UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 58 OF THE AUDIT COMMITTEE

October 17th, 2000

To the Business Board,
University of Toronto.

Your Committee reports that it met on Tuesday, October 17, 2000 at 5:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Mr. Robert S. Weiss (In the Chair)
Mr. Donald A. Burwash
Ms Christine A. Capewell
Ms Kwai Li
Mr. Paul E. Lindblad
Mr. Richard Nunn

Mr. Robert G. White, Chief Financial Officer

Mr. Louis R. Charpentier, Secretary of the Governing Council
Mr. Mark L. Britt, Director, Internal Audit Department

Secretariat:

Mr. Neil Dobbs
Ms Susan Girard

Regrets:

Ms Paulette L. Kennedy
Mr. Roger P. Parkinson
Professor Wally Smieliauskas

In Attendance:

Professor Michael G. Finlayson, Vice-President - Administration and Human Resources*
Mr. Curt Auwaerter, Vice-President - Finance, University of Toronto Press**
Ms Kathryn Bennett, Senior Vice-President - Administration and Human Resources, University of Toronto Press**
Mr. Keith B. Bowman, Ernst & Young
Ms Sheila Brown, Controller and Director of Financial Services
Professor Jack Gorrie, Provost's Adviser on Information Technology***
Mr. Peter Leeney, Director, Office of Statistics, Records and Convocation****
Mr. George Meadows, President and Publisher, University of Toronto Press**
Ms Diana Brouwer, Ernst & Young
Mr. Pierre Piché, Associate Controller
Ms Deborah E. Simon-Edwards, Executive Assistant to the Chief Financial Officer

* In attendance for item 6.
** In attendance for item 2.
*** In attendance for item 4.
**** In attendance for item 5.

REPORT NUMBER 58 OF THE AUDIT COMMITTEE - October 17, 2000

ITEM 2 CONTAINS A RECOMMENDATION TO THE BUSINESS BOARD FOR ACCEPTANCE

REPORT NUMBER 58 OF THE AUDIT COMMITTEE - October 17, 2000

1. Report of the Previous Meeting

Report Number 57 (June 21, 2000) was approved.

2. University of Toronto Press: Annual Report and Financial Statements, 1999 - 2000

The Chair stressed that the Audit Committee's responsibility was not to conduct its usual review of the financial statements from the point of view of the adequacy of representation and disclosure. The statements had been reviewed by the Press's own Audit Committee. Questions about the reliability of the statements were, nonetheless, appropriate because the financial results of the Press were consolidated into the University's statements. However, the Committee's primary task was, on behalf of the Business Board, to carry out responsibility for the Governing Council's - the controlling corporation's - stewardship with respect to the Press. Because the annual report and financial statements had been approved by the Press's own Board, the Audit Committee was asked to consider, and if appropriate, recommend that the Business Board "accept" rather than "approve" those documents.

Mr. Meadows said that 1999-2000 had been a good year, with the Press paying $150,000 of "participating interest" to the University for the basic capital it supplied, paying the same amount into the University's Scholarly Publishing Trust Fund, and making a profit, also amounting to $150,000, which had been added to the working capital of the Press.

With respect to the beginning of the 2000-01 year, there had been labour-relations problems over the summer, with part-time staff in the bookstore striking, but that strike had been settled on satisfactory terms. Most of the Press's businesses had been performing well, with the exception of the order-fulfillment business, which had lost a major client. As usual, the first four months of the fiscal year, May through August, had been slow, with business picking up in September. One problem being encountered by the Press, like other publishers, was a high volume of returns from Canada's two largest bookstore chains. The Printing Division had also been somewhat slow off the mark; like the order-fulfillment division, it had lost one major client. Nonetheless, Mr. Meadows anticipated that the Press would be on or close to budget for the year. He hoped that 2000-01 would be the tenth year in which the Press earned a profit.

Mr. Meadows provided further information in response to questions.

- **Financial forecasting**. The Press prepared a complete financial forecast for its fiscal year late in January each year. In addition, it prepared monthly financial statements comparing its actual results with the budget.

