

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 118 OF THE AUDIT COMMITTEE

December 2, 2015

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, December 02, 2015 at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Mr. Brian D. Lawson (Chair)	
Mr. Mark Britt, Director, Internal Audit	
Ms Sheila Brown, Chief Financial Officer	Mr. Howard L. Shearer*
Mr. Louis Charpentier, Secretary of the Governing Council	Ms. Penny F. Somerville
Mr. Robert Boeckner	Mr. Christopher Thatcher*
Mr. David Bowden	
Ms. Kathryn A Jenkins	Mr. David Walders, Secretary

*Participated by telephone

In Attendance:

Ms Diana Brouwer, Ernst & Young ++
Mr. Darrell Jensen, Ernst & Young +
Mr. Francis Low, Ernst & Young +
Mr. Daniel Ottini, Audit Manager
Dr. Pierre G. Piché, Controller and Director of Financial Services +++

Regrets:

Ms. Janet Ecker
Prof. S. Mabury

ITEMS 2, 5 and 6 ARE RECOMMENDED FOR APPROVAL AND ALL OTHER ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

Pursuant to section 6.1 of the Audit Committee terms of reference, consideration of items 14 and 15 took place in camera.

1. Chair's Remarks and Introductions

The Chair welcomed members and guests to the meeting.

REPORT NUMBER 118 OF THE AUDIT COMMITTEE – December 2, 2015

2. Report of the Previous Meeting: Report Number 117 of the Audit Committee – June 17, 2015

The report of the previous meeting was approved.

3. Business Arising from the Report of the Previous Meeting

There was no business arising from the Report of the previous meeting

4. Audit committee

a) Terms of Reference: Annual Review

The Chair noted that discussions between himself and the Chair of the Governing Council concerning the role of the Audit Committee versus the role of the Executive Committee with regard to risk assessment were ongoing. It was hoped that these conversations would result in greater clarity surrounding the respective roles. Mr. Charpentier apprised the Committee of the Governing Council Chair's intention to discuss the issue of risk with the Executive Committee in the third cycle of the current governance year.

b) Calendar of Business, 2015-16

There were no questions from members regarding the Calendar of Business for 2015-16

5. Registered Pension Plans: Audited Financial Statements for the Year ended June 30, 2015

Ms Brown apprised the Committee that the proposed merger of the University's Pension Plan with the University's OISE Pension Plan was still under review by the Financial Services Commission of Ontario. The recommendations for approval included additional wording that would be added to the notes in the event the merger would be approved before the date of the Pension Committee meeting. Mr. Low informed the Committee that he and his audit team at Ernst & Young were comfortable with all of the disclosures in the Audited Financial Statements.

In reply to a member's question regarding divestment from fossil fuels, Ms Brown informed the Committee that an *ad hoc* Presidential advisory committee had been struck with a mandate to advise the President on this matter. The report from this Committee to the President was expected shortly. She noted that in the event that divestment was advised and if the President chose to pursue divestment, governance approval of the divestment strategy, through the Statement of Investment Policies and Procedures, would be required.

In response to a question from a member regarding fees associated with investment management, Ms Brown noted that, since many of the management fees were paid in US dollars, unfavourable exchange rates had resulted in higher dollar amounts for fees in Canadian dollars.

REPORT NUMBER 118 OF THE AUDIT COMMITTEE – December 2, 2015

On a motion duly moved seconded and carried,

It was recommended to the Pension Committee

- a) THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2015 be approved. In the event that regulatory approval of the transfer of net assets and pension obligations of the University of Toronto (OISE) Pension Plan to the University of Toronto Pension Plan is received on or prior to December 8, 2015, THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2015 be approved with the alternative wording attached hereto; and
- b) THAT the audited financial statements for the University of Toronto (OISE) Pension Plan for the year ended June 30, 2015 be approved. In the event that regulatory approval of the transfer of net assets and pension obligations of the University of Toronto (OISE) Pension Plan to the University of Toronto Pension Plan is received on or prior to December 8, 2015, THAT the audited financial statements for the University of Toronto (OISE) Pension Plan for the year ended June 30, 2015 be approved with the alternative wording attached hereto

