

**UNIVERSITY OF TORONTO**

**THE GOVERNING COUNCIL**

**REPORT NUMBER 128 OF THE AUDIT COMMITTEE**

**June 18, 2018**

To the Business Board,  
University of Toronto

Your Committee reports that it met on Monday, June 18, 2018, at 4:00 p.m. in the Governing Council Boardroom, Simcoe Hall, with the following members present:

Jeff Collins (Chair)  
Robert Boeckner  
Sue Graham-Nutter

Kathryn A. Jenkins (By telephone)  
Christopher Thatcher

Scott Mabury, Vice-President, University Operations

**REGRETS:**

Janet Lynne Ecker (Vice-Chair)  
Claire Kennedy  
N. Jane Pepino

**Non-Voting Assessor:**

Mark L. Britt, Director, Internal Audit  
Sheila Brown, Chief Financial Officer

**Secretariat:**

Joan Griffin

**In Attendance:**

Diana Brouwer, Ernst & Young  
Daniel Ottini, Deputy Director, Internal Audit  
Pierre Piché, Controller and Director of Financial Services  
Joyce Yu, Ernst & Young

**Items 4 and 5 recommended for approval, and all other items are reported to the Business Board for Information.**

**1. Chair's Remarks**

The Chair welcomed members to the meeting and reminded them that the Committee met in closed session. He encouraged members to participate fully and to engage in discussion throughout the meeting. He also, once again, thanked members for their consideration of the *Risk Report* at the previous meeting and noted that he was heartened to see that the topic continued to provide a high level of engagement.

**2. Report of the Previous Meeting**

Report number 127, from the meeting of May 11, 2018 was approved.

**3. Business Arising from the Report of the Previous Meeting**

The Chair noted that he had one item to share arising from the discussion of the previous meeting, but would raise it under Item 8.

**4. Audited Financial Statements for the Year Ended April 30, 2018**

Ms Sheila Brown, Chief Financial Officer, provided an introduction to the Financial Report presentation by Dr. Pierre Piché, Controller and Director of Financial Services. She thanked Dr. Piché and his team for their work and acknowledged the efforts of the Internal Audit Department and the External Auditors in completing the audit on a challenging timeline.

Dr. Piché's presentation of the Financial Report for the year ended April 30, 2018, highlighted the following:

- There had been a \$486-million increase in net assets to \$5.9-billion, which was mainly the result of favourable investment returns, increased revenues, tight expense controls, increased endowed donations, and net capital asset additions.
- A \$100-million increase in externally restricted endowments, which was the result of good investment returns (\$61-million) and additional endowed donations (\$39-million).
- Endowment were valued at \$2.5-billion, with approximately \$1.1-billion identified for student aid.
- The University reported \$3.4-billion in revenues in 2018 an increase of 163-million from 2017, largely due to increased student enrolment and increases to research volumes. Expenses also increased as a reflection of growth in these activities.

- Net income was \$465-million, mostly due to investments in capital assets of \$469-million, which were capitalized for future depreciation and not recorded as an expense.
- Salaries continued to be the University's greatest cost, and accounted for 71.5% of the operating expenses.
- The pension plan deficit decreased by \$36-million.

In the discussion that followed, Dr. Piché reported that the actuals represented in the *Report* were very close to the forecasted plan. In response to a Member's question, Dr. Piché and Professor Mabury explained the process undertaken to account for the cost of cap-and-trade, and noted that an accounting standard for not-for-profits had not existed and therefore was developed. They further explained that the University had been able to respond to real estate investment opportunities that arose during the year because of available funds and that the intention was to continue having reserves available for unanticipated opportunities.

#### b) External Auditors' Report of Audit Results

Ms Diana Brouwer, Partner, Ernst and Young, provided an overview of the *External Auditors' Report of Audit Results* and reported that no significant issues had been noted. She drew members' attention to several notes from the Report and indicated that they were finalizing the cap-and-trade reporting, correcting a misstatement, and that vacation accrual remained an issue for management to work on.

#### c) External Auditors Private Meeting

### **THE COMMITTEE MOVED *IN CAMERA***

Members of the administration and the Internal Auditor absented themselves. Ms Brouwer was invited to advise, as provided in the Committee's Terms of Reference, of "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."

### **THE COMMITTEE ENDED ITS *IN CAMERA* SESSION.**

The Chair reported that there had been no matters arising from the Committee's *in camera* meeting with the external auditors that would require action.

#### d) Legal Claims

Dr. Piché reported that legal claims for long-term disability (LTD) cases had increased but settlements had not. He attributed this to the proliferation of legal firms advertising to take on these types of claims.

e) Discussion and Recommendation

The Chair thanked Dr. Piché and MsBrown and commended the Financial Services team for their work in preparing the Financial Statements.

On the recommendation of the Chief Financial Officer,

On motion duly made, seconded and carried,

YOUR COMMITTEE RECOMMENDS TO THE BUSINESS BOARD

THAT the University of Toronto audited financial statement for the fiscal year ended April 30, 2018 be approved.

