

**EXCERPT FROM REPORT NUMBER 188 OF THE BUSINESS BOARD –
April 4, 2011**

4. Audit Committee: Terms of Reference

Ms Kennedy said that the proposal to revise the Audit Committee’s terms of reference had emerged (a) from both a special meeting held in September to consider (among other things) the Committee’s role, and (b) from the first regular meeting of the year, which routinely reviewed the terms of reference. The largest part of the proposal consisted of relatively minor revisions that could be regarded as housekeeping changes. It also contained one significant substantive change, involving a change both in the name of the Committee and in its mandate to stress the Committee’s responsibility to oversee risk management. The Committee’s role was already set out in item 5.1.5 of its terms of reference, which charged the Committee to review “an annual management report on significant business, financial and regulatory risks” and to monitor “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, and mitigations of, 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.” The Committee had for some years carried out that responsibility. It had decided beginning in 2010-11 to devote a full meeting each year to monitoring risk management. As a result, it had more time to consider the annual report and to obtain a fuller understanding of the risks facing the University and the steps being taken to mitigate them. The proposed revisions to the terms of reference were to stress that role (a) by changing the name of the Committee to the “Audit and Risk Committee” and (b) by specifically requiring the administration to prepare “an annual report on the key risks facing the University, including controls, procedures and other actions taken to mitigate known risks and procedures and other actions to enhance the organization’s ability to respond to unexpected events.”

It was duly moved and seconded,

THAT the proposed revised Terms of Reference for the Audit Committee be approved.

A member raised, and the Board considered, two areas of concern.

(a) Need for governance oversight of comprehensive and integrated risk management. A member cited his experience with a crown corporation, which had made manifest to him the need for an organization’s risk-management efforts to be comprehensive and integrated. The terms of reference limited risk-management oversight to “business, financial and regulatory risks.” It would be important that the University’s governance go beyond those areas to deal with other highly important risks. One area was competitive risk: the risk that competition would prevent the University from attracting and retaining the highest quality students, faculty and staff. Another area was reputational risk. He cited a recent instance where the Board had declined to endorse a proposed real-estate transaction where the form of that transaction might have tarnished the University’s reputation. It was also important that risk-management be integrated. It was always necessary to make trade-offs in decisions to assume or not to assume certain risks.

4. Audit Committee: Terms of Reference (Cont’d)

EXCERPT FROM REPORT NUMBER 188 OF THE BUSINESS BOARD – April 4, 2011

Ms Kennedy said that the list of risks cited in the terms of reference was not intended to be a comprehensive listing of the risk universe or a listing excluding the Committee's monitoring of other risks. The reports received annually by the Audit Committee did contain a comprehensive view of risk. The most recent risk-assessment report included, for example, risk with respect to students. The member who had raised the matter commented that it would be helpful if the terms of reference were more transparent on the nature of the risk management that was being monitored.

Ms Kennedy noted that the Audit Committee, in discussing its role in governance oversight of risk management, had been concerned that not all of its members would have access to all of the information required to understand the risks facing the University. That information was provided to the Business Board; however, while most members of the Audit Committee were also members of the Business Board, that was not always the case. To ensure that those members did have the opportunity to be informed, it was agreed that they be informed about relevant meetings of the Business Board.

A member, who was also a member of the Audit Committee, stressed that the role of the Audit Committee was not to manage risk but rather to be satisfied that appropriate risk-management was being carried out by the University's administration. It would not be desirable for the Audit Committee to limit its focus purely to financial risk simply because no other governance body dealt with the matter of risk management in general. At its recent meeting, the Committee simply sought to be sure that the President and the administration were assessing risk and were acting effectively to deal with it. Ms Riggall had established a risk-management group consisting of senior staff who had responsibility for some area of risk, and that group was working on various issues. It was important that it be understood in the University that the work on monitoring risk and mitigating it was being carried out and that it was being monitored by a committee of the Governing Council.

A member observed that the terms of reference were specific in identifying the Committee's responsibility for "business, financial and regulatory risks," and she suggested that it might well be appropriate for the Executive Committee, the Business Board or the Governing Council itself to have a role in monitoring broader areas of risk.

Ms Riggall said that the annual risk- assessment profile identified each area of risk, specified the senior administrative officer responsible for the area, and listed the reports made by that officer to a governance committee, which reports would demonstrate risk management. It was not intended that the Audit Committee itself would review risk in each area. Rather, it would satisfy itself that the area or risk had been identified, that a plan had been put into place to deal with it, and that reports were being made to the appropriate governance body. The Audit Committee played a coordinating role.

