ATTACHMENT CONFIDENTIAL
DRAFT

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 74 OF THE AUDIT COMMITTEE

October 27, 2004

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, October 27, 2004 at 4:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Mr. George E. Myhal (In the Chair)
Ms Paulette L. Kennedy
Mr. Paul E. Lindblad
Mr. Gerald A. Lokash
Mr. Joseph Mapa
Mr. Richard Nunn
Mr. David Oxtoby
Mr. Roger P. Parkinson
Professor Gordon Richardson
Mr. Christopher Sparks
Mr. Mark Weisdorf

Ms Catherine J. Riggall, Interim Vice-President, Business Affairs
Ms Sheila Brown, Acting Chief Financial Officer
Mr. Mark L. Britt, Director, Internal Audit Department

Secretariat:

Mr. Neil Dobbs
Mr. Andrew O. P. Drummond

Regrets:

Mr. W. David Wilson

In Attendance:

Professor Angela Hildyard, Vice-President, Human Resources and Equity
Dr. Peter B. Munsche, Assistant Vice-President, Technology Transfer*
Mr. Curt Auwaerter, Vice-President, Finance, University of Toronto Press**
Mr. Keith B. Bowman, Ernst & Young
Mr. Pierre Piché, Acting Controller
Mr. Nick Racanelli, Ernst & Young***
Mr. Allan H. Shapira, Hewitt Associates***
Dr. Adi Treasurywala, President-designate, University of Toronto Innovations Foundation*
Mr. John Yates, President, Publisher and Chief Executive Officer, University of Toronto Press**

* In attendance for item 5.
** In attendance for item 3.
*** In attendance for item 4.

ITEMS 3 AND 4 CONTAIN RECOMMENDATIONS TO THE BUSINESS BOARD FOR APPROVAL.

REPORT NUMBER 74 OF THE AUDIT COMMITTEE - October 27, 2004

1. Chair's Remarks

The Chair introduced and welcomed new members of the Committee. He noted that the Committee met in closed session, and he urged members to treat the information they received with a high level of discretion. Some items, such as the University's financial statements, would become public after the Committee had dealt with them. Other material, however, for example the Internal Auditor's plan, had to remain private.

2. Report of the Previous Meeting

Report Number 73 (June 16, 2004) was approved.

3. University of Toronto Press: Annual Report and Financial Statements, for the Year Ended April 30, 2003

Mr. Parkinson, who served as Chair of the Board of the University of Toronto Press, reported that Mr. Yates had taken over from Mr. George Meadows as President, Publisher and C.E.O. of the Press on July 1, 2004.

Mr. Yates presented the annual report and financial statements. For reasons of business confidentiality, the Committee's consideration of the matter is recorded in confidential Attachment "1" hereto.

YOUR COMMITTEE RECOMMENDS

Subject to their final approval by the Board of the University of Toronto Press,

THAT the annual report and financial statements of University of Toronto Press for the year ended April 30, 2004, copies of which are attached hereto as Appendix "A", be accepted.

Mr. Parkinson asked that this Report record that he had, as Chair of the Board of the Press, abstained from voting on the recommendation to accept the financial statements.

4. Pension Plans: Annual Financial Report for the Year ended June 30, 2004

Ms Brown observed that the annual financial report on the pension plans was quite different for the 2003-04 year. It included not only historical information but also an assessment of the financial health of the University's pension arrangements and a projection of the future with respect to those arrangements. The pension arrangements included three plans: the registered plan for most University faculty and staff (the R.P.P.); the closed, registered plan for members of

4. Pension Plans: Annual Financial Report for the Year ended June 30, 2004 (Cont'd)

the faculty and staff of the Ontario Institute for Studies in Education before its merger with the University's then Faculty of Education; and the unregistered Supplemental Retirement Arrangement (S.R.A.) to provide benefits to members of the registered plans over the limits allowed for registered plans and up to a pensionable earnings cap of $150,000 per year. The Report included the audited financial statements of the two registered plans, a summary of the actuarial valuations of all three plans and a copy of the Pension Strategy as approved by the Business Board on January 19, 2004. That strategy was intended to address the deficits in the R.P.P. and S.R.A. plans. It called for employer contributions consisting of the current service cost plus special payments of $26.4-million per year. If the R.P.P. were in an "excess surplus" position, in which no further employer contributions were permitted pursuant to the *Income Tax Act*, then the employer contribution amount would be added to the special fund being built up to match the liability in the S.R.A.

