

Finance & Audit Committee
2018-2019 Report to the Annual General Meeting
October 2019

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 2018-2019

During the year in review, Committee members were:

- Ian Nason, Vice-President Finance & Administration, Dalhousie University (Chair & Treasurer)
- Bernard Bizimana, Directeur de la bibliothèque, HEC Montréal
- Andrew Coward, Treasurer, University of Victoria
- 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

During the year, Ken Blonski (Director of Operations), Bill Kuurstra (Finance Officer, to May 2018), Ryan Chen (Finance Officer, from November 2018) and Mariette Philippe (Accounting Specialist) served as resources to the Committee.

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.

Accomplishments in 2018-2019

1. Completion of FY2017-2018 audit & FY2018-2019 audit planning

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

In June 2018, the Finance & Audit Committee reviewed the audited financial statements for the year ending March 31, 2018, received and discussed the auditor's report (including in camera discussion with the auditor), and recommended these for approval by the Board of Directors. 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 FY2017-2018 audited statements which were presented to members at the Annual General Meeting in Vancouver on October 18, 2018 and were subsequently posted to the CRKN website. A simplified summary version of the financial statements was also reviewed by the auditors for inclusion in the 2017-2018 annual report.

At its meeting on March 8, 2019, the 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, 2019. The FY2018-2019 audit was completed in June 2019, with the audited statements scheduled to be presented at the CRKN AGM in Ottawa in October 2019.

CRKN has been operating under an extension to the 2010-2011 RFP process won by Deloitte. With the completion of the Canadiana combination, the Finance & Audit Committee is arranging an RFP for audit services during the summer of 2019 and in time for recommendation to the membership in October 2019 for the 2019-2020 fiscal year.

2. **FY2018-2019 and FY2019-2020 budget process**

The 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 8, 2019, the committee met to review and recommended the draft budget for FY2019-2020 for approval by the Board of Directors. As part of the discussion, the committee considered the implications of running a significant deficit during a year of transition following two years of significant surplus (**\$406,748 in 2017-2018 and \$970,832 in 2018-2019**).

The budget for fiscal year 2019-2020 was comprised of five components:

1. **Budget Proposal Narrative:**
 - Context and Environment
 - Key initiatives and budget drivers for FY2019-2020
2. **2019-2020 summary and segmented budget**, including significant revenue and expense assumptions, comparisons to 2018-2019 budgeted figures, and projections using January 2019 actuals to the end of the year.
3. **2019-20 Variance Analysis** highlighting significant changes in this year's budget compared both with FY2018-2019 budget/projections.
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. This highlights the need to have a sustainable funding strategy beyond the three-year member commitment to the HCAP fund ending 2021.
5. **Background: Budget Development Principles and Process**

The Board of Directors approved the budget for fiscal year 2019-20, including a **budgeted deficit of \$286,172**, on March 8, 2019. (Note that the CRKN-Canadiana Business Proposal had also anticipated a small deficit of \$45,461 in year one, and effectively a balanced budget in year two of combined operation).

3. **Membership Fee Discussions**

For the past number of years, Finance & Audit Committee goals 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. Members endorsed the proposal during CRKN's annual meeting of the members.

At its May 2018 teleconference, the committee endorsed plans to update and maintain banded membership fees, resetting the calculation to minimize the absolute value of the change for members in fees between 2017-2018 and 2018-2019. Membership fee invoices for the 2018-2019 year were sent in June 2018.

In March 2019, CRKN once again undertook communications to members related to changes in the 2019 bands and the associated impact within a banded membership fee structure for 2019-20.

As part of the budget approval process, the committee recommended a membership fee increase of 2.0% for FY2019-20 for CRKN's 75 university Institutional members. Subsequently, the committee reviewed and endorse the application of the 2019 banding structure, including the effects on the three members changing bands. (Membership fees for new Institutional and Associate members are being set for 2019-20 based on the same banded calculation depending on member size, but are extra to the 2% budgeted membership fee increase). CRKN's 2019-20 membership fee invoices will be sent to members in June 2019.

