



FOR ENDORSEMENT & FORWARDING PUBLIC CLOSED SESSION

TO: Executive Committee

SPONSOR: Sheree Drummond, Secretary of the Governing Council

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PRESENTER: See above.

DATE: January 30, 2017 for February 6, 2017

AGENDA ITEM: 5 (b.)

ITEM IDENTIFICATION:

Audit Committee *Terms of Reference* Revisions

JURISDICTIONAL INFORMATION:

The Audit Committee is a standing committee of the Business Board and, as such, reports to the Board.

Pursuant to Section 5.1.6. (b.) of the Audit Committee *Terms of Reference*, the Committee "... reviews, from time to time as required by regulatory changes and as the Committee deems appropriate, and at least every five years, these terms of reference, and makes recommendations to the Business Board for any appropriate amendments; as part of this review, the Committee assesses its effectiveness in discharging its terms of reference."

GOVERNANCE PATH:

1. Audit Committee [for recommendation] (December 8, 2016)
2. Business Board [for information] (January 23, 2017)
- 3. Executive Committee [for endorsement and forwarding] (February 6, 2017)**
4. Governing Council [for approval] (February 15, 2017)

PREVIOUS ACTION TAKEN:

The Audit Committee *Terms of Reference* was previously amended in 2013, with the removal of the Committee's responsibility for reviewing management's annual financial report on the endowment (then Section 5.1.1. (e.)). Authority for the review of that report rests with the Business Board. The revision was approved by the Business Board on November 4, 2013.

HIGHLIGHTS:

The Audit Committee's function "...includes review of financial reporting, internal controls, safeguarding the University's assets and general risk exposure." (Section 4, Audit Committee Terms of Reference). The Committee's specific areas of responsibility which fall within the above mandate are detailed in subsequent sections. One such responsibility is the review of the annual report on the University's borrowing. Section 5.1.1. Financial Reporting states the following:

Without limiting the general responsibilities of the Committee as described above, the Audit Committee:

- (e) Reviews management's annual report on the University's borrowing, including a report on the Long-Term Borrowing Pool; in carrying out this duty, the Committee reviews management's assessment of the financial soundness of the University's borrowing and in particular its ability to meet its commitments to its lenders.

Normally, the Committee reviews the debt policy limit, debt allocations, outstanding debt issued, and status of the long-term borrowing pool each June. However, this responsibility has been identified as one that duplicates work of the Committee's parent body, the Business Board. That Board reviews reports of rating agencies,¹ regular status reports on debt (cycles 1, 2, 4, and 5), as well as an annual report on University debt (cycle 5).² In order to increase efficiencies and facilitate even greater focus on the Committee's key functions, it is proposed that Section 5.1.1.e be deleted from its *Terms of Reference*.

The Chief Financial Officer, whose office prepares the borrowing report, fully supports this proposed change.

One other minor proposed revision to the *Terms of Reference* is a 'housekeeping' matter intended to provide alignment with other bodies of the Governing Council – the maximum term of service of nine successive years for members will be specified. All changes, including those of an editorial nature, are marked in the attached proposed revised *Terms of Reference*.

¹ The Business Board sees the Dominion Bond Rating Service Credit Report and the Standard & Poor's Ratings Services (S&P) Credit Report in cycle 3.

² The Business Board's areas of responsibility include "review of regular reports on matters affecting the finances of the University and on financial programs and transactions" (Business Board Terms of Reference, Section 5.1 (b).) The footnote to the section states "For example, financial forecasts, reports on borrowing, reports on investment of University funds, reports on any non-financial elements of University investments and reports on the financial status of the pension plans."

FINANCIAL IMPLICATIONS:

There are no financial implications.

RECOMMENDATION:

Be It Resolved

THAT the following recommendation be endorsed and forwarded to the Governing Council:

THAT the proposed revised Audit Committee *Terms of Reference* be approved, effective immediately, replacing the *Terms of Reference* previously approved on November 4, 2013.

DOCUMENTATION PROVIDED

Audit Committee *Terms of Reference* (track changes version)
Audit Committee *Terms of Reference* (proposed final version)



Proposed Revisions – December 8, 2016

AUDIT COMMITTEE TERMS OF REFERENCE

1. MEMBERSHIP

1.1 Composition

The Audit Committee is a technical rather than a representative committee. Its members are appointed on the basis of their expertise in financial matters rather than constituency representation. Membership is as follows:

- (a) About eight independent voting members, who are normally not members of the teaching staff, administrative staff or students of the University. These members are normally members of the Governing Council or Business Board. Notwithstanding the above: (a) the voting membership may include a senior member of the teaching staff of the University with expertise in accounting, and (b) where an insufficient number of members as specified above are available to serve on the Committee, other independent members with financial expertise may be co-opted.
- (b) Four *ex officio* voting members: The Chairman and Vice-Chairman of the Governing Council, the President and the Chancellor are, pursuant to section 29(e) (i) of By-Law Number 2, *ex officio* voting members of all standing committees of the Governing Council.
- (c) The following *ex officio* non-voting assessors: the senior officer of the University reporting to the President who is responsible for financial matters, as so designated by the President; a second senior officer of the University responsible for financial matters, as so designated by the President; the Secretary of the Governing Council; and the Director, Internal Audit.