6. External Auditors: Engagement Letter for 2016, Audit Plan, and Report on Audit Fees

Ms Brouwer noted that, based on the projected results of the University, it was estimated that the materiality for the audit of the 2016 consolidated financial statements would be \$28M (which represented 1.0% of estimated total revenues of \$2.8B at 30 April 2016). She then discussed areas of specific audit emphasis for 2016, including the following:

- The University's investment portfolio;
- Revenues and Significant Estimates;
- Contracts and Agreements with the University.

In reply to a question from the Chair, Ms Brouwer informed the Committee that, despite the materiality threshold of 1%, any discrepancy during the Audit of \$500k or more would be brought to the attention of the Committee. In response to another question, Ms Brouwer confirmed that audits for University grants were conducted separately and with a far lower threshold for material deficiencies.

Finally, in reply to a question regarding the controls in place to identify discrepancies, Ms Brown highlighted a number of significant processes through which Financial Services worked to mitigate financial risk.

REPORT NUMBER 118 OF THE AUDIT COMMITTEE – December 2, 2015

On a motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the Audit Committee accept the external Auditors' audit plan and engagement letter for the year ended April 30, 2016, as outlined in the report from Ernst & Young dated November 25, 2015

7. Pension Plans: Annual Financial Report

Ms Brown reminded the Committee that the Annual Financial Report was provided to the Audit Committee for context and would be brought forward to the Pension Committee for approval at the December 8, 2015 meeting. She noted that while investment returns to July 1, 2015 had been strong (11.88%), the returns from July 1-November 1, 2015 had been essentially flat.

8. Administrative Accountability Reports: Annual Report on the Program, 2014-15

There were no questions from members on the Report.

9. Enrolment Report to the Ministry of Training, Colleges and Universities, 2014-15

There were no questions from members on the Report.

10. Internal Audit: Semi-Annual Activity Report for the Six Months Ended October 31, 2015

Mr. Britt presented his Semi-Annual Report to the Committee, highlighting the following points:

- Internal Audit reviews to date had not indicated the existence of significant unmitigated financial or operational risk to the University.
- One investigation related to a suspected conflict of interest was undertaken in the period.
- Fourteen reviews had been completed, 15 were in progress and five draft reports were outstanding.
- Approximately 4,800 audit hours were provided from a staff complement of 8.5 Full-Time Equivalent (FTE) (versus the planned compliment of 8.0 FTE). Several students had been hired by the Office of Internal Audit as part of the work-study program offered by the Rotman School of Management.
- Allocation of audit time comprised: Departmental Audits 36%; Follow-up Reviews 4%; Research Expenditure Compliance 24%; Continuous Audit 13%; Investigations, Advisory and Other 17%; External Audit Assistance 4%, and; IT Reviews 2%.
- Assistance was also provided to Ernst & Young in connection with the audit of the University's 2015 financial statements, enrolment audits, Ministry funded facilities renewal projects and program audits.

REPORT NUMBER 118 OF THE AUDIT COMMITTEE – December 2, 2015

11. Reports of the Administrative Assessors

There were no reports of the Administrative Assessors.

12. Date of Next Meeting – Thursday, March 3, 2016

The Chair advised that the date of the next meeting would be Thursday, March 3, 2016

13. Other Business

No items of other business were raised.

THE COMMITTEE MOVED *IN CAMERA*.

14. Internal Auditor – Private Meeting

Members of the administration absented themselves and the Committee met privately with the Director of Internal Audit.

15. Committee members alone

The Committee members met alone.

The Committee returned to closed session.

The meeting adjourned at 5:45 p.m.

Secretary

Chair

December 3, 2015