To the Business Board,  
University of Toronto

Your Committee reports that it met on Wednesday, June 14, 2017, at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Mr. Brian D. Lawson (Chair)  
Ms Janet Lynne Ecker (Vice-Chair)*  
Mr. Robert Boeckner  
Ms Kathryn A. Jenkins*  
Mr. Howard Shearer  
Mr. Christopher Thatcher  
*Participated by teleconference

REGRETS:

Mr. Brian K. Johnston  
Ms. Penny F. Somerville

Non-Voting Assessor:

Mr. Mark L. Britt, Director, Internal Audit+  
Ms Sheila Brown, Chief Financial Officer+  
Ms Sheree Drummond, Secretary of the Governing Council+  
Professor Scott Mabury, Vice-President, University Operations+

Secretariat:

Ms Mae-Yu Tan, Secretary+

In Attendance:

Ms Diana Brouwer, Ernst & Young++  
Mr. John Kerr, Director, Risk Management and Insurance+  
Mr. Daniel Ottini, Deputy Director, Internal Audit+  
Dr. Pierre G. Piché, Controller and Director of Financial Services+  
Ms Joyce Yu, Ernst & Young++  
+Absent for Items 5c, 12 – 13  
++Absent for Items 6, 12 – 13

Items 5e and 6 are recommended to the Business Board for approval. All other items are reported for information.
Pursuant to section 6.1 of the Audit Committee Terms of Reference, consideration of items 5c, 12, and 13 took place in camera.

1. Chair’s Remarks

The Chair welcomed members and guests to the meeting. He reminded them that the Committee met in closed session.

2. Report of the Previous Meeting

Report Number 123 from the meeting of May 1, 2017 was approved.

3. Business Arising from the Report of the Previous Meeting

The Chair noted one item of business arising from the report of the previous meeting; the risk review process would be discussed under Item 8 of the agenda.


Mr. John Kerr, Director, Risk Management and Insurance, provided highlights of the 2016 – 2017 Risk Management and Insurance Annual Report. He informed the Committee that the bulk of the University’s insurance premiums were largely unchanged from the previous year. There had been a slight increase of the property policy premiums and a significant premium increase for the commercial crime policy. Self-insured property claims had returned to more manageable levels, with a decrease from the number of new claims in the previous year. Regarding liability, a slightly higher number of claims had been opened; they addressed bodily injury (primarily slips and trips) and minor property damage matters. Mr. Kerr also advised the Committee of a construction project claim and an employee dishonesty claim that had been settled.

In response to a question, Professor Mabury assured the Committee that good oversight and controls for employee dishonesty were in place. A member asked whether other types of insurance coverage had been considered. Mr. Kerr confirmed that was the case; he was working with colleagues to determine the need and benefit of additional coverage. Professor Mabury noted that the value in a multi-institutional approach for cyber risk insurance was being discussed. In response to another question, Mr. Kerr stated that, as separate legal entities, the federated universities held insurance policies separate from those of the University. As well, there were a number of affiliated organizations to which the University extended its insurance coverage, such as the University of Toronto Asset Management, the University of Toronto Alumni Association, the Faculty Club, and Massey College.

The Chair thanked Mr. Kerr for his thorough report and for his work throughout the year.
5. **Audited Financial Statements for the Year Ended April 30, 2017**

   a. **Financial Report Presentation**

   Dr. Pierre Piché, Controller and Director of Financial Services, gave a presentation on the Financial Report for the year ended April 30, 2017, highlighting the following matters:

   - There had been a $1.1-billion increase in net assets to $5.5-billion, resulting mainly from favourable investment returns, increased revenues, tight expense control, and increased endowed donations.
   - Pension plan actuarial gains of $43-million also had contributed to a decrease in the pension plan deficit.
   - Revenue growth was mostly due to increased international student enrolment.
   - Restricted government grants, including funding from the Strategic Infrastructure Fund, also had contributed to revenue growth; as had a large increase in research funding.
   - Expenses had grown to reflect the growth in activities, with salaries and benefits accounting for 72% of operating expenses.
   - Assets and liabilities had increased to accommodate growth in students and research.
   - The endowment fund was valued at about $2.4-billion, with over $1.0-billion allocated for student aid.

