

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 121 OF THE AUDIT COMMITTEE

December 8, 2016

To the Business Board,
University of Toronto

Your Committee reports that it met on Thursday, December 8, 2016, at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Ms Janet Ecker (In the Chair)

Mr. Brian D. Lawson* (Chair)

Mr. Mark Britt, Director, Internal Audit

Ms Sheila Brown, Chief Financial Officer

Ms Sheree Drummond, Secretary of the
Governing Council

Prof. Scott Mabury, Vice-President,
University Operations

Mr. Robert Boeckner

Ms Kathryn A. Jenkins

Mr. Brian K. Johnston

Ms Penny F. Somerville

Mr. Christopher Thatcher

Ms Mae-Yu Tan, Secretary

*Participated by telephone

REGRETS:

Mr. Howard Shearer

In Attendance:

Mr. Andrew Szende, Governor+

Ms Diana Brouwer, Ernst & Young+

Ms Elizabeth Cragg, Director, Office of the Vice-President, University Operations++

Ms Joyce Yu, Ernst & Young+

Mr. Francis Low, Ernst & Young+

Mr. Daniel Ottini, Deputy Director, Internal Audit+

Dr. Pierre G. Piché, Controller and Director of Financial Services+

+Absent for Items 15 – 16

++Present for Items 8 - 12

Items 5 and 6a are recommended for approval. 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 15 and 16 took place *in camera*.

1. Chair’s Remarks

Ms Ecker welcomed members and guests to the meeting. She said that Mr. Lawson had asked her to chair the meeting on his behalf, and she stated that meetings were held in closed session and that materials were confidential.

The Chair gave a brief update on steps being taken to consider the Audit Committee’s role with respect to oversight of the University’s risk framework. Dialogue with governance and administrative leadership was ongoing. As well, individual key risks were being mapped against the terms of reference of governance bodies in order to provide a clear picture as to the locus of governance oversight and aid in assessing their alignment. This matter would be discussed further at the next meeting of the Committee.

2. Report of the Previous Meeting

The Chair advised members that a minor amendment had been made to the attendance list of Report Number 120 from the meeting of June 15, 2016. The amended Report was approved.

3. Business Arising from the Report of the Previous Meeting

There was no business arising from the previous meeting.

4. 2016 – 2017 Calendar of Business

The Committee received for information its Calendar of Business for 2016 - 2017, which showed the items expected to be considered by the Committee in the coming year. No questions were raised by members.

5. Terms of Reference: Revisions

The Chair highlighted the main proposed change to the *Audit Committee Terms of Reference*. Historically, the Committee had reviewed the debt policy limit, debt allocations, outstanding debt issued, and status of the long-term borrowing pool each June. However, that responsibility duplicated work of the Business Board, and it was recommended that Section 5.1.1.e, Financial Reporting of the *Terms of Reference* be removed. In addition to some minor editorial changes, it was also proposed that the *Terms of Reference* be amended to specify a maximum term of service of nine successive years for members. That would align with term limits of other bodies of the Governing Council. There were no questions from the Committee.

On motion duly moved, seconded and carried

YOUR COMMITTEE RECOMMENDS

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

6. Registered Pension Plan

a) Audited Financial Statements for the Year ended June 30, 2016

The Chair explained that the Audit Committee reviewed the audited financial statements of the pension plan and the accompanying auditors' reports and recommended the financial statements to the Pension Committee for approval. The Pension Committee, on the recommendation of the Audit Committee, had the authority to review, approve, reject or refer back the audited financial statements of the registered pension plan. The Chair then invited Ms Sheila Brown to speak to the item.

Ms Brown advised the Committee that only one set of audited financial statements had been prepared this year. This was because assets from the Ontario Institute for Studies in Education (OISE) Pension Plan had been transferred into the University of Toronto Pension Plan on June 30, 2016. Ms Brown noted that extensive detail on the breakdown of the two plans was contained in the back of the statements. In addition to being considered for approval by the Pension Committee, the Pension Annual Financial Report, which included a link to the audited financial statements, would be provided to the Business Board for information in January 2017.

Mr. Francis Low, the external auditor for the registered pension plan, stated that he was comfortable with all of the disclosures, including those addressing the merger of the OISE plan into the University plan. From an auditing and accounting perspective, the statements appropriately reflected the University's obligations with respect to valuation of investments and pension assets of the plan.

