

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 78 OF THE AUDIT COMMITTEE

October 26, 2005

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, October 26, 2005 at 4:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Mr. George Myhal (In the Chair)
Ms Dominique Barker
Ms Paulette L. Kennedy
Mr. Paul E. Lindblad
Mr. David Oxtoby
Mr. Roger P. Parkinson
Professor Gordon Richardson
Mr. Christopher Sparks
Mr. Mark Weisdorf

Non-voting Assessors:

Ms Catherine J. Riggall, Vice-President,
Business Affairs
Ms Sheila Brown, Chief Financial Officer
Mr. Mark L. Britt, Director,
Internal Audit Department
Mr. Louis R. Charpentier, Secretary of
the Governing Council

Regrets:

Mr. Gerald A. Lokash
Mr. Richard Nunn

Secretariat:

Mr. Neil Dobbs
Ms Cristina Oke (Secretary)

In Attendance:

Professor Angela Hildyard, Vice-President, Human Resources and Equity
Ms Diana Brouwer, Ernst & Young
Mr. Felix Chee, President and Chief Executive Officer, University of Toronto Asset
Management Corporation
Mr. John T. Hsu, Managing Director, Risk Management and Operations, University
of Toronto Asset Management Corporation
Mr. John L. W. Lyon, Managing Director, Investment Strategy, University of Toronto
Asset Management Corporation
Ms Tiffany Palmer, Manager, Compliance, University of Toronto Asset Management
Corporation
Mr. Pierre Piché, Controller
Mr. Nick Racanelli, Ernst & Young
Mr. Allan H. Shapira, Hewitt Associates
Ms Martha Tory, Ernst & Young
Professor Emeritus Ronald D. Venter, Interim Executive Director, University of
Toronto Innovations Foundation
Mr. John Yates, President, Publisher and Chief Executive Officer, University of
Toronto Press

ITEMS 4, 7 AND 8 CONTAIN RECOMMENDATIONS TO THE BUSINESS BOARD FOR APPROVAL.

Vary the Agenda.

With the agreement of members, the agenda was varied to allow the presentation on the University of Toronto Asset Management (UTAM) Control Environment to precede the Annual Financial Report on the University of Toronto Endowment.

1. Chair's Opening Remarks

The Chair welcomed new and returning members. He reminded members that the Committee met in closed session, and that many items considered by the Committee were confidential. When appropriate, the Committee moved *in camera*. Members were expected to treat the information received, and the Committee's discussions, with a high level of discretion.

2. Report of the Previous Meeting: Report Number 77 - June 22, 2005

A member drew to the attention of the Secretary an error on page 13 of the circulated report. The second sentence in the final paragraph on page 13 was corrected to read 'Of its \$1.65-billion revenue in 2004-05, only \$553.5 million, or just over one-third, came from Government operating grants'. Report Number 77 of the meeting of June 22, 2005 was approved as corrected.

3. Business Arising

The Chair reviewed four items of business arising that had been identified in Report Number 77.

(a) Report Number 75, November 24, 2004, item 7 - External Auditors' Engagement Letter, Audit Plan and Audit Fees

Ms Brown informed members that a policy on the use of the external auditors for other assignments was being drafted with the intention of having it on the agenda of the meeting scheduled for November 23, 2005.

(b) Report Number 76, May 17, 2005, item 3 - University of Toronto Asset Management Corporation, Financial Statements, 2004

Ms Riggall reported that a review of Committee procedures, including the timing of the approval and release of the University of Toronto Asset Management Corporation (UTAM) financial statements, would be part of the proposed review of the Committee's Terms of Reference.

(c) Report Number 76, May 17, 2005, item 8 - Capital Projects: Financial Report

Ms Brown had taken under advisement the suggestion that the semi-annual report on capital projects contain certain additional information, such as a comparison of the originally approved cost of projects to their final cost.

