



# Audit Committee Orientation November 18, 2002



# Agenda

- ➔ Governance and decision-making.
- Significant accounting and financial policies and concepts.
- Control environment.
- Internal Audit organization, role, risk assessment model, activities reporting.



# Governance and Decision-Making

- *University of Toronto Act*
- structure of governance
- central administration
- organization of the University
- collegial processes



# University of Toronto

- operates under provincial statute – *The University of Toronto Act, 1971*
- autonomous, self-governing



# Governing Council

- established in 1972
- unicameral
- almost unique system of governance
- other universities have a bicameral system:
  - Senate (internal, academic)
  - Board of Governors (external, fiduciary)



# Governing Council Membership

**50 Members**

**President and Chancellor *ex officio***

**2 Presidential Appointees**

**16 Lieutenant-Governor-in-Council Appointees**

**8 Alumni**

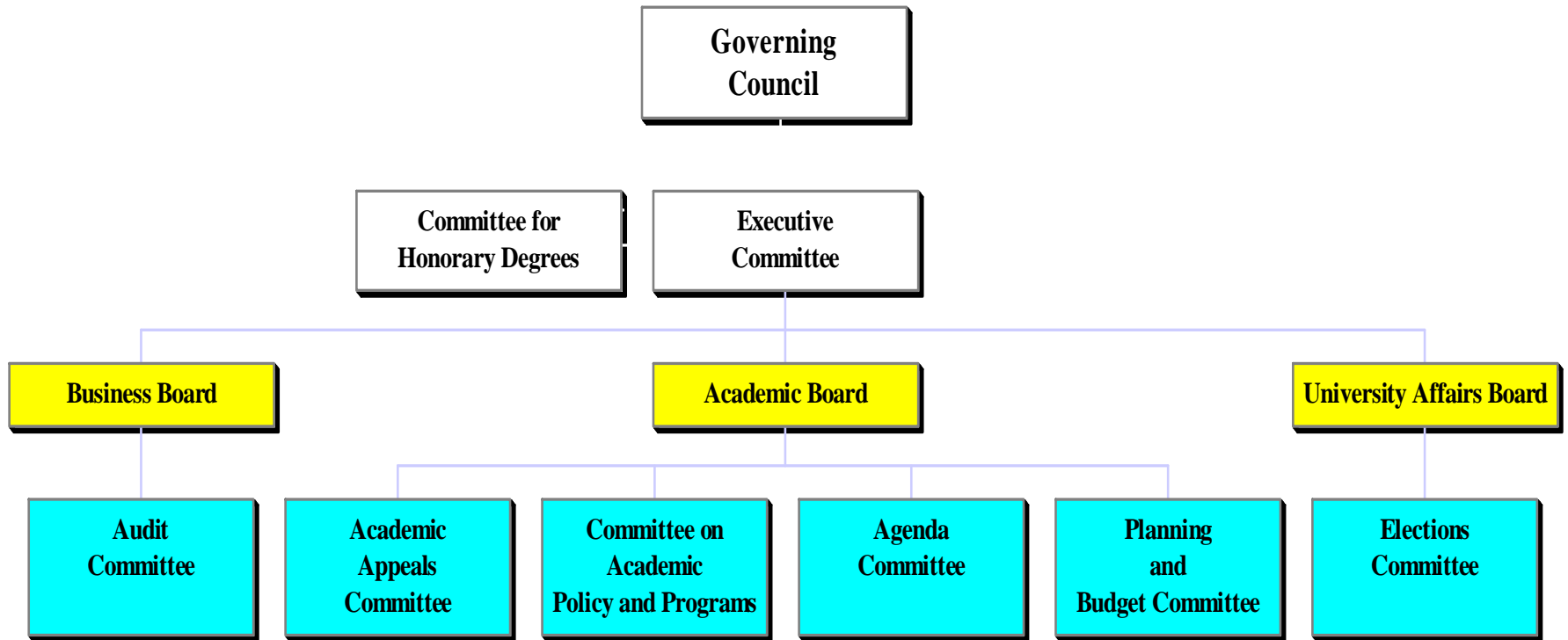
**12 Faculty**

**8 Students**

**2 Administrative Staff**



# Governing Council





# Academic Board

**117 members**

**Responsible for matters including:**

- **Academic matters – e.g. admissions, curriculum and academic regulations**
- **Planning**
- **Operating budget**
- **Capital plans, projects and space**
- **Establishment, restructuring and termination of academic units**





