



**Finance & Audit Committee
2007-2008 Report to the Annual General Meeting**

September 2008

Submitted by
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Treasurer and Chair, Finance & Audit Committee

Mandate

The purpose of the Finance & Audit Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and making recommendations to the Board regarding:

- Financial information, including audited financial statements, that will be provided to the Board of Directors and other stakeholders;
- Strategic financial plans and the annual operating budget;
- The systems of internal controls;
- Internal audit processes; and
- Investment management activities.

Membership 2007-2008

Finance & Audit Committee members are appointed by the Board of Directors, upon recommendation of the Nominating Committee. During this year, the composition of the Finance & Audit Committee was reviewed, revised and approved by the Board of Directors. This was based on committee workload as well as the expertise required of its members, particularly in light of increasing complexity in the regulatory and reporting environments that affect CRKN. An additional external individual, drawn from a CRKN member institution, was added to the overall membership.

Membership of this committee is stipulated as follows:

- 3 members from the Board of Directors (Treasurer + 2 additional Board members);
- 3 individuals from CRKN member institutions who bring additional financial knowledge and expertise.

The following list reflects the current¹ members of the Finance & Audit Committee:

- Sylvia Teasdale, Bishop's University (Chair & Treasurer)
- Christopher Callbeck, Assistant Vice-President, Financial & Administrative Services, University of New Brunswick, Saint John
- Gayle Gorrill, Vice-President, Finance and Operations, University of Victoria
- Lucie Mercier-Gauthier, University of Ottawa
- Two positions remain vacant on this committee:
 1. One Board position – recommendation to be made by the Nominating Committee and approved by the Board in early fall;
 2. One external position – call for nominations to be undertaken by the Nominating Committee and approved by the Board in early fall.
- CRKN staff member Bethany Tory, Director of Operations, serves as a resource person to the Committee.

Accomplishments in 2007-2008

1. *Completion of FY06-07 audit & FY07-08 audit planning*

At their meeting on June 4, 2007, Finance & Audit Committee members assessed draft audited financial statements for the year ending March 31, 2007 as well as reviewing Deloitte's Report to the Finance & Audit Committee. Committee members agreed that the draft audited financial statements should be recommended to the Board of Directors for approval at their June 18, 2007 meeting.

The Board-approved audited financial statements for year ending March 31, 2007 were included in the Annual Report, tabled at the Annual General Meeting in Toronto on September 25, 2007, and posted on the CRKN website.

At that time, the Finance & Audit Committee also recommended to the Board of Directors that Deloitte & Touche LLP be retained by CRKN as auditors for the fiscal year ending March 31, 2008. The Board decision on this motion was presented to the CRKN membership for approval at the 2007 Annual General Meeting, and was approved.

As a complementary component of the audit process, the Finance & Audit Committee reviewed the draft Management Discussion & Analysis (MD&A) document prepared by CRKN management to accompany the audited financial statements. The MD&A is intended to provide members with additional context regarding CRKN's financial position.

¹ Michael McAdam, University of Calgary served on this committee until November 2007; Carolynne Presser, University of Manitoba served on this committee until June 2008;



At its meeting on January 14, 2008, the Finance & Audit Committee began planning for the audit of CRKN's financial statements for the year ending March 31, 2008. The Committee met with auditors from Deloitte & Touche LLP to review the "Audit Scope 2008" memorandum which provided information on the audit process, formal reporting responsibilities, planned audit approach, and the audit team.

2. *Non-resident withholding tax audit*

CRKN was informed on September 4, 2007 that they had been chosen by the Canada Revenue Agency (CRA) to undergo a non-resident withholding tax audit. CRKN management consulted with an International Tax expert from auditors Deloitte & Touche LLP, and drew upon Finance & Audit Committee member expertise throughout the audit process.

Audit documentation was forwarded to the Non-Resident Audit department by requested deadlines, and on January 8, 2008, CRKN was informed in writing by CRA auditors that the audit had been completed with no adjustments required.

3. *FY08-09 Budget process*

The Finance & Audit Committee reviewed a draft budget for FY08-09 at their teleconference meeting on February 21, 2008. It was noted that the draft document reflected the regular CRKN budget only and noted that a separate CFI project budget, already approved by CFI and therefore not subject to further CRKN Board approval, would be administered by CRKN. Financial administration of the CFI project funds is subject to a formal agreement between the University of Ottawa and CRKN. This "Administration Agreement" was fully executed by all parties in June 2007.

The Committee recommended that the draft budget for FY08-09 be brought to the Board of Directors for approval at its meeting on March 19, 2008.

4. *Financial Policy Development*

The following policies are subject to an annual review by the Finance & Audit Committee to determine whether amendments are required. They were reviewed at the Committee's meeting on January 14, 2008, and revisions (if any) required the written consent of the Board of Directors for approval:

- Foreign Exchange policy
- Investment Policy Statement
- Travel Expense policy
- Purchasing policy
- Conference Contributions policy
- Operating Credit Facility policy



During the annual policy review, the Finance & Audit Committee discussed the significant accounting reconciliations and transparency / communications issues that arise when CRKN bills license costs to members in advance at an exchange rate that may be higher or lower than the actual rate when CRKN subsequently pays the vendor. Committee members were apprised of the organizational financial management challenges, and discussed possible options for facilitation of these issues including invoicing members in US dollars, and the use of forward contracts.

Subsequently, amendments were made to the Foreign Exchange policy to allow for the use of forward contracts for license agreement payments to vendors. These changes were not made to optimize gains from currency exchange rates or take part in hedging activities, but to provide the most efficient means to reduce currency fluctuation risk, increase predictability for members, and eliminate the administrative challenges in the current operating environment.

The Board of Directors approved this amendment to the Foreign Exchange policy at their meeting on June 18, 2008.

5. GST analysis and compliance for DCI project

Participating institutions were invoiced in March 2008 for their first year contributions to the DCI project. Invoices for participating institutions were generated in accordance with participant contributions as outlined in the Inter-Institutional Agreement. Possible GST implications came to the attention of CRKN shortly before invoicing, and for these invoices, GST was applied to the institutional contributions but no GST was applied for the provincial contributions, based on advance consultation with the University of Ottawa and discussions with CFI regarding reporting requirements.

CRKN sought consultation from Deloitte with regards to the GST, and understood that should Deloitte determine that GST applied to the provincial and federal contributions as well, CRKN would adjust future invoicing to ensure that the GST was accommodated within the agreed-upon contribution of all partners. This would not affect the viability of the project nor change participants' total financial commitments.

Based on its research and analysis, Deloitte issued an opinion stating that all amounts received by CRKN, including the federal funding from CFI and provincial funding, are consideration for CRKN's supply to the institutions for carrying out the DCI project. Accordingly, CRKN adjusted the original invoicing (from March 2008) to reflect these changes, and issued amended invoices for year 1 contributions in August 2008.

It is important to note that although further invoicing was undertaken with participating members, the overall payments from each member remained within the agreed upon participant contribution as stipulated in the Inter-Institutional Agreement, once the GST education rebate was claimed by participants.



Objectives for 2008-2009

1. Maintain careful monitoring of the changes to the Foreign Exchange policy with regards to the use of forward contracts in managing currency exchange, and streamlining operations for both CRKN and members.
2. Undertake an assessment and analysis of risk management activities currently in place, and implement changes in process as necessary.
3. Review long-term financial plans with respect to interest income, retained equity and the established reserve fund.
4. Align ongoing activities, processes, and methods to support the Strategic Plan.

