UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 86 OF THE AUDIT COMMITTEE

November 29, 2007

To the Business Board,
University of Toronto.

Your Committee reports that it met on Thursday, November 29, 2007 at 5:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Mr. George E. Myhal (In the Chair)
Ms Paulette L. Kennedy (Vice-Chair)
Ms Dominique Barker*
Mr. Paul E. Lindblad*
Mr. Robert S. Weiss

Ms Catherine J. Riggall,
Vice-President, Business Affairs

Mr. Mark L. Britt, Director,
Internal Audit Department*
Ms Sheila Brown, Chief Financial Officer
Mr. Louis R. Charpentier, Secretary of the
Governing Council

Secretariat:

Mr. Neil Dobbs
Ms Mae-Yu Tan

Regrets:

Mr. Gerald A. Lokash
Mr. Joseph Mapa

In Attendance:

Professor Angela Hildyard, Vice-President, Human Resources and Equity
Ms Tanya Busch, Ernst & Young
Mr. Pierre G. Piché, Controller and Director of Financial Services
Mr. Nick Racanelli, Executive Director, Ernst & Young
Mr. Alan Shapira, Hewitt Associates
Ms Martha Tory, Ernst & Young

* Participated by telephone.

1. Report of the Previous Meeting

Report Number 85 (June 20, 2007) was approved.

THE FOLLOWING ITEM IS RECOMMENDED TO THE BUSINESS BOARD FOR APPROVAL.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2007

Ms Brown said that the current report was a complete reworking of the report presented in previous years. It had been expanded considerably and it included fundamental information on the operation of defined-benefit pension plans. She invited feedback on the report and on ways

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2007 (Cont'd)

further improvements could be made. The report dealt with the registered University of Toronto Pension Plan, the registered University of Toronto (Ontario Institute for Studies in Education) Pension Plan, and the non-registered University of Toronto Supplemental Retirement Arrangement. The Report included summaries of the actuarial reports on all three plans and the audited financial statements of the two registered plans. Ms Brown reported that the auditors' reports on the financial statements were clean. The actuarial reports reflected modestly positive results, and the report overall represented good news. Some sensitivity analysis had been included in order to illustrate the effect of differing assumed rates of return on the pension funds' assets and rates used to discount the future liabilities of the pension plans to their present value. It was noted in the Report that a zero percent return on the investments in the University's pension plan in 2007-2008 would be sufficient to eliminate the current market surplus of $183.9 million. Ms Brown concluded that overall, the results of the pension plans represented a pleasing turnaround, with the market surplus of the assets in the University's registered plan representing 7% of its accrued liability, an improvement from a 1% deficit the previous year.

In the course of her remarks, Ms Brown thanked Mr. Shapira, Mr. Racanelli, Mr. Piché and his staff in the Financial Services Department for their outstanding work in completing the report.

Mr. Racanelli reported that the audit had proceeded smoothly and there were no issues to bring to the Committee's attention. In general, the statements had been prepared in a manner consistent with those of previous years. The auditors had received excellent cooperation from management. The auditors had focused on the valuation of the investment portfolio and had confirmed that the investment managers and the custodian had reconciled their valuations on a regular basis. There had been particular need for care with respect to the valuation of private equity investments. The auditors had also carefully examined the valuation of hedge funds. They had found that the valuations were reasonable. They had examined internal audit reports and were satisfied with the procedures that had been followed by the University of Toronto Asset Management Corporation (UTAM) as investment manager. The auditors had made every effort to integrate their approach to the audit of the pension funds and the audit of the University's financial statements.

Mr. Shapira noted that the actuarial valuation had been completed as of July 1, 2007. That date had had an impact because of the volatility of the securities markets. July 1, 2007 had been a high point in the market. Since that time, the market had retreated. Mr. Shapira said that the University and the actuaries were working to fine-tune the actuarial assumptions, based on experience. Some years ago, there had been a reduction in the assumed nominal rate of interest earned by the pension funds, reflecting the lower rate of inflation. In 2005, the assumed rate of salary increments had been increased, given that the actual salary increases were higher than had been assumed. Mortality rates had been lower than expected under the valuation assumptions. Pensioners had been living longer, leading to a change in the mortality table and to an increase in the accrued liability.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2007 (Cont'd)

Referring to the sensitivity analysis, Mr. Shapira stated that the major decision to be made involved determining the appropriate amount of pension-plan funding from employee and employer contributions versus that from investment earnings. The sensitivity analysis had therefore focused on the effects of investment returns above and below the current actuarial assumption of a 4% real (after inflation) return.

