

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 120 OF THE AUDIT COMMITTEE

June 15, 2016

To the Business Board,
University of Toronto.

Your Committee reports that it met on Wednesday, June 15, 2016 at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

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| Mr. Brian D. Lawson (Chair) | Mr. Robert Boeckner |
| Mr. Mark Britt, Director, Internal Audit* | Mr. David Bowden |
| Ms Sheila Brown, Chief Financial Officer* | Ms Kathryn A Jenkins |
| Ms Sheree Drummond, Secretary of the Governing Council* | Mr. Howard L. Shearer |
| Prof. Scott Mabury, Vice-President, University Operations* | Ms Penny F. Somerville |
| Ms Janet Ecker (Vice-Chair) | Mr. Christopher Thatcher |
| | Mr. David Walders, Secretary* |
| | Mr. Anwar Kazimi, Deputy Secretary of the Governing Council* |

In Attendance:

Ms Diana Brouwer, Ernst & Young +
Mr. Darrell Jensen, Ernst & Young +
Mr. John Kerr, Director, Risk Management and Insurance*
Dr. Pierre G. Piché, Controller and Director of Financial Services*
Mr. Daniel Ottini, Audit Manager*
Ms Joyce Yu, Ernst & Young +

* Absent for Items 5C, 12-13

+Absent for Items 6, 12-13

ITEMS 5 and 6 are RECOMMENDED FOR APPROVAL AND ALL OTHER ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

Pursuant to section 6.1 of the Audit Committee terms of reference, consideration of items 12-13 took place in camera.

1. Chair's Remarks

The Chair welcomed members to the final meeting of the year and reminded them that the Committee met in closed session and that the materials were confidential.

REPORT NUMBER 120 OF THE AUDIT COMMITTEE – June 15, 2016**2. Report of the Previous Meeting: Report Number 119 of the Audit Committee – May 4, 2016**

Report Number 119, of the previous meeting, was approved.

3. Business Arising from the Report of the Previous Meeting

There was no business arising from the report of the previous meeting.

4. Risk Management and Insurance Annual Report 2015/16

Mr. John Kerr, Director, Risk Management and Insurance, reported that 2015/16 had seen a slight increase in premium costs increased slightly year over year for principal insurance coverage. There were no incidents during the year that required reporting to property insurers. Self-insured property claims had decreased slightly from the previous year and had returned to more manageable levels. Regarding liability, a slightly higher number of claims had been opened, the nature of which were routine premises related incidents.

In reply to a question from the Chair regarding the University's General Reserve, Ms Brown responded that it was a self-funded restricted fund that was used to pay claims. Since it was self-funded, it was not included in the Audited Financial Statements. In reply to a member's question regarding evaluation of University assets, Mr. Kerr replied that Statistics Canada indices are used to adjust the estimated replacement value of University buildings and contents.

5. Audited Financial Statements for the Year ended April 30, 2016**a) Financial Report: Presentation**

Dr. Piché offered a presentation which highlighted the following:

- Revenues for the year ended April 30, 2016 were \$2.9 billion and expenses were \$2.7 billion for a net income of \$210.6 million. These figures were largely the result of funds being set aside in accordance with multi-year divisional academic plans that called for prudent and deliberate use of reserves for future capital investment in academic facilities and for faculty hiring.
- Revenue growth continued to be mostly due to student enrolment.
- The pension plans' deficit increased from \$617.4 million in 2015 to \$797.4 million in 2016, mainly due to weak investment markets.
- Net assets remained unchanged from 2015 and were currently at approximately \$4.3 billion. This was as a result of a net income of \$210.6 million and endowed donations of \$28.8 million offset by a \$72.7 million decrease in externally restricted endowments and negative \$193.7 million in remeasurements.
- For the operating fund, the net change in the cumulative operating surplus for the year was \$14.9 million, resulting in a cumulative operating surplus at April 30, 2016 of \$22.1 million, whereas the long-range operating budget called for a break even position.

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In the discussion that followed, Dr. Piché explained how, despite an investment return of -0.3% for the Long Term Capital Appreciation Pool, there was positive investment income that was shown in the Audited Financial Statements.

