

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

**REPORT NUMBER 101 OF THE AUDIT COMMITTEE**

**March 21, 2012**

To the Business Board,  
University of Toronto.

Your Committee reports that it met on Wednesday, March 21, 2012 at 4:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (In the Chair)  
Ms Penny Somerville  
Mr. W. John Switzer  
Mr. Chris Thatcher

Mr. Mark Britt, Director, Internal Audit  
Ms Sheila Brown, Chief Financial Officer  
Mr. Louis R. Charpentier, Secretary  
of the Governing Council

Professor Scott Mabury,  
Vice-President, University Operations

Ms Cristina Oke, Acting Secretary

Regrets:

Mr. J. Mark Gardhouse  
Mr. Steve (Suresh) K. Gupta

In Attendance:

Ms Andrea Carter, Director, High Risk, Employment Equity & AODA  
Ms Stephanie Chung, Ernst & Young  
Professor Jill Matus, Vice-Provost, Students  
Mr. Pierre Piché, Controller and Director of Financial Services  
Ms Martha Tory, Ernst & Young

ALL ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

The Chair welcomed Professor Mabury to the meeting in his new role as Vice-President, University Operations and non-voting assessor to the Committee.

**1. Report of the Previous Meeting**

Report Number 100 (December 11, 2011) was approved.

## 2. Business Arising from the Previous Meeting

### Re: Item 3 – Risk Assessment: Information Technology

The Chair noted that the Chief Information Officer would, at the May meeting, make a further presentation on the priorities the University should adopt for dealing with information-technology risk.

## 3. Risk Assessment

### (a) Student-Crisis Management

The Chair welcomed Professor Matus and Ms Carter to the meeting. Professor Matus gave an oral report on Student Crisis and Risk that included the following highlights.

High-Risk cases included those in which:

- a student presented a significant risk of harm to self or others;
- legal or reputational issues were involved; and
- institutional oversight or multi-divisional involvement was required.

There had been a 20% increase per year in high-risk cases at the University of Toronto, with much of the increase related to mental health disorders. Cases involving international students added complexities.

Currently, because of the support often required, there were four phases to the process of dealing with high risk cases.

- **Phase 1:** The individual dealing with the behavior or issue informed the Department or Division Head. Other offices were informed as required, including: Campus Police Services, the Community Safety Office, the Student Crisis Coordinator (for management of student crisis issues) and Human Resources (for employee issues with violence or harm, or for Bill 168 matters).
- **If not resolved, Phase 2:** Managers of Campus Police, Community Safety Office, Dean of Students at the University of Toronto Mississauga (UTM) and at the University of Toronto Scarborough (UTSC), and the Assistant Vice-President, Student Life, were informed as appropriate.
- **If not resolved, Phase 3:** The Director, High Risk was informed.
- **If not resolved, Phase 4:** The Director, High Risk assembled the High Risk Committee including: the Vice-President, Human Resources & Equity; the Vice-Provost, Students; legal advisors; and others as required. After debriefing, she followed the management of the case.

The crisis management plan was under review.

The University had a High Risk Committee composed of the following individuals:

- The Vice-President, Human Resources & Equity along with the Vice-Provost, Students, assisted by the Director, High Risk matters.

### 3. Risk Assessment (Cont'd)

#### (a) Student-Crisis Management (Cont'd)

- **Other attendees (as required):** Assistant Vice-President, Student Life; Dean of Students UTM; Dean of Students, UTSC; Legal Counsel; Tri-campus Crisis Counselors; Community Safety Office; Counseling & Psychiatric Services (CAPS); Health & Wellness representatives; Accessibility Director; Campus Police representatives; Community Mental Health Professionals; College Deans of Students; Forensic Psychiatrists.

