UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 65 OF THE AUDIT COMMITTEE

June 19, 2002

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, June 19, 2002 at 5:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Mr. Robert S. Weiss (In the Chair)
Mr. Donald A. Burwash
Ms Christine A. Capewell
Ms Paulette L. Kennedy
Mr. Paul E. Lindblad
Mr. Richard Nunn
Mr. Roger P. Parkinson
Professor Wally Smieliauskas

Ms Sheila Brown, Controller and Director of Financial Services***
Mr. Louis R. Charpentier, Secretary of the Governing Council***
Mr. Mark L. Britt, Director, Internal Audit Department***

Secretariat:

Mr. Neil Dobbs***
Ms Beverley Stefureak***

Regrets:

Mr. Felix P. Chee
Ms Kwai Li
Mr. Gerald Lokash
Mr. George E. Myhal

In Attendance:

Mr. Keith B. Bowman, Ernst & Young*
Mr. Raymond L. Chow, Ernst & Young*
Mr. Eric Fleming, Director, Risk Management and Insurance**
Mr. Pierre Piché, Associate Controller***

* Absented themselves for the consideration of item 4.
** In attendance for item 3.
*** Absented themselves for the consideration of item 5.

ITEMS 4, 6 AND 7 ARE RECOMMENDED TO THE BUSINESS BOARD FOR ITS RECOMMENDATION TO THE GOVERNING COUNCIL

1. Report of the Previous Meeting

A member referred to the sentence in the final paragraph on page 14 of the report, which dealt with funding for the Internal Audit Department. That sentence read “Therefore, further allocations would not provide good financial return on the investment.” In the member’s view, the sentence did not capture the spirit of the discussion. Mr. Bowman confirmed that the report accurately reflected his comments that additional funds allocated to internal audit would not represent a good return on investment when measured against the money the University would

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1. Report of the Previous Meeting (Cont'd)

save as a consequence. However, he agreed that additional funding to the department would significantly contribute to risk minimization. Since controlling risk was the concern of the Committee, members AGREED that the sentence should be removed.

Report Number 64 (May 22, 2002) was approved as amended.

2. Business Arising from the Reports of the Previous Meeting

The Chair noted that several items on the follow-up list attached to Report Number 64 represented items of business arising out of the report of the previous meeting, but most would be discussed under other agenda items at this meeting. He noted, however, that with respect to the Internal Audit Department, representation was being made to the Vice-President, Business Affairs for increased resources to support an annual review of high-risk units. A copy of the proposed letter had been placed on the table, and the Chair asked that comments, if any, be directed to him following the meeting.

3. Risk Management and Insurance, Annual Report 2001-02

The Chair explained that this item had been added to the agenda following the agenda planning meeting for the forthcoming meeting of the Business Board. In the view of the Vice-President, Business Affairs, the Audit Committee should be aware of, and ideally have the opportunity to review, the Annual Report on Risk Management and Insurance before it is received by the Business Board.

Ms. Brown noted that the Committee had reviewed the risk assessment profile last fall, and the annual review of risk management and insurance represented one component of the ongoing risk-assessment and risk-management process. Mr. Fleming added that he would be pleased to answer questions on the report and receive suggestions for improvement.

At the request of a member, Mr. Fleming reviewed the "General Insurance Structure" on page 7 of the report. He began by noting that the graph was not to scale but was meant to illustrate the categories of individual coverage, the applicable deductibles and the limits of each. The graph included brief comments on the types of coverage and the principal insurer in each category. In one instance, that of liability insurance, there were three policies (comprehensive general liability, automobile accident liability, and errors and omissions liability) that in turn were spanned by an umbrella liability policy to provide additional protection.

Two members noted that the "all risks" coverage for physical loss or damage to buildings was limited to $650 million. That was well under the appraised replacement value of buildings and contents. Indeed, a number of individual buildings, with their contents, particularly the Robarts Library, posed single risks that exposed the University beyond that limit. In addition, there had been significant changes in the insurance market following the terrorist attacks on September 11, 2001. The members asked for assurance that needed coverages were in place.

