

**Finance & Audit Committee**  
**2015-2016 Report to the Annual General Meeting**  
October 2016

Submitted by  
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CRKN 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 monitoring and making recommendations regarding the sufficiency, transparency, and integrity of the organization's financial health and sustainability. The committee also monitors and reviews the effectiveness of CRKN internal controls, risk management activities and the conduct of the independent audit process.

**Membership 2015-2016**

During the year in review, Committee members were:

- Christopher Callbeck, Assistant Vice-President, Financial & Administrative Services, University of New Brunswick, Saint John (Chair & Treasurer);
- Bernard Bizimana, Directeur des services techniques et informatisés, Bibliothèque Myriam et J.-Robert Ouimet, HEC Montréal
- Daniel Godon, Directeur de la bibliothèque, Université du Québec en Outaouais
- France Paul, Directrice des services techniques, Service des bibliothèques et archives, Université de Sherbrooke
- Trudy Pound-Curtis, Assistant VP Finance and CFO, York University

The following staff served as resources to the Committee; Clare Appavoo, Executive Director, Ken Blonski, Director of Operations, and Bill Kuurstra, Finance Officer

**Objectives for 2015-2016**

1. Review long-term financial plans and evaluate additional revenue opportunities for CRKN including policy work and analysis to support potential grant applications through IDSE;
2. Monitor and maintain existing risk management activities, and support the Board by identifying gaps and suggesting remedies in other risk management practices;
3. Continue to monitor accounting standards changes and taxation implications for the organization to safeguard organizational assets and to ensure fiscal accountability;
4. Leverage the committee member's expertise in measuring and communicating CRKN value to members and to the stakeholder community in ways that support and compliment other committees and initiatives; and,
5. Provide analysis and recommendations to the Board and membership with respect to plans to update CRKN's membership fee structure.

**Accomplishments in 2015-2016**

**1. Completion of FY14-15 audit & FY15-16 audit planning**

A key responsibility of the Finance & Audit Committee remains to review and monitor CRKN's internal financial statements during the year and to review CRKN's year-end audited financial statements and the report of the auditor. This review becomes the basis for planning for the coming fiscal year, where the Finance & Audit Committee meets with the auditor to set the scope and process for the next fiscal year's audit.

During the year, Deloitte transitioned audit partners from CRKN's long-time audit partner Serge Desrochers to Anne-Marie Ethier. The transition was handled smoothly, and there were no delays in the audit process. In June 2015, the Finance & Audit Committee reviewed the audited financial statements for the year ending March 31, 2015, received and discussed the auditor's report (including in camera discussion with the auditor), and recommended these for approval by the Board of Directors. Notably, Deloitte found no deficiencies in internal controls and were comfortable with the decisions made by CRKN management. In addition, the Finance & Audit Committee reviewed the Management Discussion & Analysis (MD&A) document prepared by CRKN management to accompany the audited financial statements.

The Board subsequently approved the FY2014-15 audited statements which were presented to members at the Annual General Meeting on October 22, 2015, and subsequently posted to the CRKN website. A simplified summary version of the financial statements were also completed during the audit process, and included in CRKN's annual report.

At its meeting on January 13, 2016, the Finance & Audit Committee met with the Deloitte auditors to approve the audit scope, process, formal reporting responsibilities, planned audit approach, and the audit team for the year ended March 31, 2015. The FY2015-16 audit was completed in May 2016, with the audited statements scheduled to be presented at the CRKN AGM in Halifax in October.

## **2. *FY2015-16 and FY2016-17 budget process***

The Finance & Audit Committee is responsible for; recommending the broad principles to guide the annual budget preparation, reviewing the draft budget prepared by management and recommending the annual budget for approval by the Board of Directors. On March 2, 2016, the Finance & Audit Committee met to review and recommended the draft budget for FY16-17 for approval by the Board of Directors. As part of the discussion, the committee recommended relaxing CRKN's membership fee increases from those described in the multi-year model.

CRKN's budget for fiscal year 2016-17 (FY16-17) was again comprised of three components:

- A budget narrative offering analysis and in-depth information regarding underlying assumptions, inclusions and changes from the previous year;
- A draft budget spreadsheet, including previous year (FY15-16) actuals year-to-date with forecast to year-end, FY16-17 budget including IDSE impact, variance analysis and current multi-year model projections; and,
- The multi-year financial model as a contextual component, including an analysis of how budgeted costs for FY16-17 align with last year's projections.

The FY2016-17 budget, including a budgeted deficit of \$38,002, was approved by the Board of Directors on March 15, 2016.

## **3. *Membership Fee Discussions***

For the past two year's the Finance & Audit Committee had identified a goal of reviewing and updating CRKN's membership fee calculation. The Banding Task Group delivered their final report to the AGM in Calgary in October 2014, and the Finance & Audit Committee met to consider revising the membership fees at the January 2015 meeting.

