

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 108 OF THE AUDIT COMMITTEE

June 12, 2013

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, June 12, 2013 at 4:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (Chair)	Mr. Mark Britt, Director, Internal Audit Department +++
Ms Penny Somerville (Vice-Chair, In the Chair)	Ms Sheila Brown, Chief Financial Officer +
Mr. Jeff Collins	Prof. Scott Mabury, Vice-President, University Operations +
Ms. Kathryn A. Jenkins	
Mr. Peter Robinson	
	Ms. Sheree Drummond, Secretary

Regrets:

Mr. Chris Thatcher
Mr. Howard Shearer

In Attendance:

Ms Stephanie Chung, Ernst & Young ++
Mr. John Kerr, Director, Risk Management and Insurance
Mr. Pierre G. Piché, Controller and Director of Financial Services +
Ms Martha J. Tory, Ernst & Young ++

+ Absent for items 4 (c.), 14 - 16
++ Absent for items 6, 14 – 16
+++ Absent for items 4 (c.), 14 and 16

ITEMS 5 (e.) and 6 ARE RECOMMENDED TO THE BUSINESS BOARD FOR APPROVAL. ALL OTHER ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

1. Chair's Remarks

The Vice-Chair indicated that she would be chairing the meeting as the Chair would be arriving after 5:00 p.m. She welcomed members and guests to the meeting.

2. Report of the Previous Meeting

Report Number 107 (April 29, 2013) was approved.

3. Business Arising from the Report of the Previous Meeting

The Chair highlighted that items (8.) and (10.) on the agenda were business arising from the Report for the Previous Meeting. She also noted that Mr. Britt would provide an update on the matter of compensation of faculty members involved in providing their services to the various executive programs.

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Finally she advised that the Finance team would be bringing forward a recommendation on the *Policy on Use of the External Auditor for Non-Audit Services* to the October 2013 meeting.

(a.) Update: U of T's Risk Management Framework

Mr. Britt noted that Professor Mabury had begun the process of polling the Vice-Presidents and had met with each of them to explain the objectives of the project. Mr. Britt advised that a web-based template was in the development stage and that the Vice-Presidents and their direct reports would be asked to submit their information on-line. The results would be compiled and a draft report would be prepared for consideration by the Committee in the fall.

4. Risk Management and Insurance Annual Report 2012/13

Mr. John Kerr reported to the Committee that overall financial results were again stable this year in the University's Risk Management and Insurance program with slightly lower premium costs for principal coverages. He noted that the decision to withdraw from CURIE¹ and place the University's main property and liability policies in the commercial market through HKMB Hub International Limited had proven to be beneficial.

He reported that in regard to user-directed insurance the University had been well-served by the two insurers (Northbridge and Royal & Sun Alliance Insurance) and that by aggregating coverage for new capital works the University had obtained enhanced terms and pricing. He also reported that the University's self-insured claims record was somewhat improved in 2012/13 compared to the previous year. He noted that the theft of metal had been on the increase. In general, however, the nature and severity of claims had not increased. Finally, he said that the defalcation loss discovered in 2012 was settled with the insurer.

In response to a question for a member about the surplus distribution from CURIE, Mr. Kerr replied that this was a result of under-writing results (1988-2003 policy period) and that it would likely be the last surplus distribution that the University received.

A member noted that the surplus distribution had helped to grow the expendable fund and asked whether in the absence of these the Provost would be expected to transfer in an amount greater than the claims. Mr. Kerr replied that there was an ongoing commitment of funding from the Provost's Office.

A member asked about student activity in high risk areas and where that was handled. Mr. Kerr replied that for the most part students were extended coverage under the University's policy.

5. Audited Financial Statements for the Year ended April 30, 2013**(a.) Financial Report: Presentation**

Ms Brown began by thanking the Financial Services team and the Ernst & Young team. She noted that this year had been particularly challenging because of the adoption of the new accounting principles which meant that it was necessary to create statements for April 2011, 2012 and 2013. She invited Mr. Piché to provide an overview for members.