Mr. Fleming responded that the insurance market had hardened substantially after September 11, 2001. The largest impact had been on the price of insurance coverage. In addition, coverage for terrorist damage had been removed as of January 1, 2002. The insurance industry had sought to gain government backstopping of claims arising from terrorism. When government had declined to provide such backstopping, the industry withdrew coverage. The total appraised replacement

3. Risk Management and Insurance, Annual Report 2001-02 (Cont'd)

value of the University's buildings was $5.4 billion. The risks were, however, spread among three campuses and among various buildings on each campus. Mr. Fleming acknowledged that exposure in one or two individual buildings exceeded the limit of $650 million. However, it would be extremely unlikely that any single event short of terrorism would damage any building to the extent that the claim would exceed the limit. The Robarts Library represented the largest single risk, with experts estimating the exposure at between $500 million and $1 billion. Few other buildings would have a replacement value above the $650 million limit imposed by the Canadian Universities Reciprocal Insurance Exchange (CURIE). This limit was standard for all universities and there was no flexibility for an individual university to have unique coverage.

In further discussion, Mr. Fleming explained that, although CURIE rates had been escalating, they had not been driven by claims from the University of Toronto and the University was not subsidizing insurance rates for other universities. Each university was individually rated each year, and factors such as the insured value of buildings and claims experience were among those that determined the individual university's rate.

Members were interested in the viability of CURIE and asked what, if any risk, was posed to the University of Toronto by this kind of a cooperative insurance venture. Mr. Fleming responded that CURIE was a risk-sharing pool, backed by reinsurance purchased from a number of the top insurance companies in the market. There was a contingent liability in the highly unlikely event of a major catastrophe at a Canadian university coupled with the inability of CURIE and its reinsurers to meet its liability to settle each claim. Each university would then be exposed to the degree that the shortfall would be pro-rated to the University's participation in CURIE. The fifty universities that had formed CURIE had decided upon a reciprocal insurance company rather than a licensed, incorporated insurance company with limited liability because the latter form would require the funding of a very large capital reserve. Mr. Fleming stressed that CURIE's reinsurers had billions of dollars of assets and would be able to back CURIE in all but the most unusual circumstances. The Chair noted that CURIE's liability was limited to the amount of coverage its policies offered. It was, however, important that the Committee focus on the contingent liability involved in assuming risk for a catastrophe not only at this University but others. The Committee would no doubt revisit the matter in the fall as part of the overall risk assessment.

In response to a question about where he perceived the greatest exposure, Mr. Fleming indicated that in an institution of this size, with highly decentralized financial administration, there was always a risk of employee dishonesty that would not be prevented by management control systems. However, the Internal Audit Department had good insight into this area and due-diligence measures were in place and effectively monitored. The Chair indicated that this matter too was a key focus of on-going discussion in the Committee.

The Chair thanked Mr. Fleming for his report and responses, indicating that he would look forward to an update on insurance matters as part of the risk-assessment report in the autumn.

4. Audited Financial Statements and Supplementary Financial Report for the Year ended April 30th, 2002

The Chair noted that the review of the financial statements was an important responsibility of the Audit Committee, with the Governing Council and the Business Board relying on the Committee to review the statements in detail. To assist the Committee with this responsibility, the external auditors had met with the Committee throughout the year and had had access to the Committee both with and without the administration present.

Ms. Brown began her introduction of the financial statements by sincerely thanking the external auditors, Mr. Britt and the Internal Audit Department, and Mr. Piché and the financial services staff for the good planning and significant commitment that allowed the financial statements to be reviewed by the same members of governance who had considered proposals throughout the year and approved the budget in April. She reported that the statements had received a clean audit report.

Speaking from a Powerpoint presentation (attached hereto as Appendix "A"), Ms. Brown spoke to the highlights in the financial statements. Among the key points in her presentation were the following.