In response to a question from a member, Ms Diana Brouwer spoke to the large notional value without a fair value for the bond swap contracts. Mr Low further clarified that the transactions occurred precisely on June 30th, so there was no notable unrealized gain or loss on the contracts. The member also asked about the reason for the inclusion of comparative Note 10. Dr. Piché explained that this was because it was the first year that the statements had been merged with those of the OISE plan.

A member commented on the derivative-related items, pointing to the significance of managing the foreign currency content of the portfolio, given its exposure. Limits were stated in the [Pension Fund Master Trust Statement of Investment Policies and Procedures](#) and were set for the University of Toronto Asset Management (UTAM). As well, it was the member's understanding that fixed income and bond swap contracts were used to create a fixed income portfolio and financial exposure, rather than buying the bonds outright.

On motion duly moved, seconded and carried

YOUR COMMITTEE RECOMMENDS

THAT the audited financial statements for the University of Toronto Pension Plan for the year ended June 30, 2016 be approved.

b) Annual Financial Report for the Year ended June 30, 2016

The Committee received for information the Pension Plan Annual Financial Report for the Year ended June 30, 2016. The Report provided context for the Committee's review of the audited pension financial statements. In response to a question, Ms Brown outlined differences between the financial statements and the annual financial report, highlighting processes for their preparation. She also informed the Committee that, each December, the Pension Committee received a historical report on pension fees and expenses from the administration containing pension fees and expenses data from the previous fifteen years.

A member observed that, while the Audit Committee was responsible for oversight of the risk framework, the Committee itself did not delve into the details of the pension plan. The pension plan could represent great risk if obligations could not be met. Ms. Brown replied that the Governing Council of the University of Toronto is both the sponsor and the administrator of the University of Toronto Pension Plan. The Business Board holds delegated authority from Governing Council for the plan sponsor role, with responsibility for plan design and funding. The Pension Committee holds delegated authority from Governing Council for the plan administrator role, with responsibility for, among other matters, investments. The University's administration works to manage and oversee the pension plan. All of these bodies are actively involved, in their respective roles, in considering the risks and obligations of the pension plan.

7. External Auditors

a) Report on Non-Audit Services by the External Auditors

The Chair advised members that details of payments made to the external auditor for non-audit services were included in the material for the audit plan. For transparency and historical record, the items had been separated out on the meeting agenda.

b) Engagement Letter for 2017, Audit Plan, and Report on Audit Fees (for approval)+

The Chair then stated that the external auditor reported annually on the adequacy and appropriateness of the financial statements of the University. The report set out the engagement letter, audit plan, and external audit fees for the year ending April 30, 2017. The Audit Committee's role was to review and accept the report as appropriate.

Upon invitation, Ms Brouwer noted that there had been no significant changes to the engagement letter from the previous year. The audit fees were in line with those contained in the February 2015 Council of Ontario Universities report on audit fees charged to Ontario universities. In response to a question on the issue of materiality, Ms Brouwer explained that it was being maintained at approximately 1% of the University's estimated total revenue, as no significant changes to the external audit were expected. The key focus of the audit would be on contributions received with a focus on determining if revenue should be recognized in the year received or deferred. Ernst & Young specialists (actuaries, financial services members, etc.) would be brought in as needed to aid the external audit team in its work.

Ms Brouwer advised the Committee that a proposed exposure draft would be released in 2017. It was not anticipated that the items would affect the University in the near future. At the earliest, they would result in a change to the Audit Report in April 2019. Ms Brouwer and her team would monitor the situation and update the Committee as needed.

Ms Brouwer asked whether the Committee was aware of any non-compliance or illegal acts, or acts of fraud that needed to be brought to the attention of the external auditor. Members replied that they were aware of no such matters.

On motion duly moved, seconded and carried

IT WAS RESOLVED

THAT the Audit Committee accept the external auditors' audit plan and engagement letter for the University for the year ended April 30, 2017, and the pension plan for the year ended June 30, 2017, as outlined in the report from Ernst & Young dated November 24, 2016.

8. Internal Audit: Semi-Annual Activity Report for the Six Months Ended October 31, 2016

The Chair informed members that the *Audit Committee Terms of Reference* included the review of a semi-annual report from the Internal Auditor. She invited Mr. Mark Britt to present his report on the Internal Audit Department activity for the six months ending October 31, 2016.