3. Business Arising from Report of the Previous Meeting (cont'd)

(d) Report Number 76, May 17, 2005, item 7 - Risk Management and Insurance: Annual Report, 2004

Ms Brown reported that the recommendations arising from the strategic review of the Canadian Universities Reciprocal Insurance Exchange (CURIE) had been endorsed by the organization's membership at the September 2005 Annual General Meeting. Recommendations concerning governance and succession planning would be addressed over the next sixteen months. Universities would decide in 2007 whether to renew their memberships in the organization.

4. University of Toronto Pension Plans: Annual Financial Report for the Year ended June 30, 2005

The Chair welcomed guests who were in attendance for this item: Professor Angela Hildyard, Mr. Allan Shapira, Mr. Felix Chee, Mr. John Hsu, Mr. John Lyon and Mr. Nick Racanelli.

Ms Brown explained that this stewardship report provided the Committee with an update of the liabilities and assets of the pension plans, as well as an assessment of how well the University's pension and contribution strategies ensured the financial health of the plans. She reminded members that the University of Toronto provided pension benefits to current and future pensioners via three defined benefit pension plans: the registered University of Toronto Pension Plan (RPP), the registered University of Toronto (Ontario Institute for Studies in Education (OISE)) Pension Plan (OISE/UT), and the unregistered Supplemental Retirement Arrangement (SRA).

Ms Brown noted that the plans were in better shape at this time than had been anticipated in past projections. In January 2004, a market deficit for the RPP in 2005 of \$236.0 million had been projected. On July 1, 2005, the market deficit had been \$86.4 million.

Ms Brown recalled that the University had adopted a new pension contribution strategy in January 2004 to deal with market deficits in both the RPP and SRA. The objective of the pension contribution strategy was to provide smoothed funding to deal with the deficits in both the RPP and the SRA over the multi-year period, while permitting stable, predictable funding via the University's operating budget. The key elements of the contribution strategy had been:

- employee contributions (no pension contribution holidays);
- employer contributions at 100% of current service costs, beginning May 1, 2004;
- additional special payments of \$26.5 million (\$24.8 million per annum to the RPP plus \$1.7 million to the SRA fund) to address the pension deficits, beginning May 1, 2004;
- continued setting aside of these funds, regardless of Income Tax restrictions. If contributions to the RPP were not permitted, reserves would be set aside outside the RPP.

Ms Brown explained that the pension assets and liabilities had been updated to June 30, 2005, and projections had been made for the position of the RPP and the SRA to 2013, using the following assumptions:

- investment returns of 3.5% in 2005-06, to allow for a year with investment returns less than the mean of 6.5%;
- investment returns of 6.5% for the years beyond 2005-06;
- an increase in the salary escalation rate from 4% to 4.5% (Consumer Price Index (CPI) + 2%);
- contributions in accordance with the strategy, including special payments of \$26.5 million per annum;

4. University of Toronto Pension Plans: Annual Financial Report for the Year ended June 30, 2005 (cont'd)

- impact of the recent settlement with the United Steelworkers, including an increase in the pension accrual rate from 1.5% to 1.6% for salaries below the Year's Maximum Pensionable Earnings (YMPE), an associated increase in employee contributions from 4.5% to 5.0%, and a requirement for an additional \$800,000 annual special payment by the University.

This had resulted in a projected RPP market deficit of \$4.9 million in 2013, and an SRA market surplus of \$29.5 million at that time. The RPP was projected to be in equilibrium (assets and liabilities approximately equal) by July 1, 2016.

Ms Brown observed that it was necessary to continue the special payments provided for in the pension contribution strategy to continue to achieve required results and to pay for any negotiated improvements in benefits.

Ms Brown summarized the actuarial results at July 1, 2005 as follows:

	RPP	OISE/UT plan (includes partial wind-up)	SRA¹
Accrued liabilities	\$2,407.0 million	\$103.7 million	\$112.9 million
Market value of assets ¹	\$2,320.6 million	\$109.0 million	\$130.6 million
Market surplus (or deficit)	(\$ 86.4 million)	\$ 5.3 million	\$ 17.7 million
Actuarial surplus (or deficit)	(\$117.2 million)	\$ 4.6 million	

Ms Brown noted that the RPP solvency ratio (a measure of the market value of the assets as compared to the solvency liability of the plan before escalated adjustments) had declined from 1.11 at July 1, 2004 to 1.00 at July 1, 2005, predominantly due to a reduction in the current long-term bond rates. Taking into account the partial wind-up, the OISE/UT solvency ratio was 1.09 at July 1, 2005, compared with 1.10 at July 1, 2004.