Funds received by source were illustrated in a pie chart that also displayed year-over-year variances. As in years past, the majority of the total funds received of $1.24 billion in 2002 (compared with $1.22 billion in 2001) had been received from government grants and student fees. The variance between funds received and revenues reported was partly due to the revenue recognition of restricted funds which, she explained, became part of revenue only when the money was actually expended and to endowed donations which were not reported as revenues but rather added directly to endowments. A bar graph showed that **revenue less expenses** for the year ended April 30 had resulted in a negative $125.1 million. Transfers to and from various reserves in the amount of $112.4 million resulted in a deficit for the current year of $12.7 million. Transfers from reserves included $70.9 million from previously re-invested endowment earnings and a $73.5 million reduction in funds committed for specific purposes. Significant fluctuation in the **annual surplus or deficit** over the past four years was attributed mainly to lower than anticipated investment income as a result of the volatile and poor investment markets. In 2000 investment income had been $125 million; in 2001 this had declined to $22.1 million and in 2002 it had sunk to negative $12.2 million. To ensure smoothness through these fluctuations, the amount available for expenditure each year from endowments was based on 5% of the four-year moving average of the market value of the funds. Decisions on transfers were driven by the return on investments and dictated by the *Policy for the Preservation of Capital of Endowment Funds*.

A comparison of **student aid and student fees revenue** showed that the combination of scholarships, fellowships and bursaries was rising at a faster percentage rate than revenue from student fees. Funds for student aid were derived from the student aid endowment and from the mandated reinvestment of 30% of increases to tuition fees for student financial assistance. Ms. Brown noted that the amount shown did not include the Government's cost of loan-interest subsidies under the Ontario Student Assistance Program or the University's cost for teaching assistantships, which showed up in salaries. The tremendous growth in student financial aid was a strong indicator of the University's commitment to the principle that no qualified student should be prevented from starting or completing studies due to a lack of funds.

4. Audited Financial Statements and Supplementary Financial Report for the Year ended April 30th, 2002 (Cont'd)

Ms. Brown noted that **donations** had increased to $122.4 million during the year, of which $34.3 had been reported as revenue and $88.1-million added directly to the endowed funds. Among the donations was a very generous $50 million contribution from the R. Samuel McLaughlin Foundation. The amounts shown were funds received; they did not include pledges.

A slide depicting **government and other grants and contracts** showed that funds for capital infrastructure had increased dramatically in 2000, primarily because of the SuperBuild initiative, and had then declined to normal levels in 2001 and 2002. Funds for research had risen steadily except for a slight decline in 2002. This funding varied according to successful applications to granting agencies and their ability to support research. These amounts were for direct spending on research only and did not include the $14.6 million federal grant in support of the indirect costs of research.

Government grants for general operations, which included the main basic income unit (BIU) funding and the new federal grant for indirect costs of research, had increased in total by only 13.6% over the past five years. During that time, however, enrolment and the costs that accompanied additional students had risen significantly. Government grants as a percentage of expenses in 1998 had been 40%. In 2002 that had dropped to 31%, with the result that students had paid a relatively greater share of the expenses.

Ms. Brown reviewed briefly **expenses by category**, referring to a pie chart that also provided the comparative percentages of the total in 2001. She pointed out a notable increase in spending on materials and supplies caused by increased research activity. Also noteworthy were the inclusion of an $8.5 million interest payment on the July 2001 debenture to fund capital projects and a $5 million donation to the Medical and Related Sciences (MARS) Discovery District. As usual, the largest category by far was salaries and benefits. In absolute numbers, **salaries and benefits** had grown by 11.3% and represented 62.5% of revenue. The main driving factor in the increase during the past year had been the accrual for employee future benefits; the remainder was due to modest increases in salaries costs and notable changes in benefits costs. In response to a question, Ms. Brown informed the Committee that the total number of employees had remained relatively constant.

Reviewing the balance sheet, Ms. Brown noted that **assets and liabilities** had both increased, the former primarily because of an increase in capital assets and the latter due to the $160-million debenture, $10-million of additional costs related to the Bahen Centre for Information Technology, and an amount payable at year-end to the federated universities and the affiliated teaching hospitals for their share of the federal grant for the indirect costs of research. **Net assets** had declined slightly overall. The endowment had increased by $23 million which was the net result of additional donations and negative investment returns. Funds committed for specific purposes, a complete breakdown of which appeared in Note 11 on page 20 of the Financial Statements, had decreased from $211.3 million to $137.8 million. In response to a question, Ms Brown confirmed that the liability for employee future benefit obligations would continue to grow dramatically. With the change in Generally Accepted Accounting Principles that required the accrual of the cost of employee future benefits, the University began prospectively adding the liability to the financial statements.

