

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

**REPORT NUMBER 113 OF THE AUDIT COMMITTEE**

**June 11, 2014**

To the Business Board,  
University of Toronto.

Your Committee reports that it met on Wednesday, June 11, 2014 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 +++++
Ms Penny Somerville (Vice-Chair)	Ms Sheila Brown, Chief Financial Officer ++
Mr. Jeff Collins	Mr. Louis Charpentier, Secretary of the Governing Council ++
Ms Kathryn A. Jenkins	
Mr. Brian Lawson	
Mr. Peter Robinson	Ms Sheree Drummond, Secretary
Mr. Howard Shearer	
Mr. Chris Thatcher	

In Attendance:

Ms Diana Brouwer, Ernst & Young +++  
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 +++

+ Present for Item 4  
++ Absent for item 5 (c.), 12 - 13  
+++ Absent for Items 12 – 13  
++++ Absent for Item 13

ITEMS 5 (e.) IS RECOMMENDED TO THE BUSINESS BOARD FOR APPROVAL. 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.

She advised members that at its meeting on June 12, 2014 the Business Board would receive recommendations from its Striking Committee regarding membership on the Audit Committee for the coming governance year. These would be reported publicly in the minutes of that meeting. She thanked outgoing members of the Committee, Jeff Collins and Peter Robinson, for their valuable contributions. She also thanked Penny Somerville for her invaluable service as Vice-Chair of the Committee.

**2. Report of the Previous Meeting: Report Number 112 of the Audit Committee – April 28, 2014**

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Report Number 112 (April 28, 2014) was approved.

**3. Business Arising from the Report of the Previous Meeting**

The Chair indicated that there was one matter of business arising and that it was related to the *Procedures for Reporting Incidents of Financial Impropriety* which was item 8 on the agenda. She said that there was no further business arising other than any updates that Mark Britt might provide on items that he had reported on *in camera* at the previous meeting.

**4. Risk Management and Insurance Annual Report 2013/14**

The Chair reminded members that this report was for information and that while no specific action was required should they have any concerns or wish to see any follow-up on a particular matter they could request this.

Mr. John Kerr, Director, Risk Management and Insurance, reported that 2013/14 was a challenging year due to severe weather (the July 8 rain storm, the December ice storm, and the long, cold winter) combined with a couple of other significant incidents resulting in increased claims compared to past years. He said that the insurance carriers had taken our overall excellent claims record into account when setting the premiums for 2014/15 and that the University's insurance policies were renewed at very favourable terms. With regard to risk management, Mr. Kerr noted that some areas for which significant support had been provided in the past year included: changes to professional liability insurance requirements for regulated health professionals; developing insurance requirements for the Toronto Pan-Am Sports Centre (TPASC) Inc. and providing advice to its Board; and, responding to changes in WSIB coverage available to students on unpaid placements.

In the discussion that followed a member asked where the accountability rested with regard to risk management for the TPASC facility, Professor Mabury replied that the details for the Corporation were still be worked out but that it was a 50-50 shared partnership.

Members also discussed the insurance reserve.

**5. Audited Financial Statements for the Year ended April 30, 2014**

The Chair noted that the meeting would be the last for Ms Martha Tory as she was retiring. She thanked Ms Tory for her hard work on behalf of the University and noted that the University had benefited from Ms Tory's extensive experience in the not-for-profit sector. Ms Brown thanked Ms Tory on behalf of Financial Services, noting that Ms Tory had gone above and beyond in her dedicated service to the University of Toronto.

**a. Financial Report: Presentation**

Ms Brown began by thanking the Financial Services and Ernst & Young teams. She remarked on the fact that only three weeks after year end draft statements were available and that this took an immense amount of work by a small team. She said that while it looked easy because it was done every year, it was in fact not easy for Canada's largest university to do this. She invited Mr. Pierre Piché to provide an overview for members.