Discussion focused on the following matters.

(a) Actuarial assumption: rate of investment return on the pension funds. A member asked how the actuarial assumption on the rate of return on the pension funds compared with that of other organizations. Was the University's assumption aggressive or conservative? Mr. Shapira replied that the 4.0% real (after-inflation) rate of return was in the mid-range of assumptions used for funding purposes by large pension plans, or perhaps slightly on the high side. However, the additional special payment of $27.2-million per year being set aside by the University could support a 25 basis-point reduction in the investment return. Overall, the assumed return was appropriate in the long term. There was need to handle the volatility of investment returns, and the special annual payment achieved that goal. The University and the actuaries were conducting a review of the Pension Contribution Strategy to determine whether the $27.2-million amount of the special annual payment was appropriate or should be modified. The work on that review was continuing.

(b) Pension Contributions. A member referred to the employee pension contribution holiday that had occurred from 1997 to 2002 and asked if that had been a requirement. Mr. Shapira noted that employees had enjoyed only a 50% holiday in 2002. Because of the size of the surplus in the registered pension plan at the time, the University had not, under the Income Tax Act (Canada), been permitted to make an employer contribution. That had led, in salary and benefit negotiations, to employee groups successfully demanding that the employees also not be required to contribute. Ms Brown observed that the Pension Contribution Strategy, approved by the Governing Council in 2004, required that employee and employer contributions continue to be made, along with the special employer contribution currently amounting to $27.2-million.

(c) OISE/U.T. pension plan. In response to a request for clarification, Mr. Shapira explained that the OISE plan had been closed to new entrants since 1996, when the Ontario Institute for Studies in Education had merged with the University of Toronto's Faculty of Education and all new employees became members of the University's plan. As at July 1, 2007, there were 124 active members of the OISE/U.T. plan who continued to earn benefits. Therefore, the University continued to value the plan. In ten years from now there would likely be few active members in the plan, and eventually all of the members would have retired. The member suggested that for clarity an explanation be included in future Reports.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2007 (Cont'd)

(d) Sensitivity Analysis. A member referred to the graph on page 41 of the Report. He commented that the projected $760-million increase in the current pension-plan deficit resulting from a hypothetical change in the real discount rate from 4.0% to 2.25% seemed extremely high. The current market surplus of $183.9 million would change to a deficit of $577.7 million. Mr. Shapira replied that the liabilities were being projected over the many years of the service lives of current employees, and they included projected salary increases and increases arising from the partial indexation of benefits. The sensitivity analysis clearly illustrated the extent to which the University was relying on investment earnings to fund the pension plans. The lower the discount rate and earnings assumptions, the higher the current service contributions required into the future. For example, if the University were to adopt the safest possible strategy and to immunize its future benefit obligations by investing only in Government of Canada real-return bonds, there would be need for an extremely large increase in pension contributions. Pension plans did not therefore immunize their future obligations but rather they assumed some risk to obtain higher investment returns. Plans could indeed earn higher returns, but they could not do so without assuming some risk. A risk-free strategy was a very costly one.

A member commented that a period of low returns in the future would likely be accompanied by offsetting low inflation and low rates of salary increase. Ms Brown replied that the University could not in a period of low investment returns count on low rates of salary increase. Salary increases emerged from negotiations with employee groups.

(e) Possibility of a defined-contribution plan. A member commented that the alternative way of removing risk from the University's pension funding was to change to a defined-contribution plan. Mr. Shapira said that the question came down to who bore the risk: the employee in a defined-contribution plan or the employer in a defined-benefit plan. If an employer, using expert professional advice and enjoying the lower fees that came with large amounts invested, was not able to earn the rate of return required for a good pension benefit, it would be all the harder for individual employees to do so. He noted that defined-contribution plans were becoming much more common in the private sector. It was now necessary to mark the value of pension fund assets to market and to reflect any deficit on the company's balance sheet. That resulted in the likelihood of substantial swings in the balance sheet from year to year, which were hard to manage. In the public sector, there was less emphasis on the balance sheet, enabling public sector employers to adopt a longer time horizon.

In the course of discussion, a member congratulated Ms Brown and her colleagues on the Report, commenting that it was the best one that he had seen over many years, either in the University or elsewhere.