   In the discussion that followed, Ms Brown commented that the financial forecast differed from the financial results due to unforeseen investment income and funds saved by the divisions. In response to a member’s question, Ms Brown explained that it was important for the University to maintain appropriate financial reserves to address business risk associated with student enrolment and other uncertainties. Dr. Piché added that deferred maintenance costs and pension liability also pointed to the need to maintain a healthy reserve. The matter of “net tuition” fees and changes in the Ontario Student Assistance Program procedures was also discussed.

   The Chair thanked Dr. Piché and Ms Brown and commended the Financial Services team for their work in preparing the financial statements.

   b. **External Auditors: Report of Audit Results**

   Ms Diana Brouwer, Ernst & Young, gave an overview of the Audit Results Report, noting that the audit was substantially complete, except for a few outstanding investment confirmations. She advised that, with respect to revenue recognition, there was reasonable allocation of income. On the expense side, assumptions made regarding employee future benefits had been examined, and no issues had been identified. Ms Brouwer noted that vacation accrual was one matter that had been focused on in past years. Since then, the administration had followed up and continuous improvement, especially in the use of the Human Resources Information System, was evident. Ms Brouwer and her team would continue to monitor the matter. A member noted that there were some hard to value assets and asked for Ms Brouwer’s view of them. She replied that there were differences when valuing certain investments, but they were not significant. The audit results indicated that there were no significant events to be brought to the attention of the Committee.
c. External Auditors: Private Meeting

The Committee moved in camera.

Members of the administration, the Secretariat, and the Internal Audit team absented themselves. Ms Brouwer was invited to advise of “any problems encountered by the auditors, any restrictions on their work, the co-operation received in the performance of their duties by the administration and the Internal Audit Department, and any matters requiring discussion arising from the auditors’ findings.” (Audit Committee Terms of Reference)

The Committee returned to closed session.

The Chair reported that there had been no matters arising from the Committee’s in camera meeting with the external auditors that would require action.

d. Legal Claims

The Committee received the 2016 – 2017 summary of legal claims against the University exceeding $500,000 prepared by the administration. Dr. Piché stated that a number of claims had been settled during the past year. In response to a question, he confirmed that there was no provision for claims recorded in the accounts. He noted that the University had been successful in settling claims for amounts lower than claimed.

e. Discussion and Recommendation

On a motion duly moved, seconded and carried

YOUR COMMITTEE RECOMMENDS

THAT the University of Toronto audited financial statements for the fiscal year ended April 30, 2017 be approved.

6. Appointment of the External Auditors for 2017-2018

Dr. Piché informed the Committee of the process he had followed in gathering and compiling feedback about the external auditors. He stated that the administration was very pleased with the work of Ernst & Young; they had a deep understanding of the university sector and its associated risks. The Ernst & Young team responded quickly to issue papers sent to them by Dr. Piché throughout the year. As such, it was possible for the main audit to be completed soon after the end of the fiscal year.

During its discussion, the Committee considered the staffing of the University of Toronto Asset Management (UTAM) audit. Dr. Piché stressed the importance of relationship building when working with the external auditors. Ms Brown provided some context for the proposed re-appointment, noting that the current contract with Ernst & Young had been implemented following the 2014 tendering of the audit for the 2015 financial statements.
On motion duly moved, seconded and carried

YOUR COMMITTEE RECOMMENDS

THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2018; and

THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto pension plan for the fiscal year ending June 30, 2018.

