



REPORT TO

AUDIT COMMITTEE

## EXTERNAL AUDITOR'S NON-AUDIT WORK

*"Give and it will be given unto you"*  
Luke 6:38

Created, Draft	First Tabling	Review
October 25, 2019	November 13, 2019	
C. Giambattista, Senior Manager Accounting D. Bilenduke, Senior Coordinator of Finance P. De Cock, Comptroller of Business Services & Finance		

## RECOMMENDATION REPORT

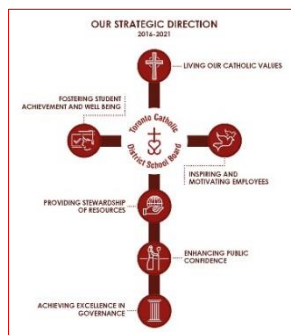
### Vision:

*At Toronto Catholic we transform the world through witness, faith, innovation and action.*

### Mission:

*The Toronto Catholic District School Board is an inclusive learning community uniting home, parish and school and rooted in the love of Christ.*

*We educate students to grow in grace and knowledge to lead lives of faith, hope and charity.*



Rory McGuckin  
Director of Education

D. Koenig  
Associate Director  
of Academic Affairs

L. Noronha  
Associate Director of Facilities,  
Business and Community  
Development, and  
Chief Financial Officer

## **A. EXECUTIVE SUMMARY**

Deloitte LLP was appointed as the external auditors for the TCDSB commencing with the 2015-2016 fiscal year. In addition to the year-end financial audit, the Board engaged Deloitte LLP in other non-audit advisory/consulting engagements.

*The cumulative staff time required to prepare this report was 5 hours.*

## **B. PURPOSE**

This report responds to the Audit Committee's request to provide details on the type of non-audit services that External Auditors may perform while not compromising their independence including providing a recommendation on the ratio of audit to non-audit work our external auditors may perform.

## **C. BACKGROUND**

1. Independence is the hallmark of the audit profession. Independence means that the auditor must perform the "attest" services without being affected by influences that may compromise professional judgement, and must act with integrity, objectivity and professional scepticism.
2. Advisory/consulting services are a significant source of revenue for public accounting firms. Revenue from such services is growing at a faster pace than audit revenue, and for many public firms, consulting and advisory revenue may surpass audit revenue.
3. As the associated fees from non-audit services grow, concerns about auditor independence may come into question.

## **D. EVIDENCE/RESEARCH/ANALYSIS**

1. There are threats to independence that may arise when public accounting firms provide non audit services for their audit client as follows:

- There is a possibility of a self-review threat to the extent that such consulting engagements could result in the auditor effectively “auditing their own work”.
  - There is a possibility of a familiarity threat to the extent that such services allow the auditor to develop too close a relationship with management or the Board.
  - There is a possibility of a self-interest threat when accounting firms combine audit and consulting services. The risk is that the audit task may be treated as no more than a loss leader for more lucrative consulting projects.
2. Independence is so essential to public company audits that there are comprehensive and strict laws, regulations and professional standards to govern it.
  3. European Union (EU) regulations and the US Sarbanes–Oxley Act attempted to restrict auditors from providing non-audit services to their audit clients. Financial caps of 70 percent of the average of the fees paid in the last three consecutive fiscal years of the audit were utilized in many cases.
    - Financial caps on fees for non-audit services are more widely used for publicly traded entities and for financial institutions where the audit fees are significantly higher and where shareholders can be at risk.
    - A financial cap for non-audit services of 70 percent of the audit fees would amount to approximately \$50k for the TCDSB.
    - In discussion with other school boards, there are no known benchmarks or financial caps prescribed within the education sector.

## **E. ACTION PLAN**

1. ***Rule 204 in the CPA Guide to Canadian Independence Standard provides some guidance.*** It does not include any specific prohibitions against the provision of such consulting services by an auditor, but rather suggests that it should be addressed within the threats and **safeguards framework**.

2. ***Routine audit services are appropriate.*** Routine Audit services pertain directly to the audit and generally involve providing assistance to the organization on an informal basis as part of the normal, ongoing professional relationship. Routine audit services are typically insignificant in terms of time incurred and generally do not result in a specific project, engagement or formal reporting. Examples of routine activities may include:
  - Providing advice to the organization on technical accounting issues.
  - Providing information or advice on general or routine business matters.
  - Providing information that is readily available to the auditor, such as best business practices or bench marking studies.
3. ***Some non-audit services may remain appropriate with the appropriate safeguards.*** Non-audit services may be performed if safeguards are put in place. Examples of non-audit services may include:
  - Providing internal audit services.
  - Performing enterprise risk management or business risk consulting.
  - Consulting on information technology systems, installation and integration.
  - Providing executive and employee search services.
  - Providing tax compliance services.
  - Providing corporate finance services such as developing strategies or assisting in analysing effects of proposed transactions.
4. ***Some services would directly impair auditor independence and should be prohibited:***
  - Assuming management responsibilities
  - Making policy or strategy decisions on behalf of management.
  - Taking responsibility for designing, implementing or monitoring internal controls.
  - Having a financial interest in the audited entity.
  - Bookkeeping and preparing accounting records and financial statements.
  - Payroll Services
  - Human Resource services

## **F. IMPLEMENTATION, STRATEGIC COMMUNICATIONS AND STAKEHOLDER ENGAGEMENT PLAN**

1. Staff believes that a conservative approach should be taken. In this regard, staff are proposing to set a very low threshold for non-audit services. \$5,000 is being proposed as a limit to what senior staff could approve for non-audit services by the current external audit of record. This equates to roughly 7% of the existing external audit fee.
2. Staff will ensure that any procurement process for financial advisory services includes a notice to prospective vendors that the TCDSB will determine at its sole discretion, through the procurement process, if there is a threat to independence should that same vendor be appointed as TCDSB's external auditor.
3. Should the TCDSB's external auditor of record successfully compete in a procurement process for a financial advisory service (over \$5,000) then the final decision will be brought to the TCDSB's Audit Committee for approval. This will act as a "Safeguard Framework" to ensure auditor independence.

## **G. STAFF RECOMMENDATION**

1. That the Audit Committee approve any additional consulting work by the Board's external auditor of record that exceeds \$5,000 and that the Board's Purchasing Policy and Effective Financial Management policies be updated to reflect this change, and
2. That this report and recommendation be forwarded to the December 2019 Corporate Services Committee to be ratified by the Board.