Ms Brown reported that the financial position of the pension funds was much improved over the previous year because of very good investment returns and because of the resumption of employer contributions to the R.P.P. after several years of an employer contribution holiday. The S.R.A. had been established in 1997 with a plan to set aside funds to match its liability fully in five years. The terms of the S.R.A. had subsequently been improved, again with funds to match the increase in the liability to be set aside over five years. The build-up of the special reserve fund was now almost complete.

Ms Brown drew members' attention to the financial projection of the position of the R.P.P. to 2013. Because investment returns had been exceptionally good for 2003-04, the financial model included a projection of a below-average return of 3% for 2004-05. Returns of 6.5% per year were projected thereafter. In the modeling exercise, Ms Brown and her colleagues had examined the economic assumptions previously used and had reduced the projection of inflation, long-term investment returns, and the rate used to discount the liability of the plans to their present value, all by 0.5% per year. The real rate of return (i.e. the return after taking inflation into account) remained unchanged, as did the spreads between the various assumptions, but the reduced economic assumptions were more reflective of current market assumptions.

The outcome of the projection to 2013 indicated that the University should remain on course with its current funding strategy, contributing the full employer current-service cost each year plus the additional special payment of $26.4-million per year either to the R.P.P., where permissible, or alternatively to the S.R.A. The market-value deficit in the R.P.P. was projected to decline to $48.4-million by 2013.

Among the matters that arose in questions and discussion were the following.

(a) OISE/UT plan. In response to a member's questions, Ms Brown said that the accrued liability of the plan for employees who had begun their careers with the Ontario Institute for Studies in Education (the OISE/U.T. plan) was $90.3-million. The market value of the plan's assets was $101.8-million as at June 30, 2004, leaving a market-value surplus of $11.5-million.

4. Pension Plans: Annual Financial Report for the Year ended June 30, 2004 (Cont'd)

A number of employees and former employees of OISE had between February and June 1996 had accepted offers or early retirement or voluntary severance, and they had, by so doing, become a group in a partial wind-up of the plan. A recent decision of the Supreme Court of Canada in the Monsanto case had the effect of requiring a distribution of that part of the pension plan relating to the wind-up group, including any surplus in the plan. In response to a question, Mr. Shapira commented that, in the event that the distribution of surplus ultimately might have the impact of requiring current service contributions several years down the road, the amount would probably be in the order of $1-million per annum. A member observed that an outcome of the Monsanto decision would be to make plan sponsors reluctant to make contributions that might bring their plans into surplus.

(b) Actuarial deficit in the University of Toronto registered plan. A member observed that the 15.9% investment return on the assets of the University-wide registered pension plan had brought about a reduction in the market-value deficit from $203.5-million to $113.2-million, but the actuarial surplus of $2.2-million had become a deficit of $69.2-million. Mr. Shapira replied that that outcome was the result of the smoothing mechanism used in the actuarial valuation of the assets. The previous years of consecutive losses had caused the reduction of the actuarial valuation of the assets, notwithstanding the good year in 2003-04. He noted that the smoothed actuarial value of the assets, $2.225-million, was now quite close to the market value of $2.112-million. The effect of smoothing was negative when markets were improving and positive when they were declining.

(c) Effect of the change in the economic assumptions. A member asked about the effect of the changes in the economic assumptions, which had been reflected in both the projection used in the funding strategy and in the actuarial valuation. Ms Brown replied that the outcome was mildly negative. Without the change, the market deficit was projected to be $17.9-million as at July 1, 2013. With the change it was projected to be $48.4-million. Another member asked why the accrued liability of the University-wide plan had increased by $30-million as the result of the change in assumptions. Mr. Shapira replied that the rate used to discount the liability to its present value had been reduced by one-half of one percent, along with the same reduction in the other assumptions. That more conservative discount rate had caused the increase in the accrued liability.