1.2 Term

Terms are for one year, beginning July 1, and may be renewed. A member may serve a maximum of nine consecutive years on the Committee.

Members of the Governing Council are appointed to the Committee by the Council. Any other, or “co-opted”, members are appointed by the Business Board.

1.3 Chair and Vice-Chair

The Chair and Vice-Chair (if any) are appointed annually by the Business Board.

2. QUORUM

One half of the members, other than *ex officio* members, as defined in 1.1(a) above.

3. SUBCOMMITTEES

3.1 Standing Committees

The Audit Committee is a standing committee of the Business Board. It has no standing subcommittees.

3.2 Special Committees

The Audit Committee does not normally establish Special Committees.

4. FUNCTION

The Audit Committee reviews and assesses recommendations and reports on the finances, financial controls and risk exposures of the University. Where appropriate, it gives advice to the University's senior officer reporting to the President responsible for financial matters or to the President or makes recommendations to the Business Board, to which the Audit Committee reports. The Committee's function includes review of financial reporting, internal controls, safeguarding of the University's assets and general risk exposure. The Committee monitors the competence with which external and internal audits are carried out; ensures that the auditors' recommendations are given due consideration; and the auditors' independence in their relationships with the administration.

5. AREAS OF RESPONSIBILITY

5.1 Responsibilities of the Committee

Without limiting the general responsibilities of the Committee as described above, the Audit Committee:

5.1.1. Financial Reporting

- (a) Reviews with administration and the external auditors, the University's annual audited financial statements and the auditors' report thereon, satisfies itself with respect to the integrity of the statements and the fairness of their presentation, and recommends them for approval to the Business Board. As part of this review, reviews the signed statement of administrative responsibility in connection with the preparation of the financial statements. As part of its review, reviews relevant written communications from the external auditors, including any schedule of unadjusted differences.
- (b) Periodically reviews with the administration and the external auditors the University's accounting policies and practices. As part of this review, assesses the quality as well as the acceptability of the University's accounting policies and principles as applied to its financial reporting; is advised of all alternative treatments of material financial information within generally accepted accounting principles that have been discussed with management and is advised of the ramifications of the choice of treatment; is advised of judgements made in the presentation of financial information and the ramifications of the choice of judgements; is advised of any significant, relevant changes to generally accepted accounting principles and the University's application thereof; and is advised of any regulatory initiatives with respect to financial reporting and the University's response thereto.

- (c) Reviews, in connection with the review of the University's audited financial statements, an annual report on substantial outstanding legal actions against the University in order to monitor contingent liabilities that should be disclosed in financial statements, as well as (pursuant to the Committee's duty under 5.1.5 below) to monitor possible risk exposures.
- (d) Reviews management's annual financial report on the pension plans, including the audited financial statements of the pension funds and the auditors report thereon, and recommends the financial statements to the Pension Committee for approval. In carrying out this duty, the Committee reviews management's assessment of the financial soundness of the pension plans.
- ~~(e) Reviews management's annual report on the University's borrowing, including a report on the Long Term Borrowing Pool; in carrying out this duty, the Committee reviews management's assessment of the financial soundness of the University's borrowing and in particular its ability to meet its commitments to its lenders.~~
- (f) Reviews management's annual report on the University's insurance program; reviews management's assessment of the financial soundness of the University's insurance protection.
- (g) Reviews and assesses the adequacy of such other financial reports as the Business Board instructs or the Audit Committee itself deems appropriate to the responsible execution of its duties; recommends them for approval where required.

5.1.2. External Auditors

- (a) Recommends to the Business Board the annual appointment of the external auditors. As part of the consideration of the recommendation for the appointment of the external auditors, reviews with management the performance of the external auditors for the previous year, ensures appropriate rotation of the lead audit partner, and considers whether there should be rotation of the audit firm itself.
- (b) Reviews and accepts the external auditors' engagement letter; reviews annually the external auditors' plan and estimated audit fees. As part of the review of the external auditors' plan, considers information on coordination of audit efforts with the Internal Audit Department to ensure the completeness of coverage, the reduction of redundant efforts and the effective use of audit resources.
- (c) Reviews and recommends to the Business Board for approval a policy on the use of the external auditors for non-audit services. Reviews an annual report on assignments and fees for any non-audit services performed for the University by the audit firm.
- (d) In connection with the Committee's review of the University's audited financial statements and before the Committee's vote on the statements, meets *in camera* (without any University officer present) with the external auditors to determine any problems encountered by the auditors, any restrictions on their work, the co-operation received in the performance of their duties by the administration and the Internal Audit Department, and any matters requiring discussion arising from the auditors' findings.

