

UNIVERSITY OF TORONTO

THE GOVERNING COUNCIL

REPORT NUMBER 123 OF THE AUDIT COMMITTEE

May 1, 2017

To the Business Board,
University of Toronto

Your Committee reports that it met on Monday, May 1, 2017, at 4:00 p.m. in the Simcoe Hall Board Room, with the following members present:

Mr. Brian D. Lawson (Chair)

Mr. Howard Shearer

Mr. Robert Boeckner

Mr. Christopher Thatcher

Ms Janet Lynne Ecker (Vice-Chair)*

*Joined by teleconference

REGRETS:

Ms Kathryn A. Jenkins

Mr. Brian K. Johnston

Ms Penny F. Somerville

Non-Voting Assessors:

Mr. Mark L. Britt, Director, Internal Audit

Ms Sheila Brown, Chief Financial Officer

Ms Sheree Drummond, Secretary of the Governing Council

Secretariat:

Ms Mae-Yu Tan, Secretary

In Attendance:

Ms Diana Brouwer, Ernst & Young+

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 10 – 11

All items are reported to the Business Board for information.

Pursuant to the *Audit Committee Terms of Reference* (Section 6.1), consideration of items 10 and 11 took place *in camera*.

1. Chair’s Remarks

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

2. Report of the Previous Meeting

Report Number 122, from the meeting of March 9, 2017, 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. Draft Notes to the Audited Financial Statements – April 30, 2017

The Chair explained that the Committee’s role was to consider the draft notes to the University’s audited financial statements of April 30, 2017 for discussion. At the next meeting in June, the Committee would be asked to recommend the full statements to the Business Board for approval.

Dr. Piché highlighted two changes to the draft notes. First, the expense categories used in the University’s statement of operations had been revised in order to increase the comparability with financial statements of other [U15 Canadian research universities](#). Second, there was greater disclosure in the capital assets section, particularly with respect to the value of University collections (Note 2 (i) and Note 4). As well, a reclassification of internally restricted net assets was outlined in Note 11. Greater clarity was provided with respect to the planned allocation of unrestricted funds.

Dr. Piché also noted that the financial statements would continue to be shown in millions of dollars. However, all figures would now be shown without a decimal point, consistent with the practice of other Ontario universities.

Members expressed their full support of the changes that had been introduced to the notes. In response to a question, Dr. Piché confirmed that the MaRS Discovery District investment had been written down to zero. Any changes would be reflected in the future, as appropriate.

5. Governance Oversight of Risk Management

The Chair stated that the Committee, the Executive Committee, and the administration had been considering the matter of governance oversight of risk and the University’s approach to risk management over the past two years. During this process, it was important to keep in mind that the *Committee’s Terms of Reference* specified the Committee’s responsibility to focus “primarily on the adequacy of key controls over, and mitigations of, those vital risks considered to be, currently or in the future, more significant and likely to occur...” (Section 5.15, Risk Management). It would be important to contemplate questions such as the following. Who/which body is best-equipped to determine the adequacy of key controls and related assumptions? Who/which body is responsible for escalating significant concerns that are identified? Who/which body holds

authority to allocate resources to address potential risks? What is the most effective strategy for the University as a whole to address key risks?

In order to support the Committee's examination of responsibility for oversight of each risk item, the Secretariat had reviewed the terms of reference of the University's governance bodies and relevant policies. From the analysis, it had been determined that the majority of the forty-six risk items included in the *2015 – 16 Risk Report* had robust or strong governance oversight. Nine had moderate oversight, and none were identified as having limited or very limited oversight. The Committee focused its discussion on risks from the 2016 top ten risk list which had been determined to have moderate oversight.¹ These include allegations of research misconduct, non-compliance with research and/or commercialization agreement terms, data loss, and data security.

Much of the Committee's in-depth discussion centred on information security risk. Challenges posed by the University's decentralized structure with respect to data loss and data security risk were considered. The Committee was informed that, in the future, the planned Information Security Council (ISC) would serve a critical role in overseeing such risk. One means might be for the Council to receive data risk reports before they were forwarded to the Audit Committee. Ms Drummond advised the Committee that the [*Policy on Information Security and the Protection of Digital Assets*](#) deliberately provided for governance oversight through an annual report from the President or designate to the Audit Committee and to the Planning and Budget Committee. Mr. Britt added that oversight was also provided through his annual report at a meeting of the President and the Tri-Campus Vice-Presidents.

A member commented on the risk tied to donors' expectations for investment returns. Ms Brown replied that that type of communication risk was handled primarily by the Division of University Advancement. An annual endowment financial report was submitted to the Business Board, and the University continually worked to strengthen its customized communications with donors.

The Committee agreed to the following next steps:

- Include "Risk Review Process" as a regular agenda item in order to ensure that progress continues. Discuss next steps at the June 14, 2017 Committee meeting.
- Ask the Assessors to develop a work plan for reviewing the key controls of risk. This could include inviting the Vice-President, Research and Innovation and Vice-President, University Operations to report to the Committee on research and information security risk in 2017-2018.
- Seek input from the Vice-President, University Operations on the need for any refinements relating to data security and data loss risk in the *Audit Committee Terms of Reference* and the *Planning and Budget Committee Terms of Reference*.

¹ Risks with moderate oversight are defined as those which might not easily come to the attention of a governance body, even though a broad area was addressed in a terms of reference.

- Seek input from the Committee’s Assessors on how best to delineate responsibility for information security between the Audit Committee and the Planning and Budget Committee.

6. Report on Non-Audit Services by the External Auditors for the period from October 1, 2016 to March 31, 2017

The Chair said that the Committee received a quarterly report from the administration detailing payments made to the external auditor for non-audit services. Dr. Piché informed the Committee that there were no large outstanding non-audit services contracts with the external auditor.

7. Reports of the Administrative Assessors

There were no reports from the Committee’s Assessors.

8. Date of the Next Meeting

The Chair reminded members of the next meeting, which was scheduled for Wednesday, June 14, 2017, from 4:00 to 6:00 p.m. Key items of business would include the audited financial statements and the internal audit plan and annual report. As well, the Committee would receive the risk management and insurance annual report and consider the external auditors appointment for 2017 – 2018.

9. Other Business

There were no matters of other business.

The Committee moved *in camera*.

10. Internal Auditor – Private Meeting

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

11. Committee Members Alone

The Committee members met alone.

The Committee returned to closed session.

The meeting adjourned at 5:38 p.m.

Secretary

May 16, 2017

Chair