2. Pension Plans: Annual Financial Report for the Year ended June 30, 2007 (Cont'd)

On the recommendation of the Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS

(a) THAT the audited financial statements for the University of Toronto Pension Plan, June 30, 2007, be approved, and

(b) THAT the audited financial statements for the University of Toronto (OISE) Pension Plan, June 30, 2007, be approved.

THE FOLLOWING ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

3. Audit Committee: Terms of Reference: Annual Review

The Chair noted that the Committee had completed a detailed review and revision of its terms of reference about one year ago. Ms Tory said that there had been no changes that would require the consideration of further revisions.

4. Calendar of Business, 2007-08

The Committee received for information its proposed Calendar of Business for 2007-08. There were no suggestions for revisions.

5. Endowment: Annual Financial Report for Year Ended April 30, 2007

Ms Brown said that this financial report on the endowment was the third annual report on the subject. Its substance was very similar to that of the previous year. The financial position of the endowment had continued to improve. Investment returns had again exceeded the income distribution plus inflation by a substantial margin, leading to a cumulative 23% cushion of earnings for future years of poorer investment markets. Ms Brown noted that the report had been released in August, immediately after its completion, and had been submitted to the Business Board. The University's administration was in the process of conducting a study of the endowment to determine whether the return expectations and risk tolerance for investment of the endowment remained appropriate and to determine whether the payout rate was appropriate, especially in view of the significant cushion that had developed.

There were questions and discussion on the following topics.

5. Endowment: Annual Financial Report for Year Ended April 30, 2007 (Cont'd)

(a) Investment of the endowment: Asset-backed commercial paper. In response to a question, Ms Riggall said that the University's investments included about $6-million in the currently troubled investment class - asset-backed commercial paper. The University of Toronto Asset Management Corporation (UTAM) intended to hold the securities, anticipating that they would regain much of their value over time.*

(b) Disbursements from the endowment funds. In response to a question, Mr. Piché said that disbursements from the endowment funds were made in April each year, at the end of the fiscal year, and the monies were held by the budget units in their carryforward accounts for use in the next year.

(c) Payout rate. Ms Brown said that the target payout was 4% of the market value of the endowment, with a corridor of 3% to 5% in any particular year. The payout had been established as approximately 4% of the value of the units in the endowment funds as at April 30, 2003. It had then been increased annually by the rate of inflation. Because of the very good returns provided by the investment markets since 2003, that policy had resulted in the reduction of the payout towards 3% of the market value of the endowments. The University's administration was reviewing the payout to determine whether it should be increased by more than the rate of inflation in 2008 to bring it closer to 4% of the value of the funds or whether it should be maintained to retain a substantial cushion to protect against years of poorer investment returns. The objective was to ensure intergenerational equity, that is to be sure that the endowment funds would provide the same level of purchasing power to future generations as they provided at this time. The modeling was on-going to determine the appropriate payout for 2008. A member referred to the graph on page 16 of the report, which showed that the amount of the cushion preserving the real value of the endowment capital after the payout had gone both up and down, declining below zero in 2003. He urged that the administration not be lulled into complacency by the excellent returns provided by investments in recent years.

(d) Real estate holdings. In response to a question, Mr. Piché said that the real estate in the endowment funds, apart from the real-estate funds managed by third parties, was held directly by the University.

6. Administrative Accountability Reports: Annual Report on the Program

Mr. Piché said that the Audit Committee received an annual report on the program of administrative accountability reports. That report included the administrative accountability report of the President to the Chair of the Governing Council, in which the President was able to provide affirmative responses to all questions. Those responses included his affirmation that he had received and reviewed administrative accountability reports from all of the officers who reported directly to him, and that he was satisfied with their responses. The Vice-President and Provost had received administrative accountability reports from Principals and Deans, which contained only two negative responses out of a possible 403 responses.

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* Subsequent information: the asset had been written down by 50%.

7. Enrolment Report to the Ministry of Training, Colleges and Universities, 2006-07

The Committee received for information the audited report to the Ministry of Training, Colleges and Universities on the University's enrolment. Ms Brown noted that the report was the basis of the University's per-student funding. Ms Tory said that the audit report was clean and that there were no concerns with respect to the report.

