

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 125 OF THE AUDIT COMMITTEE

December 6, 2017

To the Business Board,
University of Toronto

Your Committee reports that it met on Wednesday, December 6, 2017, at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Jeff Collins (Chair)

Janet Lynne Ecker (Vice-Chair)*

Robert Boeckner

Sue Graham-Nutter

Kathryn A. Jenkins*

Christopher Thatcher

(*participated by teleconference)

Regrets:

Claire Kennedy, Chair of Governing Council

N. Jane Pepino, Vice-Chair of Governing Council

Howard Shearer

Non-Voting Assessor:

Mark L. Britt, Director Internal Audit

Sheila Brown, Chief Financial Officer

Sheree Drummond, Secretary of the Governing Council

Scott Mabury, Vice-President University Operations

Secretariat:

Joan Griffin, Secretary

In Attendance:

Diana Brouwer, Ernst & Young

Francis Low, Ernst & Young

Daniel Ottini, Deputy Director, Internal Audit

Pierre Piché, Controller and Director of Financial Services

Joyce Yu, Ernst & Young

Items 5a and 6b 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 13 and 14 took place *in camera*.

1. Chair's Remarks

The Chair welcomed new and returning members and guests to the meeting. He reminded those in attendance that the Committee met in closed session.

2. Report of the Previous Meeting

Report Number 124, from the meeting of June 14, 2017, 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. 2017-18 Calendar of Business

The Committee reviewed its *Calendar of Business for 2017-2018*, which showed the items expected to be considered by the Committee over the coming year. The Chair noted that the March 2018 meeting may not be necessary, and informed the Committee that the Secretary would be in contact regarding the potential cancellation as soon as possible.

5. Registered Pension Plan

a. Audited Financial Statements for the Year ended June 30, 2017

The Chair explained that under the *Terms of Reference*, the Audit Committee reviews the audited financial statements of the pension plan and the auditors' report of these documents, and recommends the financial statements to the Pension Committee for approval. The Pension Committee, on the recommendation of the Audit Committee, has the authority to review, approve, reject or refer back the audited financial statements of the registered pension plan. The Chair invited Sheila Brown to speak to the item of business.

Ms. Brown advised the Committee that the audited financial statements primary purpose was to confirm the Pension Assets. She identified that minimal changes had been made to the financial statement format for 2016-2017. Pierre Piche highlighted that the changes included that Global Equities had been separated out into an individual line item, and that foreign currency disclosures had changed to reflect alignment with University of Toronto Asset Management Corporation (UTAM) practice regarding foreign currency exposure.

Francis Low, Ernst & Young LLP, who acts as the external auditor for the registered pension plan, reported to the Committee that he was comfortable that the audited financial statements reflected a fair presentation in all material aspects.

In response to member questions, Ms. Brown confirmed that the decline in projected long-term investment returns resulted in a reduction in the discount rate assumption in the *Report*. It was

further noted that, with the support of the Ontario Government, the University of Toronto had explored a joint pension plan partnered with other Ontario universities, and that work would be ongoing.

On a 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, 2017 be approved.

b. Annual Financial Report for the Year Ended June 30, 2017

The Committee received for information the *University of Toronto Pension Plan Annual Financial Report for the Year ended June 30, 2017*. The Report provides context for the Committee's review of the audited pension financial statements.

6. External Auditors

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

The Chair reported that in accordance with the *Policy on the Use of the External Auditor for Non-Audit Services*, the Audit Committee received a quarterly report that resulted in an annual report that detailed payments made to the external auditor with respect to non-audit services. For transparency and historical record, the items had been separated out on the meeting agenda.

b) Engagement Letter for 2018 and Audit Plan

Sheila Brown explained that the Engagement Letter sets out the terms of the engagement, a summary of audit approach for 2018, and areas of audit emphasis and significant risk. The report is intended to validate the auditors' understanding, the mandate and any issues, as well as confirm the Committee's expectations. Ms. Brown indicated that she had reviewed the proposed fees and that they aligned with the fees reported by other universities in Ontario.

