risks since the FAR Committee's last review of the register.

The following discussion was captured:

- Overall, the committee appreciated the extensive process undertaken and clarity of the materials presented.
- The committee was reminded that the risk scores had not changed since April 2021. The Board decided that all strategic risks, as of that time, would be addressed by a strategic priority in the 2022-2024 strategic plan. It is therefore expected that the identified risks will be lower by 2024.
- In response to a question by a committee member, management explained the Board risk, *Insufficient Female Representation in Engineering*, had been changed to *Insufficient Representation of Marginalized People in Engineering*. The change was made based on feedback from the regulators through the environmental scan and is intended to capture additional underrepresented groups.
- A committee member observed that the risk associated with the *Decline in the Value of Accreditation* is high given Engineers Canada's mandate and the high value placed on accreditation in other professions. Management indicated that the accreditation risk is being addressed through a fundamental review of the whole accreditation system.

5. Q3 financial and investment performance reporting

5.1 Financial statements

D. Menard, Director, Finance, presented the pre-circulated statement of operations (with actual spending for fiscal Q3 2022), and a statement of financial position. He highlighted the following from the statement of operations:

- Revenues in Q3 were below the forecast by \$924,000 primarily due to a decrease of 0.4% in the fair market value (FMV) of Engineers Canada's investments. All major market benchmarks had a decline from 3.9-4.9% in Q3.
- Operating expenses in Q3 were \$160,000 below the forecast, mainly due to work being delayed and lower technology and facility fees.
- Year-to-date revenues were \$90,000 below budget for the first 9 months of the year, due to a 12% decline in the FMV of investments.
- Year-to-date operating expenses were \$884,000 below budget due to delays in expenditures and lower travel, consulting, technology, and facility fees.
- The total year-to-date deficit is \$391,000 compared to the budgeted deficit of \$1.6 million.
- The organization's financial position is strong with investments and cash at approximately \$20 million, and an increase of \$1.3 million in profit in Q3.

The committee was satisfied with the statements presented.

5.2 Forecast

D. Menard presented the pre-circulated forecasted statement of operations (with actual spending for

fiscal Q3 2022), and a forecasted statement of reserves. Compared with the Q2 forecast reviewed by the FAR Committee in August

- revenues were \$922,000 lower, due to an actual loss of \$162,000 in investments as opposed to the forecasted gain of \$725,000;
- operating expenses were \$33,000 lower, largely due to higher than anticipated costs for a new two-year promotion and outreach programs to students in grades 6 to 12;
- corporate services expenses were lower, in part due to a \$100,000 return from a reassessment in property taxes for a five-year period; and
- the forecasted deficit increased by \$904,000, due to fluctuations in investment income.

Of note:

- Project spending variations were the result of an increase in expenses for the project, *Investigate and validate the purpose and scope of accreditation*, and delays in expenses for the project, *Reinforce trust and the value of licensure*.

The current year-end deficit is forecasted to be \$1.8 million rather than the budgeted \$2.9 million deficit, due to higher than budgeted revenues and lower than budgeted operating and project costs. Unrestricted reserves are forecasted to be \$12.3 million and total reserves are forecasted to be \$18.8 million at year end.

A committee member observed that the forecasted reduction in the deficit compared to the budget was positive news. Prior FAR Committee discussions with the investment portfolio manager may have helped mitigate the impact the downturn in the markets has had on Engineers Canada's investments. To its credit, the organization continues to deliver on its strategic plan without compromising major projects despite the decline in investment revenues. Management noted that this was possible due to the health of the unrestricted reserves.

Recognizing that the annual revenue from dues is stable in comparison to fluctuating investment revenue, the committee requested that these two streams of revenue be presented as two separate line items. Management confirmed that it will do so going forward in the unaudited and audited financial statements.

ACTION: Management to separate revenues from annual dues and investments into two separate line items in future financial statements presented to the FAR Committee.

5.3 Investment report

D. Menard presented the pre-circulated Q3 Investment performance report documented by RBC. In his report he noted:

- Board policy 7.7, Investments, includes broad ranges for allocation in each asset class which supports fluid decision making on investments.
- The total portfolio's FMV performance for Q3 was -0.4% and year-to-date was -12.1%; however, in October and November investments were up approximately 6%, resulting in a \$1 million gain that offered hope that the organization would recuperate \$750,000 in FMV by the end of the year as forecasted.
- Investment returns were -\$96,143 for the quarter -\$2.4 million for the year.
- Income (interest and dividend) was \$95,000 for the quarter and \$352,000 for the year.
- Expenses were \$26,000 for the quarter and \$80,000 for the year.

The committee recognized that investments are down for all organizations. No questions were raised.

6. Review proposed policy adjustments

G. McDonald, CEO, sought the FAR Committee's feedback, on behalf of the Governance Committee, on the cost implications of adjusting Board policy 7.1, *Board, Committee, and Other Volunteer Expenses*. The policy, with proposed revisions, and a briefing note outlining the issue, benchmarking, and cost implications were pre-circulated to the committee.

The committee recognized the demands travel has on volunteers and, with a view to volunteer retention, supported the proposed revisions to the policy. Through its discussion, the committee

- suggested that the changes would have inconsequential impact on the budget,
- confirmed with management that the policy allows for travel at equivalent rates with airlines other than Air Canada,
- established with management that the proposed revisions would not be administratively burdensome, and
- suggested that the policy also encourage volunteers to book as low a rate as possible.

7. Work plan review

D. Menard reviewed the work plan with the committee, which included the added review of Policy 7.1 to the current meeting. The committee was satisfied with the work plan for 2022-2023, as presented.

8. Other business

No other business was brought forward.

9. Next committee meetings

The next committee meetings are as follows:

- February 27, 2023 (virtual)
- March 10, 2023 (virtual)
- May 11, 2023 (virtual)

10. Meeting evaluation

Meeting participants were satisfied with the meeting and commended the chair for keeping the agenda on track.

11. Closing

With no further business, the meeting was closed at 12:59 pm (ET).