4. Foreign Exchange Service

In recent years, fluctuations in exchange rates have translated directly into increased member costs, with member license expenditures of just more than \$100M in 2014-2015, nearly \$112M in 2015-2016, \$124M in 2016-2017 and over \$125M in each of 2017-2018 and 2018-2019. Seven years ago, realizing the limitations of this one-size-fits-all approach to currency, the Finance & Audit Committee endorsed the provision 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 and reviewed by the Finance & Audit Committee, is levied to those members opting into 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 Elsevier ScienceDirect, Wiley Blackwell Database and Taylor & Francis Online Journals. CRKN also offered a USD-invoicing option for the first year (2019) for the SpringerLink commitment forms as those products were renewed. Fourteen members placed bids in CAD, and a further five asked to be invoiced in USD, for over \$18M USD or nearly 30% of the total amounts billed for these three licenses. In total, CRKN recovered around \$33,100 in service fees from the participants, in addition to the fees levied on USD invoicing option offered on the Elsevier, Wiley and T&F renewals.

Given the previous success of the service, the Finance & Audit Committee recommended an extension of the foreign exchange service for FY2019-2020, including USD invoicing for the 2020 Elsevier ScienceDirect and Wiley Blackwell licenses. A USD invoicing option will also be introduced as part of the 2020 SpringerLink and Taylor & Francis renewals.

5. Canadiana Merger effect

The committee continued to receive updates on the status of the Canadiana merger, including reviewing the draft audited statements for both the years ended March 31, 2018 and March 5, 2019 (in May 2019). Auditors from Bouris Wilson attended the June 6, 2018 FAC meeting. The committee focussed on the terms of the purchase/sale transaction and unrecognized severance liability in the audited statements, and was satisfied that CRKN was reflecting the transaction consistently for both organizations.

A special meeting of the members of Canadiana.org was organized on June 8th to receive the March 31, 2018 audited statements and to vote to formally dissolve the organization.

The committee continued to receive updates during the year on the wrap-up of Canadiana.org, which was officially completed on March 5, 2019. All payroll and HST liabilities (including a re-filing of prior periods' HST returns) have been resolved.

6. Policy and governance updates

The Committee continues to review CRKN's financial policies on a rotating triennial basis. During this year, the committee reviewed the following policies:

- Associate Membership Policy
- Investment Policy (formerly Investment Policy Statement)
- Net Assets policy
- Travel Expense Policy
- Purchasing Policy

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

7. Risk Management

The committee continued 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 began a project to update and focus the risks enumerated in the register, including ensuring that risks related to the operation of the Trustworthy Digital Repository were captured. That work is ongoing as of this writing. Note, that a significant

ongoing risk will be the transition of the funding model for a combined organization after the three years of HCAP fund support committed by members comes to an end.

Management have also continued to review, consolidate and extend the risk register (including risks related to the Canadiana platform, digitization activities and TDR maintenance) during the year. CRKN continues to maintain the annual filings and compliance statement, and the annual risk management report with the assistance of this committee, for the information of the Board.

8. *Quantifying CRKN Value*

The Committee discussed the practice of delivering the Institutional Annual Review to members, and discussed various options for communicating the value of CRKN to members. Committee members were interested to learn how consortial value is communicated in other consortia, and whether CRKN might be able to estimate its financial value to members. This discussion is ongoing with the committee.

9. *January Banking Incident*

During the year, the committee received information related to a breach of online access to CRKN's banking account through BMO's consumer platform. While no employee or member information is stored on the BMO platform and while no funds were at risk, perpetrators were able to see information analogous to that on CRKN's paper bank statements. Since the incident, staff have used only the commercial platform including two-factor authentication.

The committee recommended that CRKN seek an external consultant and incorporate additional tools for security practices, and revisit information security in its risk management processes. Staff has budgeted funds for corporate information security as a result. Separately, CRKN has reviewed the incident with an IT security consultant working with Dalhousie University and has sought their advice in developing a Corporate Information Security policy.

Objectives for 2019-2020

1. Consider the financial and operational risks of a larger organization and ensure that the strategic plan is properly supported by CRKN's risk management framework.
2. Monitor and maintain existing risk management activities, and support the Board by identifying gaps and suggesting remedies in other risk management practices;
3. Extend CRKN information/cyber security practice, including identifying and contracting with an external corporate security consultant to audit CRKN's existing practices and suggest improvements.
4. Issue an RFP for audit services recommend successful proponent to the Board and through the Board, to the membership
5. 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;
6. Continue to monitor accounting standards changes, and taxation implications for the organization to safeguard organizational assets and ensure fiscal accountability;
7. 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;
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