

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 111 OF THE AUDIT COMMITTEE

March 6, 2014

To the Business Board,
University of Toronto.

Your Committee reports that it met on Thursday, March 6, 2014 at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Ms Paulette L. Kennedy (Chair)	Mr. Mark Britt, Director, Internal Audit +++++
Ms Penny Somerville (Vice-Chair)	Ms Sheila Brown, Chief Financial Officer +++
Mr. Jeff Collins	Mr. Louis Charpentier, Secretary of the Governing Council +++
Mr. Howard Shearer	Prof. Scott Mabury, Vice-President, University Operations +++_
Ms Kathryn A. Jenkins	
Mr. Brian Lawson	
Mr. Peter Robinson	
Mr. Chris Thatcher +	
	Ms. Sheree Drummond, Secretary

In Attendance:

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

+ Absent for item 2.
++ Absent for items 2, 10 – 11.
+++ Absent for items 10 – 11.
++++ Absent for item 11.

ITEM 2 IS RECOMMENDED TO THE GOVERNING COUNCIL FOR APPROVAL. ALL OTHER ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

1. Chair's Remarks

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

2. Audit Committee Governance Review

The Chair indicated that only those members of the committee who had signed the confidentiality agreement would be present for the discussion. She also welcomed two guests who had been invited to attend the meeting as they were members of the External Audit RFP Evaluation Committee: Mr. John Switzer (Chair of the Business Board) and Mr. Shawn O'Grady.

The Chair provided some overview comments. She said that the selection of Ernst & Young was a unanimous decision that had been arrived at through the University's process for publicly-tendered request-for-proposals (RFP). She indicated that the process had been led by Procurement Services and that Procurement had coordinated all communications with the respondents. Procurement

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Services had also provided a RFP scoring process reflecting the selection criteria outlined in the RFP. The Chair noted that the evaluations for each candidate, for the RFP review and for the presentation, were completed by each member of the Evaluation Committee independently. She advised members that after the RFPs had been scored, the Committee had met to ensure consistency in its approach and that no changes were made to the scores assigned by any member of the Committee. She said that it was important to note that while 'industry' expertise (that is, understanding of the university sector) was very important, the process did not award any extra points or consideration for knowledge or expertise of the University of Toronto. The Chair said that the Evaluation Committee selected three firms to make presentations; the fourth firm did not have sufficient industry experience. She remarked that the presentations were clearly differentiating and that the respective focus or lack thereof on the critical issue of audit quality was a major distinguishing factor.

The Chair invited other members of the Evaluation Committee to comment. Mr. Switzer noted that while the Administration was part of the process, it had been a partner in the process. Two of the six members of the Committee were from the Administration. He emphasized that independent reviews were done by each member of the Committee. He recalled that he had been a defender of the *status quo* when the issue of changing external auditors had been raised two years previously but that he had gone into this process somewhat expecting that it would come up with a different result. In his view, the integrity of the selection process had been exemplary: it had been managed carefully by Procurement to ensure that it had met the required high standards, and the result was sound. Another member of the Evaluation Committee indicated that she shared this view.

Mr. O'Grady noted that only Ernst & Young had indicated that they would provide a specific audit team for the University of Toronto Press. He further noted that after the written presentations additional questions were provided to the firms that had made presentations. He said that four of those questions referred to both the University of Toronto and the University of Toronto Press, and he noted that only Ernst & Young had addressed the Press.

In response to a question from a member about lessons learned and directions for the future, the Chair said that in her view people mattered, namely that the people in the room and their ability to communicate and respond to the expressed needs made a significant difference. Another member commented that she thought that there was incredible value in going through a pre-determined process like this on a regular basis and that the present experience had been of great value to the University. She suggested, though, that some thought might be given to weighting the presentation component higher. With regard to doing anything different in the future, the Chair expressed her view that the only constraint was in not being able to identify the competing firms. In response to a question from another member as to why this was the case given that non-disclosure agreements had been signed, Ms Brown explained that this was a provision in the University's RFP process which only allowed for members of the Evaluation Committee to see all the details. Mr. Switzer noted that he would have liked to have had a bidders' conference. Ms Brown remarked that the procurement industry had moved away from having these as it is not considered a best practice. The process provided for questions to be submitted in writing, with the answers posted publicly along with the RFP. A member noted that it was sometimes the case that an incumbent was not permitted to respond to an RFP. Ms Brown said that the University, as a public institution, was bound by a prescribed public tendering process and under that process anyone could respond. The Chair reminded members that the objective of undertaking an RFP process had not been to change the external auditor, but to select the best external auditor. She noted that the Audit Committee would formalize the requirement for a regular tendering process in the upcoming governance year.