The results for the RPP and the OISE/UT plans reflected a one-year return for the pension master trust of 11.6% before fees and expenses, which had totaled \$15.3 million and had amounted to 0.7% of master trust assets.

A member asked whether it was common for an actuarial assumption to deviate for a one-year period. Mr. Shapira replied that the assumption of an investment return of 3.5% for 2005-06 was for modeling purposes only. The assumed rate of return for actuarial valuation purposes remained unchanged at 6.5%.

A member commented that, in her view, the projected achievement of equilibrium in the plan in 2016 seemed a long way off. Mr. Shapira replied that the plan's liabilities grew by 6.5% each year to cover interest costs.

¹ For financial accounting purposes, the University from time to time appropriates funds which are set aside as 'funds for specific purposes' in respect of the obligations under the SRA. In accordance with an Advance Income Tax Ruling which the University has received, such assets do not constitute trust property, are available to satisfy University creditors, may be applied to any other purpose that the University may determine from time to time, are commingled with other assets of the University, and are not subject to the direct claim of any members.

4. University of Toronto Pension Plans: Annual Financial Report for the Year ended June 30, 2005 (cont'd)

A member observed that, while the market deficit of the RPP had decreased, the actuarial deficit had increased. Mr. Shapira explained that the increase in the actuarial deficit resulted from the smoothing mechanism used in the actuarial valuation of the assets. A \$31 million deferred asset gain would be reflected in the future. Although the smoothing mechanism created a four-year lagging indicator, it provided flexibility for funding purposes.

A member asked whether all the changes resulting from the increase in *the Income Tax Act* maximum pension limit had been considered. Mr. Shapira replied that the impact of the change to the *Income Tax Act* had been built into the actuarial assumptions for the next four years.

A member asked about the degree of volatility in the pension fund investment strategy. Mr. Chee replied that the volatility of investments was under ten percent, which, in his view, indicated that more risk could be taken. Mr. Chee had advised the Business Board, during his recent semi-annual report on investment performance, that the current level of investment risk was appropriate, given that the goal of pension fund investments was the preservation of capital.

A member asked whether parts of the pension reports were intended to be complete on their own. Ms Brown replied that the financial statements were intended to stand alone for filing. The member commented that information concerning past surpluses and deficits in the plan would be useful. Ms Brown took the suggestion under advisement.

The member referred to note 3 (c) to the Audited Financial Statements which provided the range of coupon rates and maturity dates for Government of Canada and Province of Quebec bonds, and suggested that more detailed information would be useful. He also noted that pooled funds of publicly traded securities were listed, but private equity funds were not. He asked whether any private equity funds were held as investments. Mr. Lyon replied that some private equity funds were held.

On the recommendation of the Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS

THAT the audited financial statements for the University of Toronto Pension Plan, June 30, 2005, a copy of which is included in Appendix "A" hereto, be approved, and

THAT the audited financial statements for the University of Toronto (OISE) Pension Plan, June 30, 2005, a copy of which is included in Appendix "A" hereto, be approved.

Professor Hildyard, Mr. Shapira and Mr. Racanelli withdrew from the meeting.

5. University of Toronto Asset Management (UTAM) Control Environment

The Chair reminded members that the Audit Committee should satisfy itself that the controls with respect to the University and pension plan invested assets were solid. He welcomed Ms Tiffany Palmer to the meeting.

5. University of Toronto Asset Management (UTAM) Control Environment (cont'd)

(a) Context

At the invitation of the Chair, Mr. Chee explained that the University of Toronto Asset Management Corporation (UTAM) had undergone significant restructuring since he had assumed the position of President in 2003. At that time, UTAM's business model had been a mixed one, with in-house management of fixed income and index futures, and external management of all other investments. Now, all investment management had been outsourced, which freed internal resources for other activities. UTAM operated primarily as a 'manager of managers'.

