

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 119 OF THE AUDIT COMMITTEE

May 4, 2016

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, May 4, 2016 at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Mr. Brian D. Lawson (Chair)	Ms Kathryn A Jenkins
Ms Janet Ecker (Vice-Chair)*	Prof. Scott Mabury, Vice-President, University Operations +
Mr. Robert Boeckner	Mr. Howard L. Shearer*
Mr. David Bowden*	Mr. Christopher Thatcher
Mr. Mark Britt, Director, Internal Audit++	Mr. Anwar Kazimi, Acting Secretary++
Ms Sheila Brown, Chief Financial Officer+	
Ms Sheree Drummond, Secretary of the Governing Council+	

* participated by teleconference

Regrets

Ms Penny F. Somerville

In Attendance:

Ms Diana Brouwer, Ernst & Young +
Ms Joyce Yu, Ernst & Young +
Dr. Pierre G. Piché, Controller and Director of Financial Services +
Ms Elizabeth Cragg, Executive Director+

+ Absent for items 9 and 10; ++ Absent for item 10

ITEM 2 IS 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 9 and 10 took place in camera.

1. Chair's Remarks

The Chair welcomed members to the meeting and reminded them that the Committee met in closed session and that the materials were confidential.

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2. Report of the Previous Meeting: Report Number 118 of the Audit Committee – December 2, 2015

Report Number 118, from the meeting of December 2, 2015, was approved. There was no business arising from the report of the previous meeting.

3. Report on Non-Audit Services by the External Auditors for the period from October 1, 2015 to March 31, 2016

The Chair noted that in accordance with the *Policy of Use of External Auditor for Non-Audit Services*, the Audit Committee receives from the administration a quarterly report, resulting in an annual report. The report provided details of the payments made to the external auditors with respect to non-audit services.

There were no questions from the members.

4. Draft Notes to Audited Financial Statement

The Chair informed the members that the full financial statements would come before the Committee at the June 15, 2016 meeting, at which time the Committee would consider a motion to recommend approval. He advised members that at this time no formal action was required other than to provide comments on the notes.

Dr. Piché highlighted some of the major changes to the notes:

- An accounting policy note was amended to reflect the purchase by the University of an interest in the MaRS Phase 2 Investment Trust. During the year, the University had made payments to the MaRS Phase 2 Investment Trust for leasing certain premises and its related operating costs.
- There was disclosure of the extent of bond repurchase agreements that was similar to the disclosure adopted in the June 30, 2015 pension financial statements.
- A comparative financial statement note was required as the University would reclassify its inter-institutional research contributions from material and supplies in its consolidated statement of operations. This disclosure was consistent with the practice adopted by other Canadian research intensive universities.

A member commented on some of the disclosures that might be reduced in future reports. Dr. Piché noted that a review of the note disclosures with other comparative institutions had been conducted in recent past with a goal to simplify the disclosures.

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5. Risk Management Framework - Update

The Chair reminded members of the role of the Audit Committee as it pertained to the oversight of risk. This responsibility had been delegated to the Audit Committee by the Business Board. The oversight of risk went beyond the financial statements of the University.

Professor Mabury said that in compiling the *Risk Assessment Report*, data had been collected over a two-year period (2014-15 and 2015-16) from the offices of the Vice-Presidents, the Provost, the Chief Financial Officer, and the Principals at the University of Toronto Mississauga and the University of Toronto Scarborough. The data was collected in four categories – Compliance, Financial, Operational, and Strategic. Approximately fifty risks were identified across the University, along with narratives from each office with specific examples. The data was transferred on to a two-dimensional heat map - listing the risk and its likelihood of occurrence.

Professor Mabury highlighted some risks in the four categories:

Compliance

- *Allegations of Research Misconduct*: A failure to adhere to the University's processes for dealing with allegations of research misconduct. The risk, in such instances, was often more critical for the department and/or division as compared to the institution.
- *Grant Sponsors/Gift Compliance*: Non-compliance requirements would impact future funding and could lead to higher costs, delays, penalties, and sanctions.

