

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 110 OF THE AUDIT COMMITTEE

November 26, 2013

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, November 26, 2013 at 4:00 p.m. in the Governing Council Chamber, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (Chair)
Ms Penny Somerville (Vice-Chair)
Mr. Jeff Collins
Ms Kathryn A. Jenkins
Mr. Brian Lawson
Mr. Peter Robinson
Mr. Chris Thatcher +

Mr. Mark Britt, Director, Internal Audit +
Ms Sheila Brown, Chief Financial Officer ++
Mr. Louis Charpentier, Secretary of the Governing Council ++
Prof. Scott Mabury, Vice-President, University
Operations ++

Ms. Sheree Drummond, Secretary

Regrets:

Mr. Howard Shearer

In Attendance:

Ms Diana Brouwer, Ernst & Young ++
Ms Stephanie Chung, Ernst & Young ++
Mr. Francis Low, Ernst & Young ++
Mr. Pierre G. Piché, Controller and Director of Financial Services
Ms Martha J. Tory, Ernst & Young ++

+ Absent for item 16.

++ Absent for items 15 and 16.

ITEM 5 IS RECOMMENDED TO THE PENSION COMMITTEE 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.

2. Report of the Previous Meeting

Report Number 109 (October 9, 2013) was approved.

3. Business Arising from the Report of the Previous Meeting

The Chair noted that the two items of business arising from the last meeting – the *Reporting Incidents of Suspected Financial Impropriety Procedure* and U of T's Risk Management Framework – were on the agenda as items 10 and 11 respectively.

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4. Internal Audit – Orientation Presentation

The Chair invited Mr. Mark Britt to give his presentation. The highlights were as follows:

- Primary role of Internal Audit was: to provide independent assessments of various units; report on the results; follow-up on implementation of action plans; provide advice; investigate financial impropriety; and, deliver education and training.
- Work done through: departmental audits; continuous auditing; follow-up reviews; assistance to External Auditors; information systems; investigations and advisory services; and financial administration, internal control and fraud awareness training.
- Work based on: the annual audit plan (that was based on University Risk Assessment Profile); Internal Audit Risk Assessment Process; requests, prior audit results; reports and tips; as well as tri-campus presence.
- Various reports produced: Detail Audit Reports (for unit head and business officer); Executive Summary Reports (for unit head, dean, relevant Vice-President(s), President, Secretary, Chief Financial Officer, Controller, External Auditor); Semi-Annual and Annual Reports (President, Vice-Presidents, Audit Committee); Investigations (President, relevant Vice-Presidents, Senior Counsel, others as needed).
- Reporting structure: Functionally to the President and the Audit Committee, administratively to the Secretary of the Governing Council (as designate for the President).
- Systemic conditions that have led to fraud occurring: (1.) lack of segregation of duties; (2.) lack of review of FIS/MROL Reports; (3.) blanket delegation of authority; (4.) weak cash handling; (5.) accounts payable processing and vendor management control weaknesses; and, (6.) lack of centralized monitoring.

The Chair commented on the list of the systemic conditions that have led to fraud occurring and asked if there were changes that could be recommended. She asked Mr. Britt to bring forward some recommendations for consideration at a future meeting.

In response to a question from a member Ms Tory explained that Ernst & Young looked at controls in the system at a very high level given the realities of a decentralized environment.

A member asked whether resourcing was adequate for Internal Audit to deliver on the large mandate. Mr. Britt said that resourcing was stretched and that the work in progress was indicative of this but that Internal Audit prioritized its work in order to ensure that it could manage the load. He noted that if unforeseen circumstances were to arise it could have an impact on the completion of the Audit Plan in a timely manner. In follow-up a member asked how long Internal Audit had been operating at its current level of FTE and Mr. Britt replied that it had been since 1995. The member observed that over the course of that time the University had gotten considerably larger and more complex. The Chair said that the lack of increasing budget was duly noted.

5. Pension Plans: Annual Financial Report – Audited Financial Statements for the Year ended June 30, 2013

The Chair explained that the Audit Committee reviewed the audited financial statements of the pension plans and the auditors' reports thereon, and recommended the financial statements to the Pension Committee for approval. She noted that the Pension Committee, on the recommendation of the Audit Committee, had the authority to review, approve, reject or refer back the audited financial statements of the registered pension plans. She invited Ms Brown to introduce the item.

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Ms Brown reminded members that the focus of the Audit Committee was on the audited financial statements and that the Committee recommended them for approval by the Pension Committee. The statements would then be filed with the Financial Services Commission of Ontario by December 31, 2013. She highlighted that there had been an investment return of 12.1% (net of fees) and that special payments had been made into the plans, and would continue to be made in future years.