7. Internal Audit

a. Annual Report, 2016-2017

Mr. Mark Britt, Director, Internal Audit, highlighted key points from the Internal Audit Department Annual Report for the year ended April 30, 2017. He noted that the Report focused on the effectiveness of internal controls for five of the top ten risks to the University identified in the administration’s 2016 Risk Report – data security, data loss, grant sponsor/donation compliance, environmental, and equipment loss. Members of the senior administration had been advised of the Internal Audit Report findings at a recent meeting of the Tri-campus Vice-Presidents (TVP), and management was considering how best to address each of the risks. Internal Audit would conduct follow-up reviews within the next twelve months and would periodically report to senior management and the Committee.

The Committee discussed the extent of the information technology (IT) security risk and the planned timeline for addressing it. Mr. Britt noted that the senior team had indicated that an upcoming TVP retreat would provide one venue for in-depth discussions on the matter. IT risk was a priority for the new Chief Information Officer (CIO), and results from a recent IT security survey would help pinpoint other areas of concern.

b. Plan 2017-2018

Mr. Britt outlined the 2017 – 2018 Audit Plan to the Committee. In response to questions, he provided further information about the development of the audit schedule and the audit selection process. Because of its size, many more audits occurred on the St. George campus than on the other two campuses. Mr. Britt noted that, while audit selection was not cyclical, audits of one type or another took place on an ongoing basis at the University. Some were less in-depth, such as the compliance audits of operating and research expenditures, while others were full scope in nature. In response to a question, Mr. Britt informed the Committee that his staff were entitled to five days per year for continuing education activities, which he encouraged them to use.

Members praised Mr. Britt and his team for the calibre of work they conducted.
8. Risk Review Process

At the invitation of the Chair, Professor Mabury spoke to plans to address oversight of risks to the University. He stated that the enhancement of the risk framework was an iterative process, which was strengthened each year. Feedback from the Committee would be incorporated into future processes, and Professor Mabury would be even more deeply engaged in the development of future risk reports. In response to comments from the Chair, Professor Mabury reiterated that the TVP had recently had a fruitful discussion regarding risk. He committed to working closely with the Vice-Presidents to mitigate risks of high probability and high impact. Professor Mabury then outlined the process that had culminated in the approval of the *Policy on Information Security and the Protection of Digital Assets* and informed the Committee that he and the new CIO would establish the Information Security Council (ISC) in Fall 2017. The Chair suggested that challenges regarding the ISC be discussed at a future meeting of the Executive Committee.

Mr. Britt then reported on the TVP discussion of risk, noting that a great deal of time had been dedicated to examining issues and possible solutions. The top ten risk framework was very helpful in moving the dialogue forward and further discussions would take place at the TVP retreat and in other settings. Ms Drummond confirmed that a robust conversation had taken place and assured the Committee that senior leadership was engaged with the matter of risk mitigation. The Chair observed that this would continue to be an important source of work for the Committee in the coming year.

9. Reports of the Administrative Assessors

Professor Mabury informed the Committee that Dr. Pierre Piché had received the Edward F. Sheffield Award from the Canadian Society for the Study of Higher Education for the best research article in the Canadian journal of Higher Education in 2016. The Committee applauded Dr. Piché.

10. Date of the Next Meeting

The Chair stated that the next meeting was scheduled for Wednesday, December 6, 2017, from 4:00 to 6:00 p.m.

11. Other Business

The Chair thanked members, assessors, the internal auditors, and the Secretariat for their work over the past year. He acknowledged the Vice-Chair, Ms Janet Ecker, as well as two members - Mr. Brian Johnston and Ms Penny Somerville - whose terms on the Committee would end as of June 30, 2017.

On behalf of the Committee, Ms Drummond thanked the Chair for his leadership and service over the past two years. She presented him with a chair as a token of appreciation.

The Committee moved *in camera*.
12. **Internal Auditor – Private Meeting**

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

13. **Committee Members Alone**

The Committee members met alone.

The Committee returned to closed session.

The meeting adjourned at 6:12 p.m.

_______________________  ________________________
Secretary                    Chair

June 29, 2017