- **Varsity Sports Store acquisition**. The Press's bookstore division sold clothing, crested items and other merchandise not only in its three original campus bookstores but also at the Victoria University Bookstore, at a store in the Innis College Residence, and at a store in the Hart House athletic wing. The Varsity Sports store had been the only campus

2. **University of Toronto Press: Annual Report and Financial Statements, 1999 - 2000** (Cont'd)

operation selling regalia and clothing not operated by the Press. The acquisition would help that operation and the bookstore division in general because of the advantage of greater volume buying.

- **E-commerce site**. After an initial period of high activity, business on the site had been slow. The site contained the Press's scholarly book publishing catalogues. It was clearly necessary to have a web site; other publishers had one. It would not, however, be a substantial revenue producer for some time.

In response to a question, Mr. Bowman said that the partner responsible for the Press's audit had advised that the audit had gone well. There had been no evidence of any major problem. Mr. Meadows reported that the auditors had issued a management letter dealing with only minor issues.

Discussion developed concerning the effect on the Press of well-publicized problems being encountered by a major national bookseller. Mr. Meadows replied that the Press was one of the few publishers to maintain very good credit control with respect to that chain, requiring payment in 90 days. A significant problem was that the chain ordered large quantities of books and also returned large quantities of unsold ones. That was problematic for the scholarly publishing operation. In order to rein in the problem, the Press had become more rigorous in controlling its shipments. That had the effect of reducing sales to the chain to a fraction of their previous level. But, because the Press's books were scholarly ones, the chain did not represent a large proportion of its overall sales. The order fulfillment operation benefited in the short run, collecting a fee from client publishers for each book sold and each returned. But, it created a longer term problem because of the strain on the clients, which might threaten the solvency of some of them. The Press had sought to encourage all publishers to unite in imposing a more restrictive return policy, either limiting returns to 15% of books ordered or 90 days, before titles became stale, but the other publishers had not adopted the suggestion.

Mr. White said that he served on the Board of the University of Toronto Press and was also the University's liaison officer with the Press. It was very helpful to the University that the Press had earned a profit, paid contributing interest ("a dividend") to the University, and contributed to the Scholarly Publishing Trust. But even more importantly, the Press carried out the University's scholarly publishing program completely without subsidy, publishing something like 200 titles a year, assisted by the net income from the Press's other operations such as printing and order fulfillment. That had a value to the University of between $750,000 and $1-million per year. The President of the University and all of the senior administration were very pleased with this outcome.

The Chair echoed that view. The Press's earning a profit, while increasing substantially the number of scholarly books it published, represented a real change from earlier years. The growth of the Scholarly Publishing Trust from the Press's overall earnings would ensure the

2. University of Toronto Press: Annual Report and Financial Statements, 1999 - 2000 (Cont'd)

continuation of a strong program of publishing academic books. The Chair was pleased that the operational issues that had come to the Committee's attention in the recent past had been resolved. He congratulated Mr. Meadows, Ms Bennett and Mr. Auwaerter and all of the staff at the Press for their 1999-2000 performance.

On the recommendation of the Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS

THAT the annual report and audited financial statements of the University of Toronto Press for the year ended April 30th, 2000, copies of which are attached hereto as Appendix "A", be accepted.

3. Chair's Remarks

The Chair welcomed new members to the Committee, and continuing members and assessors introduced themselves. The Chair then outlined the work of the Audit Committee. The Committee was regarded as an important one in the University, carrying out substantial responsibilities for monitoring the University's financial health. Members had received copies of the Committee's terms of reference, which described the Committee's responsibilities. The calendar of business, which outlined the items planned to come before the Committee during the forthcoming year, also appeared on the agenda. The Committee reviewed the University's annual audited financial statements over two meetings in the spring after the fiscal year end. It considered matters of major accounting policies, such as the reporting issue of employees' post-retirement benefits other than pensions. It made an annual recommendation on the appointment of external auditors. The Committee was responsible to review the University's general stewardship of its assets, receiving regular reports from the internal auditor, reviewing the external auditors' management letter, reviewing the program of accountability reports, and looking into such special matters as security against computer viruses. The Committee, on behalf of the Business Board, also provided leadership with respect to specific stewardship responsibilities, reviewing the annual financial report on the pension plan and the annual reports and financial statements of ancillary operations including the U. of T. Press and the Innovations Foundation. The Committee also reviewed other significant audits, such as the enrolment audit and the OSAP audit. In carrying out its responsibilities, the Committee was assisted by the external and internal auditors, who attended all meetings. The Committee met privately with both the external and internal auditors - annually as a matter of routine and specially on the auditors' request.

