

Finance & Audit Committee 2017-2018 Report to the Annual General Meeting October 2018

Submitted by:
Ian Nason, Dalhousie University
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 2017-2018

During the year in review, Committee members were:

- Christopher Callbeck, Vice President Finance & Administration and CFO, Acadia University (Chair & Treasurer) [to October 2017];
- Ian Nason, Vice-President Finance & Administration, Dalhousie University (Chair & Treasurer) [from October 2017]
- Bernard Bizimana, Directeur des services techniques et informatisés, Bibliothèque Myriam et J.-Robert Ouimet, HEC Montréal
- Andrew Coward, Treasurer, University of Victoria [From January 2018]
- 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 [to January 2018]

During the year, Ken Blonski, Director of Operations and Bill Kuurstra, Finance Officer served as resources to the Committee.

Objectives for 2017-2018

1. Consider the financial and operational risks posed by a merger with Canadiana, including a potential combination of organizational cultures, mandates, processes and systems, and ensure that a considered mitigation approach is reflected in the development of a business plan for a combined organization.
2. Review progress towards short- and 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;
3. Monitor and maintain existing risk management activities, and support the Board by identifying gaps and suggesting remedies in other risk management practices;
4. Continue to monitor accounting standards changes, and taxation implications for the organization to safeguard organizational assets and ensure fiscal accountability;
5. Leverage committee member's expertise in identifying, measuring and communicating CRKN value to members and to the stakeholder community in ways that support and complement other committees and initiatives;
6. Contribute additional strategic and operations expertise to CRKN planning and communications;
7. Continue to support the transition of the membership fees structure to be based on the new CRKN bands; and,
8. Monitor the effectiveness and efficiency of the foreign exchange project, and suggest ways to provide additional services to members.

Accomplishments in 2017-2018

1. Completion of FY2016-2017 audit & FY2017-2018 audit planning

A key responsibility of the Finance & Audit Committee (FC) 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 FC meets with the auditor to set the scope and process for the next fiscal year's audit.

In June 2017, the Finance & Audit Committee reviewed the audited financial statements for the year ending March 31, 2017, 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 FY2016-17 audited statements. The statements were presented to members at the Annual General Meeting in Montreal on October 20, 2017 and were subsequently posted to the CRKN website. A simplified summary version of the financial statements was also a product of the audit process and was included in the annual report.

At its meeting on March 14, 2018, the FC 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, 2018. The FY2017-2018 audit was completed in June 2018, with the audited statements scheduled to be presented at the CRKN AGM in Vancouver in October 2018.

2. FY2017-18 and FY2018-19 budget process

The FC 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 14, 2018, the FC met to review and recommended the draft budget for FY2018-2019 for approval by the Board of Directors. As part of the discussion, the committee reviewed the implications for CRKN's banded membership fees.

CRKN's budget for fiscal year 2018-2019) was comprised of five components:

1. **Budget narrative:**
 - Context and Environment
 - Significant Developments in 2017-18
 - Key initiatives and budget drivers for FY18-19
2. **2018-19 summary and segmented budget**, including significant revenue and expense assumptions, featuring comparisons to 2017-18 budgeted figures, and projections using January 2018 actuals to the end of the year, including in particular the Canadiana combination and associated HR and operations costs.
3. **2018-19 Variance Analysis** highlighting significant changes in this year's budget compared both with FY2017-18 budget/projections as well as with the proposed budget for the combined CRKN-Canadiana as shared by the working group in the business proposal presented prior to the October 2018 Annual General Meeting.
4. **Multi-Year Projections** developed in accordance with the Budget Monitoring and Modification Policy using existing assumptions and information, including assessment of the impact on restricted net assets.
5. **Background: Budget Development Principles and Process**

The Board of Directors approved the budget for fiscal year 2018-19, including a budgeted surplus of \$111,605, on March 21, 2018. (Note that the CRKN-Canadiana Business Proposal had anticipated a budget deficit in the first year of combined operation).

3. Membership Fee Discussions

For the past four years, goals of the Finance & Audit Committee have included reviewing and updating CRKN's membership fee calculation, based on the work of the Banding Task Group. The FC approved principles in 2015 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 transitioning to membership fees allocated across 13 bands, was delivered at the October 2015 AGM. Members endorsed the proposal during CRKN's annual meeting of the members.

In 2017-2018, CRKN undertook annual communications to members related to membership fees, advising members of them of the anticipated impact of a move to the new membership fee structure over the 2017-2018 and 2018-2019 fiscal years. These communications have continued, with the Committee recommending that staff undertake direct communication with members potentially most negatively impacted by the adoption of the new bands.

CRKN provided details of the anticipated membership fees to CRKN members in March 2018 based on a 2.5% overall membership fee increase and the second and final year of the transition to the new bands. The FC subsequently recommended, and the Board approved, a reduction in the membership fee increase to 2%. Following discussions at the FC in May 2018, and based on a review of both the updated bands and the revised membership fee calculation, CRKN's membership fee invoices for 2018-19 were sent to members in June 2018.