(b) Presentation

Using a Powerpoint presentation, Mr. Hsu gave an overview of the UTAM Risk Control Framework, in which the following points were made.

I. Parties involved in the Risk Control Framework

A. University of Toronto Governing Council

i. Responsibilities:

- a. Defined investment objectives:
 - Target return and risk
 - Investment constraints;
- b. Approved Service Agreement;
- c. Provided Internal Audit services (UTAM's internal audit services were outsourced to the University of Toronto).

B. UTAM Board

i. Responsibilities

- a. Provided governance oversight;
- b. Reviewed and approved strategic direction in alignment with the University of Toronto's objectives;
- c. Reviewed investment performance against objectives;
- d. Approved all Private Equity and Real Assets investments;
- e. Reviewed and approved compensation in alignment with performance;
- f. Approved signing authorities;
- g. Reviewed and approved 'Code of Ethics';
- h. Approved financial statements;
- i. Appointed auditors.

C. UTAM Audit and Compliance Committee

i. Responsibilities

- a. Ensured controls existed to safeguard assets;
- b. Ensured compliance with investment policies;
- c. Reviewed financial statements;
- d. Reviewed the appointment of auditors;
- e. Reviewed audit findings.

II. UTAM Organization

A. Oversight Responsibilities:

- i. Ontario Securities Commission
- ii. University of Toronto Internal Audit Department
- iii. UTAM Audit and Compliance Committee
- iv. UTAM Board

5. University of Toronto Asset Management (UTAM) Control Environment (cont'd)**II. UTAM Organization (cont'd)****B. Investment Control Responsibilities**

- i. President and Chief Executive Officer
- ii. Managing Director, Risk Management and Operations
- iii. Manager, Compliance
- iv. Investment Operations Co-ordinator
- v. Performance Measurement Analyst
- vi. Operations Manager

C. Portfolio Management Responsibilities

- i. Managing Director, Investment Strategy
- ii. Managing Director, Public Investments
- iii. Investment Analysts

III. Procedures: How things are done and who does them**A. Portfolio Management Controls**

- i. Asset Mix
- ii. External Investment Manager
- iii. Selection
- iv. Review
- v. Termination
- vi. Exposure Limits
- vii. Investment Agreements
- viii. Liquidity
- ix. Currency Hedging
- x. Donated Securities

B. Investment Support & Risk Controls

- i. Compliance & Risk Control
- ii. UTAM Code of Ethics
- iii. Compliance with Statement of Investment Policy and Goals
- iv. Ontario Securities Commission
- v. Investment Operations
- vi. Fund movements
- vii. Performance Measurement
- viii. Information Technology
- ix. Data Management
- x. Business Recovery
- xi. Administration Support
- xii. Operating Expenses, Travel, Outsourcing etc.

IV. Oversight**A. Internal Controls**

- i. Investment Committee Meeting
 - a. Bi-weekly
 - b. Authorized all decisions relating to the UTAM portfolios: Asset mix, Investment Managers,
 - c. Forum to discuss any issues/concerns

5. University of Toronto Asset Management (UTAM) Control Environment (cont'd)

IV. Oversight (cont'd)

A. Internal Controls (cont'd)

- i. Managing Directors Meeting
 - a. Bi-weekly
 - b. Discuss management issues and concerns relating to UTAM day-to-day operations and staff
- ii. Internal Audit

B. External Controls

- i. UTAM Board of Directors
 - a. Quarterly meetings
 - b. Oversight of UTAM Management
- ii. UTAM Audit Committee
 - a. Quarterly meetings
 - b. Assist Board of Directors in oversight of UTAM management
 - c. Financial statements, compliance and risk management
- iii. Ontario Securities Commission
 - a. On-going oversight of UTAM as a registered entity in the category of Investment Counselor / Portfolio Manager

V. Future Priorities

A. Review UTAM Operations

- i. Ensure efficient, effective processes are in place covering the major business functions
- ii. Enhance existing processes where required

