

UNIVERSITY OF TORONTO
THE GOVERNING COUNCIL

REPORT NUMBER 133 OF THE AUDIT COMMITTEE

June 17, 2019

To the Business Board,
University of Toronto

Your Committee reports that it met on Monday, June 17, 2019, at 4:00 p.m. in the Governing Council Boardroom, Simcoe Hall, with the following members present:

Christopher Thatcher (Chair)
Robert Boeckner
Sue Graham-Nutter*
Kathryn Jenkins

REGRETS:

Janet Ecker (Vice-Chair)
Andrew Szende

NON-VOTING ASSESSORS:

Mark L. Britt, Director, Internal Audit
Sheila Brown, Chief Financial Officer
Sheree Drummond, Secretary, Governing Council
Scott Mabury, Vice President, Operations and Real Estate Partnerships

SECRETARIAT:

Tracey Gameiro, Audit Committee

IN ATTENDANCE:

Diana Brouwer, Ernst & Young
Alanna Charles, Ernst & Young
Jeff McIlravey, Internal Audit
Daniel Ottini, Deputy Director, Internal Audit
Pierre Piché, Controller and Director of Financial Services
Isaac Straley, Chief Information Security Officer
Linda Ye, Internal Audit
**via conference call*

Audit Committee met in Closed Session.

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ITEM 2 WAS APPROVED. ITEMS 4 AND 5 ARE RECOMMENDED TO THE BUSINESS BOARD FOR APPROVAL. 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 11 and 12 took place in camera.

1. Chair's Remarks

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

2. Report of the Previous Meeting

Report Number 132, from the meeting of May 2, 2019, 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. Audited Financial Statements for the Year Ended April 30, 2019

a. Financial Report Presentation

Ms. Sheila Brown, Chief Financial Officer, provided an introduction to the Financial Report. She thanked Dr. Pierre Piché, Controller and Director of Financial Services and his team for their work and acknowledged the efforts of the Internal Audit Department and the External Auditors in completing the audit on a challenging timeline.

Dr. Piché's [presentation](#) of the *Financial Report for the year ended April 30, 2019*, highlighted the following:

- Revenues for the year ended April 30, 2019 were \$3.6 billion and expenses were \$3.1 billion for a net income of \$505 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 as a result of the acquisition of capital assets that were not expensed.
- Revenue growth continued to be mostly due to student enrolment and government grants.
- The number of students at the University had grown substantially, by 23%, over the past 10 years.
- Net assets increased by \$507 million to \$6.5 billion in 2019. This was the result of a net income of \$505 million, \$75 million increase in endowments, offset by \$73million in remeasurements and other items relating to employee future benefits.
- The pension plan's deficit improved from \$319 million in 2018 to \$308 million in 2019. This improvement was occasioned by special going concern payments into the plan, offset primarily by the adoption of new mortality tables.

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- The deficit of \$162 million was largely due to internal financing of capital construction in accordance with the University's debt strategy.
- The net decrease in the cumulative operating surplus for the year was \$20 million, which resulted in a cumulative operating surplus at April 30, 2018 of \$34 million, whereas the long-range operating budget called for a break even position.

Members thanked Dr. Piché and Ms. Brown and commended the Financial Services team for their work in preparing the Financial Statements.

b. External Auditor's Report on Audit Results

Ms. Brouwer, Partner, Ernst & Young provided a high-level overview of the *External Auditors' Report of Audit Results*. She explained that audit procedures emphasized testing processes, accounts, contracts or transactions where the greatest risk of material misstatement to the financial statements (whether due to error or fraud) was perceived. Ms. Brouwer reported that the 2019 audit was substantially complete, and noted a change in approach in gathering and validating data, in that data analytics testing was performed in addition to the usual control testing. Financial data was obtained from management in the year which allowed the external auditor to perform data analytics using 100% of the transactions. Ms. Brouwer explained that analyzing the data in this way allowed for better insight into operations, processes and controls, an increased scope of testing and a reduced burden on management. It was reported that there were no misstatements as a result of the audit and that uncorrected misstatements were not material and were consistent with those identified in the prior year.

The audit results indicated that there were no issues to bring to the Committee's attention.

c. Legal Claims

The Committee received the 2018-2019 summary of legal actions against the University exceeding \$500,000 prepared by the administration. Dr. Piché reported that while the number of legal claims had decreased significantly, there had been an increase in long-term disability (LTD) cases as compared to prior years.

d. 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.

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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.

e. Discussion and Recommendation

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

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, 2019 be approved.

5. Appointment of the External Auditors for 2019-2020

Dr. Piché informed the Committee of the process followed in gathering and compiling feedback about the external auditors, beginning with a review of the Auditor Assessment Template. The review template comprised five broad categories:

1. Quality of engagement team considerations
2. Quality of service considerations
3. Quality communications from the audit firm
4. Exercising professional skepticism
5. Safeguards against institutional familiarity threats.

Following these introductory remarks regarding the review process, Ernst & Young excused themselves and discussions of the appointment of the external auditor for the 2019-2020 year continued in their absence.