8. Procedure for *Reporting Incidents of Suspected Financial Impropriety* ("Whistle Blower" Policy): Progress Report on the Review of the Procedure

Ms Riggall informed members that the procedure for *Reporting Incidents of Suspected Financial Impropriety* had been in place since 1997 and was available on the Internal Audit Department's website* and the Financial Services website. The administration had reviewed the procedure and had prepared a new draft, which was now before the Committee for information and comment. It was included in a matrix, comparing the new draft procedure to the existing one and to the provisions of three other institutions that had comparable procedures: the City of Toronto, the University of Calgary and the University of Alberta. The new draft had added sections: (a) defining the fraud and other irregularities that should be reported under the procedure; (b) establishing protections for individuals who, acting in a bona fide manner, reported suspected misdeeds; and (c) providing for action to be taken against individuals who make vexatious or frivolous allegations of wrong-doing against another individual using this procedure. While the document was a procedure rather than a policy approved by the Governing Council, it did outline the mechanisms (a) for members of the University to use to report misappropriation, fraud, or any misuse of funds by other employees and (b) for the University to use in dealing with such reports. In response to a question, Ms Riggall explained that an employee who suspected an incident of financial impropriety should speak with (a) her/his immediate supervisor and also (b) with the Director, Internal Audit or the Chief Financial Officer. If the employee did not feel comfortable reporting the incident to the immediate superior, she/he would then speak with the person one level above the immediate supervisor. If that route caused discomfort, the employee would seek the advice of the Director, Internal Audit.

Among the matters that arose in discussion were the following.

(a) Frequency of use of the procedure. A member asked whether the University monitored the number of reports received through this procedure. Ms Riggall confirmed that the Director, Internal Audit, did track them; however, such reports were rarely made. It was likely that employees acted informally in response to suspicions of improper actions. Members discussed the frequency of occurrence of reports of suspected financial impropriety in various other organizations. While some received very few calls through dedicated phone lines, other companies received numerous calls each year. Those calls, however, often dealt with matters other than financial improprieties, for example complaints of sexual harassment. Ms Riggall noted that there were additional channels through which members of the University community

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* http://www.internalaudit.utoronto.ca/resources/fraud/Reporting_Incidents_of_Suspected_Financial_Impropriety.htm

8. Procedure for *Reporting Incidents of Suspected Financial Impropriety* ("Whistle Blower" Policy): Progress Report on the Review of the Procedure (Cont'd)

could express their concerns. There was a sexual harassment officer and a network of other equity officers, and members of the University could also turn to the University Ombudsperson or consult with employee unions and use their established grievance procedures.

(b) Opportunity to take reports to a person outside of the University. A member observed that, while the procedure was a good one, it had no provision to enable a whistle-blower to take a concern, if necessary, to someone outside the University. In other organizations, particularly in the business world, it was not uncommon for the Chair of the Audit Committee to be named as a possible final step in the process. Such a provision represented a good independent control. Ms Riggall responded that the University had thought that it would be unfair to impose such a responsibility on a volunteer Chair. In her experience, University employees did feel comfortable in raising issues of concern, and they could ultimately contact the Office of the Governing Council for direction with respect to any concerns.

A member noted that the Director of the Internal Audit Department, who represented the final step in the University's process, reported to the Audit Committee, and he could bring to the Chair or the Committee any concerns that had not been dealt with in an appropriate manner. Members of the University could also seek assistance from the Ombudsperson, who was independent from management and reported directly to the Governing Council.

The member who had urged the inclusion of the Chair of the Audit Committee as the final step in the process said that the Ombudsperson was seen primarily as a source of assistance for individuals who had concerns about their own treatment by the University. The "whistle blower" process, in contrast, was focused on reporting financial irregularities, which would usually not have any personal consequences to the staff member. The member had served as Chair of four audit committees and had found (a) that he had not been approached personally by employees, but (b) that the opportunity for an employee to approach the Chair of the audit committee was helpful in encouraging employees and uncovering frauds and irregular acts. Another member agreed that there could be benefit to including the Chair of the Audit Committee as the last step in the process. The University's process was somewhat prescriptive, requiring initial reports to the immediate supervisor or to the person one up the administrative structure and or to the Director of Internal Audit. The inflexibility of the process might well discourage an employee from acting to report an improper action.

(c) Process in other not-for-profit organizations. In response to a question about the whistle-blower process in other not-for-profit organizations, Ms Tory said that, to date, few such organizations had developed formal procedures, and she commended the University for its leadership in addressing the matter.

(d) Further development of the procedure. The Chair observed that it would be more likely for employees to voice concerns if the process was viewed as possessing a high level of integrity,

8. Procedure for *Reporting Incidents of Suspected Financial Impropriety* ("Whistle Blower" Policy): Progress Report on the Review of the Procedure (Cont'd)

and he suggested that the Committee consider it further. One topic to be considered would be the possibility of specifying an employee's right ultimately to approach the Chair of the Audit Committee. The objective should be to encourage employees to use the process. The Chair was concerned about the low current level of use. Ms Riggall said that it might be appropriate to consider the use of a neutral outside service, a practice followed by some organizations.

