



FOR RECOMMENDATION

PUBLIC

OPEN SESSION

TO: Business Board

SPONSOR: Sheila Brown , Chief Financial Officer
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PRESENTER: Sheila Brown , Chief Financial Officer
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DATE: October 11, 2013 for November 4, 2013

AGENDA ITEM: 4.

ITEM IDENTIFICATION:

Policy on Use of the External Auditor for Non-Audit Services - Revision

JURISDICTIONAL INFORMATION:

Pursuant to Section 5.1.2.(c) of the Terms of Reference of the Audit Committee, the Committee "... reviews and recommends to the Business Board for approval a policy on the use of external auditors for non-audit services. Reviews and an annual report on assignments and fees for any non-audit services performed by the University by the audit firm."

GOVERNANCE PATH:

1. Audit Committee (October 9, 2013)
2. **Business Board (November 4, 2013)**

PREVIOUS ACTION TAKEN:

The Business Board approved the current *Policy* on May 3, 2006.

The Audit Committee received an annual report from the external auditor regarding non-audit services provided by the external auditor at its meeting on December 4, 2012.

The Audit Committee reviewed the *Policy* at its April 29, 2013 meeting and recommended changes. These proposed changes were brought forward to the Committee at its October 9, 2013 meeting and were recommended for approval by the Business Board.

HIGHLIGHTS:

In Canada, external audit firms are required by the Chartered Professional Accountants of Canada (CPA Canada) to comply with the Canadian Independence Standard which includes the following prohibitions with respect to non-audit services with respect to audits of public companies only:

“5. Members and firms may not provide:

- bookkeeping and accounting services;
- financial information systems design and implementation;
- actuarial services;
- valuation services;
- internal audit services;

unless it is reasonable to conclude that the results of the services will not be subject to audit procedures.

6. Members and firms may not provide the following services, even if not subject to audit:

- expert services including litigation support;
- legal services;
- management functions;
- human resources services;
- corporate financial services.”

While this section of the standard does not apply to non-public companies, it provides a best practices standard that the accounting profession requires our external auditor to use in determining whether they can accept individual assignments for their public clients. While these standards for public companies are more restrictive than for non-public companies, the external auditor may choose to apply some or all of the more restrictive standards to their non-public clients. When this policy was formulated in 2006 we used the more restrictive public company Canadian standards as our guidance.

In Ontario, the external auditor is required to comply with audit independence rules as set forth in Rule 204 in the *Rules of Professional Conduct* issued by the Chartered Professional Accountants of Ontario. The most recent revision to the independence rules in the *Rules of Professional Conduct* was February 2011 which can be found at: <http://www.icao.on.ca/Resources/Membershandbook/1011page2635.pdf>

The 2006 *Policy* delegated to the Chair of the Audit Committee the authority for the approval of non-audit services. The chair has the authority to 1) approve the service, 2) consult with the Audit Committee before approving the service, or 3) refer the service to the Audit Committee to recommend to the Business Board and Governing Council for approval.

The 2006 *Policy* also delegated to the Chief Financial Officer the authority to engage the external auditor, up to \$250,000 per assignment, for specific categories of pre-approved non-audit services – tax consultation, participation in the risk assessment process, professional services regarding advice on accounting for individual transactions and professional services regarding advice on financial statement disclosures.

The 2006 *Policy* noted that the Audit Committee would continue to receive an annual report from the external auditor on the non-audit services.

A review of the 2006 *Policy* at the April 29, 2013 meeting of the Audit Committee has resulted in two changes:

- 1) A reduction in the delegation to the Chief Financial Officer from \$250,000 to \$100,000, excluding applicable taxes, per assignment, with no change in the specific categories so delegated.
- 2) The introduction of quarterly accumulative reporting by the Administration to the Audit Committee on payments to the external auditor for non-audit services.

The delegation level was reduced because, over the period of more than six years since the inception of the policy, no individual assignment had been large enough to exceed the delegation. The payment reporting was added to augment the annual reporting provided to the Audit Committee with information that would be more immediate.

FINANCIAL IMPLICATIONS:

n/a

RECOMMENDATION:

Be It Resolved:

THAT the revised *Policy on the Use of External Auditor for Non-Audit Services* dated October 9, 2013, be approved effective November 1, 2013.

DOCUMENTATION PROVIDED:

Policy on the Use of External Auditor for Non-Audit Services

Policy on the Use of External Auditor for Non-Audit Services – Track Changes

Policy on Use of the External Auditor for Non-Audit Services

Purpose

The Governing Council approves the appointment of the University's external auditor upon the recommendation of the Business Board and the Audit Committee. The Audit Committee is responsible to ensure that the objectivity and independence of the external auditor is maintained while providing non-audit services. The primary role of the external auditor is to perform audits for the University of Toronto for which an audit opinion is issued.