¹ Canadian Universities Reciprocal Insurance Exchange

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Mr. Piché highlighted the following:

- The Statements included all the operations under the auspices of the Governing Council as well as the University of Toronto Press and the University of Toronto Asset Management Corporation (UTAM), but did not include the federated universities or any research administered at the affiliated hospitals.
- The University recorded its financial transactions using fund accounting. There were four funds: restricted funds; capital fund; ancillary operations; operating fund.
- The new accounting standards required the University to account for its employee future benefits obligations and to recognize the fair value of its land (a net increase to the balance sheet of \$1B).
- The growth in expenses was in large part a result of additional research activity and the growth in student enrolment. Salaries and benefits continued to be a significant component of the University's expenses.
- The increase in net assets was due to favourable investment performance of endowments.
- Preservation of capital had increased but there was still a shortfall for inflation protection (should have \$165m set aside).
- The Long-Term Capital Appreciation (LTCAP) return was 11.4%. This was going in the right direction.
- Finance had forecasted a net loss of \$30 million for the year but actual change for the year was a net income of \$173 million as the cost of employee future benefits was lower due to favorable investment returns combined with under spending in academic divisions.

There were no questions from members.

(b.) External Auditors' Report of Audit Results

Ms Tory began by commenting on the degree of cooperation and the quality of the work of Mr. Piché and his team. She remarked that it was particularly notable given the adjustments that were required due to the transition to the new accounting standards. She highlighted some of the items of audit significance that were in the report:

- The impact of the transition to the new accounting standards– satisfied that the impact of transitioning was reflected appropriately in the statements;
- The Pan/Parapan American Games facility at UTSC– concurrence with management's accounting for this transition;
- Vacation accrual– management's estimate was within range of reasonableness;
- Accrual for Post-Doctoral Fellows– concurrence with the amount recorded;
- Pay Equity - management's estimate was within range of reasonableness; and
- Legal matters – appropriate disclosures had been made.

A member asked whether work was needed in the area of vacation accrual. Ms Tory replied that there was ongoing work using the Human Resource Information System (HRIS) and that there were discussions with management about how to ensure the data was reliable.

Ms Tory asked members of the Committee and management if they knew of any matters that might have changed the approach taken by the auditors or the conclusions they reached, including any knowledge of fraud or other illegal acts. Members indicated no such knowledge.

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(c.) External Auditors: Private Meeting

THE COMMITTEE MOVED *IN CAMERA*.

Members of the administration and the Internal Auditor absented themselves. Ms Tory was invited to advise, as provided in the Committee's terms of reference, of “any problems encountered by the auditors, any restrictions on their work, the co-operation received in the performance of their duties by the administration and the Internal Audit Department, and any matters requiring discussion arising from the auditors’ findings.”

THE COMMITTEE ENDED ITS *IN CAMERA SESSION*.

The Chair reported that there had been no matters arising from the Committee’s *in camera* meeting with the external auditors that would require action.

(d.) Legal Claims

The Chair advised members that the Committee’s terms of reference charge it to review “in connection with the review of the University’s audited financial statements, an annual report on substantial outstanding legal actions against the University in order to monitor contingent liabilities that should be disclosed in financial statements, as well as . . . to monitor possible risk exposures.”

The Committee received and accepted the report prepared by management. No amendments were suggested with respect to the disclosure in note 25(c) to the financial statements concerning contingencies with respect to legal claims.

(e.) Discussion and Recommendation

On the recommendation of the Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS

THAT the University of Toronto audited financial statements for the fiscal year ended April 30, 2013 be approved.

6. External Auditors: Appointment for 2013-14

Ms Brown reminded members that the Chair had reported to the Business Board at its January 28, 2013 meeting that the Committee would be tendering the audit for the 2015 Financial Statements. She advised members that she and her team have been very pleased with the work of Ernst & Young and that it was a testament to the quality of their team, their expertise in the not-for-profit and university sector, and their commitment and dedication that they were able to produce the audit very soon after the end of the fiscal year.

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On the recommendation of the Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS

- 1) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2014;
- 2) THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto pension plans for the fiscal year ending June 30, 2014.

7. Internal Audit**a. Annual Report**

Mr. Britt reported that actual audit hours were approximately 7% less than planned due to staff vacancies and two extended health-related leaves. Thirteen reviews were completed with twenty-one in progress, and two draft reports outstanding. He drew members' attention to Appendix A of the Report, 'Departmental Audit: Risks and Risk Indicators', noting the three major areas of risk: cash flow, fraud or integrity, and legal and compliance. He indicated that Internal Audit worked closely with divisions and departments to take proactive measures to mitigate these risks. He concluded by indicating that he had not identified any significant unmitigated operational risk.