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A member commented on the focus on audit quality and asked what guarantees were in place to ensure that this was carried through in practice. The Chair responded that a commitment had been made on behalf of the Audit Committee, that the Committee would develop an audit quality review process in the coming governance year.

In response to a question about the timing of the Audit Committee's discussion vis-à-vis when the decision was made by the Evaluation Committee, Ms Brown clarified that the University had a negotiable RFP process which stipulated that if you cannot reach a deal with the first proponent then you can go to the second proponent. The opportunity to go to the second proponent was only based on the inability to negotiate a contract.

On a motion duly moved, seconded and carried

YOUR COMMITTEE RECOMMENDED TO THE GOVERNING COUNCIL

THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2015;

THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto pension plans for the fiscal year ending June 30, 2015.

3. Report of the Previous Meeting – Report Number 110 of the Audit Committee – November 26, 2013

Report Number 110 (November 9, 2013) was approved.

4. Business Arising from the Report of the Previous Meeting

The Chair invited Mark Britt to address two matters of business arising from the previous meeting. On the matter of the research compliance audit function and the joint proposal with the Office of the Vice-President, Research and Innovation, Mr. Britt confirmed that a budget submission had been made in coordination with the Research Oversight and Compliance Office (ROCO). The request was for a position that would focus on pre- and post-award compliance. Mr. Britt reported that the request had been deferred for year and that Internal Audit and ROCO had been asked to demonstrate how the two portfolios would work together to bring about further efficiencies, reporting of compliance and development of compliance training. He said that in the interim he would be working with the head of ROCO on alternative approaches to monitoring compliance, including building a database of information that Internal Audit finds through its continuous audit processes. Professor Mabury noted that approval had been given, however, for a communications position that would coordinate among the relevant Vice-Presidents to focus on informing faculty members of the current risks (e.g., self-plagiarism) and managing those risks.

On the matter of the Procedures for Reporting Incidents of Financial Impropriety Mr. Britt said that he had met with the President and Vice-Presidents and that they were supportive of the changes that had been proposed. He said that they had suggested that there be further codification of the timing and detail of reporting and that he would be working with the Secretary of the Governing Council on this. The goal was to bring further clarity around the issue of what information gets communicated

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and to whom, as well as what steps were being taken to address the issue. He said that he would come back to the Committee with any additional changes at a future meeting.

A member asked what impact, if any, would the proposed expansion of the powers of the provincial Ombudsman have on the University. The Secretary of the Governing Council said that the issue of extending the provincial Ombudsman's reach to include universities and hospitals had been an ongoing issue. He advised members that the University had contributed to a Council of Ontario Universities (COU) submission. The University of Toronto's position was that extending the jurisdiction to include universities would be a duplication of resources and that the University had a well-established Ombuds Office that had been shown to be effective and that used its resources efficiently.

Ms Tory addressed the matter of business arising in regard to whether the terms and conditions in the Audit Plan were the same as in previous years. She confirmed that they were the same.

5. Report on Non-Audit Services by the External Auditors for the period from November 1, 2013 to January 31, 2014

The Chair reminded members that the recent review of the *Policy on Use of the External Auditors for Non-Audit Services* had resulted in a change to the *Policy* whereby there would be quarterly accumulative reporting on payments to the external auditor for non-audit services. She said that this was the first such quarterly report. Mr. Piché reported that there were only two non-audit services had been provided in this period.

6. U of T's Risk Management Framework: Update

Professor Mabury provided an update on the Risk Management Framework. He advised that he had taken it to the Tri-Campus Vice-Presidents (TVP) group. This was the first time that the group had seen the combined document. They had reviewed the document and focused in particular on the areas that involved multiple portfolios. There had been discussion of particular risks (e.g., collective bargaining, enrolment, research misconduct). He said that the exercise had been useful with respect to providing each of the Vice-Presidents with a better understanding of the overall view of risk within the University.

On a related matter, Professor Mabury reported to the Committee that on February 16, 2014 City Council had approved the tree permit for the Faculty of Law project. He also spoke briefly about the positive developments in regard to the University's plans for the Huron-Sussex area and the support that it had received from the local councillor as well as from the Huron-Sussex Residents' Organization.

7. Reports of the Administrative Assessors

There were no reports from the administrative assessors.

8. Date of the Next Meeting – Monday, April 28, 2014

The Chair advised that the date of the next meeting was Monday, April 28, 2014 at 4:00 p.m.

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9. Other Business

No items of other business were raised.

THE COMMITTEE MOVED *IN CAMERA*.

10. 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, Internal Audit.

11. Committee members alone

Members discussed matters raised by the Director, Internal Audit.

The Committee returned to closed session.

The meeting adjourned at 5:59 p.m.

Secretary

Chair

March 7, 2014