Financial

- *Collective Bargaining Risk*: With 23 bargaining units and the agreement with the University of Toronto Faculty Association (UTFA), compensation remained the highest expense. Based on the current sources of revenue for the University, the trajectory of salary increases remained unsustainable. The risk to the institution remained real and high; and likely.
- *International Student Recruitment*: The proportion of international students had increased from 2.7% to 27% over the course of the last ten years; and had provided a greater portion of the operating revenue. This had been highlighted in budget presentations. The University would continue to broaden its international recruitment markets beyond Asia; as an example, the USA – to mitigate the risk of relying on a geographically narrow area of recruitment. A proportion of the University Funds had been set aside to provide the support required to improve student experience – particularly to meet the needs of international students. On the domestic student recruitment side, UTM and UTSC had under-performed in meeting their recruitment targets, but remained well-positioned to do better in the future.
- *Decrease in Research Funding*: Divisions continued to feel the strain of the stagnation in the level of government research funding over the last ten years, but results are division-specific.
- *Donor and Alumni Relations*: This remained a major risk in the absence or decline in the University's fundraising activities.

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Operational

- *Data Security:* On February 25, 2016, the Governing Council had approved the *Policy on Information Security and the Protection of Digital Assets*. The core purport of this Policy was to mitigate the risk of the loss of critical university data and its unauthorized use.
- *Employment Health and Safety:* The University continued to maintain a very good record with policies and procedures in place to ensure healthy and safe work environments.
- *Capital Projects:* The annual spending on capital projects across the three campuses was about \$600 million. Any delays in the completion of the projects could lead to unforeseen budget increases.
- *Physical Facilities:* A number of buildings on the St. George campus were over fifty years old. In 2014, a spell of heavy rainfall had caused flooding and damage to nineteen such sites. The loss of facilities remained an ongoing risk.
- *Business Interruption:* This was threat where the ability to carry out research or administrative activities, or to teach would either be impaired or interrupted. An example of this was the loss of the Blackboard portal.
- *Loss of Key Staff:* This was a risk of losing key academic staff due to sabbatical or unforeseen circumstance; equally critical was the loss of experienced professional staff with institutional memory.

Strategic

- *Faculty Recruitment and Retention:* The ability to hire high-quality faculty remained a challenge. In instances where divisions were unable to hire the most suitable candidate, the position remained vacant so as to reduce the risk of hiring an unsuitable candidate simply to maintain the position.
- *Political Government:* As highlighted in the budget reports, a 1% change in the tuition fee framework would result in an impact on the University's ability to hire approximately 150 full-time faculty. An increase in cuts from the Provincial government resulted in a decrease in the proportion of funds to the University's operating budget.
- *Staff Retention and Recruitment:* The inability of the University to offer competitive salaries prevented it from hiring and retaining quality staff.

On being asked by the Chair to name the five most critical risks, Professor Mabury listed the following:

- International student enrolment
- Collective bargaining
- Data security
- Allegations of research misconduct
- Capital markets and general economics

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In the discussion that followed, members commended the administration for the comprehensive *Risk Assessment Report*. It was suggested that future annual reports provide updates on any changes in the measures taken to mitigate the risks identified; and any changes in the status of the risks on the heat map. A member noted that in the recent past a number of universities in North America that had faced major crisis had also suffered a reputational risk by not being able to manage the communications pertaining to those crises. Professor Mabury said the University had mitigated this risk by hiring a Vice-President, Communications and that future reports would include input from this new office. This particular portfolio had been created only during the course of the compilation of the *Report*.

6. Reports of the Administrative Assessors

There were no reports of the Administrative Assessors.

7. Date of Next Meeting – June 15, 2016 at 4:00 p.m.

The Chair advised that the next meeting would be on Wednesday, June 15, 2016 at 4:00 p.m.

8. Other Business

There were no items of other business.

THE COMMITTEE MOVED *IN CAMERA*.

9. Internal Auditor – Private Meeting

Members of the administration, the Secretariat (with the exception of the Acting Committee Secretary) and the external auditors absented themselves and the Committee met privately with the Director, Internal Audit.

10. Committee members alone

The Committee returned to closed session.

The meeting adjourned at 5:40 p.m.

Secretary

Chair

May 31, 2016