Mr. Francis Low, the external auditor for the registered pension plans, advised members that he was comfortable with all the disclosures. He brought members' attention to the fact that there would be a substantial change to next year's statements, in that performance information would be included, as a result of new reporting requirements of the Financial Services Commission of Ontario.

Highlights of the discussion were as follows:

- In response to a question about the role of the audited statements and the value provided with respect to liabilities, Mr. Low replied that in signing-off on the financial statements the external auditors were signing-off on the pension liabilities as determined by the plans actuaries. He said that they ensured that they were comfortable with the actuarial assumptions and that they looked at scrubbed data, as opposed to initial data given by the University, to confirm the validity of the data used.
- A member noted that in addition to addressing interest rate risk it would also be helpful to address risk related to establishing the discount rate. Ms Brown noted that this was addressed in the annual financial report, where the nominal return and the real return were shown, and indicated that she would take the suggestion under advisement. She said that one of the biggest issues facing the plans was that interest rates have come down and stayed low.
- In response to a suggestion that ongoing risk analysis should focus liabilities as well as assets, Mr. Low explained that what had been done was what was required for accounting standards.
- A member asked about the reference to the approach for managing foreign currency risk which involved a hedging of non-emerging markets' currency exposures and asked whether there was an explanation as to why non-emerging markets were deemed to be safer. Another member noted that it was not that they were deemed to be safer but rather that the cost of hedging in emerging markets likely outweighed the benefits.

On a motion duly moved, seconded and carried

YOUR COMMITTEE RECOMMENDED TO THE PENSION COMMITTEE

- a) THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2013, a copy of which is included in Appendix "4a" of the document entitled *University of Toronto Pension Plans Annual Financial Report For the Year Ended June 30, 2013*, be approved; and
- b) THAT the audited financial statements for the University of Toronto (OISE) Pension Plan for the year ended June 30, 2013, a copy of which is included in Appendix "4b" of the document entitled

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University of Toronto Pension Plans Annual Financial Report For the Year Ended June 30, 2013,
be approved.

6. External Auditors: Engagement Letter for 2014, Audit Plan, and Report on Audit Fees

The Chair advised members that the external auditor reports annually on the adequacy and appropriateness of the financial statements of the University and that the role of the Committee was to review and, if appropriate, accept the engagement letter. She invited Ms Tory to speak to the report.

Ms Tory advised members that the external auditors met with management on an ongoing basis and that there had been no significant changes in the approach. She said that materiality was estimated to be \$15 million and that she did not feel that there was any significant benefit from an audit perspective to increase it. She said that the auditors necessarily relied on internal controls in a number of areas. She noted that audit plan highlighted issues that had been raised with management, including the timing for the University's adoption of CICA 3462. In referring to the proposed fees Ms Tory noted that Ernst & Young would be using resources in its Global Talent Hub which was located in India. She emphasized that all the work that would be done by those staff would be subject to second-level review.

A member asked what safeguards were in place to ensure the security and privacy of confidential information in the context of offshore work. Ms Tory replied that she believed the normal checks and balances were in place but that she would follow-up with more specific information as to how transmissions were handled. A member pointed to items 12 and 13 in Appendix A related to data protection and asked whether these had been added because data was being sent offshore. Ms Tory replied that she believe that the terms and conditions were identical to previous years but that she would confirm this and report back to the Committee.

Ms Tory asked whether the Committee was aware of any matters not reflected in the report, including illegal acts of fraud, of which the auditors should be aware. Members replied that they were aware of no such matters.

On a motion duly moved, seconded and carried

YOUR COMMITTEE RESOLVED

THAT the Audit Committee accept the external auditors' audit plan and engagement letter for the year ended April 30, 2014, as outlined in the report from Ernst & Young dated November 22, 2013.

7. Administrative Accountability Reports: Annual Report on the Program, 2012-13

The Chair reminded members that the Audit Committee received an annual report on the status of accountability reports and that this item was for information. There were no questions from members.

8. Enrolment Report to the Ministry of Training, Colleges and Universities: Audit, 2012-13

The Chair advised members that the Audit Committee's terms of reference provide for the Committee to review other such University related financial statements and reports as the Business Board instructs or the Audit Committee deems appropriate. She noted that the report was provided for information.

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In response to a question about the minima/maxima adjustment, Ms Chung replied that this was to reflect that some students took longer to complete their studies than others.