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Mr. Piché highlighted the following:

- The Statements included all the operations under the auspices of the Governing Council including 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 internally using fund accounting. There were four funds: restricted funds; capital fund; ancillary operations; operating fund.
- In 2013 revenues were \$2.7B and expenses were \$2.5B (4% rise in salary costs as a result of number of employees and negotiated salary increases), the net income of \$204M was largely a result of under-spending in faculties and divisions and good investment returns.
- Revenue growth continued to be mostly due to student enrolment and research volume increases.
- Outstanding year for donations with \$127M received and over \$168M in pledges raised.
- Balance sheet reflects new accounting rules which resulted in the use of funding discount rates to value the pension liability.
- Had forecasted a surplus of \$85.4M but actual change for the year was \$204.3M this was because more money was set-aside than forecasted and the endowment return was higher than expected (14.6% in contrast to forecasted 6%).

**b. External Auditors' Report of Audit Results**

Ms Tory began by thanking the Chair and Ms Brown for their kind words and noted that it had been a pleasure for her to work with the University of Toronto. She also remarked on the significance of producing the Statements in a short period of time and thanked the Financial Services team for their outstanding work. She highlighted some of the items of audit significance that were in the Report:

- Employee future benefits;
- Vacation pay accrual;
- Research oversight.

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.

**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

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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.

### **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, 2014 be approved.

Before moving to the next item, the Chair thanked the Financial Services team for their hard work on the Statements and for getting them out in record time.

## **6. Internal Audit**

### **a. Annual Report, 2013-14**

Mr. Britt reported that audit hours totaled 8,217 which was approximately 97% of Plan. He said that twenty-five reviews were completed with nine in progress and three draft reports outstanding. He noted that in some units there were increased levels of risks from instances of non-compliance with policies, procedures, laws and regulations, ineffective functioning of the systems of internal control or lack of proper safeguarding of assets, but that Internal Audit continued to work with units to mitigate such risks. He indicated that he had not identified any significant unmitigated operational risk and that on the whole the risks within the University were managed appropriately given its size. He also reported on the results of the accounts repayable recovery audit and advised that he had a draft of the report arising from the Internal Audit departmental review.

Members asked about deficiencies in controls and whether this was as an issue of culture or a lack of resources. Mr. Britt said that each division deals with different levels of risks, have different levels of administrative support and competencies, and have different abilities to use the tools in place.

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### **b. Plan 2014-15**

Mr. Britt provided an overview of the audit plan noting that the scope was 8,500 direct hours from a staff complement of 8.0 FTE. He said that the focus would be on enterprise, divisional and departmental risks and that it would include academic, administrative and student services function on the three campuses. In addition, other items that would fall into the scope included, but were not limited to, an update to the Internal Audit Manual and the development of a web-based client satisfaction survey. He explained that the resource/service allocation was in part based on results from the current year and noted that Internal Audit had reengineered its use of automated software for sampling and as a result could be more tactical with data targeting transactions as well as able to perform deep dives within the University's accounting system. Mr. Britt said that in the past he had dedicated 1,000 hours to Continuous Audits but because of the enhanced functionality of the software he now dedicated about 500 hours, with the remaining hours reallocated to other internal audit services. He provided a list of compliance, financial and operational risks as well as a list of the audit selection aligned with the Vice-Presidential portfolios.

### **7. Debt Policy Limit, Debt Allocations, Outstanding Debt Issued and Status of the Long Term Borrowing Pool to April 30, 2014**

Ms Brown reminded members that the document was prepared for Business Board, however, the Audit Committee receives for information the balance sheet income statement for the long-term borrowing pool, which is the University's internal sinking fund that accumulates funds for repayments of debentures issued. She advised members that about \$160M had been set aside in support of these repayments.

### **8. *Reporting Incidents of Suspected Financial Impropriety Procedure***

Mr. Britt advised members that further to the discussion at the last meeting the Procedure had been revised to make it clear that the Director of Internal Audit would report any suspected financial impropriety to senior management and the Chair of the Audit Committee when there was a "sufficient likelihood" that such an action had occurred.

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

There were no reports from the Administrative Assessors.

### **10. Date of the Next Meeting – Tuesday, October 14, 2014 at 4:00 p.m.**

### **11. Other Business**

The Chair thanked all members for their service on the Committee this past governance year.

THE COMMITTEE MOVED *IN CAMERA*.

### **12. 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, Internal Audit.

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**13. Committee Members Alone**

Members discussed a possible presentation for the coming governance year.

The Committee returned to closed session.

The meeting adjourned at 6:13 p.m.

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Secretary

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Chair

September 26, 2014