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 Brouwer provided an overview of the Report, drawing specific attention to the analysis of contribution classifications and investments (including valuation, and joint ventures), as well as assumptions made regarding employee future benefits. In addition, she drew members' attention to the fact that specialists had been engaged to assist in the Reporting, especially with respect to the University's investment in the MaRS Phase II Project. The audit results indicated that there were no issues to bring to the Committee's attention nor any unadjusted errors.

c) External Auditors: Private Meeting

THE COMMITTEE MOVED IN CAMERA

Members of the administration and the Internal Auditor absented themselves. Ms Brouwer was invited to advise, as provided in the Committee's *Terms of Reference*, 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."

THE COMMITTEE ENDED ITS IN CAMERA 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 report prepared by management. In reply to a question from a member, Dr. Piché replied that the number of Long Term Disability claims was not atypical for a large institution such as the University.

e) Discussion and Recommendation

On the recommendation of the Chief Financial Officer,

YOUR COMMITTEE RECOMMENDS TO THE BUSINESS BOARD

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THAT the University of Toronto audited financial statements for the fiscal year ended April 30, 2016 be approved.

6. Appointment of the External Auditors

On motion duly moved, seconded and carried

YOUR COMMITTEE RECOMMENDS TO THE BUSINESS BOARD

THAT Ernst & Young LLP be re-appointed as external auditors of the University of Toronto for the fiscal year ending April 30, 2017; 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, 2017.

7. Internal Audit

a) Annual Report, 2015-16

Mr. Britt reported that the results of the audits completed and/or in progress as at April 30, 2016 revealed that the internal audit department had worked effectively to manage the identified significant risks with the result that the financial, compliance and operational risks to the University were considered acceptable and commensurate with the size and complexity of its decentralized administration environment. He then highlighted the following main points from the Annual Report:

- The staff complement in the Department of Internal Audit remained constant at 9 Full-Time Equivalent (FTE).
- Audit hours totalled 10,362 which were approximately 105% of Plan. This was largely owing to lower absentee time and vacation deferrals.
- Twenty-five reviews were completed with 20 in progress and one draft report outstanding.
- There were also 6 follow-up reviews completed during the period and 5 investigations.
- Finally, 2016 saw the completion of the first co-sourced audit of Information Technology Systems security.

b) Plan 2016-17

Mr. Britt apprised the Committee of the Audit Plan for 2016-17, highlighting the following main points:

- There would again be 9,900 direct audit hours from a staff complement of 9.0 FTE. A request had also been made to include 4 students to work a maximum of 12 hours per week.

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- The focus would be on enterprise, divisional and departmental risks, and would include the following: academic, administrative and student services functions on the three campuses; Department audits, Continuous Audit, Restricted Funds Compliance Audit, Information Systems reviews, Follow-up reviews, Investigations and Advisory Services.
- Assistance would also be provided to Ernst & Young as they conducted their external audit.

In reply to a member's question regarding the amount of time spent on follow-up reviews in 2015-2016, Mr. Britt replied that due to the complexity of the follow-up reviews, more time than expected was spent on follow-up reviews in 2015-2016. It was anticipated that less time would be devoted to follow-up reviews in 2016-2017. In response to a members' question regarding departmental audits, Mr. Britt acknowledged that while a large number of departmental audits had indicated that improvements were needed, the potential risks identified in those audits were localized and did not present a risk to the University as a whole.

8. Debt Policy Limit, Debt Allocations, Outstanding Debt Issued and Status of the Long Term Borrowing Pool to April 30, 2016

The Report was received by the Committee for information. The Chair suggested, and members agreed, that it may be desirable in the future to clarify the *Terms of Reference* of the Committee to accurately reflect its specific mandate. This Report, it was agreed, should be presented only to the Business Board given its specific mandate and not the Audit Committee.

9. Reports of the Administrative Assessors

Professor Mabury offered an update on the current labour dispute between two unions on campus regarding the University's plan to in-source food operations following the expiration of its current food services contract with Aramark.

10. Date of the Next Meeting – Tuesday, October 20, 2016 at 4:10 p.m.

The Chair advised that the next meeting would be on Thursday, October 20, 2016 at 4:10 p.m.

11. Other Business

There were no items of other business.

THE COMMITTEE MOVED *IN CAMERA*.

12. Internal Auditor – Private Meeting

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

13. Committee members alone

The Committee returned to closed session.

The meeting adjourned at 6:05 p.m.

Secretary

Chair

June 21, 2016