(d) Projections in the funding strategy. In response to a member's questions, Ms Brown and Mr. Shapira outlined the projection (described as case "A") that included the previous 7% assumed return on investments for 2004-05, and that used the other previous assumptions. That projection would mean a reduced requirement for current service-cost contributions to the registered plan and therefore (under the pension strategy that required a fixed-dollar annual contribution) higher contributions to the S.R.A. With the projection of a 3% investment return for 2004-05 and with the revised assumptions (described as case "C"), a greater proportion of the current service cost contributions would go to the registered plan. The projections of market surplus (deficit) in the tables on pages 13-17 of the report dealt solely with the R.P.P. The S.R.A. was dealt with only in the text. It was projected that the assets set aside to meet the University's obligations under the S.R.A. would exceed its accrued liability by $17.4-million in 2013. It was projected that the

4. Pension Plans: Annual Financial Report for the Year ended June 30, 2004 (Cont'd)

R.P.P. would come into equilibrium by 2016. A member observed that the projected equilibrium date was a long time into the future.

(e) Management expense ratio. In response to a member's question, Ms Brown said that the investment management expense ratio (expenses for investment management fees, UTAM costs and the University's investment management overhead fee) was 0.583% of assets. That M.E.R. was in line with that of other pension plans.

(f) Risk tolerance. A member observed the statement that the University's investment policy for the pension fund stipulated a 4.0% real (after inflation) investment return target with a risk tolerance of 10% over ten years. He asked for clarification of the meaning of the statement concerning risk tolerance. Ms Brown and Mr. Shapira replied that the standard deviation of investment returns over ten years should be under 10%; that meant that returns would be within 10% above or below the average return two thirds of the time. That risk tolerance was used to determine the asset mix for the pension fund; it limited the amounts invested in asset classes that had historically been riskier ones.

(g) Information on investment performance. In response to a member's questions, Ms Brown and Ms Riggall said that a report on all University investments, including the pension master trust investments, was made twice annually to the Business Board – a complete report on calendar year performance (presented in the spring) and a less detailed semi-annual report on performance to June 30 (presented in the fall). Those reports were the key ones with respect to accountability for investment performance. They were available on the Governing Council web site, and copies could be provided to members of the Audit Committee who were not members of the Business Board. Those reports did not include information on the senior staff members at UTAM or changes to that staff. Those matters were the responsibility of UTAM management and of its Board of Directors. The directors were appointed by the University (the Executive Committee of the Governing Council on the recommendation of the President).

Another member noted that while the annual financial report on the pension plans was a very good one, it would be improved by some additional information on investment performance, in particular some analysis attributing investment performance to such factors as choice of asset mix, and performance within asset classes.

The Chair noted that apart from fixed-income investments, UTAM engaged external portfolio management firms to manage the University's and the pension funds' investments.

(h) Possible changes in pension plan accounting. A member observed that there were discussions concerning significant changes in pension-plan accounting. What would be the effect of those changes, if implemented? Mr. Shapira said that an international effort was underway to arrive at a more common standard for pension-plan accounting, but the matter was far from resolved. The main matter at issue was the smoothing of changes in the valuation of plan assets and liability. The outcome of the proposed changes would be a move more in the direction of

4. Pension Plans: Annual Financial Report for the Year ended June 30, 2004 (Cont'd)

market valuation, with the immediate recognition of gains and losses and no amortization. The outcome result would be large annual swings. Mr. Shapira and Mr. Racanelli stressed that the proposed changes, if put into effect would have an impact not on the financial statements of the pension plans themselves but rather on those of the plan sponsors, with the largest impact on the accounting for pension costs. The change would be from full smoothing to none at all.

(i) Process for approval of pension improvements. In response to the Chair's question, Professor Hildyard said that proposals for pension-plan improvements were arrived at in negotiations with employee groups: the Faculty Association or unions. The sole exceptions were the group of managerial and professional staff and the group of other employees with access to confidential information about labour relations, who were not members of a bargaining unit. The President or designate had the authority to approve change to existing collective agreements provided that they fell "within existing policies and salary determination procedures." Changes to pensions and other benefits for administrative staff that constituted "new policy directions" as well as changes to the professional / managerial and confidential groups required the approval of the Business Board. Changes to compensation and benefits for the faculty and for professional librarians reached in negotiations with the Faculty Association also required Business Board approval. If the negotiations did not succeed and changes were awarded by a minority report of a dispute resolution plan (an arbitration process), Board approval was not required. The same process was required for the approval of any augmentations to benefits to current pensioners.

The Chair stated that the two sets of financial statements required a recommendation for approval to the Business Board. Approval was required prior to submission of the financial statements to the Financial Services Commission of Ontario.