The external auditor is required to comply with auditor independence rules as set forth in Rule 204 in the Rules of Professional Conduct issued by the Institute of Chartered Accountants of Ontario. The most recent revision to the independence rules in the Rules of Professional Conduct was February 2011.

A non-audit service is defined as a service for which an external audit opinion is not issued and for which an additional fee is charged.

The purpose of this policy is to articulate the authorities for engaging the external auditor for non-audit services.

Policy

1. The University will not engage its external auditor to carry out any prohibited services as determined by the Canadian Institute of Chartered Accountants.
2. The external auditor may refuse any assignment that it deems to be an infringement of its independence without negative consequence.
3. The Governing Council delegates to the Chair of the Audit Committee the authority to approve the engagement of the external auditor for non-audit services.
4. The Chair of the Audit Committee has the authority 1) to approve the non-audit service or 2) to consult with the full Audit Committee before making a decision, or 3) to refer it to the Audit Committee to recommend approval to the Business Board and Governing Council. The Chair of the Audit Committee will update the Audit Committee quarterly on any action taken.
5. The Governing Council delegates to the Chief Financial Officer the authority to engage the external auditor for the following pre-approved routine non-audit services up to \$100,000 per assignment:

- a. All tax matters, including, but not limited to income tax, retirement planning, sales taxes, commodity taxes, business taxes, real estate taxes, land transfer taxes, issuance of charitable receipts and assessments of the broad-based tax implications for individual transactions.
 - b. External auditor participation in the risk assessment process.
 - c. Professional services with respect to advice on the accounting for individual transactions (e.g. real estate acquisitions) or categories of transactions (e.g. employee future benefits).
 - d. Professional services with respect to advice on financial statement note disclosures (e.g. Ontario Student Opportunity Trust Fund disclosures).
- 6. The Chief Financial Officer can delegate his or her authority to other members of the administration, as appropriate to engage the external auditor for pre-approved non-audit services within their area of responsibility (e.g. income tax consulting delegation to Human Resources).
 - 7. The Audit Committee receives an annual report from the external auditor which lists all non-audit services performed by the external auditor.
 - 8. The Audit Committee receives a quarterly report, accumulating to an annual report, from the Administration, detailing the payments made to the external auditor with respect to non-audit services.
 - 9. This revised policy becomes effective November 1, 2013.

Sheila Brown
Chief Financial Officer
February 20, 2006
Revised October 9, 2013

Policy on Use of the External Auditor for Non-Audit Services

Purpose

The Governing Council approves the appointment of the University's external auditor upon the recommendation of the Business Board and the Audit Committee. The Audit Committee is responsible to ensure that the objectivity and independence of the external auditor is maintained while providing non-audit services. The primary role of the external auditor is to perform audits for the University of Toronto for which an audit opinion is issued.

The external auditor is ~~bound by the independence rules promulgated by the Canadian Institute of Chartered Accountants, effective January 1, 2004, and published in the Guide to New Canadian Independence Standard~~ required to comply with auditor independence rules as set forth in Rule 204 in the Rules of Professional Conduct issued by the Institute of Chartered Accountants of Ontario. The most recent revision to the independence rules in the Rules of Professional Conduct was February 2011.

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4. The Chair of the Audit Committee has the authority 1) to approve the non-audit service or 2) to consult with the full Audit Committee before making a decision, or 3) to refer it to the Audit Committee to recommend approval to the Business Board and Governing Council. The Chair of the Audit Committee will update the Audit Committee quarterly on any action taken.
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land transfer taxes, issuance of charitable receipts and assessments of the broad-based tax implications for individual transactions.

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 - c. Professional services with respect to advice on the accounting for individual transactions (e.g. real estate acquisitions) or categories of transactions (e.g. employee future benefits).
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6. The Chief Financial Officer can delegate his or her authority to other members of the administration, as appropriate to engage the external auditor for pre-approved non-audit services within their area of responsibility (e.g. income tax consulting delegation to Human Resources).
7. The Audit Committee receives an annual report from the external auditor which lists all non-audit services performed by the external auditor.
- 7.8. The Audit Committee receives a quarterly report, accumulating to an annual report, from the Administration, detailing the payments made to the external auditor with respect to non-audit services.
- 8.9. This policy becomes effective ~~May 1, 2006~~ November 1, 2013.

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Sheila Brown
Chief Financial Officer
February 20, 2006
Revised October 9, 2013