Dr. Piché reported 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, and were responsive. Ms. Brown added her support for the re-appointment of Ernst & Young describing them as knowledgeable, proactive external auditors who delivered a lot of value and worked collaboratively with the University to ensure that issues and changes were dealt with as they arose.

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, 2020; 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, 2020.

6. Internal Audit Annual Report (to April 30, 2019)

a. Annual Report, 2018-2019

Mr. Mark Britt, Director, Internal Audit, highlighted key points from the *Internal Audit Annual Report Summary for the year ended April 30, 2019*. He noted that members of the senior administration had been advised of the Internal Audit Report findings at a recent meeting and that 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.

Mr. Britt noted that audit results were similar in type and extent and were consistent with the result from the 2018 Report and those of a number years prior to that. Internal control and process weaknesses observed over the years were considered to be systemic and attributed to resource and time constraints that were perceived inefficient, outdated and overly bureaucratic business processes by administrative staff and academic administrators. With respect to IT risks, Mr. Britt explained that the decentralized IT environment fostered and nurtured the development and maintenance of autonomous IT operations through the University due to the absence of any requirement to comply with standards related to IT security, data protection, privacy and ownership.

In closing, Mr. Britt reported that the new audit management system *Teammate+* implemented June 7, 2019 would allow for more better issue tracking, more timely and consistent risk assessment, identification of trends and patterns, multidimensional reporting, resulting in better client engagement and increased opportunities for remediation.

In response to a members' questions regarding how the findings were being received, especially with regards to processes viewed as ineffective or overly bureaucratic, Mr. Britt noted that the analytics generated by the new audit management system would provide tools that would enhance and improve processes themselves. In addition, Mr. Britt suggested that the SAP (Systems Applications and Products) renewal offered an opportunity to review processes and procedures. As part of the discussion, Ms. Brown indicated that her team would review key issues to determine which core elements would be carried forward or changed in the new system. Ms. Brown remarked that this type of undertaking would take several years.

Professor Mabury added that the University would be joining a consortium of 48 universities that use *UniForum*, a data analysis tool that measures administrative expenditures and provides suggestions for improved efficiencies. Professor Mabury suggested that the results of that project could also help inform process improvement strategies.

b. Audit Plan, 2019-2020

Mr. Britt reviewed the Audit Plan for 2019-2020 with the Committee, highlighting the following:

- There would be 11,500 direct audit hours from a staff complement of 11.0 FTE.
- The focus would be on enterprise, divisional and departmental risks, and would include academic, administrative and student services functions on the three campuses; Department

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audits, Continuous Audit, Restricted Funds Compliance Audit, Information Systems reviews, Follow-up reviews, and Investigations and Advisory Services.

- Assistance would also be provided to Ernst & Young as they conducted their external audit.
- Audits would be selected with reference to the 2018 Risk Report, consultations, senior and operational management requests and internal audit risk assessments.

In reply to a member's questions, he provided information about the development of the audit schedule and the audit selection process.

Members praised Mr. Britt and his team for the Annual Report and the development of the 2019-2020 Audit Plan.

7. Information Security Update

The Committee welcomed Chief Information Security Officer, Mr. Isaac Straley and invited him to provide an update on information security at the University.

Mr. Straley provided an overview of the following:

- learning from data breaches in other educational institutions to help identify vulnerabilities and improve the University's response protocols;
- availability of information and security staffing resources;
- risks associated with unknown data repositories, email security and phishing response, and travel;
- network vulnerability scanning;
- external reputation monitoring; and
- compromised activity detection.

In his concluding remarks, Mr. Straley outlined priorities for 2019-2020, which included identifying a risk assessment program, establishing a baseline for security standards, defining data classification, and identifying training needs. The IT Security Plan for 2019 proposed a 'hybrid' external assessment every three years, led by a specialty security firm but involving consultation with Chief Information Security Officers from three comparable higher education institutions. In terms of timing, Mr. Straley indicated that plans were to have the report of the security assessment completed by October 2019 (which was recognized as Cyber Security Awareness Month), with a report of the findings to the Committee in December.

The Chair thanked Mr. Straley for his report and reiterated the Committee's interest in having these updates appear as a regular agenda item on a go forward basis.

8. Reports of the Administrative Assessors

There were no additional reports from the Committee's Administrative Assessors.

9. Date of the Next Meeting

Members were reminded that the next meeting was scheduled for Monday, September 9, 2019, 4:00 – 6:00 p.m.

10. Other Business

A member raised the issue of reputational risk relating to admission processes as a concern.

The Chair thanked, members, assessors, the internal auditors, and the Secretariat for their work over the past year.

THE COMMITTEE MOVED IN CAMERA.

11. Internal Auditor – Private Meeting

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

12. Committee Members Alone

Committee members discussed topics of interest and concern.

The Committee returned to Closed Session.

The meeting adjourned at 6:29 p.m.

Secretary

June 18, 2019

Chair