On the recommendation of the Acting Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS

(a) that the audited financial statements for the University of Toronto Pension Plan, June 30, 2004, a copy of which is included in Appendix "B" hereto, be approved, and

(b) that the audited financial statements for the University of Toronto (OISE) Pension Plan, June 30, 2004, a copy of which is included in Appendix "B" hereto, be approved.

5. University of Toronto Innovations Foundation: Status Report

The Chair reminded members that the Business Board had asked the Audit Committee to assume its responsibility for governance oversight of the incorporated business ancillary operations including the University of Toronto Press and the Innovations Foundation.

5. University of Toronto Innovations Foundation: Status Report (Cont'd)

Dr. Munsche said that the Innovations Foundation normally presented its annual report and financial statements to the Committee at this time of year, but it was unable to do so this year. Early in the year, the Vice-President, Research and Associate Provost had initiated a review of the Foundation. That action had been a response to the new emphasis by the federal and provincial governments on university research and transfer of the results of that research to the private sector. Vice-President Challis had concluded that the University should examine its activities in the area and determine what improvements could be made. The review panel was chaired by the Honourable John Manley, Senior Counsel, McCarthy Tétrault and former Deputy Prime Minister of Canada. Other panel members were Ms Susan Smith, Senior Vice-President of the Royal Bank of Canada and President and C.E.O. of RBC Technology Ventures; Dr. Bernard Bressler, Assistant Dean, Research at the University of British Columbia; and Ms Katharine Ku, Director of the Office of Technology Licensing at Stanford University. Because it required some time for Mr. Manley to discharge previous commitments and for the panel of very busy people to gather, the review had not yet been completed, although a report was expected shortly. In the meanwhile, the President of the Foundation had decided not to seek renewal of his contract, which would end at the end of October, 2004. The Chief Operating Officer of the Foundation, Dr. Treasurywala, would take over as President. Dr. Treasurywala had served with the Foundation for four years, and he had three decades of experience in the pharmaceutical industry. These events had thrown the Foundation's schedule off kilter, and Board meetings had been delayed to await further developments. The Foundation's financial statements had been reviewed by the Audit Committee of the Foundation's Board and had passed muster. They would not, however, be received by the Board until its next meeting on November 24. Moreover, with Dr. Treasurywala beginning his service as President and carrying on his previous duties, the Foundation's annual report had not been completed. Dr. Munsche therefore proposed that the Committee review the Foundation's financial statements at its next meeting on November 24, along with an oral report on the Foundation's activities. A written report could be submitted at a later date.

The Chair agreed to the proposal and asked that the report of the review panel be provided to the Committee when it was available. Dr. Munsche undertook to do so.

Invited to comment, Dr. Treasurywala said that the Innovations Foundation was functioning on target, with spending below budget and a fine staff in place.

6. Audit Committee: Review of Terms of Reference and Calendar of Business

The Chair noted that the agenda package contained the Committee's terms of reference, its Calendar of Business, and a tabulation of the results of the "Self-Assessment Tool for Audit Committees" survey, which had been completed by members during the past spring. He reported that he, Mr. Parkinson and Mr. Weisdorf had attended a first-ever meeting of chairs and members of Ontario university audit committees. The October 4 meeting, held at the University of Waterloo, had been well attended and highly beneficial. The participants at the meeting had concluded that they should compare the terms of reference of the audit committees at their

6. Audit Committee: Review of Terms of Reference and Calendar of Business (Cont'd)

universities, and the Chair proposed that the Committee await the outcome of that analysis before considering changes to its terms of reference.

The Chair reported that the Waterloo meeting had discussed the role of university audit committees in the light of the high level of scrutiny being given to the work of audit committees in general and in the light of such international developments as the Sarbanes/Oxley legislation in the United States. While that legislation did not, of course, have force in Canada, it was likely that the courts would look at its provisions in determining best practices. The meeting had identified four areas as requiring attention. The first was audit committee composition. At question was the independence of audit committee members, in particular whether faculty and staff members of the institutions could be considered as independent. In addition, there was consideration of the idea that at least some audit committee members should be experts in accounting and financial matters. Second, there was consideration of the appointment of external auditors, in particular the idea of a maximum term for the external auditors or a rotation of the audit partner of the same external audit firm. Third, there was consideration of liability insurance for audit committee members. There was some concern that the officers' and directors' insurance policy provided by the Canadian Universities Reciprocal Insurance Exchange (CURIE) might be insufficient in the areas of environmental liability, breach of fiduciary duty (as in managing pension funds), punitive damages, and payment of legal defense costs. Fourth, there was some concern that the governance structure of universities might not be wholly conducive to audit committees' satisfactory discharge of their duties, at least as defined by the Sarbanes/Oxley Act.

