

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 114 OF THE AUDIT COMMITTEE

October 14, 2014

To the Business Board,
University of Toronto.

Your Committee reports that it met on Tuesday, October 14, 2014 at 4:00 p.m. in the Boardroom, Simcoe Hall, with the following members present:

Mr. Brian Lawson, Vice-Chair (In the
Chair)
Mr. Robert Boeckner
Ms Janet Ecker
Ms Kathryn A. Jenkins
Mr. Howard Shearer
Ms Penny Somerville
Mr. Chris Thatcher

Mr. Mark Britt, Director, Internal Audit ++
Ms Sheila Brown, Chief Financial Officer +
Professor Scott Mabury, Vice-President,
University Operations

Mr. David Walders, Secretary

Regrets:

Ms. Paulette Kennedy

In Attendance:

Ms Diana Brouwer, Ernst & Young +
Mr. Darrell Jensen, Ernst & Young +
Dr. Pierre G. Piché, Controller and Director of Financial Services +
Ms Joyce Yu, Ernst & Young +

+ Absent for items 11-12

++ Absent for Item 12

ALL ITEMS ARE REPORTED TO THE BUSINESS BOARD FOR INFORMATION.

1. Chair's Remarks and Introductions

The Vice-Chair informed members that the Chair was unable to attend the meeting and that he was pleased to Chair the meeting. He welcomed back returning members, two new members, Ms Janet Ecker and Mr. Robert Boeckner, as well as the external audit team from Ernst & Young. He offered a brief overview of the Committee and reminded members that the Committee conducted meetings in closed session and that meeting materials were confidential.

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2. Report of the Previous Meeting: Report Number 113 of the Audit Committee – June 11, 2014

A member noted that a small amendment was needed to the attendance list of the previous meeting. The Chair agreed that the change would be made.

The report of the previous meeting, Report Number 113, 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. Audit Committee

a. Terms of Reference: Annual Review

The Chair invited comments or questions from members regarding the Terms of Reference.

There were no comments or questions from members.

b. Calendar of Business, 2014 – 15

The Chair noted that the Calendar of Business was posted on the website for the Committee and would be updated every Friday.

5. Draft Policy on Cyber Security

Professor Mabury detailed a specific cyber security breach that had occurred on an enrolment website within one of the University's Faculties. The breach had been discovered in March, 2014 and a full report of the incident had been provided to the Office of the Information and Privacy Commissioner of Ontario (IPC) in April, 2014, who had subsequently advised that no further disclosures to the IPC would be required. In addition to hardware and software upgrades, the Faculty had been working with the University's Information Security and Enterprise Architecture (ISEA) on the development of a Policy on Cyber Security.

Professor Mabury continued, noting that while a comprehensive policy on cyber security had been in development for several months before the recent security breach, the recent incident had accelerated policy development. The draft policy - the result of a collaborative effort between ISEA and various Faculties, divisions and units across the University - would be the first cyber security policy which would be both driven by the central administration and would have University-wide applicability. Participation by academic units would be voluntary, and for those units that did participate, the unit head would have responsibility for risk mitigation within their unit. The Office of the Vice-President, University Operations would have ultimate responsibility

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for implementation of the Policy. Details of when and how the Policy would be brought to governance for approval would be forthcoming.

In response to questions from members, Professor Mabury noted that, while participation would be voluntary, it was hoped that there would be widespread participation from units within the University, which would reduce redundancy and inefficiency with respect to cyber security.

6. Report on Non-audit Services by the External Auditors for the period from February 1, 2014 to July 31, 2014.

Ms Brown provided a brief overview of the report, noting that the majority of the non-audit services provided by the external auditors related to tax matters.

In response to a member's enquiry, Ms Brown reported that depending on the total cost of the non-audit services, the Chair of the Audit Committee may be consulted before such services were utilized. In addition, in all cases where consultation projects required the use of external auditors, a request for proposals would be tendered.

7. Report of External Auditors: Executing Quality Audits

Ms. Brouwer and Mr. Jensen offered a joint presentation on executing quality audits. Their presentation addressed the following points:

- The Quality Dialogue
 - On a global level, several high profile matters had been catalysts for accounting reform and investor protection.
 - In Canada, collaboration between Chartered Accountants of Canada (CPA) and the Canadian Public Accountability Board (CPAB) had resulted in three working groups broadly focused on auditor reporting, auditor independence and the role of audit committees.
- The Response of Audit Committees
 - There had been a trend within audit committees within both public and private sectors toward increased scrutiny of auditors, auditor independence, audit quality and the familiarity threat.
 - Annual reviews of auditors and comprehensive reviews of auditors every five year were being considered among many audit committees.

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- Ernst & Young Commitment to Quality
 - Communication, quality control, commitment to quality audits and risk management were highlighted as particular attributes of the Ernst & Young approach.
- Quality Audit for U of T
 - Open communication with the Audit Committee, and open and proactive communication with administration, were key aspects of a quality audit for the University.
 - The Ernst & Young audit team had many years of experience with the University of Toronto specifically and with university audits more generally.
- Materiality
 - The role of materiality in conducting audits was explained. It was reported that, in most cases, whether a matter was material or not was defined as a percentage of the funds under audit for a given client. Within the not-for-profit sector, of which the University was a member, the percentage was typically between 0.5-3%.
 - The University was an outlier in that materiality had been a fixed sum of \$15M since 2003. It was proposed that materiality be recast to 1% which, for 2015, would equate to \$24M.
 - The advice of the Committee was sought with respect to modifying this materiality valuation for the University's audit.

The Chair thanked Ms Brouwer and Mr. Jensen for their presentation. He, along with members of the Committee, expressed agreement with the proposed modification to the materiality valuation.

In response to questions from members, Ms Brouwer and Mr. Jensen emphasized the deep expertise of Ernst & Young in performing audits for the University. The risk of Ernst & Young becoming too familiar (the “familiarity threat”) with the University file was mitigated by recent turnover with Ernst and Young team that would perform the University's audit, including the senior partner, who would bring a fresh look at the file. Finally, in response to a member's request, it was agreed that the Committee would be provided with reference material from other audit committees on their methodologies for conducting reviews of external auditors.

8. Reports of the Administrative Assessors

Professor Mabury began his Assessors Report by noting that the back campus field was open and operational and that reviews of the aesthetics and functionality of the space had been overwhelmingly positive.

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9. Date of Next Meeting – Tuesday, December 2, 2014

10. Other Business

There was no other business.

On motion duly made, seconded and carried

The Committee moved *in camera*.

11. Internal Auditor – Private Meeting

Members of the administration and the external auditors absented themselves. The Committee met privately with the Director, Internal Audit.

12. Committee Members Alone

Members discussed possible approaches to assessing audit quality.

The Committee returned to closed session.

The meeting adjourned at 5:40 p.m.

Secretary

Chair

September 26, 2014