The Committee normally met in closed session. That meant that its meetings were open only to members, as well as any members of the Business Board or Governing Council who might wish to attend. In addition, appropriate members of the University staff attended. This differed from most other Governing Council committees, which normally met in open session,

3. Chair's Remarks (Cont'd)

allowing members of the public to attend. From time to time the Committee would move *in camera* to discuss particularly sensitive matters. In such cases, only members and specified staff would attend. The Chair cautioned members that the Committee would receive a great deal of highly confidential material. Some of those items would become public documents after the Committee had dealt with them, such as the University's financial statements. Other material, however, had to remain private. The Internal Auditor's annual plan was an example; for the internal audit program to be effective, it was important that members of the University not know which units had and had not been selected for audit in the near future. The Chair reported that the Governing Council's "Guidelines on Confidentiality of Documents and Proceedings" required that all proceedings taking place in closed session not be discussed outside of the Committee, except with people who would have been entitled to attend the meeting - other Committee members, Business Board members or Governing Council members. Appropriate documentation and the record of the Committee's proceedings would be released by the Secretariat in accordance with usual practice or the Chair's instructions. Members were therefore asked to treat the information they received as members, and the Committee's discussions, with a high level of discretion.

Mr. White reiterated the Chair's comment on the importance of the Audit Committee. The Governing Council and the Business Board took considerable comfort from the Committee's work. The central administration was similarly comforted. Former President Prichard used to say that the vigilance of the Audit Committee was one of the things that helped him to sleep at night. That was a view fully shared by President Birgeneau. Mr. White stressed that he and his colleagues in the central administration were firm believers in transparency and openness to the Audit Committee. He invited members to call him, Ms Brown or Mr. Piché with any questions about matters to come before the Committee or about other matters that would help members to enhance their understanding of the University's financial affairs. The Committee's work also helped him, as Chief Financial Officer, to sleep at night.

The Chair said that the strength of the Committee was the participation of its members, and he encouraged that participation. In response to a question, the Chair said that the quorum was three voting members, at least two of whom were external to the University. Matters were formally decided by majority vote, but the Committee most often arrived at decisions by consensus.

4. Business Arising from the Report of the Previous Meeting

Computer Virus Preparedness

Professor Gorrie said that the University took the matter of computer viruses very seriously. A program had been established to scan incoming electronic mail for the more active viruses so that those viruses would be discovered before the message was opened. In the event an infected message was discovered, the staff member would call the addressee to request permission to open the message to disinfect it before forwarding it. While this process would not filter out all viruses, the more dangerous known viruses would be intercepted. The proposed Network Security Policy, copies of which had been distributed to members, had not yet been finally approved. It had, however, been endorsed by the Academic Advisory Committee of the Computer Management Board, and many of

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

Computer Virus Preparedness (Cont'd)

its features were in fact currently being implemented. Professor Gorrie anticipated formal adoption of the policy by the end of the calendar year.

Professor Gorrie responded to a number of questions. Additional information arising from questions included the following:

- **University experience with viruses**. Viruses had infected University computers, with outbreaks usually lasting one or two days. Information about virus attacks spread quickly and users then moved promptly to update their virus scanners. In most cases, the viruses had been ones that were self-replicating, overloading systems. They had not caused damage to the computing devices themselves.

- **Computer security officer**. The new position was an on-going, base-budget one.

