

Report of the Audit Committee

GD19-42

Board of Governors Meeting of February 13, 2020

Secretariat

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The following items arise from the Audit Committee meeting of February 4, 2020. They are presented to the Board of Governors for consideration.

I. FOR ACTION BY THE BOARD OF GOVERNORS**1. Revised Enterprise Risk Management Policy [AD19-17]**

The Committee received a revised Enterprise Risk Management Policy for review. The new policy was established based on considerations found in Internal Audit's ERM assessment which recommended, among other things, that Internal Audit become the facilitator of the ERM program and that the University's 2010 ERM Policy be updated.

In May 2019, the Committee approved, as a strategic starting point for the implementation of the recommendations of the ERM assessment, to include the role and responsibility of facilitator of the ERM program within the mandate of Internal Audit. Pursuant to this, the Vice-Principal (Administration and Finance) mandated Internal Audit to update McGill's 2010 ERM Policy (Appendix B).

McGill's current ERM Policy has not been revised or reviewed since it was approved by the Board of Governors in 2010. Internal Audit's ERM assessment found that this policy is outdated and no longer reflects the desired future state of the ERM program. The proposed revisions are extensive and effectively redraft the 2010 ERM Policy. The revised ERM Policy (Appendix A) ensures that the proper ERM framework is in place. It also sets out a common language for talking about risks and risk mitigation.

By resolution, the Committee recommended to the Board of Governors the approval of the Revised Enterprise Management Policy as follows:

Be it resolved that the Board of Governors, on the recommendation of the Audit Committee, approve the revised Enterprise Risk Management Policy, as presented in Appendix A, with the understanding that the adoption of the revised Policy will result in the repeal of the ERM Policy approved by the Board of Governors in November 2010.

The revised Enterprise Risk Management Policy is provided in Appendix A and the 2010 ERM Policy is provided in Appendix B for reference.

II. FOR THE INFORMATION OF THE BOARD OF GOVERNORS

1. Updates to the Audit Committee Terms of Reference [AD19-15]

The Committee reviewed, and subsequently approved, revisions to its terms of reference. The proposed modifications were based on the consideration of recommendations made pursuant to the cyclical review of the Internal Audit unit, notably with respect to the appointment, reappointment and performance review of the Executive Director, Internal Audit. The proposed changes also included a change in the name of the Committee from Audit Committee to Audit and Risk Committee, and the withdrawal of the requirement for the Committee to review the annual report on the University's Pension Plan given that the Human Resource Committee and the Finance Committee receive and review the report. The proposed revisions will be submitted to the Nominating, Governance and Ethics Committee for consideration at its upcoming meeting.

2. Updates to the Internal Audit Charter [AD19-16]

In accordance with its terms of reference, the Committee reviewed, and subsequently approved, modifications to the Internal Audit Charter. The modifications were made pursuant to the decision of the Audit Committee in May 2019 to include the role and responsibility for facilitating the University's Enterprise Risk Management (ERM) program in the mandate of the Internal Audit Unit.

3. Update on Activities under the Policy on the Approval of Contracts and Designation of Signing Authority [AD19-14]

The Committee received an update on the activities under the *Policy on the Approval of Contracts and Designation of Signing Authority* (Policy), which came into effect on May 1, 2018. The results for the second fiscal quarter (August 1 - October 31, 2019) were presented to the Committee, indicating an increase in the number of reports submitted in relation to previous quarters and capturing 92 contracts. The Committee will continue monitoring the status of the reporting function.

The Committee also received an update on the current review of the Policy, including a list of proposed modifications. It is anticipated that a draft of the revised policy will be presented to the Committee at its upcoming meeting in May 2020.

4. External Audit Plan for Fiscal Year 2020 [AD19-18]

In accordance with its Terms of Reference, the Committee approved the External Audit Plan for the year ending April 30, 2020, as presented by representatives of the University's external auditors, Deloitte LLP (Deloitte).

The fees of the audit plan are based on the fee structure approved by the Board of Governors. The total value of McGill's contract with Deloitte for external audit services is \$815,000 (not including taxes) over the full potential term of 60 months (5 years). The appointment of the external auditors is subject to annual Board approval.

5. Report on the Status of Management IA Action Items [AD19-20]

The Committee received a status report on Management’s assessment of Internal Audit’s “past due” items in relation to the probability and impact of occurrence. Items that are not resolved within one year of the issuance of the Internal Audit Report are considered “past due”. The Committee will receive a progress report on the identified action items at its next meeting.

6. Progress Report on Internal Audits [AD19-19]

The Committee received a progress report on internal audits, which have been recently completed or are still ongoing. Members were also briefed on the status of action items from previous audits carried out by Internal Audit.