9. Internal Audit: Semi-Annual Activity Report for the Six Months Ended October 31, 2013

The Chair indicated that the Terms of Reference of the Audit Committee included the review of a semi-annual and annual report from the Internal Auditor. She invited Mr. Britt to present his report on activity for the six months ending October 31, 2013.

Mr. Britt noted that nine reviews were completed but that seventeen were in progress and five draft reports were outstanding. He said that Internal Audit had put a concerted effort into follow-up reviews and that a some effort had been directed to modifying the approach to continuous audit to make it more efficient. In response to a question from the Chair as to what specifically had been done, Mr. Britt explained that they used to run sampling routines every month but that now this was automated so it brought forward these transactions on a more continuous basis. He said that he continued to be involved with various information systems project groups so that controls and risk management were taken into account. He advised members that two investigations had been undertaken during the period. One was related to grant funds and another to an expense reimbursement. He said that he would provide further details *in camera*.

Mr. Britt also spoke about the accounts payable recovery audit that was nearing completion. He reported that to date approximately \$400,000 had been recovered through refunds or issuance of vendor credits, and that approximately \$60,000 of recovery was still in progress, collectively covering the period 2009-2012. The Chair asked why Ernst & Young had not found any of these. Ms Tory replied that the control they relied upon was that all cheques over \$50,000 were signed at the centre.

10. Reporting Incidents of Suspected Financial Impropriety Procedure – Procedural Amendments

Mr. Britt reminded members that the Procedure was created in 1997 and had been updated in 2007. At the June 2013 meeting of the Committee there had been a request to amend it to explicitly identify the process for receiving reports of suspected financial impropriety and for reporting them to the Chair of the Audit Committee. The proposed amendments included a reference to the requirement of the Director of Internal Audit to log a report and to promptly investigate the allegation/incident [Section C. (4.)] and to the various notifications and reporting that were required [Section D. (2.), (3.) and (9.)].

In response to a question as to whether there was a hot-line in place, Mr. Britt replied that there was not, but that it would be an excellent resource to have. The Chair asked what communication mechanisms were in place for the *Procedure* and Mr. Britt indicated that the *Procedure* was referenced on the Internal Audit's and Financial Services' websites, that it was included as a reference on the final page of the Annual Accountability Report forms, and that it was spoken about at various training and staff development sessions.

The Committee confirmed that it accepted the proposed amendments and Mr. Britt indicated that the next step would be to take them to the University's Executive. He advised the Committee that he would report back on this matter at the March 2014 meeting.

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At the invitation of the Chair Professor Mabury provided context for the current risk management initiative. He emphasized that the approach had evolved from conversations with the Committee, the Chair as well as with Mark Britt and then President David Naylor. The outcome was that a secure web-based tool was developed for the Vice-Presidents, Provost, Chief Financial Officer and Principals at UTM & UTSC to complete. Professor Mabury reported that he met with each of these individuals at the outset of the process to discuss the risk questions, the collection of the data, how to complete the form as well as hear feedback on the overall process. He noted to members that the outcome from this ‘first year effort’, while substantially different from prior years, should be viewed as a work in progress. He indicated that data had been collected in four categories (compliance, financial, operational and strategic) and he provided a high-level overview of the data collection summaries. He drew members’ attention to the narratives that were provided in the report.

A member asked about the broader usage of the report and how it would work its way into how the University managed risk. Professor Mabury explained that it had already involved the Tri-Campus Vice-Presidents (TVP) group and that it would also be considered by the Executive Committee of the Governing Council.

The Chair thanked Professor Mabury for the report and said that the examples it contained were very useful. She commented that in her view the report gave members a good feel for the context and controls that were in place, and in so doing allowed them to more fully appreciate the range of activity taking place which to date had been a challenge for the Committee.

She noted that risk management would be on the agenda for the March 2014 meeting of the Committee and indicated to members that it would be possible at that time to provide suggestions for what the approach should be for the coming year’s report.

Professor Mabury acknowledged the contribution of Ms Valeria Pettica, Director, Office of the Vice-President University Operations, in overseeing this project.

12. Reports of the Administrative Assessors

There were no reports from the administrative assessors.

13. Date of the Next Meeting – Thursday, March 6, 2014

The Chair advised that the date of the next meeting was Thursday, March 6, 2014.

14. Other Business

No items of other business were raised.

THE COMMITTEE MOVED *IN CAMERA*.

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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, Internal Audit.

16. Committee members alone

Members discussed the matter of external audit services.

The Committee returned to closed session.

The meeting adjourned at 7:09 p.m.

Secretary

Chair

November 27, 2013