

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 117 OF THE AUDIT COMMITTEE

June 17, 2015

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, June 17, 2015 at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (Chair)	Mr. Mark Britt, Director, Internal Audit++
Mr. Robert Boeckner	Ms Sheila Brown, Chief Financial Officer+
Ms Janet Ecker	Mr. Louis Charpentier, Secretary of the Governing Council+
Ms Kathryn Jenkins*	Professor Scott Mabury, Vice-President, University Operations+
Mr. Howard Shearer	
Ms Penny Somerville	
Mr. Christopher Thatcher	

Mr. David Walders, Secretary

*participated by telephone

Regrets:

Mr. Brian D. Lawson

In Attendance:

Ms Diana Brouwer, Ernst & Young +++
Dr. Pierre G. Piché, Controller and Director of Financial Services +
Ms Joyce Yu, Ernst & Young +++

+ Absent for items 5c, 12-13

++ Absent for Item 5c, 13

+++ Absent for Items 6, 12-14

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

1. Chair's Remarks

The Chair welcomed members and reminded them that the Committee met in closed session and that the materials were confidential.

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2. Report of the Previous Meeting: Report Number 116 of the Audit Committee – April 29 2015

Report Number 116, from the meeting of April 29, 2015 was approved.

3. Business Arising from the Report of the Previous Meeting

There was no business arising from the Report of the previous meeting.

4. Risk Management and Insurance Annual Report 2014/15

Mr. John Kerr, Director, Risk Management and Insurance, reported that 2014/15 was a challenging year due to extreme cold and ageing infrastructure failures. One significant claim which was open had been settled. For 2015/16, insurance carriers had been fair in setting premiums and the University's main insurance policies had been renewed at favourable rates and terms comparable to the prior year.

In the discussion that followed, members asked questions regarding the availability of insurance related to cyber attack issues. Mr. Kerr noted that the possibility of exploring such insurance options was being examined. Typically, such policies calculated premiums based on a quantification of the loss, calculated by considering the costs associated with notification, mitigation and increased security.

5. Audited Financial Statements for the Year ended April 30, 2015

Ms Brown commended the financial services team for their hard work, especially considering a tighter than normal time frame for completion of the Statements.

a. Financial Report: Presentation

Dr. Piche offered a presentation which highlighted the following:

- Revenues for the year ended April 30, 2015 were \$2.8 billion and expenses were \$2.6 billion for a net income of \$287.8 million. These figures were largely the result of funds being set aside in accordance with multi-year divisional academic plans that called for prudent and deliberate use of reserves for future capital investment in academic facilities and for faculty hiring.
- Revenue growth continued to be mostly due to student enrolment and increased research initiatives.
- The pension plans' deficit improved from \$683.8 million in 2014 to \$617.4 million in 2015. This improvement was occasioned by strong investment performance and special going concern payments into the plan, offset primarily by the adoption of new mortality tables.

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- Net assets had increased from \$3.9 billion in 2014 to \$4.4 billion in 2015. This was the result of a net income of \$287.8 million, \$176.1 million gain on externally restricted endowments not made available for spending, endowed donations of \$32.7 million and negative \$20.9 million in remeasurements.
- The net change in the cumulative operating surplus for the year was \$21.7 million, which resulted in a cumulative operating surplus at April 30, 2015 of \$7.2 million, whereas the long-range operating budget called for a break-even position.

Members thanked Dr. Piche and Ms Brown and commended the Financial Services team for their work in preparing the Financial Statements .

b. External Auditors' Report of Audit Results

Ms Diana Brouwer provided an high-level overview of the Report, drawing specific attention to the analysis of contribution classifications and investments (including valuation, disclosure and estimates), as well as new endeavours for the University, such as the Pan American and Para-Pan American Games. The audit results indicated that there were no issues to bring to the Committee's attention nor any unadjusted errors.

In reply to a member's question concerning research grants, Ms Brouwer noted that extensive work had been completed to update grant agreements and that her team would continue working with the University's Department of Financial Services to update these agreements.

c. External Auditors: Private Meeting

THE COMMITTEE MOVED *IN CAMERA*.

Members of the administration and the Internal Auditor absented themselves. Ms Brouwer 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 Committee received and accepted the report prepared by management. No amendments were suggested with respect to the disclosure in note 21 (c) to the financial statements concerning contingencies with respect to legal claims.

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e. Discussion and Recommendation

The Committee discussed the Auditor Assessment Template that each member was asked to consider in advance of the meeting. During the discussion, it was agreed that in each category, the performance of the auditors either met or exceeded expectations.

On motion duly made, seconded and carried

It was recommended to the Business Board

THAT the University of Toronto audited financial statements for the year ended April 30, 2015 be approved.

6. Appointment of the External Auditors

The team from Ernst & Young absented themselves from the meeting.

On motion duly made, seconded and carried,

It was recommended to the Business Board

THAT the recommendations for the appointment of external auditors for 2015-16 be approved.

7. Internal Audit

a. Annual Report, 2014-15

Mr. Britt presented the Annual Report with highlighted the following:

- Audit hours totalled 7,769 which were approximately 92% of Plan.
- Twenty-two reviews were completed with ten (10) in progress and three (3) draft reports outstanding.
- Allocation of audit effort comprised Departmental Audits (50%), Investigations (11%), Advisory and Other (19%), External Audit Assistance (5%), Continuous Audit (10%) Information Systems (2%), and Follow-up reviews (3%).
- In some units increased levels of risk arise from instances of non-compliance with policies, procedures, regulations and donor wishes, ineffective functioning of the systems of internal control or lack of proper safeguarding of assets.

In the discussion that followed, Mr. Britt and Ms Brown explained both the utility of and the challenges with the use of One-Time Only (OTA) accounts versus vendor accounts.

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b. Plan 2015-16

Mr. Britt provided an overview of the audit plan, highlighting the following:

- The scope was 9,900 direct audit hours from a staff complement of 9.0 FTE.
- The focus would be on enterprise, divisional and departmental risks and would include academic, administrative and student services functions on the three campuses
- Included in the Plan would be Department audits, Continuous Audit, Information Systems reviews, Follow-up reviews, Investigations and Advisory Services. It also included a roll-out of Restricted Funds Compliance Assessment Program
- He noted that audits were selected with reference to the University Risk Assessment Profile, consultations, senior and operational management requests and internal audit risk assessments.

The Chair thanked Mr. Britt and his team for the Annual Report and the development of the 2015-16 Audit Plan

8. Debt Policy Limit, Debt Allocations, Outstanding Debt Issued and Status of the Long Term Borrowing Pool to April 30, 2015

Ms Brown noted that the report provided an update on the total debt limit (as per debt policy approved in November 2012) based on the financial results of April 30, 2015.

There were no questions from members

9. Reports of the Administrative Assessors

Professor Mabury provided an update on additional feedback which had been provided regarding the *Policy on Information Security and the Protection of Digital Assets*. He noted that it was likely that the Policy would likely be brought back to governance for approval during fall, 2015.

10. Date of Next Meeting – Tuesday, October 13, 2015 at 4:00 p.m.

11. Other Business

There were no items of other business.

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IN CAMERA ITEMS

Pursuant to section 6.1 of the Audit Committee terms of reference, consideration of items 12 - 13 will take place in camera.

12. Internal Auditor – Private Meeting

13. Committee Members alone

The meeting adjourned at 5:45 p.m.

Secretary

Chair

July 15, 2015