A member asked if a shift could be expected next year in investments in capital assets. Invited to respond, Mr. Piché said that this would depend on funding sources. If the government were to agree to provide capital funding then the deferred capital contributions would go up. If that did

4. Audited Financial Statements and Supplementary Financial Report for the Year ended April 30th, 2002 (Cont'd)

not happen and the projects were funded internally, then investment in capital assets would increase. Ms. Brown added the explanation that, in the absence of any government commitment to capital funding, the University had decided to split enrolment expansion and the concomitant capital expansion into two phases. Phase I would proceed on the basis of agreed increased enrolment of about 2,500 at each of the Scarborough and Mississauga campuses. A portion of the additional fee revenue from that increased enrolment would be directed to support the capital growth needed to accommodate the new students. Beyond this, neither enrolment nor capital expansion would proceed without significant capital funding support from the provincial government. She added that the administration was proceeding cautiously, with the intent that the quality of programs could not be compromised, that the University would do its part to meet provincial needs to accommodate student demand, and that it would take advantage of what this opportunity could offer.

Speaking to the **funds committed for specific purposes**, Ms. Brown was pleased to note that at year's end most divisions had a positive balance. Members were referred to the Supplementary Financial Report for full information, but there were two divisions that she wished to draw to the attention of the Committee. The Rotman School of Management had accrued a $11.179 million deficit. The School was in a period of transition, ramping up the size of its M.B.A. program and faculty to support the program, and the deficit had not been unplanned. In this year's budget, the School had been moved to Responsibility Centre Management, a model which allowed a Faculty to receive all its revenue (except for an assessment for overhead costs) and to be responsible for all its expenses. This had been implemented on May 1, 2002 with the intent that the Faculty would come forward with a plan to move its academic objectives forward while concurrently dealing with its deficit. She informed members that no academic division had ever been let "off the hook" with a deficit and there was no intent to do so in this case. The University of Toronto Campaign also faced a deficit, slightly reduced over the past year from $12.106 million to $10.604 million. The funding plan, wherein donations were held back for four months during which they would be invested and revenue earned was applied against the costs incurred in the campaign, had been affected by the sluggish investment environment. Investment returns had been slower than expected. The matter would be considered as the University continued with its long range planning exercise this fall

The **endowments at market value for the year ended April 30** had grown by $23.5 million to $1.2 billion. The overall endowment included funds for endowed chairs and professorships, student aid and academic programs. It also included funds available for matching new donations to the endowment. Significant matching had occurred with $19.2 million remaining for further matches.

A member asked how the University managed in the case of a restricted donation with a specified payout when the earnings on the endowment fund did not cover the payout. Ms. Brown responded that the payout from endowments was governed by the Governing Council's *Policy for the Preservation of the Capital of Endowment Funds,* which required that the long-term payout from endowed funds not reduce their capital value after taking into account the effects of inflation. The payout rate established under that policy was based on the value of the units in the endowment pool averaged over four years, which would smooth fluctuations in the payout. The agreements with donors included their recognition of the requirements of the capital-preservation policy.

4. Audited Financial Statements and Supplementary Financial Report for the Year ended April 30th, 2002 (Cont'd)

Continuing, Ms. Brown said that both **operating fund revenues and expenses** had increased over the past year and that, at year end, expenses had been greater than revenue by $35.4 million. That was not unusual and had happened before. For 2001-02, it was due in large part to the impact of the accrual of the cost of employee future benefits.

The **operating fund for 2001-02** had ended the year with a deficit of $7.0 million. The operating forecast had been for a deficit of $3.2 million. The variance could be attributed to the shortfall in the provincial operating grant for the full average funding promised for additional students enrolled in September 2001. This had occurred because, when faced with a significantly higher than predicted enrolment increase within the system, the government had simply apportioned the originally planned funding among the universities rather than increasing the size of the funding pool. About 47 cents on the dollar had been awarded, which in the case of the University of Toronto amounted to a grant of $3.8 million less than anticipated. The cumulative deficit in the operating fund was $18.1 million which represented 2.2% of operating revenue. Ms Brown recalled that, by Governing Council policy, the deficit was limited to 1.5% of revenue by the end of a six-year planning period. This was the fourth year of the current, 1998-2004 planning period. She foresaw no problem with meeting this policy requirement by April 30, 2004.