Professor Hildyard urged great care in extending the process, given that accusations of financial impropriety were likely to made against individuals represented by the Faculty Association or one of over twenty unions. If the accusation led to University action to seek to discipline or dismiss an employee, the steps taken would have to be those set out in the collective agreements or the University would face a grievance or an arbitration process.

9. Internal Audit: Semi-Annual Report, 2007

Mr. Britt presented his activity report for the six months ended October 31, 2007. Among the highlights of the report were the following.

- **Internal audit activity and services**. The Department had operated at the full staff complement for the first time in some years. A Senior Auditor on maternity leave had been replaced by a contract auditor. The number of audit hours at 3,900 was somewhat below plan because of the timing of staff vacations. Three special reviews had been undertaken: two in response to requests by management and one in response to an allegation of financial impropriety. The Department continued to perform internal audit services for the University of Toronto Asset Management Corporation (UTAM) at a negotiated rate. Non-audit services included the review of the Procedure for Reporting Incidents of Suspected Financial Impropriety (discussed above) as well as the intensive evaluation of three audit-management software packages. One of the packages had been acquired, and Mr. Britt anticipated that it would lead to additional efficiencies in the audit process. The Department was very close to being on course to achieve its audit plan for the year, although there were some negative variances. Mr. Britt hoped to clear up the backlog by taking advantage of the recent reorganization of the Department and by taking advantage of the new software package, which would help to track issues and would make management sign-off on draft reports more efficient. Some of the Department's backlog had been caused by the slow responses by certain units to draft reports. Mr. Britt reported that, in response to the Committee's discussion one year ago, the Department had increased its emphasis on follow-up reviews.

- **Audit Observations**. Mr. Britt commented on the Department's observations of areas where controls were not functioning as well as they should be, where policies and procedures were not followed fully, and where assets were not properly safeguarded. He cautioned that the observations reflected the limited number of budget units reviewed, and the observations in those units should not be extrapolated to draw conclusions about

9. Internal Audit: Semi-Annual Report, 2007 (Cont'd)

operations in the University generally. There had been failures to comply with the requirements of the Purchasing Policy with respect to appropriate tendering and awarding of contracts and with respect to the documentation of those procedures. There had been some instances of inappropriate controls over revenue collection and cash handling and over expense approvals. Inadequate controls over revenue collection and cash handling were particularly problematic in some areas of the University that handled substantial amounts of cash. There continued to be some cases of individuals' being paid for their work inappropriately as independent contractors rather than as part-time employees. In two divisions, business resumption/disaster recovery plans had not been documented and tested. Finally, there had been two instances where units had not complied with the rather complex processes for handling grants required by a U.S. granting agency. In all cases, however, unit management had responded positively, implementing or undertaking to implement audit recommendations.

- **Administrative accountability reports**. As part of the reviews of divisions and departments, the internal auditors assessed compliance with the requirement for the annual submission of administrative accountability reports. All forty-four of the reports required in the units reviewed had been submitted.

- **Continuous auditing program**. The continuous audit program included a review of executive management expense reports. Expense reimbursement reports for $171,000 over six months had been selected for review. All had been prepared and authorized properly.

Among the matters that arose in questions and discussion were the following.

(a) Compliance with the conditions of grants from the U.S. National Institutes of Health. In response to questions, Mr. Britt said that University researchers had received research grants amounting to $23-million from the National Institutes of Health in the United States. Grant recipients were required to institute processes to provide assurances about the use of the grants that complied with the regulations of the U.S. Office of Management and Budget. Those regulations required the use of external auditors from the U.S.A. The granting body had undertaken a review of compliance by Canadian grant recipients, beginning with those in Western Canada, where the experience had given cause for concern. Mr. Britt had concluded that the issue required a national response, and he had requested that the Canadian Association of University Business Officers provide such a response. Replying to a question, Mr. Britt stated that the internal audit reviews had found no instances of non-compliance with the terms and conditions of the grants apart from the requirement for monitoring by external auditors from the United States.

