

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 115 OF THE AUDIT COMMITTEE

December 2, 2014

To the Business Board,
University of Toronto.

Your Committee reports that it met on Tuesday, December 2, 2014 at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (Chair)
Mr. Brian D. Lawson (Vice-Chair)
Mr. Robert Boeckner
Ms Janet Ecker
Ms Kathryn Jenkins
Ms Penny Somerville

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

Mr. David Walders, Secretary

Regrets:

Mr. Christopher Thatcher
Mr. Howard Shearer

In Attendance:

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

+ Absent for items 12-13

++ Absent for Item 13

ALL ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

1. Chair's Remarks and Introductions

The Chair welcomed members and guests.

**2. Report of the Previous Meeting: Report Number 114 of the Audit Committee –
October 14, 2014**

The Report of the previous meeting was approved.

REPORT NUMBER 115 OF THE AUDIT COMMITTEE – December 2, 2014

3. Business Arising from the Report of the Previous Meeting

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

4. Registered Pension Plans: Audited Financial Statements for the Year ended June 30, 2014

Ms Brown reported that the Annual Financial Report would not be produced until the University was advised as to whether its application to the Provincial Government for Stage 2 Solvency Relief was successful. As such, it was expected that the Report would be presented to the Committee at either the April 2015 or June 2015 meeting. She also drew members' attention to the fact that the financial statements provided audited estimates of the pension obligation, which was calculated using the new actuarial assumptions, with investment returns to June 30, 2014, but with employment data only to July 1, 2013.

Mr. Francis Low, the external auditor for the registered pension plans, advised members that he was comfortable with all the disclosures contained in the Audited Financial Statements.

The Chair inquired as to whether it could be made more readily apparent in the financial statements that there were two key estimates utilized in the preparation of the statements – namely, the estimates relating to the determination of the fair value of investments and those relating to the fair value of pension obligations. Ms Brown, Mr. Jensen and Mr. Low agreed that this could indeed be made clearer in future audited financial statements, though, because of timing, it may not be possible to amend the current audited financial statements.

The Chair also requested clarification as to the discussion of risk in the financial statements. Specifically, one of the notes in the statement (note 3) appeared to relate to the Master Trust, but the discussion relating to the note contained statements concerning liquidity risk in the Pension Plan. Therefore, the discussion on interest rate risk at note 3 did not address the pension liabilities and instead focused solely on the assets, while the discussion on the liquidity risk considered both assets and pension liabilities. Ms Brown and Mr. Low explained that, while the Master Trust (containing the investment vehicles) was exposed to various risks (market risk, credit risk, liquidity risk), the Plan, being responsible for settling pension obligations, was directly affected by the liquidity (and so, the liquidity risk) of the Master Trust. This was why there were two separate, but related, references to risk in the financial statements.

Finally, in response to a members' question as to why there were no experience gains in the financial statements, Ms Brown explained that this was owing to the use of roll-forward of employment data, current to July 1, 2013.

On a motion duly moved, seconded and carried

It was Recommended to the Pension Committee,

REPORT NUMBER 115 OF THE AUDIT COMMITTEE – December 2, 2014

THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2014 be approved; and

THAT the audited financial statements for the University of Toronto (OISE) Pension Plan for the year ended June 30, 2014 be approved.

5. External Auditors: Engagement Letter for 2015, Audit Plan, and Report on Audit Fees

Ms Brouwer noted that, based on the projected results of the University, it was estimated that the materiality for the audit of the 2015 consolidated financial statements would be \$27M (which represented 1.0% of estimated total revenues of \$2.7B at 30 April 2015). She then discussed areas of specific audit emphasis for 2015, including the following:

- The University's investment portfolio;
- The Pan/Parapan American Games Facilities at UTSC;
- Payroll-related accruals;
- Legal matters involving potential liability of the University; and,
- Fraud risk and potential for management override.

In reply to a question from the Vice-Chair, Ms Brouwer confirmed that any deficiencies or irregularities that were discovered during the audit with respect to control measures within departments would be communicated to the office of the Chief Financial Officer. No such deficiencies or irregularities had been detected in the present audit.

On a motion duly moved, seconded and carried

It was Resolved,

THAT the Audit Committee accept the external auditors' audit plan and engagement letter for the year ended April 30, 2015, as outlined in the report from Ernst & Young dated December 2, 2014.

