

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 105 OF THE AUDIT COMMITTEE

December 4, 2012

To the Business Board,
University of Toronto.

Your Committee reports that it met on Tuesday, December 4, 2012 at 4:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (In the Chair)
Mr. Jeff Collins
Ms. Kathryn A. Jenkins
Mr. Peter Robinson
Ms Penny Somerville
Mr. Chris Thatcher

Mr. Mark Britt, Director, Internal Audit Department *
Ms Sheila Brown, Chief Financial Officer ++
Mr. Louis R. Charpentier, Secretary of the
Governing Council ++
Prof. Scott Mabury, Vice-President, University
Operations ++

Ms. Sheree Drummond, Secretary

Regrets:

Mr. Howard Shearer

In Attendance:

Ms. Stephanie Chung, Ernst & Young +
Mr. Francis Low, Ernst & Young +
Mr. Pierre G. Piché, Controller and Director of Financial Services ++
Ms. Martha J. Tory, Ernst & Young +

+ Present for items 1 – 5.

++ Present for items 1 – 11.

* Absented himself for item 13.

ALL ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

1. Chair's Remarks

The Chair welcomed members and reminded them that the committee meets in closed session and that the materials were confidential.

2. Report of the Previous Meeting

Report Number 104 (October 10, 2012) was approved.

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3. Business Arising from the Report of the Previous Meeting

The Chair noted that the only business arising from the previous meeting was the ongoing discussion of the External Auditor that had taken place in the *in camera* portion of that meeting. She indicated that further discussion on that issue would take place later in the *in camera* portion of the meeting.

4. Pension Plans: Annual Financial Report - Audited Financial Statements for the Year ended June 30, 2012 Audit Committee

The Chair explained that the Audit Committee reviewed the audited financial statements of the pension plans and the auditors' reports thereon, 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 plans. The Chair then invited Ms Brown to speak to the item.

Ms Brown reminded members that that the focus of the Audit Committee was on the financial statements and that the matter of the health of the plans was the focus of the Pension Committee and the Business Board. She noted that the going concern pension deficit was similar to the figure that had been reported to the Pension Committee in September 2012, and that the solvency deficit was higher, due to lower interest rates than those used in the earlier projections. She noted that new Canadian accounting standards for pension plans had come into effect for the University's registered pension plans for the year ended June 30, 2012, but that the new accounting standards did not result in changes to last year's reported net assets available for benefits or pension obligations. Mr. Low, the external auditor for the registered pension plans, noted that he was comfortable with all the disclosures and that apart from the new accounting standards there was nothing out of the ordinary in the report.

On the recommendation of the Chief Financial Officer

YOUR COMMITTEE RECOMMENDS TO THE PENSION COMMITTEE

THAT the audited financial statements for the University of Toronto Pension Plan June 30, 2012, a copy of which is included in Appendix "4a" of the document entitled University of Toronto Pension Plans Annual Financial Report For the Year Ended June 30, 2012, hereto, be approved;

and

THAT the audited financial statements for the University of Toronto (OISE) Pension Plan June 30, 2012, a copy of which is included in Appendix "4b" of the document entitled University of Toronto Pension Plans Annual Financial Report For the Year Ended June 30, 2012, hereto, be approved.

REPORT NUMBER 105 OF THE AUDIT COMMITTEE – December 4, 2012**5. External Auditors: Engagement Letter for 2013, Audit Plan, and Report on Audit Fees**

The Chair advised members that the external auditor reports 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, 2013. The Audit Committee's role was to review and accept the report. The Chair invited Ms Brown to speak to the report.

Ms Brown drew members' attention to the comparative information regarding audit fees charged to universities in Ontario. She invited Ms Tory to speak in more detail to the report.

Ms Tory noted that there had been no significant changes in approach with the exception of the new accounting rules. She spoke to the issue of materiality. Based on the projected results of the organization, materiality for the audit of the 2013 financial statements is estimated be \$15 million which represents approximately 0.63% of the University's estimated total revenue. She noted that the range for not for profit organizations was 0.5% to 1%. She explained to members that after discussions with management the decision had been to leave it at what it had been in the past.

A member asked Ms Tory to comment on the fees and specifically whether Ernst & Young were receiving the fees that they needed. Ms Tory explained that the continuity at the management level at the University along with the continuity of the Ernst & Young team gave her confidence in Ernst & Young's ability to keep the same fee level without compromising service.

A member observed that the fee for non-audit services were quite substantial at \$365,683. Ms Tory explained that the vast majority of these fees were related to tax matters.