**5. Appointment of the External Auditors for 2018-2019**

**a. Report on Non-Audit Services by the External Auditors for the period from October 1, 2017 to March 31, 2018**

The *Report on Non-Audited Services by the External Auditors* was received for information.

On motion duly made, seconded and carried,

YOUR COMMITTEE RECOMMENDS TO BUSINESS BOARD

THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2019; and

THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto pension plan for the fiscal year ending June 30, 2019.

**6. Internal Audit**

**a) Annual Report, 2017-2018**

Mr. Mark Britt, Director, Internal Audit provided a presentation to the Committee, for information, that represented a Summary of the Results and Respective Risks as derived from the work completed and/or in progress during fiscal 2018. He noted that the full suite of services informed the report, and explained that presentation in summary format was a departure from previous years and was done to highlight key components, which included:

- Increased risk in the Central and Divisional IT systems and risk management processes, and internal controls tested in Department, Compliance, IT and Investigation audits completed and/or progress, showed absent or inconsistent function such that they did not effectively mitigate risk.
- Allocation of audit effort comprised Departmental Audits 50%, Follow-up Reviews 4%, Research Expenditure Compliance 11%, Continuous Audit 8%, Investigations 4%, Advisory and Other 13%, External Audit Assistance 5%, and IT Reviews 5%.
- Three (3) investigations were worked on in the period.

In response to a member's question regarding risk findings pertaining to Information Technology and how Audit Committee might provide support and give voice to the importance of these undertakings. Mr. Britt and Professor Mabury commented a number of activities were underway including working groups and the Information Security Council, all of which were beginning to make headway in discussions. They noted that focus was being placed on those units that had been identified from the Internal Audit survey as operating without local-level oversight or guidance, which therefore posed potentially higher risks for the institution. It was reported that divisional management had been highly accepting of the work done and, generally, approached this in partnership with the Chief Information Officer's portfolio, albeit reactively more often than proactively. An example of successes noted was the increased use of centralized data servers over the proliferation of micro-level data servers across programs, department, divisions, as well as central administration. The challenges created by the University's decentralized nature were noted, but also confirmed as a reality in which work must be undertaken. Both Mr. Britt and Professor Mabury noted the importance of hiring a Chief Information Security Officer in helping to bridge this challenge, and stated that the recruitment for this role was underway following several "tweaks" to the job description and job classification level, which were made to reflect need and seniority of the role.

Mr. Britt stated that hiring for two staff members would commence soon and that the vacancies would not prevent the unit for achieving the annual audit plan being brought forward.

#### **b) Audit Plan 2018-2019**

Mr. Britt apprised the Committee of the Audit Plan for 2018-2019 and highlighted the following points:

- The 2018-2019 Plan would have an emphasis on risk and, in particular, would focus on the IT risks at divisional levels and incorporate data from the recent IT survey and leverage the expertise of IA's experienced IT auditor.
- Fraud Risk Assessment within operational and systems processes would be undertaken with the support of an external firm. More small levels fraud had been detected, and investigation were a resource heavy undertaking, therefore a review of process was warranted.

Mr. Britt noted that staff vacancies would not impact the 2018-2019 plan's success, as recruitment was already planned.

## **7. Reports of the Administrative Assessors**

Ms Brown reported to the Committee that the *2017-2018 Risk Management and Insurance Report* would be brought forward in the new governance year. She also shared that this would be a permanent change to the Calendar of Business and thus re-institute an early fall meeting to the Committee's schedule. The additional meeting also provided a forum to begin the regular conversations between the Committee and the University's Chief Information Officer (CIO) and/or Chief Information Security Officer (CISO).

Professor Mabury, Vice-President University Operations, updated the Committee regarding the Information Security Council. He reported that the Council would meet three times annually and had an equal representation of faculty and staff members. The intention would be to tap into both the research expertise and professional expertise at the University. The Committee's work would be supported by a series of Working Groups that are divided into key areas, and meet on a more frequent basis. A web presence for the Committee would be expected to be launched in late June 2018.

Professor Mabury also provided preliminary plans for a shared operations centre (SOC), in partnership with approximately four research intensive universities across Canada. The intention is that the universities would collaborate on the prevention of institutional cyber threats in a more effective manner than the schools could individually. Discussion of this plan is ongoing.

## **8. Date of the Next Meeting**

Members were reminded that at present the next meeting is scheduled for December 5, 2018, but that the Secretariat would be canvassing for an additional date in September 2018 over the coming weeks.

## **9. Other Business**

The Chair offered his thanks to the Committee, Vice-Chair and the Secretariat, for their work and support over the year. He wished the Members all the best for the coming year under their new Chair.

Professor Mabury presented out-going Chair, Mr. Jeff Collins, with a chair acknowledging his work with the Committee for 2017-2018.

***THE COMMITTEE MOVED IN CAMERA.***

## **10. Internal Auditor – Private Meeting**

Report Number 128 of the Audit Committee – Monday, June 18, 2018

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

**11. Committee Members Alone**

The Committee returned to closed session.

The meeting adjourned at 6:40 p.m.

---

Secretary

June 18, 2018

---

Chair