- **Future risks**. In recent outbreaks, the virus would be activated by a recipient opening an infected e-mail message. The virus would then be transmitted to all e-mail addresses contained in the recipient's address book, using the message's own title. A riskier future virus might transmit itself to individuals from whom the recipient had received an e-mail message, purporting to be from the recipient and using the same title line, appearing therefore innocently as a response to the original e-mail message. The new recipient would not, therefore, have any reluctance to open the infected message.

- **Defense against viruses**. The best defence against viruses was for all computer users to install anti-virus software and then, regularly and frequently, to download from the supplier updates against new virus forms. In most cases, computers that were connected to the University's network were programmed to perform regular virus scans and to download updates to the virus scanner on a weekly basis. The anti-virus software had to be installed on each individual computer. The most that the central services group could do was: to encourage the installation of this software, to send e-mail messages reminding administrators to promote regular updating, and to send e-mail messages to administrators alerting them to new outbreaks and advising them of defensive measures to be taken against the outbreaks.

  Professor Gorrie stressed that even the best anti-virus software did not provide full protection. Filters against viruses could be installed only after those viruses had been identified. There was, therefore, a constant struggle to react against new virus forms as quickly as they were found.

  The University's administrative systems, including the Administrative Management Systems and the Repository of Student Records, had computer firewalls that should prevent any penetration. The publicly accessible systems, providing electronic mail and internet access, did not have firewall protection, which would be too intrusive, encumbering access in a way

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

Computer Virus Preparedness (Cont'd)

that would be unacceptable in a university, which required open communications and access to electronic information. Defense of those systems therefore had to rely both on the new real-time monitoring for known threats and the anti-virus software that should be installed on all computers connected to the network.

Data from all of the University's central systems were backed up daily, with back-up records being stored off-site. Divisional system administrators also completed regular backup procedures for the data on their server computers.

The Chair said that when Professor Gorrie had appeared at the previous meeting of the Committee, he had been unable to provide unqualified assurance that the University was doing everything it could to protect its systems against virus attacks. The Chair asked whether, with the new Policy coming into place, Professor Gorrie now felt that the University's efforts were sufficient. Professor Gorrie replied in the affirmative. Along with the proposed Network Security Policy, the recommendations of the Task Force on Academic Computing were also near implementation. There had been an addition to the staff to address the problem. A response team had been formed to deal with crises.

5. Enrolment Audit, 1999 - 2000

The Chair said that the enrolment audit was performed for the Ministry of Training, Colleges and Universities to verify the enrolment data provided to the Ministry as the basis of the University's claim for operating grants. The Audit Committee was not responsible for monitoring enrolment; it was responsible for reviewing financial reports and audits of them.

Mr. Bowman said that the audit had been completed, with the help of the Internal Audit Department, with no difficulty and with no indication of any irregularity in the University's enrolment reporting.

The Chair noted that the 1998-99 report, included for purposes of comparison, reported enrolment for four periods: spring, summer, fall and winter. The 1999-2000 audit included only three periods, with the spring disappearing. Mr. Leeney replied that the previous spring period had applied only to graduate-student enrolments over the May to August period. That period had been combined into the summer reporting period. That simplification was of considerable benefit to the universities from the point of view of the cost of record-keeping and reporting.

6. Legal Services: Summary Report, 1999-2000

The Chair noted that the Summary Report on Legal Service was presented annually. The comparison of actual spending to budget was of great interest. But more importantly, the report could help make the Audit Committee aware of the areas where legal expenses were being incurred and why, helping to alert the Committee to areas of risk of liability.

6. Legal Services: Summary Report, 1999-2000 (Cont'd)

Mr. White noted that the annual report had been initiated some years ago at the request of the Audit Committee. The report had been improved significantly this year, with a summary of the major items of spending. There had been a significant increase in legal costs from $1.52-million in 1998-99 to $2.4-million in 1999-2000. The increase had been the result of a number of unusual cases that had arisen during the year.