The Chair asked if the Governing Council policy should be reviewed and perhaps revised with respect to the latitude permitted in the intervening years. Ms. Brown expressed the view that it was fundamental to the fiscal health of the University that the policy allowed for strategic responses. The Governing Council evaluated the overall long-range plan annually, together with the assumptions on which the annual budget was based.

There was discussion about the confidential Summary of Legal Claims for 2001-02, which had been distributed to members. Explaining the process whereby the external auditors could be assured that disclosure was complete and the assessments of contingent liabilities fair, Mr. Bowman said that independent letters from the University's lawyers confirmed the administration's report in this regard.

The Chair referred to the two divisions with substantial deficits at the end of the year. How had that occurred given the controls in place? Ms Brown responded that the risk of a situation wherein predicted revenue fell short of actual expenses was greater in units with revenue-based or self-funded programs. The Rotman School of Management had been monitored carefully by the Provost, looking at an appropriate management model to meet its needs over a multi-year plan. It was hoped that Responsibility Centre Management would allow the School to manage effectively during this period. Ms. Brown re-emphasized that units, while monitored carefully through regular meetings between the Provost and the Deans, were expected to plan their way out of a deficit. The School of Continuing Studies was a recent example where, due to good divisional planning, revenue had overtaken expenses with the result that the School had ended this year with a $1.142 million surplus.

The Chair invited Mr. Bowman to review the external auditors' report on their audit results. Mr. Bowman said that the audit had been straightforward with no differences at the end of the process. The documentation on the audit results, which included the auditors' independence letter, summarized communications that had previously been provided orally. The external auditors' management letter would be presented to the Committee in the fall. It would include no urgent matters.

4. Audited Financial Statements and Supplementary Financial Report for the Year ended April 30th, 2002 (Cont'd)

On the recommendation of the Vice-President, Business Affairs,

YOUR COMMITTEE RECOMMENDS

THAT the University of Toronto audited financial statements for the fiscal year ended April 30th, 2002, a copy of which is attached hereto as Appendix "B", be approved.

The Chair said that in presenting the financial statements to the Business Board he would convey the Committees' view that the statements represented fair disclosure and appropriate presentation of the University's financial results and financial position. He would comment on the trends shown in the statements, in particular the problems with respect to investment returns and the need for the past two years to draw down reserves to make payouts to the beneficiaries of the endowed funds. While it was true that a substantial proportion of the deficit was the outcome of the accrual of employee future benefits, the effects of poor investment returns combined with the erosion of government funding relative to costs would produce financial pressures in the coming years which would require careful scrutiny.

Mr. Piché expressed his gratitude to Mr. Nunn for his advice concerning the note on investments and especially derivative financial instruments. This advice had elevated the note disclosure to a new level.

The Chair said that it was remarkable that the Committee could meet on June 19 to consider April 30 financial statements for so complex an institution as the University of Toronto. He congratulated Ms Brown, Mr. Piché, Mr. Britt, Mr. Bowman, Mr. Chow and all of the members of their respective staffs on their work.

5. External Auditors: Private Meeting

The Chair said that the Committee met annually with the external auditors without any member of the administration or the Office of the Governing Council in attendance. At the meeting, the auditors were invited: (a) to advise, as stated in the Committee's terms of reference, "whether adequate cooperation has been received from management and whether management has exerted any undue pressure," (b) to comment candidly on the probity and the competence of the University's senior financial officers and its Internal Audit Department, and (c) to respond to members' questions.

THE COMMITTEE MOVED *IN CAMERA*.

The Committee held its annual private meeting with the external auditors.

THE COMMITTEE CONCLUDED THE *IN CAMERA* SESSION.

The Chair reported that the Committee had agreed that there were no matters arising from the *in camera* session that would require action. The auditors had made very positive comments with respect to the administration's co-operation and performance during the audit.

6. External Auditors: Appointment for 2002 - 03

In a memorandum circulated with the Agenda, Mr. Chee had recommended that Ernst & Young be reappointed as the external auditors for the University and the pension plans. Mr. Chee had noted that the University's purchasing policy required that regular reviews of professional services be undertaken and that the previous review, undertaken in 1998, had concluded that the University was very well served by Ernst & Young.

