



University of Toronto

OFFICE OF THE GOVERNING COUNCIL

AUDIT COMMITTEE

1. MEMBERSHIP

1.1 Composition

Membership is about nine, other than *ex officio* members, of whom a minimum of five will be members of the Business Board or members of the Governing Council. The Chairman and Vice-Chairman of the Governing Council, the President and the Chancellor are *ex officio* voting members of the Audit Committee.

In addition, the following officers are *ex officio* non-voting members: the senior officer of the University reporting to the President who is responsible for financial matters, as so designated by the President; a second senior officer of the University responsible for financial matters, as so designated by the President; the Secretary of the Governing Council; and the Director, Internal Audit.

Two-thirds of the voting members must be external to the University: that is, not faculty, staff or students.

The Audit Committee is a technical rather than a representative committee. Its members are appointed on the basis of their expertise and interest in accounting, law and business administration rather than constituency representation.

1.2 Term

Terms are for one year, beginning July 1, and may be renewed.

Members of the Governing Council are appointed to the Committee annually by the Council. Other, or “co-opted”, members are appointed annually by the Business Board.

1.3 Chair and Vice-Chair

The Chair and Vice-Chair (if any) are appointed annually by the Business Board.

2. QUORUM

Three members, other than *ex officio* members, two of whom are external to the University.

3. SUBCOMMITTEES

3.1 Standing Committees

The Audit Committee is a standing committee of the Business Board. It has no standing subcommittees.

3.2 Special Committees

The Audit Committee does not normally establish Special Committees.

4. FUNCTION

The Audit Committee reviews and assesses recommendations and reports on the finances, financial controls and risk exposures of the University. Where appropriate, it gives advice to the University's senior officer reporting to the President responsible for financial matters or to the President or makes recommendations to the Business Board, to which the Audit Committee reports. The Committee's function includes review of the accounting systems, financial reporting, internal controls, safeguarding of the University's assets and general risk exposure. The Committee monitors the competence with which external and internal audits are carried out; ensures that the auditors' recommendations are given due consideration; and ensures the auditors' independence in their relationships with the administration.

5. AREAS OF RESPONSIBILITY

5.1 Without limiting the general responsibilities of the Committee as described above, the Audit Committee:

- (a) reviews the annual audited financial statements of the University with administration and the external auditors, and recommends them for approval to the Business Board;
- (b) assesses the adequacy of substantial public disclosures of financial information;
- (c) reviews such other University-related financial statements and reports as the Business Board instructs or the Audit Committee itself deems appropriate to the responsible execution of its duties and recommends them for approval where required;
- (c) reviews the annual report on the pension plans, including the financial statements of the pension funds, a summary of the actuarial reports, including the actuarial assumptions, and a summary report on investment returns, and recommends the financial statements to the Business Board for approval;
- (d) meets with the external auditors to determine any problems encountered by the auditors, any restrictions on their work, the co-operation received in the performance of their duties, and their audit findings; reviews the external auditors' management letter and the administrative response to the letter, and satisfies itself that the recommendations are acted upon where appropriate. Where recommendations from the external auditor are not to be acted upon, the Committee satisfies itself that this is acceptable;
- (e) reviews the internal auditor's reports, significant findings and recommendations concerning the adequacy of internal controls in the University, and satisfies itself that the administration is addressing the issues raised where appropriate;