# Business Board

**31 members**

- **Responsible for business/financial matters including:**

## **Financial policies**

- **Financial transactions**
- **Appointment of auditors**
- **Key salary and benefits agreements**
- **Asset management**
- **Tuition fees and student financial assistance**



# Business Board

- **Responsible for ensuring the University is managed well by ensuring, for example, that:**
  - **resource allocation is fiscally responsible and that resources are managed well.**
  - **Capital projects are properly funded and executed appropriately.**



# Business Board

- **Ensures responsible management by:**
  - **Evaluating and approving proposals from the administration.**
  - **Monitoring reports from administrative officers.**



# University Affairs Board

**25 members**

- **Responsible for ‘quality of life’ matters, including:**
  - **Oversight of unincorporated service ancillaries**
  - **Campus and student services**
  - **Compulsory non-academic incidental fees**
  - **Student societies and campus organizations**
  - **Extra-curricular programs and use of facilities**
  - **Equity issues**
  - **Elections**



## Structure

**Governing Council**

**Executive Committee**

**Boards (Academic, Business,  
University Affairs)**

**Committees**

**Administrative Officers**

## Function

- final approval of major policy recommendations.
- determination of GC agendas and review of committee recommendations to ensure completeness of investigation and consideration (substantive issues not re-debated).
- discussion and consideration of recommendations for approval or approval by GC.
- detailed review of proposals and alternatives; consideration of recommendations for approval by the Boards and/or recommendation to the GC .
- initial investigation and development of proposals and alternatives .



# Relationship of the Boards

- **Annual operating budget – roles of the Academic Board and Business Board**
- **Capital projects – roles of the Academic Board, Business Board and University Affairs Board**



# Business Board Agendas

<http://www.utoronto.ca/govcncl/bac/details/bba20021111.pdf>



# Business Board Reports

[http://www.utoronto.ca/govcncl/bac/  
details/bb/2002-03/bbr20020930.pdf](http://www.utoronto.ca/govcncl/bac/details/bb/2002-03/bbr20020930.pdf)