B. Update UTAM Policy and Procedures Manual

- i. Ensure policy and procedures reflect changes per above process review
- ii. Ensure policy and procedures reflect organizational changes
 - a. Staff
 - b. Signing Authorities

C. Enhance Investment Portfolio Risk Management

- i. Develop risk-based budget
- ii. Review tactical strategy and the intersection of return and risk

D. Internal Audit

- i. Ensure audit plan reflects UTAM organization/processes

(c) Questions

In response to a member's question concerning the selection of external managers, Mr. Hsu replied that external managers were selected based on their style, and the fact that appropriate policies and procedures were in place in their organizations. Ms Palmer added that an operational audit was conducted on prospective firms. The due diligence carried out by UTAM was as exhaustive as possible.

5. University of Toronto Asset Management (UTAM) Control Environment (cont'd)

(c) Questions (cont'd)

In response to a member's question concerning decisions on the use of hedge funds, Mr. Chee responded that he was responsible for overseeing the use of hedge funds within University policy parameters. During the past eighteen months, UTAM had moved out of single hedge funds and into funds of hedge funds to provide increased investment diversity.

In response to a question concerning the current high-level constraints on investments, Mr. Chee replied that UTAM management had the discretion to depart from the policy asset mix by up to 5%, or 2.5% for smaller asset classes. In addition, managers were bound by guidelines concerning equity investments (eg. a 10% limit on any individual holding) and fixed income investments (eg. investment grade instruments only with high-yield bonds/debentures only by exception).

In response to a question on index futures, Mr. Chee replied that large pools of segregated funds provided greater liquidity and more versatility at less cost.

In response to a question concerning greater involvement of governance in matters such as merger proxies, Ms Palmer explained that UTAM outsourced all proxy voting. Mr. Chee commented that the next major issue concerning governance would likely be the disclosure of investments. Ms Riggall observed that, when universities become subject to the Freedom of Information and Protection of Privacy Act (FIPPA), which was expected to take effect in July 2006, more requests for disclosure of investments might be received. Ms. Riggall noted that the Ontario Teachers' Pension Plan listed on its website all investments as of December 31st each year. A member noted that the Canada Pension Plan disclosed all of its investments quarterly on its website.

In response to a request to identify the two or three areas of most concern to UTAM, Mr. Chee cited two matters. First, he expected that overall investment returns would be muted for a few years, and it would be important to adjust liability requirements to conform to that reality. Leaving targets too high would force investment portfolios that were too risky. It had been entirely appropriate that the University had reduced the return targets in its investment policies three years ago. Second, Mr. Chee was concerned that particular asset classes would, overall, provide disappointing returns. Much more money was being invested in hedge funds and private equity funds, many new funds were being established, and it would become harder to discern which funds were 'good' and which were 'bad'.

The Chair thanked Mr. Chee and his colleagues from UTAM for their presentation. Ms Palmer withdrew from the meeting.

6. University of Toronto Endowment: Annual Financial Report for Year Ended April 30, 2005

Ms Brown explained that this was a new annual financial report on endowments to the year ended April 30, 2005, that had been developed to provide clear and transparent disclosure to senior management, governors and donors. The report had brought together information that had been publicly available in a variety of reports, along with additional information, and had placed it all in the same fiscal year period. Included in the report were annual audited financial information and investment performance information.

6. University of Toronto Endowment: Annual Financial Report for Year Ended April 30, 2005 (cont'd)

Ms Brown commented that the report represented a substantial amount of work done by a variety of individuals, and she acknowledged the efforts of Mr. Piché, Ms Helen Choy, the staff of UTAM and the external auditors.

Ms Brown summarized the highlights of the report. At April 30, 2005, there had been 4,269 individual endowment funds, usually supported by a donor agreement, or reflecting a collection of small donations with common restrictions. These individual funds totaled \$1.42 billion. Almost all of the endowment funds had been invested in the long-term capital appreciation pool (LTCAP), a unitized pool managed by the University. For the one-year period ended April 30, 2005, the annual rate of return for LTCAP, gross of fees, had been 7.9%.