Professor Finlayson commented on a number of the significant costs that had arisen during the year:

- the establishment of a first collective agreement with the United Steelworkers of America, which had become the bargaining agent for the majority of the administrative staff;
- the legal costs connected with the teaching assistants' strike;
- the cost of representation of the University's interests at the Ontario Municipal Board in connection with a by-law of the former City of Scarborough that would, had it not been challenged, have restricted the University's flexibility with respect to surplus land adjacent to the Scarborough Campus; and
- two major academic/research staff grievances, both widely reported in the press. In response to a question, Professor Finlayson said that the costs reported were strictly the legal costs; they did not include any costs related to the settlements.

Professor Finlayson and Mr. White responded to questions.

- The legal costs involved in the dismissal of a property manager were distressing but unavoidable. It was surprising that it had been necessary to require so much legal action to dismiss a staff member who had been accused of a number of criminal acts against the University. The individual had been charged, was expected to plead guilty, and was expected to be sentenced later this year.
- Mr. White explained that the cost related to the sale of shares in the Midland Golf and Country Club originated from a bequest to the University by the late Mr. David Lorne Pratt, the benefactor whose bequest had funded the construction of the D. L. Pratt Building for the Department of Metallurgy and Materials Science. A part of the bequest included shares in the golf club. Following a lengthy period of negotiation, the Club had agreed to repurchase those shares at a fair value, which would yield $400,000 for the University, a highly satisfactory outcome. The legal expense covered the costs involved in the valuation of the shares and their sale.

6. Legal Services: Summary Report, 1999-2000 (Cont'd)

- The spending on faculty immigration cases provided assistance, by a highly specialized and expert firm, to faculty members who had been recruited from other countries.

Among the matters that arose in discussion were the following.

(a) Recovery of legal costs. In response to a question, Mr. White said that the University did everything possible to recover legal costs, including recovery from insurers, where possible. It was suggested by a member and agreed by Mr. White that it would be useful in subsequent reports to indicate cases where costs had been recovered and the amount received.

(b) Capitalization of legal costs. In response to a question, Professor Finlayson said that it had not been possible to capitalize the costs associated with the proposed commercial development of the Varsity Stadium / Arena site and write them off against revenue from the development. The development in question was the original proposal that did not proceed. The $24,000 of legal costs associated with the establishment of the University of Toronto Asset Management Corporation was too small to capitalize.

(c) Future costs. Professor Finlayson said that future legal costs were impossible to predict. However, the University planned to maintain the budget for such costs at its current level of $1.5-million.

(d) Contingent liabilities. Professor Finlayson said that there was risk of liability arising from (i) a civil suit launched against the University by a student, and (ii) one of the academic/research staff grievances. Both cases were on-going. At each fiscal year-end, the University's legal counsel provided a written opinion to the administration and the external auditors with respect to their view of any contingent liabilities arising from pending or impending legal actions. Any material contingent liability would then be disclosed in the financial statements.

7. External Auditors' Letter arising from the 2000 Year-End Audit

Mr. Bowman reported that the auditors had, in the course of the 2000 year-end audit, "noted no matters involving internal control and its operation that we consider to be significant weaknesses." Significant weaknesses were defined as conditions "in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that a material misstatement is not likely to be prevented or detected in the financial statements being audited."

In response to a member's question, Mr. Bowman said that there was a process for the external auditors to make recommendations to the administration on minor matters. Mr. White said that he and his colleagues were very open as the audit progressed, discussing and addressing any problems that arose rather than awaiting the year end to resolve any concerns.

7. External Auditors' Letter arising from the 2000 Year-End Audit (Cont'd)

The Chair congratulated Mr. White and his team on this very good outcome. The Chair expressed his confidence that the external auditors would bring to the attention of the Committee any major issue.

8. External Auditors' Engagement Letter, 2000-01

Mr. Bowman reported that the engagement letter used standard wording. There were few changes from the previous year. The reference to the year-2000 matter had been removed. The new letter reported that Ernst & Young would also audit the newly established University of Toronto Asset Management Corporation (UTAM). A schedule of other related audits was attached to the letter.