The Chair said that he thought that the audit committee at the University of Toronto was well ahead of those at the other Ontario universities in several respects. That was the case particularly in three areas: the completion of a comprehensive risk-assessment exercise each year (the subject of great interest at the meeting), the internal audit function, and the excellent orientation information for new members – a credit to Ms Brown.

The participants at the Waterloo meeting had concluded that they should continue to collaborate, comparing mandates and governance structures, and discussing the risk-assessment process.

Invited to comment, Mr. Weisdorf agreed that the meeting had been valuable and that committees across Ontario would benefit from on-going collaboration.

The Chair reported that he had been pleased with the results of the self-assessment questionnaire. He would review the results with the assessors to determine how the Committee could improve. A member reiterated that the Committee should await the comparison of terms of reference on the Ontario university audit committees, and other on-going developments, before moving to recommend revisions to its terms of reference. The Chair agreed.

6. Audit Committee: Review of Terms of Reference and Calendar of Business (Cont'd)

Discussion focused on the following matters.

(a) Requirement for experts on audit committees. A member reported that the Canadian authorities had, in their discussion, eliminated the idea of a requirement for an expert or given number of experts among the members of audit committees. That was, in the member's view, a good thing. Members who were the designated experts would, in effect, be the targets for blame for any missteps or negligence by the committee as a whole. The approach instead was for audit committees to be inclusive of all stakeholders. The University's governance structure, containing such representation, represented very good practice for not-for-profit organizations.

(b) Response to new expectations of audit committees. The Chair reported the view of one of the presenters at the Waterloo meeting that the not-for-profit sector should not move too quickly in adopting new rules. A member agreed that there was need for a common-sense review of the appropriateness of the new rules for not-for-profit organizations. Another member said that, nonetheless, the direction of change in the corporate sector would no doubt affect the not-for-profit sector. He thought that the University of Toronto was well placed to deal with the new environment.

(c) Governance arrangements and the risk-assessment function of the Audit Committee. A member observed that it was difficult for the Committee to assess business and financial risk when it had no involvement in or information about budget allocation. Another member remarked that the governance structure was unusual; while financial responsibility rested with the Business Board, responsibility for budget decisions rested with the Academic Board. It was important to ensure that the monitoring of financial prudence did not fall through the cracks. The Chair agreed, but suggested that the Committee's need was to have a good enough understanding of operations to be able to have confidence to recommend approval of the financial statements. Another member said that the role of the Business Board and its Audit Committee was to monitor the process, to ensure that a careful risk-assessment was performed, and that remedial action was taken when unacceptable risks were discerned. He was, therefore, less concerned about the absence of knowledge of specific budget decisions. Another member observed that the more complex governance structures were, the more important that the Audit Committee monitor and understand the areas of risk and that it act firmly to insist on appropriate action to mitigate unacceptable risk.

The Chair undertook to ensure that appropriate further consideration was given to the terms of reference and to return to the Committee with recommendations.

7. Business Arising from the Report of the Previous Meeting

The Chair said that the agenda package included a long list of possible items of business arising from the previous meeting. While the list was too long for the Committee to deal with all of the items, the Chair had instructed the Secretary to distribute the full list for a fast review by

7. Business Arising from the Report of the Previous Meeting (Cont'd)

the Chair and Ms Brown, and the selection of any key items for follow-up. He commented on the following items in Report Number 73.

(a) Employee future benefits. "The University had still to determine how it would deal with the growing liability for employee future benefits other than pensions and disability insurance." (p. 7.) The Chair said that the accounting for employee future benefits had been established.

(b) Borrowing. A member had asked that the Audit Committee be apprised regularly of the University's debt situation. (p. 8.) Ms Brown noted that debt was reported annually in the audited financial statements.