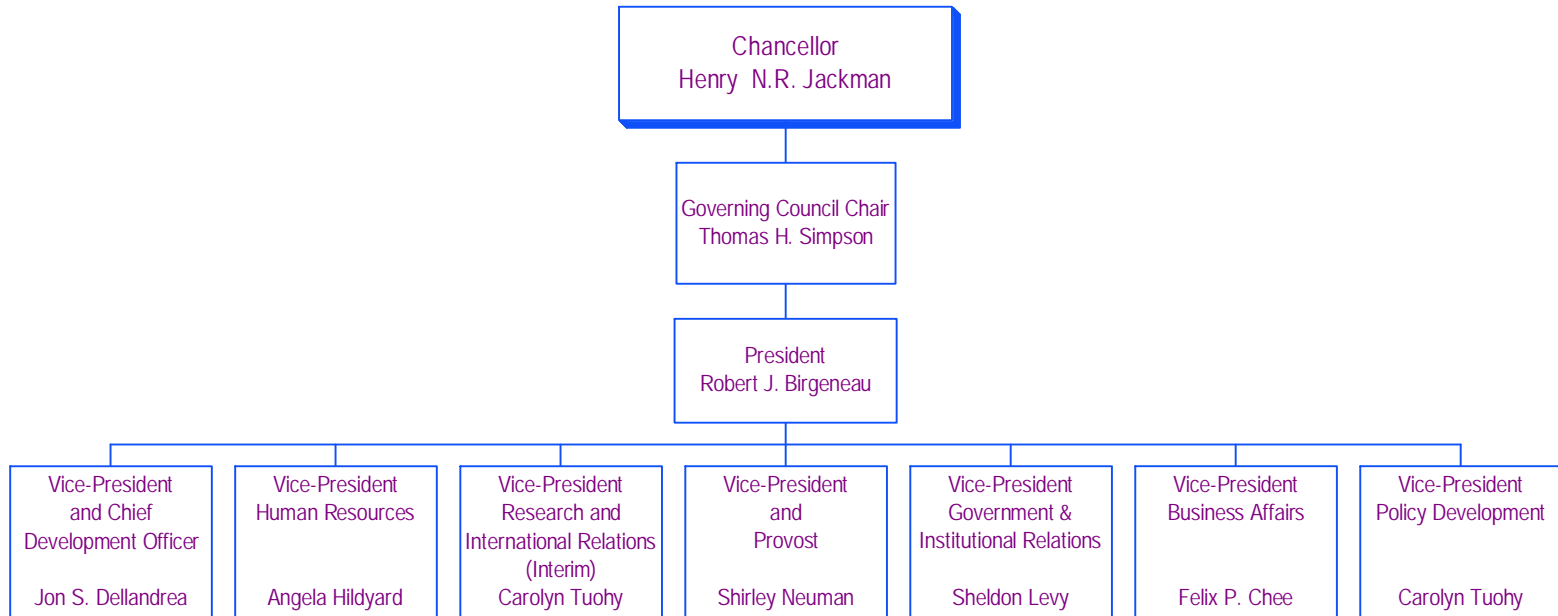


# Central Administration

[http://www.utoronto.ca/govcncl/tgc/  
3.01.06.pdf](http://www.utoronto.ca/govcncl/tgc/3.01.06.pdf)



# Organizational Structure





# Academic Divisions

- **28 divisions:**
  - **Arts and Science – Faculty and Colleges**
  - **Professional Faculties**
  - **Health Sciences Faculties**
  - **School of Graduate Studies**



# Divisional Decision-making

- **Chairs**
- **Deans**
- **Divisional Council**
- **Provost**



# Policy Framework

[http://www.utoronto.ca/govcncl/pap/  
alphapol.htm](http://www.utoronto.ca/govcncl/pap/alphapol.htm)



# Decision-making

- **Changes to academic appointments policy**
  - **Provost's Office**
  - **Principals and Deans (P&D)**
  - **PDAD&C**
  - **UTFA**
  - **Academic Board, Governing Council**



# Website

<http://www.utoronto.ca/govcncl/>



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# Entities Included

- **All operations under the jurisdiction of Governing Council.**
  
- **Controlled, separately incorporated subsidiaries with boards of directors:**
  - **U of T Press,**
  - **Innovations Foundation.**
  - **U of T Asset Management Corporation.**
  
- **Does not include federated universities.**



# Significant Accounting and Financial Policies and Concepts

## → Revenue recognition:

- grants and donations for unrestricted purposes.
- grants and donations for restricted purposes.
- endowment donations.

## → Capital assets:

- amortization.

## → Deferrals:

- Deferred contributions.
- Deferred capital contributions.



# Significant Accounting and Financial Policies and Concepts

## → Fund accounting:

### → Restricted fund:

→ Donations and research grants.

### → Capital fund:

→ Capital projects.

### → Ancillary operations:

→ Residences, food and beverage services, parking, Hart House.

### → Operating fund:

→ All other funds received by the University.



# Significant Accounting and Financial Policies and Concepts

## → Operating fund characteristics:

→ Annual operating budget.

→ Cash based.

→ Year-end carry forward of unspent funds - funds committed for specific purposes.

→ Operating fund forecast – does not forecast the University's overall position, but that of the operating fund portion.

## → Operating fund deficit:

→ revenues minus expenses and changes to funds committed.

→ Governing Council maximum deficit of 1.5% of operating revenue applies only to this deficit.

→ Base versus one time only funds.



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# Control Environment

**Decentralized financial management.**

**Departmental responsibilities.**

**Central responsibilities.**

**Key financial controls:**

**Receipts.**

**Compensation expenditures.**

**Non-compensation expenditures.**

**System and system controls.**



# Decentralized Financial Management

Financial management activities occur in all faculties and divisions, with authority and responsibility for resource allocation, receipts, expenditure authorization and requisitioning delegated to the individual academic department or other budget unit.