Discussion arose concerning the Audit Committee's relationship with UTAM. Mr. White described UTAM as a subsidiary of the University with its own Board, nominated and approved by the Executive Committee of Governing Council. The Board had an active Audit Committee chaired by Mrs. Jalynn Bennett. Both the President and the Chief Financial Officer of the University served on the Board, as did one member of the Governing Council and one member of the Business Board. UTAM could be thought of in the same way as an external investment manager, except that it had only one client, the University. Its work on behalf of the University, and other aspects of its relationship with the University, were governed by a service agreement. That agreement required UTAM to abide by the University's investment policies, as approved by the Business Board. UTAM was required to provide a complete annual report to the Business Board dealing with investment performance, portfolio risk and other matters. UTAM's compensation policy was subject to the approval of the Senior Salary Committee of the Governing Council. The UTAM Board was required to appoint the University's auditors. There was no requirement in the letter of agreement requiring UTAM to present its financial statements to the University's Audit Committee as did the University of Toronto Press or the Innovations Foundation.

In response to questions, Mr. White said that the Audit Committee's terms of reference did not give it responsibility for reviewing UTAM's investment activities. The University's Chief Financial Officer did, however, present to the Audit Committee an annual stewardship report on the pension fund. One element of that report was a section on investment performance. While that section should not be the main focus of the Audit Committee's consideration of the overall financial health of the pension plans, members were certainly entitled to ask questions, and the President and Chief Executive Officer of UTAM would be in attendance to answer them.

A member said that one of the key responsibilities of any audit committee was management of financial risk. The University's Audit Committee had a duty to satisfy itself that the risk management processes in place at UTAM were satisfactory. The Committee was asked to recommend approval of the University's financial statements and the pension funds' financial statements. All of the invested assets appeared on those balance sheets and not on UTAM's. The Committee had a duty to satisfy itself with respect to the controls over those assets. Mr. White replied that the Committee would receive the pension fund's financial statements at its next

8. External Auditors' Engagement Letter, 2000-01 (Cont'd)

meeting and the University's financial statements in June. Mr. Donald Lindsey, the President and C.E.O. of UTAM, would be in attendance to participate in discussion on both occasions. It was certainly UTAM's intention to provide full and open disclosure.

9. External Audit Fees

The Chair said that while no Committee action was required, the Committee should satisfy itself that the University was paying appropriate fees both from the point of view of (a) value for money and (b) having available adequate external audit services to meet the needs of the Committee and the Governing Council. In addition, the fees schedule included a supplementary schedule, outlining the various consulting and other service assignments completed by the external auditors during the previous year. The Committee should satisfy itself that the extent and nature of those assignments did not risk compromising the independence of the external auditors and therefore the quality of the audit opinion.

Mr. White said that the report on external audit fees displayed actual fees for the past three years as well as proposed fees for the 2000-01 audit. The schedule included the $15,000 fee for the first audit of the University of Toronto Asset Management Corporation. With respect to the main audit, Mr. White recalled that negotiations with the external auditors had led to two significant fee reductions over the past decade. Mr. White was confident that the $97,000 fee was as low as possible to receive a good audit. The Supplementary Schedule of Fees displayed the charges for all consulting and other assignments completed by Ernst & Young for the University. The extent and nature of those other business relationships were not such as to compromise the independence of the external audit.

In response to a member's question, Mr. Bowman also stated his view that the fee was appropriate in the circumstances. While the fee was low in comparison with that paid by other universities, given the size and complexity of the University of Toronto, the external auditors did not have to cut back on their work in order to complete the audit within the parameters permitted by the fee. Mr. Bowman would most certainly advise the Committee if the fee were so constrained that his firm would be unable to deliver a high-quality audit.