(c) Suggestion for the inclusion in future annual financial reports of management's discussion and analysis. (p. 11.) "Ms Brown replied that the University prepared a variety of information packages for different purposes for specific stakeholders. Amongst them, it did prepare annually for the Governing Council a report on key performance indicators. . . . Another member proposed that the Committee receive copies of those reports as they related to financial matters." The Chair reported that Ms Brown had concluded that the preparation of a formal management discussion and analysis as part of the annual financial report would not serve a useful purpose beyond the current information packages.

In response to questions, the Chair said that other universities did not prepare a management discussion and analysis. Ms Riggall said that the University did prepare a whole range of other documents, most significantly an annual accountability report to the Governing Council containing performance indicators. If the University were to await all of the information required for a management discussion and analysis to accompany the financial statements, the statements could certainly not be presented before the end of the governance year (June 30), and would not in fact be available until late in October.

A member observed that a management discussion and analysis added valuable colour to the numerical facts of the financial statements. Stakeholders would benefit from a comprehensible explanation of financial matters in the University, for example the condition of the pension plans. He thought that a good management discussion and analysis would be a low-cost way of providing financial information and explanations to the stakeholders. The Chair noted that an annual report on the pension plans was prepared separately and was in fact on the agenda at this meeting. Ms Brown replied that the primary users of the financial statements were the Government of Ontario and the analysts of the credit-rating agencies. For faculty, staff and students, the annual report on the performance indicators was intended to be the University's primary vehicle for telling the University's story. Ms Riggall undertook to distribute the report on performance indicators to the Committee. Ms Brown stressed that the financial statements did contain a "financial highlights" section, which provided a brief but clear discussion of the year's results.

7. Business Arising from the Report of the Previous Meeting (Cont'd)

The member cautioned that the updated Canadian Institute of Chartered Accountant's *Handbook* would likely include a requirement for a management discussion and analysis.

(d) Accounting for derivatives. (p. 13.) "Management had been advised . . . of new rules that would affect the 2005 financial statements. In particular, it would be important that management have in place documentation under new accounting guidelines to determine whether it would be appropriate to continue to use hedge accounting for the University's interest-rate swaps." The Chair observed that the University did not use complex derivative instruments. A member said that the matter to be addressed was the requirement that the accounting be in place at the beginning of the financial year.

(e) External auditors' letter of suggestions to management concerning the information technology environment and capital asset tracking. (p. 14.) "Two members suggested that the letter of suggestions to management, as a matter of due diligence, be distributed to the Committee. Ms Brown replied that she would be pleased to do so, but she cautioned that it was very detailed and technical. The Chair asked that the letter be distributed to members when it was in final form." Ms Brown said that the letter would be distributed with the materials for the November meeting.

(f) Quarterly tracking of particular matters. (p. 17). While it was agreed that the benefit of producing quarterly GAAP financial statements would be small relative to the cost, the external auditors did suggest that "it might well be worthwhile to track particular matters on a quarterly basis, for example, the costs of employee future benefits, but management was considering means to do so other than quarterly statements based on GAAP."

(g) Pension and employee benefit plans. (p. 17.) The Chair reported that he had asked the Acting Chief Financial Officer to report to the Committee on procedures for making changes to pension and other employee benefit plans and on controls over payouts from those plans. It seemed reasonable for that report to be made in the fall of 2004, along with the annual report on the pension plans. Ms Brown noted that Professor Hildyard had provided the report earlier in the meeting.

(h) Internal Audit budget reductions. (p. 18.) Mr. Britt had "observed that the budget reduction for the current year would not require that he reduce the Internal Audit staff complement, and it would therefore not significantly impede Internal Audit operations. The Chair stated his view that the University should continue to spare the Internal Audit Department from budget reductions in order to ensure that the University continued to practice good stewardship of public funds."

(i) Approval of expenses. (p. 18.) The Chair said that he had asked the Acting Chief Financial Officer to report, perhaps at a meeting in the fall, on the University's policy and controls with respect to approving expenses by individuals." Ms Brown reported that the University had a

7. Business Arising from the Report of the Previous Meeting (Cont'd)

procedure for compensating individuals for expenses incurred in carrying out University business: either by paying the expenses directly or reimbursing the individuals. Payment was provided only for legitimate expenses that were appropriate and reasonable in the circumstances. Guidelines were in place. The employee was required to produce an original receipt for the expenditure to support claims, apart from claims for a small per diem allowance for meals and use of a personal automobile on University business. Receipts were submitted along with a signed declaration indicating compliance. Approval was required by an officer at one level senior to the claimant, and approval of personal expenses was something that could not be delegated. The requirement for approval extended to the most senior officers. For example, deans were required to approve the claims of department chairs and the Chair of the Governing Council approved the claims of the President. Ms Brown noted that more than half of travel and entertainment expense claims were funded from research grants, and the research granting councils had their own rules, which superseded the University's requirements. She observed that the submission of receipts was also important in the event of an income tax audit. In the absence of receipted claims, a tax auditor would regard the amount claimed for business expenses as taxable income.