On behalf of Mr. Chee, Ms Brown informed the Committee that a new review would likely be carried out either next year or the year following. She noted, too, that item 2 in the memorandum, which recommended the appointment of auditors for the pension plans, should be amended to show the year ending on "June 30" rather than "April 30".

A member noted that the auditors' report was written on an exceptions basis, and the Committee had little information on how the auditors' conclusions had been reached. He requested that when the audit plan for 2002-03 was considered, the Committee receive comment on how the audit would be undertaken. He believed the Committee needed to be satisfied that the auditors would do the appropriate work and that the Committee had asked the necessary questions.

Ms Brown responded that the current format had come about as a result of discussions several years ago. The previous presentation of the audit plan had been more elaborate, but that presentation had been reduced to contain the cost of the audit. Members proposed that, given the new environment, it would be appropriate to return to the more detailed format. The Chair noted that the past year had been an exceptional one. Because the new Vice-President, Business Affairs and the auditors had not reached agreement on fees before the Committee's final meeting in the fall, the external auditors had not presented their plan and their performance / value scorecard. The audit plan would be an agenda item for this fall and the full discussion of the audit plan could take place at that time.

On the recommendation of the Vice-President, Business Affairs,

YOUR COMMITTEE RECOMMENDS

(a) THAT Ernst & Young be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2003;

(b) THAT Ernst & Young be re-appointed as external auditors of the University of Toronto pension funds for the fiscal year ending June 30, 2003; and

(c) THAT the members of the University of Toronto Innovations Foundation be requested to appoint Ernst & Young as the external auditors of the Foundation for the fiscal year ending April 30th, 2003 at a remuneration to be fixed by the Directors of the Foundation.

7. Terms of Reference

The Chair recalled that the proposed terms of reference had been on the agenda of the May meeting and that members had been invited to comment to the Secretary on areas of concern. He noted that, on reflection among members and the senior assessor, because the Committee had no

7. Terms of Reference (Cont'd)

specific responsibility for the budget and did not receive budget presentations, it seemed best not to add a specific item to the terms of reference related to responsibility for monitoring budget updates and forecasts. Risks within the budget would be drawn to the Committee's attention during the annual risk assessment and, also, if members or the administration saw anything within the budget areas that should be reviewed by the Audit Committee, he hoped that would be brought forward. Ms Brown added that the risk-assessment profile presented last autumn would become an annual practice and key risks would be identified within that report.

A member asked how management was assessing risk and who was ultimately responsible within the administration for assuming responsibility for any area of risk. Ms Brown responded that the risk-assessment profile had identified the area(s) of management responsible for each item, that generally these were the appropriate Vice-President and ultimately the President. The Chair added that, with the added responsibility in section 5.2, the Audit Committee would ensure clarity about which area was responsible for specific risks. For any area in which it was not satisfied, the Committee would draw its view to the attention of the appropriate Vice-President, if necessary to the President and if still necessary to the Business Board.

The Chair referred to item 5.1.b of the terms of reference, which stated the Committee's responsibility for the adequacy of substantial public disclosures of financial information. He noted the addition of the word "substantial" to this responsibility, and a discussion ensued about the various representations of University financial figures that appeared publicly. Ms Brown emphasized the important difference between financial information as reflected in the financial statements and statistical information gathered for comparative purposes from a variety of sources. The former were prepared by the Financial Services Department and were the focus of the Committee's responsibility.

