

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 107 OF THE AUDIT COMMITTEE

April 29, 2013

To the Business Board,
University of Toronto.

Your Committee reports that it met on Monday, April 29, 2013 at 4:00 p.m. in the Board Room, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (In the Chair)
Ms Penny Somerville (Vice-Chair)
Mr. Jeff Collins
Ms. Kathryn A. Jenkins
Mr. Peter Robinson
Mr. Howard Shearer

Mr. Mark Britt, Director, Internal Audit Department ++
Ms Sheila Brown, Chief Financial Officer +
Prof. Scott Mabury, Vice-President, University
Operations +
Ms. Sheree Drummond, Secretary

Regrets:

Mr. Chris Thatcher

In Attendance:

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

+ Present for items 1 – 8.

++ Present for items 1 – 9.

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 106 (March 7, 2013) was approved.

REPORT NUMBER 107 OF THE AUDIT COMMITTEE – April 29, 2013**3. Business Arising from the Report of the Previous Meeting****(a.) U of T's Risk Management Framework: Update**

At the invitation of the Chair, Professor Mabury advised members that following a discussion with the President, he had decided to take a slightly different approach to this project from what had been discussed at the last meeting. The plan would be to build on the risk management information that was already brought forward to the Audit Committee. This would involve providing very specific examples from each vice-presidential portfolio of how risks are identified, how they arise, who manages them, and how they are communicated. Professor Mabury indicated that he was working with Mr. Britt to refine what was expected from each portfolio with a goal to ensuring that they were able to provide specific examples that would be illuminating and that would give a sense of how the entire University domain was managed. He also said he hoped to be able to provide some form of dashboard tool.

Mr. Britt noted that by looking at each Vice-Presidential portfolio and addressing the four bins of risk, it would be possible to get a better understanding of the various risk management activities. He said that in his view this would result in a more robust report and that it would give a visual perspective on which risks required focus and which risk management activities were addressing those risks. He also noted that another outcome of the project would be an ongoing risk register that would be something that could be referred to and amended throughout the year as risk evolved. He noted the importance of developing a common language of risk.

A member expressed support for the approach and commented that it would be helpful if the examples used showed how risk was evaluated or considered at decision points. Professor Mabury replied that he hoped to find a way to communicate to members that the University was doing this already. The Chair noted that in her view members needed a clearer understanding of how the activities were allocated across the portfolios.

Professor Mabury advised members that he expected this would be an iterative process and that he hoped to bring forward a report at the June meeting but if not then for the first meeting in the fall.

A member asked about reserves within the divisions. Professor Mabury replied that a basic principle was that once budgets were allocated within the University, the respective Faculties had carriage of the funds. He noted that under the budget model it had become even more important to ensure that divisions had appropriate reserves to support capital renewal and capital projects. He said that he and Ms Brown had a project underway to ensure that these reserves were carefully constituted and correctly labeled. The Chair reminded members that it was not the responsibility of the Audit Committee to look at these reserves.

Ms Brown noted that the annual academic budget reviews looked at the totality of divisional operations and as such considered their budgets, reserves, endowments and other trust funds, as well as any ancillary operations. Professor Mabury further emphasized that there was intensive

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discussion of reserves in these annual academic budget reviews. He noted that Deans had become more adept at understanding and utilizing the levers that they had at their disposal.

In response to a question from a member on setting targets, Professor Mabury added that as the business risks that confronted each faculty were unique to the respective faculty, it would not be appropriate to set target levels. He said that the approach used was to consider the specifics of each operation.

A member asked whether there was an ability to take reserves from one Faculty and redistribute them to another Faculty. Professor Mabury replied that this was not the practice and that there would not be an appetite to move in that direction. The focus was on encouraging Faculties to effectively manage and use all their resources, including reserves.