(j) Administrative documentation policy, especially policy for administrative e-mails. (p. 18.) The Chair said that he had asked the Acting Chief Financial Officer to report, perhaps at a meeting in the fall, on administrative documentation policy and its implementation, especially policy for administrative e-mail communications.

(k) Administrative accountability reports. (p. 21.) "A member suggested that the Committee request follow-up reports with respect to the administrative accountability reports . . . the Committee should hear from the administration what would be done differently to communicate the need for appropriate faculty and staff to complete the reports and what consequences would follow for individuals who failed to comply. . . . The Chair agreed that the rate of non-compliance with the requirement for accountability reports, at least among the units that had been reviewed by Internal Audit in 2003-04, was a serious matter." The Chair acknowledged that the University's administration took the program of accountability reports very seriously. Ms Brown added that the Vice-President and Provost was very supportive of the program and was giving consideration to expanding it to require sign-offs for responsibilities beyond financial and administrative matters. An elaborate process had been established to encourage compliance.

Invited to comment, Mr. Britt said that the failure to submit the administrative accountability reports had been the outcome of the usual factors: a misunderstanding that the employee had financial-administrative responsibility requiring the submission of an accountability report and the absence of the employee as the result of a research leave or a retirement.

(l) Internal Audit report on residual risks. (p. 21.) A member had suggested that the Committee request a follow-up report on the residual risks contained in the annual report of the internal auditor. The member suggested that the Committee should hear from the senior

7. Business Arising from the Report of the Previous Meeting (Cont'd)

administration what steps were being taken to deal with the risks. Two risks that had been highlighted were external reporting re: research grants and payment of individuals by invoices where an apparent employment relationship existed. Mr. Britt reported that the problem concerning research grants was the occasional charging of ineligible expenses, often travel, to research grants. The second problem was acceding to requests from individuals that they be paid for particular tasks as consultants or service providers rather than as employees. To reduce the incidence of this problem, the administration was working with the Assistant Vice-President, Human Resources and with a divisional business officer where many problems had arisen.
Ms Brown and Mr. Britt would again address the matter in a meeting of principals and deans in November.

8. Enrolment Audit, 2003-04

The Committee received for information the annual enrolment audit for 2003-04. The Chair said that the enrolment audit was performed each year for the Ministry of Training, Colleges and Universities to verify the enrolment report provided to the Ministry. That report was the basis of the University's claim for operating grants. The audit also examined the University's procedures to ensure that any foreign students who had been exempted from the higher, foreign-student fees were entitled to that exemption. The audit was also useful to the external auditors in substantiating the government-grant income reported on the University's financial statements.

9. Report of the Administration

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

10. Dates of Next Meetings

(a) Next regular meeting. The Chair reminded members that the next regular meeting was scheduled for Wednesday, November 24, 2004 at 4:00 p.m. This meeting would (among other things):

- receive the financial statements of the University of Toronto Innovations Foundation;
- review the semi-annual report of the Internal Auditor;
- review the annual report on the program of accountability reports;
- review the external auditors' plan and engagement letter for next year, the report on the external auditors' consulting assignments, and the external audit fees; and
- review the new financial report on capital projects.

10. Dates of Next Meetings (Cont'd)

(b) June meeting. The Chair noted that the June meeting was currently scheduled for Tuesday, June 21. That created a scheduling problem for the administrative officers, who would be attending the meeting of the Canadian Association of University Business Officers on that day. It was AGREED that the meeting be re-scheduled to Wednesday, June 22 at 12:00 noon. (The meeting was proposed for the lunch hour rather than the usual 4:00 p.m. because the Executive Committee of Governing Council was scheduled to meet that day at 5:00 p.m.)

The meeting adjourned at 6:40 p.m.

Secretary

Chair

November 17, 2004