The return objectives for LTCAP were governed by the University's preservation of capital policy, which was intended to ensure that the rate of growth in the capital value of endowments matched or exceeded the rate of inflation over time. This policy limited the amount of earnings made available for spending and required the reinvestment of excess earnings. For 2004-05, the payout had been \$6.86 per unit, or 3.9% of the opening unit market value. The excess earnings (\$6.14 per unit) had been reinvested to protect against inflation and against future years when investment returns were less than the payout.

Several members congratulated Ms Brown on the report.

Ms Brown informed members that the report would be provided to the Business Board for information, and then be posted on the University's website.

Mr. Chee, Mr. Hsu and Mr. Lyon withdrew from the meeting.

7. University of Toronto Press: Annual Report and Audited Financial Statements for the Year Ended April 30, 2005

The Chair welcomed Mr. Yates, President, Publisher and Chief Executive Officer, University of Toronto Press, (the Press) to the meeting, and noted that three members of the Committee – Ms Barker, Mr. Parkinson, and Ms Riggall – were members of the Board of the Press.

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.

On the recommendation of the Vice-President, Business Affairs

YOUR COMMITTEE RECOMMENDS

THAT the annual report and financial statements of the University of Toronto Press for the year ended April 30, 2005, copies of which are attached hereto as Appendix "B", be accepted.

Mr. Yates withdrew from the meeting.

8. University of Toronto Innovations Foundation: Audited Financial Statements for the Year Ended April 30, 2005

The Chair welcomed Professor Emeritus Ronald Venter, Interim Executive Director of the Innovations Foundation, to the meeting. The Chair reminded members that the Audit Committee had been delegated authority by the Business Board for the governance oversight of the Innovations Foundation.

Ms Riggall recalled that the University of Toronto Innovations Foundation and the University of Toronto Press had been set up originally as business ancillary operations with the expectation that the organizations would generate sufficient revenue to meet their expenses. The Committee had been advised in June that the Foundation would not be able to meet the loan repayment schedule that had been agreed to in 2002, and that it was planned to merge the Foundation with the technology-transfer group in the Office of the Vice-President, Research and Associate Provost, and to make the combined unit a University unit funded by the operating budget. A search was underway for an Assistant Vice-President, Technology Transfer.

As a result of the review of the operations of the Foundation initiated in 2004, led by the Honourable John Manley, a number of actions had taken place. In June 2005, most external members of the Board of the Foundation had resigned. A new Board had been appointed, that included Professor Challis, Professor Goel, and Ms Riggall, as well as continuing members Mr. Chee, Mr. Gary Goldberg, Dr. Richard Owen, and Professor Pekko Sinervo. Professor Emeritus Ronald Venter had been appointed Interim Executive Director.

At its meeting on September 28, 2005, members of the Board of the Innovations Foundation had agreed to begin the process of winding down the separate corporation and bringing its operations into the University of Toronto in the portfolio of the Vice-President, Research. The process was expected to take several months. At its meeting on October 11, 2005, members of the Business Board had approved an increase of \$2 million in the line of credit to the Innovations Foundation to permit the operations to continue until an orderly wind-down had been completed.

Ms Riggall explained that the timing of loan write-offs, if any were required, would be discussed with the auditors, and would depend on the anticipated revenues that were being generated from existing license arrangements. Investments held by the Innovations Foundation were likely to be transferred to the University of Toronto Asset Management Corporation (UTAM) for ongoing management and eventual disposition. Employees of the Foundation would be transferred to the University of Toronto by the end of April 2006.

In response to a question concerning the recording of the losses of the Foundation, Ms Brown explained that all of the losses had been recognized in the financial statements of the University. The loss had to be transferred from the ancillary budget to the operating budget, but there would be no effect on the consolidated statements.

A member asked where governance and oversight would occur for the new organizational structure. Ms Riggall noted that the Vice-President, Research and Associate Provost reported annually to governance. The member emphasized the need for a reporting mechanism.