# Departmental Responsibilities

- Procedures reflecting segregation of duties.
- Documented delegation of duties.
- Resource allocation: planning and budgeting.
- Collection and processing of divisional revenues.
- Expenditure authorization and processing.
- Monthly review and monitoring.
- Forecasting.
- Accountability reports.





# Central Responsibilities

**Financial policies and procedures.**

**Overall planning and budgeting.**

**Expenditures – cheque production.**

**Monitoring and reporting of financial transactions.**

**Professional advice, training and support.**

**Systems.**



# Key financial controls: receipts

- **Over \$1 billion in revenues are managed centrally:**
  - Students pay ROSI fees at the bank.
  - Receipts from government and major granting agencies are received by wire.
  - Receipts from other research sponsors are received by Research Services.
  - Donations are received and receipted by Development.
  - Investment income receipts are transferred annually by investment managers.
- **Departments collect about \$150 million in divisionally managed student fees and fees for services rendered.**
- **Banking comparisons are done daily.**
- **Bank accounts are reconciled monthly.**

**About \$1.2 B in receipts in 01-02**



# Key financial controls: compensation expenditures

- Centre establishes appointments and other policies, procedures, systems.
- Depts should follow policies, procedures.
- Depts follow one-up approval requirement.
- Depts process payroll transactions.
- Depts monitor transactions via monthly review of system reporting.
- Centre monitors activity, mostly through Internal Audit reviews.

**About \$668 M in 01-02**



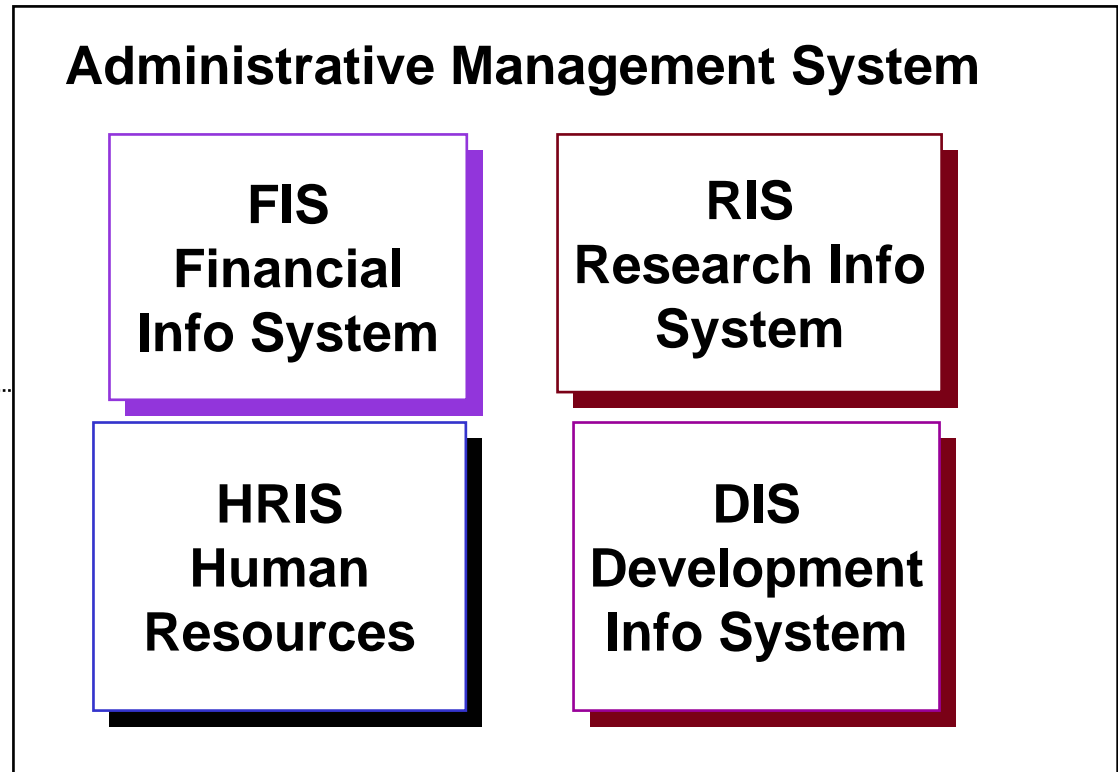
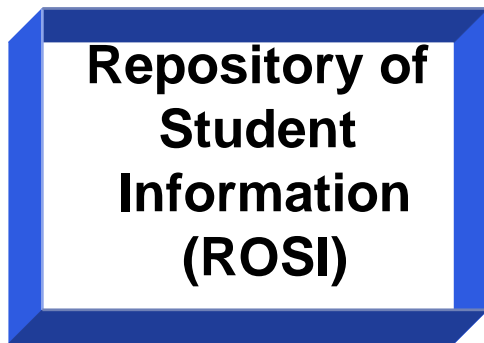
# Key financial controls: non-compensation expenditures