Mr. Britt reported on three audits (an academic department, a student services department, and a central administration department) that been conducted recently as an illustration of the types of findings reported.

Mr. Britt also reported on the Research Expenditure Compliance audits and noted that while the rate of non-compliance was high, it was similar to the rates found for operating funds in continuous audits.

Mr. Daniel Ottini then reported on the Information Technology (IT) audits undertaken during the period including the audit of central IT security and noted that planning was currently underway for similar security audits at UTSC and UTM.

The Committee discussed cyber risk issues and steps being taken to mitigate those risks throughout the University. Professor Mabury reported that the administration continued to examine its practices, particularly in light of recent ransomware attacks at other institutions. The University's IT Security Council that was being formed would disseminate best practices for cyber risk mitigation.

Professor Mabury spoke to the searches currently under way for a new Associate Vice-President and Vice-Provost, Digital Strategies, and for a Chief of Information Technology. Once in place, the new leaders would work closely with divisions to strengthen their IT security strategies. However, it would take some time before the cyber security protocols were fully implemented.

The Chair offered the Committee's assistance as the administration worked to address the IT challenges.

9. Annual Administrative Accountability Reports, 2015-16

The Chair reminded members that the Committee received an annual report on the status of accountability reports for information. Dr. Piché explained that the President's direct reports completed the accountability reports. Subsequently, the President submitted his report to the Chair of the Governing Council.

A member noted that, under its Terms of Reference, the Audit Committee had a responsibility to review the operation of the "University's system of annual financial and administrative accountability reports" (Section 5.1.4 (c)). The member asked how the Committee carried out that function. The Chair replied that it was the Committee's practice to accept the President's report of satisfactory financial and human resources management of the University, unless there was a reason not to do so.

10. Enrolment Report to the Ministry of Advanced Education and Skills Development, 2015-16

The Chair advised members that the Audit Committee Terms of Reference provided for the Committee to review such University related financial statements and reports as the Business Board instructed or the Audit Committee deemed appropriate. The Enrolment Report was provided for information. She invited Professor Mabury to comment.

Professor Mabury commented on the Enrolment Report, pointing to slight shifts in domestic and international enrolment. He observed that the decreased value of the average basic income unit was masked by additional Provincial funding resulting from the University's enrolment growth. Professor Mabury emphasized that the core admission requirements were the same for both domestic and international applicants and the calibre of students who enrolled at the University continued to increase. It was likely that, given the current political climate, there would be increased demand from American and British applicants next year. During the discussion, differing expectations among international students from various regions were explored.

11. Reports of the Administrative Assessors

There were no reports from the administrative assessors.

12. Risk Assessment Tool Preview

At the invitation of the Chair, Ms Elizabeth Cragg gave a brief demonstration of the University's online risk assessment tool that was used to gather data from key portfolios. Ms Cragg informed the Committee of steps that had been taken to strengthen the data collection process, following consultation with users including Ms Brown and Mr. Britt. Definitions of key individual risks had been added to the tool, with the goal of facilitating a common understanding of institutional risks among respondents. Participants would be asked to submit their responses by February 1st,

identifying relevant risks, their causes, consequences, and likelihood of occurrence. It was possible that initial results could be presented to the Committee in March 2017. Ms Brown thanked Ms Cragg for her collaborative approach and diligent work to improve the risk assessment tool.

Professor Mabury noted that the University was unique among its peers in its inclusion of narratives in the risk report. It was his hope that the narratives would contribute to the Committee’s deepened understanding of steps taken by the administration to identify and mitigate risk. The Chair praised the use of the narratives in the risk report.

13. Date of the Next Meeting

Members were reminded that the next meeting would be held on Thursday, March 2, 2017 from 4:00 to 6:00 p.m. During the meeting, the Risk Report and the Committee’s role regarding oversight of the University’s risk framework would be discussed.

14. Other Business

There were no matters of other business.

The Committee moved *in camera*.

15. Internal Auditor – Private Meeting

Members of the administration, the Secretariat, and the external auditors absented themselves. The Committee met privately with the Director of Internal Audit. Following his report, Mr. Britt absented himself from the meeting.

16. Committee Members Alone

The Committee members met alone.

The Committee returned to closed session.

The meeting adjourned at 5:40 p.m.

Secretary
January 15, 2017

Chair