A member asked what determined the external audit focus in any given year. Ms Tory replied that the focus was on the same things each year as the risks largely do not change. She advised that the auditors looked at everything that needed to be looked at. She said that a key focus was at the entity level and she advised that the University had excellent entity level controls in place, for example, the requirement that all cheques issued in amounts equal to or greater than \$50,000 were reviewed and manually signed prior to their release. Having said that, Ms Tory emphasized that the external auditors were also very aware of the decentralized nature of the university, and as such they also engaged in a number of reviews at a more detail level, including comparisons to budget actuals, and reviews of various departments.

A member asked for clarification on the issue of confidentiality specifically with regard to clause 9 in the Attachment to Appendix A of the *Audit Plan* – the disclosure of client information to other Ernst & Young Firms and Ernst & Young Persons. Ms Tory affirmed that Ernst & Young operates under a set of global rules and that within their quality control process the University of Toronto file could potentially be chosen for review.

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On motion duly made and seconded and carried

YOUR COMMITTEE RESOLVED

THAT the Audit Committee accept the external auditors' audit plan and engagement letter for the year ended April 30, 2013, as outlined in the report from Ernst & Young dated November 22, 2012.

6. Administrative Accountability Reports: Annual Report on the Program, 2011-12

The Chair reminded members that the Audit Committee receives an annual report on the status of accountability reports and that this item was provided for information. She invited Mr. Pierre Piché to comment. Mr. Piché indicated that there had been no negative responses to the questions relevant to the President's direct reports and that the President had answered 'yes' to all questions in his report to the Chair. He noted that there was one negative response in a report provided to the Vice-President and Provost by a dean and that it was related to a conflict of interest matter. He indicated that the matter was addressed and that a process was put in place so that this would not happen in the next round.

7. Enrolment Report to the Ministry of Training, Colleges and Universities: Audit: 2011-12

The Chair advised members that the Audit Committee's terms of reference provide for the Committee to review other such University related financial statements and reports as the Business Board instructs or the Audit Committee deems appropriate. The Enrolment Report was being provided for information. She invited Ms Tory to comment.

Ms Tory indicated that the enrolment audit is required by the Ministry of Training, Colleges and Universities since the government grant is calculated based on student enrolments. She said that there was nothing out of the ordinary in the report.

A member asked whether there are maxima and minima adjustments. Ms Tory replied that here was a ceiling on the number of Basic Income Units (BIUs) that an institution could earn.

8. Internal Audit: Semi-Annual Activity Report for the Six Months Ended October 31, 2012

The Chair advised members that the Terms of Reference of the Audit Committee include the review of a semi-annual and annual report from the Internal Auditor. She invited Mark Britt to present his report on the Internal Audit Department activity for the six months ending October 31, 2012.

Mr. Britt made the following comments:

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- The department was progressing with its Audit Plan and that there had been no lengthy diversions or investigations.
- Non-compliance findings in the continuous audit were consistent with prior periods and related primarily to a lack of supporting documentation for expense reimbursements and proper levels of authorization (noted in approximately 30% of the transactions tested with a total of \$30,000).
- There are two planned audits in the Information Technology (IT) area: (1.) Donations Information System (DIS) data integrity/conversion and (2.) Human Resources Information System (HRIS) data integrity clean-up.
- Also in IT development of a program was underway to detect off-payroll payments to employees for follow-up to ensure Canada Revenue Agency compliance. This report would be run quarterly.
- The department had contracted an external firm that would work on a contingent fee basis to review accounts payable transactions for the past three years with the objective of recovering amounts that had been overpaid for various reasons including duplicate billing, over-billing, unused credits, rebates, allowances and pricing errors.
- The Senior Auditor position had been filled and it was expected that the Assistant Auditor position would be filled by the end of the year.
- No significant unmitigated risks had been identified in the course of the work of the department to date.

The Chair inquired as to the status of the matter regarding compensation of faculty members involved in providing their services to the various executive programs. Mr. Britt reported that the issue continued to be under review and that he would provide an update to the Committee in the future.

9. Report of the Administrative Assessors

There were no reports from the administrative assessors.

10. Date of Next Meeting

The Chair advised that the date of the next meeting was Thursday, March 7, 2013.

11. Other Business

No items of other business were raised.

THE COMMITTEE MOVED IN CAMERA.

12. Internal Auditor – Private Meeting

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

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of the Internal Audit Department. Mr. Britt was invited, as provided in the terms of reference, to report on “any problems encountered, any failure to provide appropriate information or any restrictions on internal audit work, the general cooperation received in the performance of internal audit duties, and any matters requiring discussion arising from the auditor’s findings”.

Following his report, Mr. Britt absented himself from the meeting.

13. External Auditor

Members discussed the matter of external audit services.

THE COMMITTEE CONCLUDED ITS *IN CAMERA* SESSION.

The meeting adjourned at 7:48 p.m.

Secretary

Chair

January 18, 2013