4. *Leasing and Facilities*

The Finance & Audit Committee has supported CRKN's lease renewal for a further 5 years beginning April 1, 2017. The Committee has also monitored the landlord's exercise of its right to relocate CRKN once during the lease term, and the attendant moving and fit-up costs and associated recovery. CRKN took possession of its new offices at 411-11 Holland (one floor above its previous offices) on June 5, 2017. CRKN has recovered all of its' moving expenses and fit-up allowance during the year, the remainder of the latter as a reduction in rent during the year.

5. *Foreign Exchange Service*

Over the past number of years, fluctuations in exchange rates have translated directly into increased member costs, with member license expenditures of just more than \$100M in 2014-15, nearly \$112M in 2015-16, about \$124M in 2016-17 and over \$125M in 2017-18. Six years ago, realizing the limitations of this one-size-fits-all approach to currency, the Finance & Audit Committee endorsed the offer of foreign exchange services 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. A small administrative fee, as set by the Finance & Audit Committee, is levied to those members opting for this service.

Based on the success of previous foreign exchange service offerings and with the support of the Board of Directors, CRKN once again offered an optional foreign exchange service for payment of SpringerLink, Clarivate Analytics (Thomson Reuters) Web of Science/Web of Knowledge and ACS Web and Legacy Archives products. CRKN also reiterated that it would offer a USD-invoicing options for the first year (2018) for the Elsevier, Wiley and Sage on the commitment forms as those products are renewed.

Nine members placed bids in CAD, and a further eight asked to be invoiced in USD, for over \$4.5M USD or over 30% of the total amounts billed for these three licenses. In total, CRKN recovered nearly \$11,100 in service fees from the participants, in addition to the fees levied on USD invoicing option offered on the Elsevier, Wiley and Sage renewals. This year CRKN staff significantly improved the processes for invoicing members in USD.

Given the previous success of the service, the Finance & Audit Committee recommended an extension of the foreign exchange service for FY18-19, including additional work to allow USD invoicing, for the 2019 Elsevier Science Direct, Taylor & Francis & Wiley-Blackwell licenses. A USD invoicing option will also be introduced as part of the 2019 Springerlink Renewal.

In March 2018, France Paul, Jason Friedman, Bill Kuurstra and Ken Blonski hosted a series of three teleconferences to introduce the foreign exchange services provided by CRKN to the membership. Copies of those recordings, along with an updated whitepaper describing CRKN's FX services were shared on the website (member login required).

6. *Canadiana Merger Discussions*

The Committee continued to receive updates on the status of the Canadiana merger discussion. In particular, the committee reviewed the draft CRKN-Canadiana Business Proposal that had been developed following the May 15th 2017 meeting of the members, paying particular attention to the budget assumptions, proposed fees and attendant risks of a combined organization.

The Finance & Audit committee reviewed the draft business proposal following the member focus groups in September before it was finalized for presentation to the membership at the AGM in October 2017. The committee was comfortable with the budget assumptions and the budgeted deficit in the initial year. The committee provided management with a short list of issues (cash flow, severance amounts estimate, evaluating digitization platform competitiveness, fee transparency) to address and consider as part of the combination.

7. Policy and governance updates

The Committee continued its work to review CRKN's financial policies on a rotating triennial basis during the year. During the year, the committee reviewed the following policies (in French & English):

- Capitalization policy (included changes made to extend classifications to include 'servers and switches' and 'scanning equipment')
- Net Assets policy
- Travel Expense Policy
- Purchasing Policy (still under review)

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

8. Risk Management

The committee continues to evaluate and extend CRKN's risk management framework, including the annual risk management report. Based on the recommendation and the input of the Finance & Audit committee, staff worked to focus the report for the Board, including developing a short list of the top six key risks currently facing the organization. Note that currently those risks fall predominantly in the area of strategy. Those risks have also been reviewed in light of the Canadiana combination.

In particular, it has been noted that a significant ongoing risk will be the transition of the funding model for a combined organization after the three years of support envisioned in the business plan expire.

Management have also reviewed, consolidated and cleaned up the risk register during the year, noting that in several instances, the risks either overlapped or were redundant. CRKN continues to maintain the annual filings and compliance statement, and the annual risk management report with the assistance of this committee, and for the information of the Board.

Proposed Objectives for 2018-2019

1. Consider the financial and operational risks of a larger organization, and ensure that the strategic planning process considers the risk management process.
2. Work to describe the sources and uses of CRKN's operating funds and, in particular, work to ensure that CRKN members and stakeholders are not unintentionally cross-subsidizing digitization and hosting clients.
3. Review progress towards short- and 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;
4. Monitor and maintain existing risk management activities, and support the Board by identifying gaps and suggesting remedies in other risk management practices;
5. Continue to monitor accounting standards changes, and taxation implications for the organization to safeguard organizational assets and ensure fiscal accountability;
6. Leverage committee member's expertise in identifying, measuring and communicating CRKN value to members and to the stakeholder community in ways that support and complement other committees and initiatives;
7. Contribute additional strategic and operations expertise to CRKN planning and communications; and,
8. Monitor the effectiveness and efficiency of the foreign exchange project, and suggest ways to provide additional services to members and to the larger stakeholder community.