At the invitation of the Chair, Professor Emeritus Venter stated that an internal group was anticipated to act as an academic board for the Foundation. A business operating group was planned to provide networking and partnership opportunities and connections. Professor Emeritus Venter commented that the Foundation needed a correct exit strategy for products with potential for commercialization.

8. University of Toronto Innovations Foundation: Audited Financial Statements for the Year Ended April 30, 2005 (cont'd)

Professor Emeritus Venter advised Committee members that the Foundation had to work within the University's *Inventions Policy*, which allowed inventors to request ownership of intellectual property rights. He also noted that it took time for inventions to become marketable.

A member asked who was responsible for revising the *Inventions Policy*. Ms Riggall replied that revisions to the *Policy* could be recommended by the Vice-President and Provost, but only after discussion with the University of Toronto Faculty Association (UTFA). Professor Emeritus Venter added that a working group of the University's Research Advisory Board was reviewing the *Policy* to improve the clarity of its wording.

On the recommendation of the Vice-President, Business Affairs

YOUR COMMITTEE RECOMMENDS

THAT the financial statements of the University of Toronto Innovations Foundation for the year ending April 30, 2005, copies of which are attached hereto as Appendix "C", be accepted.

9. Audit Committee Terms of Reference and Internal Audit Policy: Framework for Review

Mr. Charpentier explained that the Terms of Reference of the Audit Committee had been reviewed and updated in 2001-02 to clarify the responsibilities and facilitate the functioning of the Committee. The current *Internal Audit Policy* had been approved in November 1992. Given the changes in the audit environment, it was timely to ensure that policy, practice and procedures were consistent with current internal audit standards and with the expectations of audit committees within governance.

Mr. Charpentier proposed that a small working group be established to review and make recommendations on the Terms of Reference for the Audit Committee and the *Internal Audit Policy*. The working group would be coordinated by the Secretary of the Governing Council and would be composed of individuals selected from among the membership of the Audit Committee and the Business Board, including the assessors. Recommendations would be brought forward for consideration by the Committee at its March 29, 2006 meeting.

Members welcomed the initiative. They were encouraged to send comments and suggestions to Mr. Charpentier, or to the Committee Secretary (c.oke@utoronto.ca). It was suggested that draft revisions be circulated to the members prior to the March meeting.

10. Items for Information

(a) Enrolment Audit, 2004-05

Members received for information the audited Summary of Enrolment Report for the 2004-05 academic year.

(b) Administrative Accountability Reports: Annual Report on the Program

Members received for information the administrative accountability report from the Interim President to the Chair of the Governing Council dated June 30, 2005.

11. Calendar of Business, 2005-06

Members received for information the Committee's Calendar of Business for 2005-06.

12. Report of the Administration

Mr. Britt informed members that the University was undergoing a number of audits. If any significant issues were identified in these audits, they would be brought to the attention of the Committee.

13. Date of Next Meeting – Wednesday, November 23, 2005 at 4:00 p.m.

14. Other Business**(a) Discussion of University of Toronto Asset Management Corporation (UTAM) Presentation**

A member observed that the Committee had not been included in the risk control framework that had been presented earlier in the meeting by UTAM. In his view, the Committee should have been included in the framework.

A member suggested that UTAM's performance against certain targets and objectives should be identified. Services that could provide appropriate benchmarks those provided by the Cost Effectiveness Measurement Service used by many Canadian and international pension funds. Data was also available from the Canadian Association of University Business Officers (CAUBO) and the National Association of College and University Business Officers (NACUBO). It was noted that UTAM's performance was reviewed against market indices and university benchmarks on a semi-annual basis by the Business Board.

A member asked if Internal Audit had any concerns about UTAM. Mr. Britt replied that he had no immediate concerns. The internal audit plan had had to be re-examined in light of UTAM's restructuring, but most of the controls that had been outlined in the UTAM presentation had been audited.

(b) University's Financial Position

A member suggested that it would be useful for the Committee to review the actual financial picture of the University in an organized fashion. Ms Riggall replied that such information was provided to the Business Board, and members of the Committee were welcome to attend Board meetings.

The meeting adjourned at 6:50 p.m.

Secretary

Chair

November 10, 2005