(b) Sampling. A member asked whether the Internal Audit Department would extend its audit testing in any areas where it found exceptions to appropriate compliance with policies and procedures. In particular, was testing extended in cases where there was inappropriate cash

9. Internal Audit: Semi-Annual Report, 2007 (Cont'd)

handling? Mr. Britt replied that the audit manager used judgement to determine whether to extend testing. The outcome depended on the assessed impact of non-compliance or break down in control. In cases of problems with procedures for cash handling, testing had been extended.

(c) Action in response to problems in particular areas. A member asked whether Mr. Britt saw need for actions in response to problems found in particular areas. Was there need for broader educational efforts in any area(s)? Mr. Britt replied that audit reports were addressed to the head of the budget unit and copies were provided to the individual to whom the head reported, for example the Dean of the Faculty, as well as to the appropriate Vice-President and also to the Vice-President, Business Affairs. The objective was to enable them to discern problem areas and take any needed remedial action. The central administration was addressing particular areas in its training and communications. At this time, for example, it was stressing compliance with appropriate procurement policies, seeking to teach units the benefits of the policy – for example the procurement of better products or services or better prices by avoiding sole sourcing.

(d) Cash handling. Mr. Britt observed that one solution to problems arising from poor cash-handling procedures would be to require payments for some services by debit or credit cards. While the amounts paid were often relatively small, the amounts added up and represented a real risk where careful procedures had not been established.

(e) Administrative accountability reports. Ms Tory observed that one very useful purpose of annual administrative accountability reports was to remind administrative officers of their responsibilities. That purpose would probably be better achieved in an environment where some "no" answers were deemed to be acceptable. Mr. Britt replied that there were some negative responses to the questions on the accountability reports, and he would indeed be more comfortable that the process was working if some "no" answers were to be found in the reports. He was unaware of any reprimand having followed the submission of a report containing a negative response. He would urge in the training sessions for new administrators that they should encourage honest answers on the reports by making clear that "no" answers were acceptable but that false "yes" answers represented a serious wrongful act that would bring about serious consequences if brought to light by an audit or other means.

(f) Inappropriate form of payment to individuals. In response to questions, Mr. Britt said that the concern was payment to individuals in response to invoices rather than through the payroll system. Payments in response to invoices omitted deductions for such things as income tax, employment insurance, etc. In some cases, payments were made to current full-time employees who completed work in addition to their usual duties. This took place because determining the form of payment was often not straightforward and officers in the units had a great deal of discretion. One possibility would be to establish a clear guideline permitting payment of invoices for services only to incorporated entities and requiring the use of the payroll in all other cases. Such a guideline might not always be fair to service-providers. There were indeed some cases where full-time employees could appropriately submit invoices for additional services. Professor Hildyard said that she was well aware of the issue and she would work to

9. Internal Audit: Semi-Annual Report, 2007 (Cont'd)

ensure use of the appropriate form of payment. A member expressed concern about Government action with respect to statutory deductions in the event the problem were not remedied.

10. External Auditors: Engagement Letter, Audit Plans, Report on Accounting Developments, Fee Proposal and Report on Non-Audit Assignments and Fees

Ms Tory said that the engagement letter and audit plan were very similar to those of the previous year. The approach used would be very consistent with that of the previous year, with the same level of materiality and the same areas of focus. There had been few major changes by the University in its overall financial management. There had been some developments in the areas of investment management, and one area of focus would be accounting for investments, particularly derivatives and alternative investment classes. Ernst & Young would continue to coordinate its audit of the financial statements with that of the pension plans. There would be good continuity in the team working on the audit. The external auditors would continue to coordinate their work with that of the Internal Audit Department. The audit timetable would be consistent with that of previous years. The external audit team had held discussions with management about significant developments in the current year within the University and about the application of new accounting rules. In particular, management was working on reflecting in the financial statements new rules for accounting for financial instruments. A new note had been drafted to deal with the transfer of assets from the University to the now-independent University of Toronto Schools. The package of information from Ernst & Young included the proposed engagement letter, the audit fee proposal and the list of fees charged by Ernst & Young for non-audit services from October 1, 2004 to September 30, 2007.

On the recommendation of the Chief Financial Officer, it was AGREED

> THAT the Audit Committee accept the external auditors' engagement letter for the year ended April 30, 2008, as outlined in the report from Ernst & Young dated November 2, 2007.

10. Date of Next Meeting

The Chair recalled that members had been asked to set aside time for a Committee meeting on the reserve date of Monday, March 3, 2008. The next regular meeting of the Committee was scheduled for Wednesday, May 28, 2008.

The meeting adjourned at 6:45 p.m.

Secretary	Chair

January 24, 2008

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