A communication was delivered with the membership fee invoices in June 2015, to inform the membership of the potential changes to membership fees as the organization transitioned to the new banding system, and to highlight the fact that the committee recommended membership fee increases of 3.5% for FY15-16, and 4.0% in FY16-17 a smaller increase than the 4.5% anticipated in the multi-year model. The Committee determined that direct communication with members potentially most negatively impacted by the adoption of the new bands as a basis for the calculation of membership fees was advisable.

The Finance & Audit Committee approved principles to govern a transition to the CRKN membership fee allocation, including the need to consider smoothing the transition over multiple years, and to communicate

the anticipated changes well in advance to the membership. A session on banded membership fees was delivered at the October 2015 AGM in Ottawa, and the membership endorsed the proposal during the annual meeting of the members.

#### **4. Foreign Exchange Project**

Four years ago, realizing the limitations of this one-size-fits-all approach to currency, the Finance & Audit Committee endorsed a series of foreign exchange projects allowing members to better manage their individual foreign exchange exposure by providing opportunities to lock in their foreign exchange needs on a small number of CRKN's largest licenses – or to place bids for a better exchange rate. CRKN, working under the supervision of the Finance & Audit Committee, charged members a small administrative fee on funds under the project.

In the most recent year, CRKN again offered an optional foreign exchange management project in FY2015-16 for the Elsevier ScienceDirect and Sage Premier licenses. As before, the timing of the project was arranged to coincide with members' fiscal year-ends, with commitment periods during the month of May. This year, 21 CRKN members signed commitment forms, instructing CRKN to administer over \$12.7M USD under the project for the Elsevier ScienceDirect license. Nineteen of those members also committed over \$1.6M of their estimated funds required for the Sage Premier License. Project participants saw their bids met at rates between 1.2314 and 1.23. Unfortunately, due to the steadily declining value of the CAD CRKN was unable to meet member requests for over \$3.6M USD at rates of 1.21 or better.

In September 2015 – following the rapid strengthening of the USD - CRKN offered members the choice of receiving invoices for the Sage Premier and Elsevier ScienceDirect licenses in U.S. currency. Five institutions asked to be billed in USD under this project, for a total of approximately \$2.2M USD. All participants remitted USD funds to CRKN in a timely manner, and CRKN reduced the quantity of USD purchased via forward contract proportionately.

CRKN finalized the billing for both products with the final (reconciliation) billing sent in early October at exchange rates of 1.313 (Sage) and 1.2944 (Elsevier). CRKN also billed project participants \$17,963 in fees for the project (plus a further \$4,255 for the USD billing option). Due to the rapidly declining value of the Canadian dollar in 2015, the project was a tremendous benefit for participants. On a net basis, even after accounting for the project fees, participants collectively saved over \$765,000 CAD through the foreign exchange project.

In February 2016, at the direction of the committee, staff produced a discussion paper on foreign exchange, providing an analysis of the cumulative effect of the weak CAD on members' collections budgets and further information on CRKN's services to help manage exchange volatility. Members were also invited to attend a web-conference on the issue to learn about their options and exchange ideas for risk mitigation.

During the year, the Finance & Audit Committee recommended an extension of the foreign exchange project for FY16-17, including additional work to allow USD invoicing, for the Wiley, Springer, and Elsevier licenses.

#### **5. Policy and governance updates**

The Committee continued its work to review CRKN's financial policies on a rotating triennial basis during the year.

Minor changes were recommended to the Budget Monitoring and Modification Policy and the Corporate Credit Card Policy and subsequently approved by the Board. With the approval of the Board, the committee has now updated all financial policies (with the exception of the Travel Expense Policy) to move to a triennial review cycle.

The Finance & Audit committee also undertook a committee self-assessment based on the Board assessment tool during the year.

## **6. Risk Management**

The committee continues to evaluate and extend CRKN's risk management framework, including the annual risk management report. The Finance & Audit Committee noted that it remains difficult to assess the risk of new initiatives like the IDSE project, and has directed staff to produce a high-level risk summary document for the organization.

### **Objectives for 2016-2017**

1. Review long-term financial plans and evaluate additional revenue opportunities for CRKN including policy work and analysis to support targeted grant applications consistent with CRKN's strategic plan;
2. Monitor and maintain existing risk management activities, and support the Board by identifying gaps and suggesting remedies in other risk management practices;
3. Continue to monitor accounting standards changes, and taxation implications for the organization to safeguard organizational assets and ensure fiscal accountability;
4. Leverage committee member's expertise in identifying, measuring and communicating CRKN value to members and to the stakeholder community in ways that support and compliment other committees and initiatives;
5. Contribute additional strategic and operations expertise to CRKN planning and communications;
6. Continue to support the transition of the membership fees structure to be based on the new CRKN bands; and,
7. Monitor the effectiveness and efficiency of the foreign exchange project, and suggest ways to provide additional services to members.