The Chair invited Diana Brower, Engagement Partner, Ernst & Young, to comment upon the Engagement Letter. Ms. Brower reported that the Engagement Letter reflected the Audit Plan and would be more reliant upon data analytics than previous plans. In response to a member's question, Ms. Brower explained that previous audits had looked at sample data and not all available data. The current approach would look at all available data for a specific area, and the decision to focus on payroll data was to permit greater insight and audit assurances to be developed. To ensure audit quality, Ernst & Young had continuously engages an Audit Quality Reviewer, to probe and challenge assumptions made, and additional specialists would be engaged as needed to assist.

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, 2018, and for the pension plan for the year ended June 30, 2018, as outlined in the report from Ernst & Young dated November 16, 2017.

c) Report on Audit Fees

The Committee received the *Report on Audit Fees Charged to Universities of Ontario 2012-13 to 2015-16* from the Council of Ontario Finance Officers (March 2017).

7. Internal Audit – Semi-Annual Activity Report for the six months Ended October 31, 2017

The Chair informed members that the *Audit Committee Terms of Reference* included the review of the *Semi Annual Activity Report* from the Internal Auditor and invited Mark Britt, Director, Internal Audit, to present his report.

Mr. Britt reported that no significant unmitigated risks existed and that on-going reviews and compliance work continued. Since the last semi-annual report, Internal Audit had been allotted an additional 2.0 FTE staff positions and that 1.0 FTE had been used to hire a senior IT auditor; the second 1.0 FTE hire was anticipated by early in 2018. Internal Audit had hired several work study students during the term, Mr. Britt reported that work undertaken by the students was of good quality. Highlights identified in the report include the annual program audit that had focused on accounts payable and recovered \$300K in unclaimed vendor reimbursements, the educational campaign that was undertaken to assist departments avoid similar errors, and that systematic solutions to these problems had been identified.

Daniel Ottini reported on the *Divisional IT Security Survey* indicating that the connections developed with divisions provided valuable intelligence and insight, and identified areas of risk, data security and data loss. In response to a member's question, Professor Mabury responded that since the *Cyber Security* policy had been introduced a *Cyber Security Council* had been convened and IT leadership, including the new Chief Information Officer (CIO), Bo Wandschneider, had been engaged.

8. Annual Administrative Accountability Reports, 2016-17

In accordance with the Audit Committee's *Terms of Reference*, the Committee reviews the operation of the University's system of annual financial and administrative accountability reports. The Chair recognized Pierre Piché and invited him to report on the *Annual Administrative Accountability Reports – 2016-2017*. Dr. Piché explained that all staff with financial responsibilities, including the President, must complete an Accountability Report for their Supervisor. The President submitted his completed report to the Chair of Governing Council.

9. Enrolment Report to the Ministry of Advanced Education and Skills Development, 2016-17

The Chair invited Sheila Brown to present the *Enrolment Report, 2016-17*. Ms. Brown reported that the enrolment audit is required by the Ministry of Advanced Education and Skills Development and attests to the University's enrolment levels and is used to provide support for the Operating Grants. In response to a member's question, Ms. Brown and Professor Mabury confirmed that the Strategic Mandate Agreement funding corridors may result in changes to current practices but that funding corridors were not uncommon and challenges responding to the changes were not anticipated. Changes would be shared with the Committee.

10. Reports of the Administrative Assessors

Professor Mabury reported that a fatal industrial accident occurred on the building site for the Centre for Engineering Innovation and Entrepreneurship (CEIE). He informed the Committee that the University provided onsite supportive resources to Bird Construction and that tragic event would be recognized appropriately once the CEIE opened.

11. Date of the Next Meeting

Members were reminded that the next meeting was scheduled for Thursday, March 8th 2018, 4:00 – 6:00 p.m. although this meeting may be re-scheduled.

12. Other Business

There were no matters of other business.

The Committee moved *in camera*.

13. Internal Auditor – Private Meeting

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

14. Committee Members Alone

The Committee Members met alone.

The Committee returned to closed session.

The meeting adjourned at 6:45 p.m.

Secretary

December 13, 2017

Chair