

**AUDIT
COMMITTEE**

Tuesday June 20, 2017

5:30 pm

SUB 0-55

ATTENDANCE

NAME	PROXY	PRESENT	SUBMISSION OF WRITTEN FEEDBACK (IF ABSENT)
Sandy Brophy (Chair)		Y	N/A
Connor Palindat		N	Y
James Thibaudeau		N	Y
Darren Choi		Y	N/A
Monica Lillo		Y	N/A
Nick Sorensen		Y	N/A
Will Swain		N	N

MINUTES (AC 2017-03)

2017-03/1 INTRODUCTION

2017-03/1a Call to Order

Meeting called to order at 5:32 pm.

2017-03/1b Approval of Agenda

LILLO/CHOI moved to approve the agenda as tabled.

Vote 4/0/0

CARRIED

2017-03/1c Approval of Minutes

SORENSEN/LILLO moved to approve the minutes as tabled.

**Vote 4/0/0
CARRIED**

2017-03/1d

Chair's Business

2017-03/2

QUESTION/DISCUSSION PERIOD

2017-03/3

COMMITTEE BUSINESS

2017-03/3a

2017 KPMG Audit Presentation

BROPHY/CHOI moved for the presentation by KPMG to start.

**Vote 4/0/0
CARRIED**

KPMG Agent1:

I'm the senior of the audit this year. In an audit, we go through the financial statements and see if there are errors which would change the users' decisions about those statements. We look at whether these errors change the overall picture or whether they distort what's going on. We provide reasonable assurance; it's not absolute as we don't test every transaction. We select transactions on a test basis focusing more on high risk areas. We have a few areas of focus for financial reporting. They include the completeness and accuracy of inventory and cash sales, completeness of accounts payable and accrued liabilities, the University of Alberta loan, investment income, and the risk of management overrides of controls. Me, Kirsten, and the partner John Stelter will be your audit team. We're committed to transparent reporting to both senior management and you.

Materiality is a concept related to the importance of an account or transaction. Any variance above the materiality will change a user's decision. We have an overall materiality for the Students' Union (SU) of \$580,000. The materiality for the Student Involvement Endowment Fund (SIEF) is \$100,000. We are independent to the SU, and we have conflict checking processes in place. Moreover, there are no relevant accounting or auditing changes this year.

For calculating materiality, we take a benchmark that the users of these financial statements would care about. We obtain the revenue for the previous year, and then take 3% of that which is an industry standard. That gives us the materiality number. Performance materiality is more of an internal measure for our procedures. It helps to draw our attention to necessary areas for sampling purposes. We will report anything above the audit misstatement posting threshold. This threshold is \$29,000 this year. All of these numbers are fairly comparable to the prior year. These measures are similar for SIEF. The only main change is the benchmark. We

use the total assets as the benchmark for SIEF just because of the nature of this entity.

KPMG Agent 2:

I'll go through the audit approach. The first area of focus is the accuracy of inventory and cash sales. We want to make sure that the cash is not distorted due to errors or misappropriation. We attend the inventory count, and do an overall analysis of departmental revenue. The next is the completeness of accounts payable and liabilities. We make sure that the liabilities are mentioned in the proper period. We get an idea of how the invoices which come after the year end are flowing through. We also do a search for unrecorded liabilities, and make sure they are recorded in the right period. The next area of interest is the University of Alberta Loan. Because there are different year ends, it's not as straight forward. We confirm the outstanding balance with the University, recalculate based on the interest, and ensure that it matches with the financial statements. The next one is investment income. We ensure that this is classified appropriately. We get an investment confirm from a third party, and make sure it matches with what is in the financial statements. Professional standards require we think about the following 2 risks. The first is fraud risk relating to revenue recognition. However, given the nature of the SU, we have rebutted that risk. There's no strong bias towards revenue recognition. The second one is not rebuttable. It's the fraud risk due to management overrides of control. This means that while you have a controlled environment in place, someone may not go through the control process. We check the journal entries, and see the business rationale of unusual transactions.

Our fees are pretty consistent with last year. Although we do not foresee any changes, there are some things that could impact our fees. If there are significant changes in the nature and size, professional standards, and the time we work, there may be changes in our fees. Our field work would take place from July 31 to August 11. Afterwards, we'll have discussions with the management. Following that, we'll have discussions with you in September. The engagement letter has already been signed.

KPMG Agent 1:

Have you guys scheduled your meetings in advance?

BROPHY:

Barring a date where there's nothing on the agenda, we will meet every second Tuesday at this time during Summer.

KPMG Agent 1:

So, meetings are not set for September, are they?

BROPHY:

We will likely keep the same time, but will depend on everyone's schedule in Fall.

One of the councillors not here today had some questions. He was wondering about the misstatement threshold. He asks whether it was regarding the SU or the audit itself. I'm not sure what he means by that.

KPMG Agent 1:

If any errors that we identify in the SU audit are above that threshold, we bring them to your attention. If they are below that, we would consider them to be trivial.

BROPHY:

He's also curious how you arrive at that number.

KPMG Agent 1:

It's 5% of materiality.

BROPHY:

The councillor wants to know whether these include all SU businesses or a sampling.

KPMG Agent 1:

Yes. All of it is incorporated in our audit.

BROPHY:

That's all councillor Thibaudeau had for questions. Does anyone else have questions?

SORENSEN:

You mentioned \$29,000. What is the limit of build up?

KPMG Agent 1:

We use it to accumulate misstatements. If an individual misstatement is below \$29,000, we will not accumulate it.

KPMG Agent 2:

We accumulate based on the nature too.

CHOI:

How did you derive the number for materiality?

KPMG Agent 1:

For the SU, we take revenues from the previous year’s audited financial statements. Then, we apply the threshold percentage of 3%. From our standards, you can set a threshold between 1-3%. Because this is a low-risk non-high-profile entity, we use the higher end of the range.

2017-03/4 **INFORMATION ITEMS**

2017-03/5 **ADJOURNMENT**

2017-03/5a **Next Meeting:** Tuesday July 04, 2017 at 5:30 pm.

2017-03/5b Meeting adjourned at 5:49 pm.

SUMMARY OF MOTIONS

MOTION	VOTES
LILLO/CHOI moved to approve the agenda as tabled.	CARRIED 4/0/0
SORENSEN/LILLO moved to approve the minutes as tabled.	CARRIED 4/0/0
BROPHY/CHOI moved for the presentation by KPMG to start.	CARRIED 4/0/0