The member who raised the matter said that he remained concerned, notwithstanding the role of the Audit Committee, that there was no body that ensured integration of risk control and that arrived at the necessary trade-offs in accepting some risks and acting to deal with others.

EXCERPT FROM REPORT NUMBER 188 OF THE BUSINESS BOARD – April 4, 2011**4. Audit Committee: Terms of Reference (Cont'd)**

Ms Riggall replied that the role described by the member was being played by the University's senior administration through the group of the President and Vice-Presidents. The member thought that there should be oversight of comprehensive risk management in the governance system.

Ms Kennedy said that the Audit Committee had recognized the need for further consideration of the matter as part of the implementation of the Report of the Task Force on Governance. A Committee member who was also a member of the Implementation Committee had undertaken to raise the matter in that Committee. While there was recognition of management's responsibility to implement an integrated program of risk management, there should be a mechanism for review of that activity. One of the questions to be considered was whether the annual report on risk management should stop at the level of the Audit Committee or go on further into the governance system. The proposed changes to the terms of reference did represent a very positive first step. Such areas as competitive risk and reputational risk could and should be regarded as aspects of business risk. Given the changing nature of the risk universe, it made sense not to be too specific about the risks and areas of risk management to be monitored.

A member suggested that the drafting of section 5.1.5(a) be revised to words such as: "Reviews annually a comprehensive report on all significant areas of risk facing the University including but not limited to business, financial and regulatory risks, and monitors the University's processes for identifying and controlling those risks." The member who had raised the concern said that he would view that change as a helpful one, but there should be further work on the matter before the terms of reference went forward to the Governing Council for approval.

(b) Committee membership. The member expressed concern about the description of the Committee's membership: "about eight independent voting members, who are normally not members of the teaching staff, administrative staff or students of the University." The member was concerned about the word "normally," combined with the additional provision that "notwithstanding the above, . . . the voting membership may include a senior member of the teaching staff of the University with expertise in accounting." The member argued that a member of the teaching staff (or a member of the administrative staff or a student) was not independent of the University and should not be a voting member. Two members suggested that it would be worthwhile to determine whether a member of the University such as a faculty member could legally be a member of an audit committee. Moreover, the terms of reference concerning the Chair and Vice-Chair of the Committee simply specified that they were to be "appointed annually by the Business Board." There was nothing that would prevent the appointment of a faculty member as Chair or Vice-Chair. Other members suggested that the requirement concerning membership in general be made more specific, avoiding the use of the words "about" ("about eight independent voting members"), and "normally" ("normally not members of the teaching staff, administrative staff or students of the University"), as well as avoiding the use of the word "independent" ("independent voting members") in a way that would include any faculty member who might be appointed to the Committee.

EXCERPT FROM REPORT NUMBER 188 OF THE BUSINESS BOARD – April 4, 2011**4. Audit Committee: Terms of Reference (Cont'd)**

Ms Kennedy said that in practice the Audit Committee was clearly an independent one. In the membership of the Committee, the independent external members were always predominant. It was in fact helpful to the Committee, and to its independence, to have amongst its members a faculty member with specialized knowledge of accounting who could provide a point of view other than that of the administration and the auditors. The current faculty member had proven that on numerous occasions. His work for the Canadian Coalition for Good Governance had enabled him to bring particularly valuable insights to the Committee. She agreed that it would be inappropriate for any faculty member of the Committee to be appointed as Chair or Vice-Chair.

A member, who also served on the Audit Committee, agreed that it was very valuable to have a knowledgeable faculty member on a Committee that was regarded as a “technical committee.” He suggested the addition of a provision that would make it clear that the large majority of members would be government-appointed or alumni members of the Governing Council or co-opted members who were not faculty, staff or students of the University.

The Chair observed that a frequent item of debate in discussions of governance in the for-profit sector concerned how many independent members Board needed to be deemed an independent one. He suggested that it would be advisable to change the drafting of the membership provision to ensure that the term “independent” was clearly not meant to include the faculty member. He stated that there was no urgency that the matter be concluded at an early date. He therefore suggested that the motion be withdrawn and that the Audit Committee consider further the matters that had been raised at the current meeting.

With the agreement of the mover and seconder, THE MOTION WAS WITHDRAWN to enable further consideration by the Audit Committee and by the Implementation Committee for the Task Force on Governance.

A member urged that, as a matter of good governance process, the revised terms of reference should include a provision requiring the dissemination of adequate information to members of the Committee to enable them to carry out effectively their responsibility to monitor risk management.

Secretary

Chair

April 27, 2011