4. Draft Audited Financial Statements and Notes – April 30, 2013

The Chair advised members that the full financial statements would come before the Committee again at the June 12, 2013 meeting, at which time the Committee would consider a motion to recommend them for approval. She noted that no formal action was required at this time other than to provide any advice on the notes.

The Chair invited Mr. Pierre Piché to comment. Mr. Piché reported to members that it had been a long road since the conversation had begun about the new accounting standards and that he was happy that the University was now adopting them. He reminded members that the University was required to adopt the standards as of May 1, 2011. To that end the University was required to prepare the consolidated balance sheets using the new standards: its opening balance sheet position (May 1, 2011) and its 2012 balance sheet which were previously prepared under the old accounting standards. He said that the most significant changes were that the University was applying the immediate recognition approach to account for employee future benefits which had an impact of approximately \$1 billion to liabilities, and that the University had elected to recognize land at fair value (one time only) which had resulted in an increase in net assets of approximately \$2 billion. He informed members that the changes to the notes were that government remittances were required to be disclosed under the new accounting standards and that financial risks were now a separate note. In addition, some notes were no longer required and had been removed, namely: future accounting policy changes; capital management; and first generation pilot project initiatives note disclosure.

A member asked whether the phrase ‘adjusted for any valuation allowance’ in section (e.) Employee Benefit Plans, was old wording or whether it was still the case that there was a valuation allowance. Mr. Piché indicated that this reference was no longer needed.

A member asked for clarification of Note 16 on Endowments, specifically whether there could be an ‘IOU’ to the endowment fund. Ms Tory explained that the University’s policy provides that for years when the endowment does not earn enough it was possible to take the shortfall out of endowment capital. She noted that Trust Law does not require that the institution always have

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the full amount. She suggested that it would be appropriate to remove the reference to having to pay this back and Ms Brown agreed. The Chair noted more generally that the section in the Audit Committee's Terms of Reference with regard to the responsibility for reviewing the annual financial report on the endowment would be removed as this was a responsibility of the Business Board. This revision would come forward to the next meeting of the Committee.

5. Policy on Use of the External Auditor for Non-Audit Services

Ms Brown reported that the *Policy* was put in place in 2006 following extensive debate on exactly what the Committee would want to see in such a *Policy*. She indicated that the main types of activities that would fall into this category would be taxation matters and other *ad hoc* issues like the recent change to accounting rules.

In response to a member's question as to whether there should be a cap per assignment there was extensive discussion on what the cap might be, with suggestions ranging from \$250,000 to \$100,000, as well as the need for monitoring updates. Any assignment projected to be above the cap would require pre-approval by the Chair of the Audit Committee. The Chair summed up the discussion by recommending that the cap would be \$100,000 per assignment and that the Committee would receive a quarterly report from management and an annual report from the external auditors. Ms Brown advised that the *Policy* would be revised and brought forward for the Audit Committee to recommend to the Business Board for approval.

6. Reports of the Administrative Assessors

Professor Mabury advised members that the Back Campus matter was ongoing.

Mr. Britt reported that he would report in June on the legal opinion on the matter of compensation of faculty members involved in providing their services to the various executive programs.

7. Date of Next Meeting

The Chair advised that the date of the next meeting was Wednesday, June 12, 2013. She reminded members that the major item of business would be the review of the audited financial statements. She also indicated that Mr. Britt would provide an overview of the procedures in place regarding 'whistleblowing'.

8. Other Business

Ms. Tory advised members that her colleague, Ms. Diana Brouwer, would have a more active role in the audit in anticipation of Ms. Tory's impending retirement.

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THE COMMITTEE MOVED *IN CAMERA*.

9. 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 of the Internal Audit Department. Following a brief report, Mr. Britt absented himself from the meeting.

10. Audit Committee Governance Review

Members discussed issues related to the Audit Committee governance review.

THE COMMITTEE CONCLUDED ITS *IN CAMERA* SESSION.

The meeting adjourned at 6:16 p.m.

Secretary

Chair

May 30, 2013