It was proposed by a member and AGREED that the following amendments be made: in sections 5.1.i (fourth line) and 5.1.j (first line) "should" should be replaced by "shall"; in section 5.1.k, "therefore" should be corrected to "therefor"; and, the fourth line of section 5.1.l should read "controls over those vital risks" (rather than "controls over those vital few risks.")
A member noted the significant change in mandate with the addition of the responsibility for risk management and assessment and expressed reservations about the Committee's accepting this responsibility before it was clear how it might carry it out. The Chair recalled that this responsibility had been added as a result of this Committee's request last autumn that some part of the Governing Council should be assigned the responsibility for monitoring risk. It had been assigned to the Audit Committee, and assistance could be requested in how the task might be accomplished. Mr. Charpentier added that a number of oversight processes were in place to assist the Committee in meeting its responsibility and that further changes could be introduced as necessary. Nevertheless, members recognized the unknown challenge this added responsibility presented to the Committee. One significant component of risk management had already been undertaken with the creation and review of the risk-assessment profile. Until the Committee had actually undertaken the new mandate through a governance cycle, there would be uncertainty as to how the role would unfold. The Chair responded that a clear part of the commitment was that there would be full and lively discussion of how the responsibility would be fulfilled. It may well be, he added, that after some experience the methodology would continue to evolve and the Committee may in fact find that it is not the appropriate body to have this responsibility.
Mr. Charpentier agreed that there were still questions to be resolved concerning risk management and that this would be a year of determining how this responsibility could be accomplished. The Chair undertook to convey these concerns to the Business Board during the presentation of proposed, revised terms of reference the next day.

7. Terms of Reference (Cont'd)

YOUR COMMITTEE RECOMMENDS

THAT the proposed revised terms of reference of the Audit Committee, as amended, be approved.

8. Report of the Administration

Ms Brown, Mr. Britt and Mr. Charpentier stated that there were no other matters that should be drawn to the attention of the Audit Committee at this time.

9. Date of Next Meeting

The Chair advised members that the interim date of the next meeting was Wednesday, October 30, 2002. He anticipated that an orientation session would take place well before that meeting, likely in September. Finally, the meeting schedule for 2002-03 had been left at members' places.

10. Other Business

Chair's Remarks

The Chair thanked all members for their participation and contributions throughout the year, and particularly recognized those members who were completing their terms this year: Mr. Don Burwash, Ms. Christine Capewell, Ms. Kwai Li and Professor Wally Smieliauskas. He also thanked all of the University staff who had contributed to the Committee's work.

The meeting adjourned at 8:25 p.m.

Recording Secretary	Chair

August 15, 2002

REPORT NUMBER 65 OF THE AUDIT COMMITTEE - June 19, 2002

University of Toronto TORONTO ONTARIO M5S 1A1

GOVERNING COUNCIL SECRETARIAT

Audit Committee
Follow-Up Items

Meeting Date	Item	Officer Responsible	Follow-Up Date
02-05-22	Risk assessment and risk management: report on decisions re: areas of insufficiently mitigated risk - decision to act to mitigate the risk further or, for budgetary reasons, to accept the risk.	Vice-President, Business Affairs to discuss funding with the new Vice-President and Provost as part of the new long-term budget plan.	Vice-President, Business Affairs to report on outcome in upon completion of the budget planning in 2002-03.
02-05-22	Risk assessment and risk management: contract risk.	Secretary of the Governing Council to carry out further consultations and to bring to the Executive Committee a draft revision to the Policy on the Approval and Execution of Contracts and Documents.	Secretary of the Governing Council to report on outcome in the fall, 2002.
02-06-19	Internal Audit: Outcome of Committee's representation to the Vice-President, Business Affairs to support the allocation of resources to enable an annual review of all high-risk units.	Vice-President, Business Affair to discuss funding with the new Vice-President and Provost as part of the new long-term budget plan	Vice-President, Business Affairs to report on outcome upon completion of budget planning in 2002-03

REPORT NUMBER 65 OF THE AUDIT COMMITTEE - June 19, 2002

Meeting Date	Item	Officer Responsible	Follow-Up Date
02-06-19	Insurance risk: consideration of contingent liability involved in membership of CURIE, assuming risk for a catastrophe (other than terrorism, which is not insurable) not only at the University of Toronto but at other universities, if the outcome of the catastrophe exceeds the ability of CURIE and its re-insurers to meet a series of claims arising from that catastrophe.	Committee to consider the matter as part of the overall risk assessment.	Fall, 2002
02-06-19	External Audit Plan: Request for a presentation to the Committee on how the external audit would be undertaken.	External auditors	Fall, 2002
02-06-19	Committee Terms of Reference: Review of the means by which the Committee will carry out its new responsibility for monitoring the University's risk management		On-going

October 8, 2002

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