- (e) Reviews the external auditors' management letter to the Audit Committee and the administrative response to the letter, and satisfies itself that the recommendations are acted upon where appropriate. Where recommendations from the external auditors are not to be acted upon, the Committee satisfies itself that this is acceptable. In carrying out this responsibility, the Committee meets *in camera* (without any University officer present) with the external auditors to review the management letter and the administrative response, and to receive from the external auditors their views with respect to the probity and competence of the University's officers responsible for financial matters and the internal auditor.
- (f) The Committee shall be informed on a timely basis of any serious difference of opinion between administration and the auditors, whether or not the difference has been resolved.
- (g) The Committee shall be informed of any case in which the administration has sought accounting advice on a specific issue from an accounting firm other than the one appointed as external auditors.

5.1.3 Internal Auditor

- (a) Reviews the internal audit policy and recommends it for approval to the Business Board.
- (b) Reviews the internal auditor's annual audit plan and procedures. As part of its review of the internal audit plan, reviews the organizational structure of the Internal Audit Department and the qualifications of its members.
- (c) Reviews an interim and annual report from the internal auditor, outlining significant findings and making recommendations concerning the adequacy of internal controls in the University, including computerized information-systems controls and security; satisfies itself that the administration is addressing the issues raised where appropriate.
- (d) Meets *in camera* (without any University officer present) with the internal auditor to consider any problems encountered, any failure to provide appropriate information or any restrictions on internal audit work, the general co-operation received in the performance of internal audit duties, and any matters requiring discussion arising from the auditor's findings.
- (e) Following the review of the annual report of the internal auditor, reviews the adequacy and performance of internal audit services.
- (f) Reviews, for information, any report made by the President to the Business Board, pursuant to the Policy on Appointments and Remuneration, on the suspension or removal of the Director of the Internal Audit Department and the reasons therefor. Receives for information a report from the President on the circumstances of any resignation or transfer of the Director.

5.1.4. Financial Controls and Control Environment

- (a) Periodically reviews management reports on control systems and the control environment. Assesses, on the basis of the interim and annual reports from the internal auditor, the annual management letter from the

external auditors and other relevant reports the effectiveness of the University's control systems.

- (b) Receives from the assessors timely reports on any significant financial issues, problems, irregularities or any significant contingent liabilities.
- (c) Reviews the operation of the University's system of annual financial and administrative accountability reports.
- (d) Reviews periodically the policies and processes for individual members of the University to draw to the attention of appropriate University officers, including the Director of the Internal Audit Department, any significant financial issues, problems, or irregularities. As part of that review, where reports are not anonymous, considers the adequacy of protections for members of the University who act to report significant financial issues, problems or irregularities. Reviews periodically reports on the operation of those policies and processes for reporting financial irregularities.
- (e) Receives reports from management on the occurrence of any significant audits of University operations or projects carried out by governments, granting councils, regulatory agencies or others. In cases where the outcome of an audit indicates any substantial irregularity, reviews the audit report.

5.1.5 Risk Management

- (a) Reviews an annual management report on significant business, financial and regulatory risks and monitors the University's processes for identifying and controlling those risks. In carrying out this responsibility, the Committee focuses primarily on the adequacy of key controls over, and mitigations of, those vital risks considered to be, currently or in the future, more significant and likely to occur, meets with management and the internal or external auditors to come to a fuller understanding and better assessment of management's response to controlling important risk situations, and reports any concerns to the University's senior officer reporting to the President responsible for financial matters, to the President, or to the Business Board, as appropriate.

5.1.6 Other

- (a) Monitors such other financial matters as the Governing Council or the Business Board may direct or as the Audit Committee deems appropriate to carrying out its general function.
- (b) Reviews, from time to time as required by regulatory changes and as the Committee deems appropriate, and at least every five years, these terms of reference, and makes recommendations to the Business Board for any appropriate amendments; as part of this review, the Committee assesses its effectiveness in discharging its terms of reference.

5.2 Responsibility of Administration

The President, through his/her administration, has an obligation to tender advice and develop proposals for action on all matters within the Committee's terms of reference.

The administration is directly responsible for the University's risk-management and financial reporting processes, including:

- (i) the preparation of financial reports and statements in accordance with the principles of fair presentation and generally accepted accounting principles for University operations;
- (ii) the organization and maintenance of appropriate internal controls designed to safeguard assets, establish the reliability of financial information and ensure adherence to approved policies; and
- (iii) the provision of assurance that the actions of the University's administration comply with applicable laws and standards of proper conduct.

6. PROCEDURES

6.1 Meetings

The Committee usually meets in closed session. Where matters before the Committee are of a particularly confidential or sensitive nature, the Committee may move *in camera*. The Committee meets a minimum of three times per fiscal year.

In establishing agenda for meetings of the Committee, the Chair will usually be advised by an agenda planning group that includes the Vice-Chair (if any) and the assessors. The proposed agenda for a meeting, together with background documentation, is reviewed at an agenda planning meeting, usually scheduled eight to fourteen days prior to the Committee meeting.

6.2 Access

The external auditors and internal auditor shall have access to the Chair of the Audit Committee on matters within the scope of their duties.

May 2, 2006

Revisions approved by the Governing Council on June 29, 2006

Revision to section 5.1.1(d) approved by the Governing Council on October 28, 2010.

Revision approved by the Business Board November 4, 2013, section 5.1.1(e) removed.