Mr. White referred to the $102,000 fee for Goods and Services Tax assistance. While this fee appeared to be high, it represented 20% of the amount of the recovery of G.S.T. payments previously made by the University, which recovery had been achieved on the advice of the consultants. Therefore, a high fee represented a desirable outcome. Moreover, the outcome represented G.S.T. savings that the University would enjoy year after year. A member asked whether the University had now identified all areas where G.S.T. need not be paid or could be recovered. Ms Brown replied that the Council of Finance Officers of the Universities of Ontario had engaged another firm to review G.S.T. payments on behalf of all Ontario universities to seek out areas of savings. That study had found no area not previously identified for the University of Toronto by Ernst & Young. She noted that the savings had resulted not only from the determination of situations where university payment of G.S.T. was not required but also

9. External Audit Fees (Cont'd)

situations where budget units were not processing their purchases correctly, unnecessarily incurring the tax. A member suggested that in future years, the report include a note when fees paid to the external audit firm brought about a cost recovery.

Among the matters that arose in discussion were the following.

(a) University of Toronto Press. The Chair noted that the fee for the audit of the University of Toronto Press had increased from $38,000 in 1998 to $62,500 thereafter. That increase had been necessary in view of certain control and accounting problems in the Press. Given that Mr. Meadows had reported that those problems had been resolved, the Chair was surprised that the fee had not reverted to something close to its previous level. Did the external auditors have continuing concerns about the control environment at the Press? Mr. Bowman replied that he had no further concerns about the control environment at the Press. He and Mr. White said that the $38,000 audit fee had been a reduced one, following negotiations. It had become apparent that the reduction had been too great to permit a longer, higher quality audit. To ensure an appropriate level of service, it had been agreed that $62,500 represented an appropriate on-going fee.

(b) Hart House. A member asked why audits of various University units, including Hart House, were not performed internally. Mr. White replied that there was no requirement for an external audit of Hart House, which was legally an integral part of the University and not, like the Press or UTAM, a separate corporation. Nonetheless, the Hart House Board of Stewards thought it important to their discharge of their stewardship responsibility to have an independent, external audit. In addition, Ernst & Young had been called upon the previous year to provide assistance in improving certain business processes at Hart House. Mr. Bowman elaborated that the responsible officers at Hart House sought assistance in improving cash-handling processes, particularly in the Hart House food service operations. The assistance of the firm had been sought not only with respect to designing the new procedures but also winning acceptance of them. A member, who had served as Acting Warden at Hart House prior to the appointment of the current Warden, verified that the assistance had been of considerable value.

(c) Department of Athletics and Recreation. Mr. Britt explained that Ernst & Young's work in this area followed the merger of the Department of Athletics and Recreation and the Faculty of Physical Education and Health. The two departments had different systems and had asked for the assistance of the Internal Audit Department in integrating them. Because Internal Audit lacked the resources to assist, Ernst & Young had been engaged, and the two systems had been integrated successfully. A member suggested that it would be helpful in future reports to include a notation in cases such as this where value was added. Mr. White agreed to do so.

(d) Internal Audit support of the year-end audit. In response to a question, Mr. Britt said that Internal Audit's support of the external auditors for the year-end audit would remain at the same level as the previous year.

10. Report of the Administration

Mr. White, Mr. Charpentier and Mr. Britt stated that there were no matters not on the agenda they believed should be drawn to the attention of the Committee.

11. Calendar of Business, 2000-01

The Chair said that the Calendar laid out the business planned to come before the Committee for the year. Unforeseen developments could well result in additional items that would require the Committee's attention. In response to a question, the Chair said that the Committee held *in camera* meetings with both the internal and external auditors routinely once a year and more often if required.

12. Date of Next Meeting

The Chair reminded members that the next regular meeting was scheduled for Wednesday, November 15, 2000 at 5:00 p.m. That meeting would (among other things):

- review the annual report and financial statements of the Innovations Foundation;
- review the annual financial report on the pension plan, including the audited financial statements; and
- review the interim report of the Internal Auditor.

All members, and especially new members, were also warmly invited to attend an orientation session scheduled for Thursday, November 9 at 5:00 p.m.

The meeting adjourned at 6:55 p.m.

Secretary　　　　　　　　　　Chair

November 8, 2000