#### Risks and Issues

- High-risk matters were complex and involved multiple parties and competing interests. They typically involved harm to self, to others, or institutional risk of reputation. The assessment of risk had to be balanced against the rights of the individuals involved.
- Response time was crucial:
  - A delayed response could result in personal injury or death and/or injury or harm to others.
  - Complexities were evaluated on a case by case basis, such as students who were in residence.
  - Legislation impacted the work of the high-risk team, including Bill 168 under the Occupational Health and Safety Act <sup>1</sup>, the Human Rights Code and the *Freedom of Information and Personal Privacy Act* among others.
- Reputational Risk had to be considered.
  - In cases on other University campuses, what was apparent in the review was that there were warning signs: the University wanted to address such warning signs and avoid the escalation of a crisis. It thus had a comprehensive team in place.
  - The University also wanted consistency in the treatment of crises across the three campuses.
- In addition, the University's Crisis Management Plan included an "On Call Executive." A member of the senior administration was always available to address a crisis situation.
  - Members took turns being on call for twenty-four hours a day, 7 days a week for a one-week period.

Professor Matus concluded that, in her view, the current structures and personnel at the University were adequate to contain risks in student crisis situations.

#### Discussion

A member asked how crisis situations that were caused by individuals external to the University were being addressed. Professor Matus replied that campus police were aware of what was going on in the community and would work closely with the Toronto Police Services in such cases. In some crises, such as a train wreck or breakdown of Information Technology, the University had access to the resources of the City of Toronto. Professor Mabury added that a University liaison committee

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<sup>1</sup> Occupational Health and Safety Act with respect to violence and harassment in the work place and other matters

### 3. Risk Assessment (Cont'd)

#### (a) Student-Crisis Management (Cont'd)

met regularly with members of the community to share information and address concerns.

A member asked how the University was dealing with cases involving threatened or attempted suicide. Ms Carter replied that the Safe Talk program had trained staff on how to recognize indicators of suicidal thoughts.

The Chair suggested that the Committee receive a further presentation on the general topic of crisis management. Professors Matus and Mabury suggested that Professor Angela Hildyard be invited to discuss crisis management more broadly with the Committee.

The Chair thanked Professor Matus and Ms Carter for their presentation.

#### (b) Fraud Risk

Mr. Britt gave a presentation on fraud risk, a copy of which is attached hereto as Appendix "A".

The presentation included the following highlights:

- Occupational Fraud was defined as the use of one's occupation for Personal Enrichment through the deliberate misuse or misapplication of the organizations' resources.
- Categories of Occupational Fraud included:
  - Asset misappropriation,
  - Corruption, including bribery, extortion, conflict of interest, and
  - Financial statement fraud.
- Employee education was the foundation of preventing and detecting occupational fraud.
- What would it take to make you steal? The fraud triangle consisted of:
  - **Pressure**, including financial pressures; addictions; extra-marital affairs; poor money management; greed; and feeling unappreciated at work.
  - **Opportunity**, including being in a position of authority; a lack of segregation of duties; and the absence of an independent review of accounts and financial reporting.
  - **Justification**, 'I will repay what I have taken'; 'Everyone does it.'
- The following fraud controls were not currently in place at the University:
  - An Employee Code of Conduct;
  - A Hotline to report suspected fraud;
  - An Anti-Fraud Policy;
  - Fraud Training for Managers/Executives;
  - Fraud Training for Employees;
  - Rewards for Whistle Blowers.

Mr. Britt noted that the University had a procedure for reporting fraud, but the procedure could have more visibility throughout the University. It was presently available on the websites of

### 3. Risk Assessment (Cont'd)

#### (b) Fraud Risk (Cont'd)

Internal Audit and Financial Services and referenced on the annual accountability reports.

The Chair stated that employee training on fraud detection and prevention was essential and asked what resources would be necessary for the University to provide such training. Mr. Britt replied that he provided two courses per year to twenty-five to fifty staff members, but this was 'a drop in the bucket'. Ms Brown noted that the University had no mandate to provide such training, but that Business Manager development programs included a segment on fraud.