6. Administrative Accountability Reports: Annual Report on the Program, 2013-14

Mr. Britt confirmed that, as part of its mandate the Internal Audit Department continued to monitor and report on compliance with the administrative accountability program and that this report contained no negative responses, which was indicative of compliance.

In reply to questions from members, Ms Brown observed that the administrative accountability reporting, which had been conducted since 1995-96, was a pyramid reporting structure, whereby a reporting was made to progressively senior administration levels, culminating with the President reporting to the Chair of the Governing Council. She also

REPORT NUMBER 115 OF THE AUDIT COMMITTEE – December 2, 2014

confirmed that training on accountability reporting was provided to all new academic administrators.

7. Enrolment Report to the Ministry of Training, Colleges and Universities, 2013-14

In reply to a members' question regarding enrolment and full-course equivalents (FCEs), Professor Mabury confirmed that the figure of 82,300 thousand students was the headcount of total students, both undergraduate and graduate, at the University. He also noted that Provincially-mandated changes to the FCE structure meant that, by 2016, only students who took 4.0 FCEs or more in a year would be charged full-time student tuition. Students wishing to take fewer than 4.0 FCEs would pay on a per-course basis. This differed from the current model, whereby a student taking 3.0 FCEs was charged full-time tuition, but additional FCEs could be taken at no extra cost to the student. He indicated that among the potential negative effects of the new structure was a possible increase in time-to-completion rates for undergraduate students.

8. Internal Audit: Semi-Annual Activity Report for the Six Months Ended October 31, 2014

Mr. Britt presented his Semi-Annual Report to the Committee, highlighting the following points:

- Internal Audit reviews to date had not indicated the existence of significant unmitigated financial or operational risk to the University. Additionally, no investigations related to suspected financial impropriety were undertaken in the period.
- Five reviews had been completed, 15 were in progress and four draft reports were outstanding.
- Approximately 3,800 audit hours were provided from a staff complement of 7.25 Full-Time Equivalent (FTE) (versus the planned compliment of 8.0 FTE). There had been two promotions and several students had been hired by the Office of Internal Audit as part of the work-study program offered by the Rotman School of Management.
- Assistance was also provided to Ernst & Young in connection with the audit of the University's 2014 financial statements, enrolment audits, Ministry funded facilities renewal projects and program audits.

9. Reports of the Administrative Assessors

Professor Mabury provided an update on the ongoing reviews for the 2015-16 Budget Report, focusing on student enrolment. He raised the following matters:

- With respect to graduate students, increases in enrollment in recent years had been slow, and graduate students currently comprised between 21-22% of the total student population. There had, in fact, been a slight decline in PhD students for the past several years. The 2007 discussion paper, *Towards 2030: Planning for a Third Century of Excellence at the University of Toronto*, contained a specific mandate to increase the graduate student population and efforts to achieve this objective were

REPORT NUMBER 115 OF THE AUDIT COMMITTEE – December 2, 2014

ongoing. This may include lobbying the Provincial Government for funding for international graduate students.

- Turning to undergraduate enrolment, Professor Mabury reported that the number of international undergraduate students was steadily increasing, with international students accounting for approximately 22% of students in the Faculty of Arts and Science and up to 30% in the Faculty of Applied Science and Engineering. This was so despite a 14 year trend of 10% yearly increases in undergraduate tuition for international students. There was another 9% increase planned for 2015-16 and this would be a key topic for discussion during the budget review meetings.

In reply to a members' question, Mr. Mabury reported that, despite a focus on increasing internationalization within the student population, there remained a concerted effort to attract qualified domestic students.

10. Date of Next Meeting – Thursday, March 5, 2015

The Chair advised that the date of the next meeting would be Thursday, March 5, 2015.

11. Other Business

No items of other business were raised.

THE COMMITTEE MOVED *IN CAMERA*.

Pursuant to section 6.1 of the Audit Committee terms of reference, consideration of items 12 and 13 took place in camera.

12. Auditors - Private Meeting

Members of the administration and the Director, Internal Audit absented themselves at the Committee met privately with the external auditors. Following this, the external auditors then absented themselves and the Committee met privately with the Director, Internal Audit.

13. Committee Members Alone

The Committee returned to closed session.

The meeting adjourned at 5:55 p.m.

Secretary

Chair

REPORT NUMBER 115 OF THE AUDIT COMMITTEE – December 2, 2014

December 3, 2014