- Centre establishes purchasing and other policies, procedures, system.
- Depts should follow policies and procedures.
- Dept heads have authority for spending.
- Principal investigators have authority for spending from their research grants.
- Depts process expenditure transactions from original documents.
- System checks for available funds.
- Depts monitor transactions monthly.
- Centre monitors activity, selected transactions.

About \$700 M in 01-02, of which \$139 M was buildings



# Systems



**Controls: security firewall; user identification, access controls**

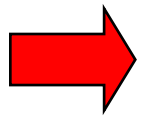


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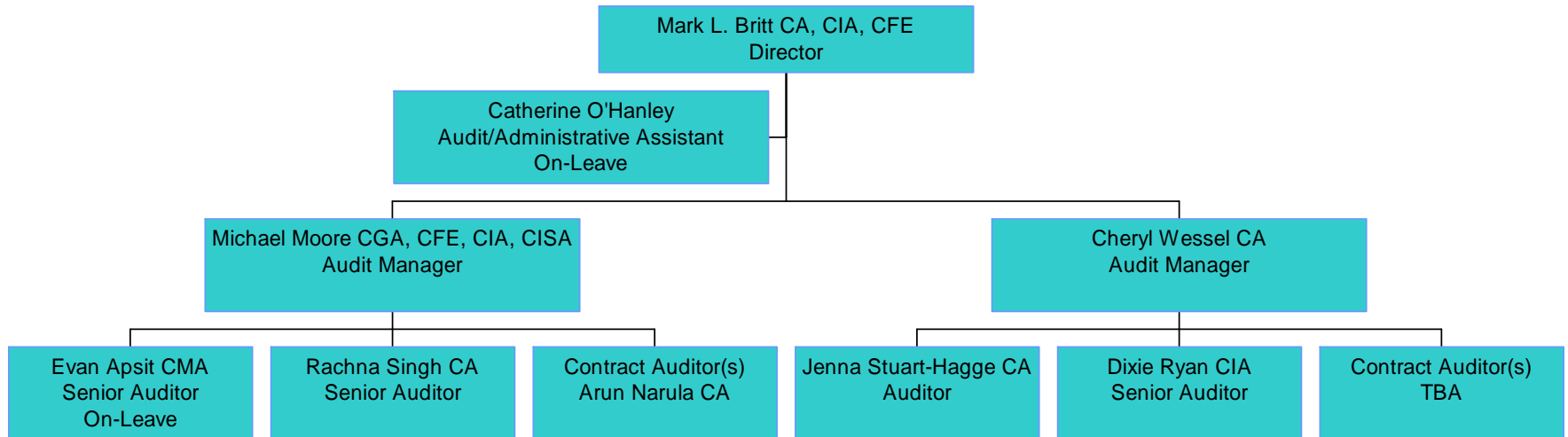


# Outline

- IAD Organization
- Role of Internal Audit
- Risk Assessment Model
- Annual Audit Plan Activities
- Reporting



# IAD - Organization







# Role of Internal Audit

- **Mandate - Internal Audit Policy**
  - Assurance Services
  - Investigation Services
  - Consulting Services



# Risk Assessment Model

- Self Assessment Methodology
- Risk Assessment Database



# Annual Audit Plan Activities

- Departmental Audits and Follow-up Reviews
- Continuous Auditing
- Information Systems Reviews
- Special Reviews
- Consulting Services
- Ernst & Young Assistance/Coordination



# Reporting

- Audit Reporting
- Senior Management Reporting
- Audit Committee Reporting