- (f) receives from the appropriate *ex officio* non-voting members timely reports on any significant financial issues, problems, irregularities or any significant contingent liabilities;
- (g) reviews from time to time the University's accounting policies and practices with the administration and the external auditors; is advised of any significant, relevant changes to generally accepted accounting principles and the University's application thereof;
- (h) reviews the internal auditor's annual and long-range audit plans, internal audit policy and procedures;
- (i) recommends the annual appointment of the external auditors; reviews and accepts the external auditors' engagement letter; reviews annually the external auditors' plan and estimated and actual audit fees. The Committee shall be informed of any fees for any non-audit services performed for the University by the audit firm and consider whether the nature or extent of such services could detract from the audit firm's independence in carrying out the audit function;
- (j) the Committee shall be informed on a timely basis of any serious difference of opinion between administration and the auditors, whether or not the difference has been resolved; the Committee shall be informed of any case in which the administration has sought accounting advice on a specific issue from an accounting firm other than the one appointed as external auditors;
- (k) reviews, for information, any report made by the President to the Business Board, pursuant to the Policy on Appointments and Remuneration, on the suspension or removal of the Director of the Internal Audit Department and the reasons therefor. Receives for information a report from the President on the circumstances of any resignation or transfer of the Director;
- (l) reviews an annual management report on significant business, financial and regulatory risks and monitors the University's processes for identifying and controlling those risks. In carrying out this responsibility, the Committee focuses primarily on the adequacy of key controls over those vital risks considered to be, currently or in the future, more significant and likely to occur, meets with management and the internal or external auditors to come to a fuller understanding and better assessment of management's response to controlling important risk situations, and reports any concerns to the University's senior officer reporting to the President responsible for financial matters, to the President, or to the Business Board, as appropriate;
- (m) reviews, in connection with the review of the audited financial statements, an annual report on the use of legal services and on substantial outstanding legal actions against the University in order to monitor possible risk exposures and contingent liabilities.
- (n) receives reports from management on the occurrence of any significant audits of University operations or projects carried out by governments, granting councils, regulatory agencies or others; in cases where the outcome of an audit indicates any substantial irregularity, reviews the audit report.

- (o) monitors such other financial matters as the Governing Council or the Business Board may direct or as the Audit Committee deems appropriate to carrying out its general function.¹

5.2 Responsibility of Administration

The President, through his/her administration, has an obligation to tender advice and develop proposals for action on all matters within the Committee's terms of reference.

The administration is directly responsible for the University's risk-management and financial reporting processes, including:

- (i) the preparation of financial reports and statements in accordance with the principles of fair presentation and generally accepted accounting principles for University operations;
- (ii) the organization and maintenance of appropriate internal controls designed to safeguard assets, establish the reliability of financial information and ensure adherence to approved policies; and
- (iii) the provision of assurance that the actions of the University's administration comply with applicable laws and standards of proper conduct.

¹ The Business Board, at its meeting of October 15, 1996, as one of the steps taken to streamline Board operations, delegated to the Audit Committee the Board's stewardship responsibility with respect to two incorporated business ancillary operations: the University of Toronto Innovations Foundation and the University of Toronto Press. To carry out this responsibility, the Committee reviews the annual reports and financial statements of the corporations and recommends that the Business Board "accept" the annual report and financial statements. Unless the Audit Committee reports some substantial concern, the Business Board normally places consideration of the annual reports and financial statements of those corporations on its "consent" agenda. Should the Committee or the Board determine not to "accept" the annual report and financial statements, this would be interpreted as a recommendation to the Governing Council that the affairs of the ancillary operation are not in good order and that the Council should reconsider its appointments to the Boards of these corporations. Because these corporations have their own boards and audit committees, the Audit Committee of the Governing Council is not expected to review the operations' financial statements in detail.

The Audit Committee also reviews the financial statements of the third incorporated business ancillary operation: the University of Toronto Asset Management Corporation (UTAM). It also periodically reviews UTAM's controls on the University and pension plan assets. The Audit Committee is not, however, asked to review the UTAM annual report or its investment performance. That annual report is made directly to the Business Board.

6. PROCEDURES

6.1 Meetings

The Committee meets in closed session. Where matters before the Committee are of a particularly confidential or sensitive nature, the Committee may move *in camera*. The Committee meets a minimum of three times per fiscal year.

The Committee meets at least annually with the external auditors and with the internal auditor separately, without the presence of any administrative officer, to enquire whether adequate cooperation has been received from administration and whether administration has exerted any undue pressure.

In establishing agenda for meetings of the Committee, the Chair will usually be advised by an agenda planning group that includes the Vice-Chair (if any) and the assessors. The proposed agenda for a meeting, together with background documentation, is reviewed at an agenda planning meeting, usually scheduled eight to fourteen days prior to the Committee meeting.

6.2 Access

The external auditors and internal auditor shall have access to the Chair of the Audit Committee, on serious matters within the scope of their duties that cannot be resolved through normal administrative reporting lines.

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