The Chair suggested that information be added to the annual Accountability Statement to explain how the completion of responsibilities outlined in that statement helped to detect fraud.

A member asked if there was a follow-up audit for units in which irregularities had been identified. Mr. Britt replied that, depending on the event, the unit could be added to the audit plan.

### 4. Impact of New Accounting Rules

Ms Brown commented that this item had originally been scheduled for the May meeting. She acknowledged and thanked Mr. Piché for his leadership role on this matter within the University, as well as provincially and nationally within the university sector.

Mr. Piché gave a presentation on the impact of the new accounting rules on the April 30, 2013 financial statements, a copy of which is attached hereto as Appendix "B". The key points of the presentation included:

- The University had decided to apply Part III of the Canadian Institute of Chartered Accountants (CICA) Handbook effective for years beginning with the fiscal year ending April 30, 2013.
  - The University would begin applying Part III of the CICA Handbook retrospectively, and prepare the comparative financial information for the year ended April 30, 2012 as though the Part III accounting standards had always been in place.
  - For topics not specifically included in Part III of the CICA Handbook, the University was required to apply the standards of Part II of the CICA Handbook.
- The key changes that would impact the University were employee future benefits, the valuation of capital assets at fair value, and the measurement of financial instruments.
  - Employee Future Benefits would be recognized immediately in the financial statements and measured using funding assumptions, rather than accounting assumptions. This would result in a decrease in net assets of approximately \$926 million.

#### **4. Impact of New Accounting Rules (cont'd)**

- Capital Assets would be valued at fair value which would result in an increase in net assets of \$2,085 million.
- Financial Assets would be measured at fair value with closing prices, which would result in an increase in net assets of \$1.1 million.
- The net impact on the financial statements for the year ending April 30, 2013 would be an increase in net assets at the date of transition (May 1, 2011) of approximately \$1.2 billion.
- In April 2013, balance sheets for April 30, 2013, April 30, 2012, and May 1, 2011 had to be provided.

Mr. Piché explained that the new accounting rules would be presented to other universities at the end of March and discussed by the Canadian Association of University Business Officers (CAUBO) in June.

The Chair thanked Mr. Piché for his presentation and congratulated him on the clarity of the documentation. She asked whether the Committee needed to approve the accounting principles. Ms Brown replied that the Committee would be asked to approve the financial statements with the principles embedded in them.

A member asked if there would be two sets of statements for April 30, 2012. Mr. Piché replied that there would be a set of financial statements based on the current practices and a set of financial statements restated for comparison with the April 30, 2013 statements.

A member expressed her interest in how other universities were going to handle pension expenses. Mr. Piché stated that colleagues at other universities were looking at the cumulative financial impact of the new standards, including whether the recognition of employee future benefit costs could be offset by recognizing the increase in the value of certain assets.

#### **5. Reports of the Administrative Assessors**

Ms Brown reported that the University's application for Stage 1 pension-plan funding solvency relief had been accepted. Applications for Stage 2 solvency relief were due in July 2014.

Professor Mabury informed members that the divisions responsible for real estate, for planning and for infrastructure were being combined within his portfolio.

#### **6. Date of Next Meeting**

The Chair reminded members that the date of the next scheduled meeting was Wednesday, May 9, 2012. The meeting would consider the draft notes to the financial statements and additional information on IT risks.

**7. Other Business**

There was no other business.

THE COMMITTEE MOVED *IN CAMERA*.

**8. *In Camera* Meeting with the Internal Auditor**

The administrative assessors other than Mr. Britt absented themselves, and the Chair invited Mr. Britt to comment on any matters that should be drawn to the Committee's attention and to respond to any questions.

Mr. Britt subsequently withdrew from the meeting and the Committee members continued their *in camera* meeting.

THE COMMITTEE COMPLETED ITS *IN CAMERA* SESSION.

The meeting adjourned at 6:30 p.m.

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Acting Secretary

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Chair

April 30, 2012

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