A member asked what process was in place to ensure recommendations made by Internal Audit were implemented. Mr. Britt indicated that the unit was expected to demonstrate to Internal Audit that progress had been made towards implementation of recommendation and that, if, when Internal Audit followed-up in nine to twelve months after issuing its report no progress had been made, the situation would be brought to the attention of the Dean.

b. Plan 2013-14

Mr. Britt reported that the plan for 2013-14 was fairly consistent with the approach that had been taken for 2012-13. He noted that the staff complement was 8 FTE (rather than 7.5 FTE as noted in the cover sheet) and that the delivery hours would be 8,500.

Mr. Britt's overview of the plan highlighted the following:

- Objectives were consistent from year to year and aligned with internal audit policies;
- Scope included, but was not limited to, audits and reviews of academic and administrative units on all three campuses, as well as ongoing evaluation of compliance.
- Audits selected based on the risk areas identified in the 2012 University Risk Assessment Profile;
- A focus would be on information technology reviews;

A member asked whether Internal Audit was now at full complement and Mr. Britt confirmed that it was. A member remarked that there was a new student information system being put in place and asked whether Internal Audit was involved. Mr. Britt replied that Mr. Daniel Ottini, Audit Manager, was on the Committee for that project.

REPORT NUMBER 108 OF THE AUDIT COMMITTEE – June 12, 2013**8. Revision: Terms of Reference of the Audit Committee, Section 5.1.1.(e.)**

At the invitation of the Chair, Mr. Charpentier advised members that as authority for the review of Endowment Funds was now within the purview of the Business Board, it was recommended that this provision be removed from the Terms of Reference of the Audit Committee.

On a motion duly moved, seconded and carried,

YOUR COMMITTEE RECOMMENDS

THAT Section 5.1.1.(e.) of the Terms of Reference of the Audit Committee be removed.

9. Debt Policy Limit, Debt Allocations, Outstanding Debt Issued and Status of the Long Term Borrowing Pool to April 30, 2013

Ms Brown reminded members that a new debt strategy had been approved by Business Board in November 2012 whereby the total debt limit was calculated based on a 5% debt burden ratio and this resulted in a total debt limit of \$1.4 billion. She advised that the debt burden ratio based on actual outstanding debt was 3.7%, which was 1.3% lower than the policy debt burden ratio. She also noted that the total debt outstanding was just over \$1 billion and that the long-term borrowing pool assets, which is the sinking fund that is accumulating funds for the repayment of the bullet debentures, amounted to \$131.7 million. This report was provided for information only.

10. Reporting Incidents of Suspected Financial Impropriety Procedure

Mr. Britt highlighted for members that this was a procedure and not a policy, and that it had been developed in March 1997 and had been updated with advice from the Committee in 2007. He said that the Procedure had been created to provide a mechanism for the University community to report suspected incidents of misappropriation, fraud or abuse of the University's assets by employees or other individuals without recrimination for doing so. It identified University officials to whom reports of suspected impropriety should be directed as well the investigative authority into such allegations. When a report was received by Internal Audit a preliminary investigation would be undertaken to determine if the information received was accurate and if this was confirmed the Director advised the Secretary of the Governing Council and other Senior Officers relevant to the investigation. If the amount of potential loss was considered significant, the Director also notified the Chair of the Audit Committee at that time. He noted that updates about all on-going investigations were provided to the Audit Committee at its meetings throughout the year.

A member asked how, in a widely distributed workforce, individuals would know where to go with a concern. Mr. Britt replied that he explained the procedure whenever he was invited to do a presentation in a unit.

There was a discussion as to whether a register should be developed to track the number of complaints and the outcome. Mr. Britt said that he would take this under advisement and would bring any suggested changes back to the Committee in the fall.

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11. Reports of the Administrative Assessors

There were no reports from the administrative assessors.

12. Date of the Next Meeting – October 9, 2013 at 4:00 p.m.

13. Other Business

No items of other business were raised.

THE COMMITTEE MOVED *IN CAMERA*.

14. External Audit RFP – Preliminary Information.

Members discussed the plans for tendering the audit for the 2015 Financial Statements

15. Internal Auditor – Private Meeting

Members of the administration, the Secretariat (with the exception of the Committee Secretary) and the external auditors absented themselves. The Committee met privately with the Director of the Internal Audit Department. Following a brief report, Mr. Britt absented himself from the meeting.

16. Committee Members alone

There were no further matters to report.

THE COMMITTEE CONCLUDED ITS *IN CAMERA* SESSION.

The meeting adjourned at 7:10 p.m.

Secretary

Chair

September 26, 2013