The following audit reports were completed since the Committee’s last meeting on September 23, 2019 and the reports have been issued:

- i) Internal Audit Follow-up Report of the McGill University Secretariat
- ii) Internal Audit Report of the Workday (R2R) Pre-Implementation Review; and
- iii) Internal Audit Report of the Montreal Neurological Institute.

7. Update on IT-related Legislation [AD19-21]

The Committee received an update relating to the impact on the University resulting from recent changes to provincial IT-related legislation.

Following the amendment to the *Act respecting the governance and management of the information resources of public bodies and government enterprises* in March 2018, public bodies must prepare, in accordance with the conditions and procedures determined by the *Conseil du trésor*, planning documents for submission to government relating to the management of information resource projects. The *Conseil du trésor* has established the threshold for these projects at \$100,000 which presents a challenge in regard to the University’s compliance with this rule.

8. Report on Quarterly Financial Results for Fiscal Period Ended October 31, 2019 and Variance Report [AD19-22]

The Committee received a quarterly report on the financial results for the period ended on October 31, 2019 and a variance report. This included a summary of Construction Projects as at January 15, 2019.

9. Declaration of Compliance to December 31, 2019 [AD19-13]

In accordance with its Terms of Reference, the Audit Committee received and reviewed the Declaration of Compliance to December 31, 2019.

10. 2019 Report on Enterprise Risk Management [AD19-23]

The Committee received an annual report on the Enterprise Risk Management (ERM) initiative, which focused on the period from January 2019 to December 2019.

11. 2018-19 Report from Risk Advisory and Insurance Services [AD19-24]

The Committee received the Risk Advisory and Insurance Services Annual Report for the period of May 1, 2018 to April 30, 2019.

END

February 2020



POLICY NAME	ENTERPRISE RISK MANAGEMENT POLICY
Approving Body	Board of Governors
Initial Approval Date	November 30, 2010
Date of last review	N/A
Date of next review	2025
Executive Sponsor	Suzanne Fortier, Principal and Vice-Chancellor
Related Documents	N/A

PURPOSE

1. The purpose of the Enterprise Risk Management Policy (“ERM Policy”) is to articulate McGill University’s overarching approach to entity-wide risk management and its activities, and to define roles and responsibilities for the establishment and maintenance of McGill’s ERM program, as well as set out a common language toward addressing University-wide risks and mitigation.

ERM at McGill

2. Enterprise Risk Management Policy (“ERM”) is a program that enables organizations to identify, assess, mitigate and manage potential risks in a comprehensive, methodical, and transparent way, using a common set of definitions and metrics.

ERM provides a structured, consistent, and continuous process for the early and proactive identification, and reporting of material risks and opportunities to the senior administration and the Board of Governors.

McGill’s ERM program enhances its ability to achieve its mission, vision, and strategic objectives. ERM aims to strengthen McGill’s competitive position by fostering an institution-wide culture of risk and opportunity awareness.

3. The University’s ERM program aims to:

3.1 Provide McGill with a consolidated, comprehensive and holistic approach to identifying its most significant risks as an organization;

3.2 Clarify ERM roles and responsibilities of the various key stakeholders;

- 3.3 Enable a systematic and consistent approach to identifying, assessing, and managing risks with a common language and framework in order to facilitate the achievement of McGill's objectives and planned results;
- 3.4 Make risk management integral to McGill's culture, strategic planning, and decision-making;
- 3.5 Facilitate risk-informed decisions when setting objectives, selecting and managing the most appropriate course of action, and evaluating results;
- 3.6 Maintain forward-looking rather than reactive risk management by encouraging well planned and well managed risk-taking;
- 3.7 Facilitate a change in organizational culture to enhance risk management practices; and,
- 3.8 Provide assurance to stakeholders that McGill's objectives will be met, key risks will be better managed, and results will be demonstrated.

SCOPE

4. As a fundamental principle of ERM, the ERM Policy applies to all employees across all faculties, departments, units and activities of the University, including academic, research, administration and support activities. It also applies to the Board of Governors and to the Board's committees.

ERM DEFINITIONS

5. The University has adopted key definitions guided by two risk frameworks (ISO 31000 and COSO):
 - 5.1 **Risk:** The uncertainty of an event occurring (or failing to occur) which could have an adverse impact on the achievement of operational and strategic objectives.
 - 5.2 **Inherent Risk:** The risk of an event occurring (or failing to occur) in the absence of a risk management framework and/or internal control(s) in place to mitigate the risk.
 - 5.3 **Residual Risk:** The remaining risk of an event occurring (or failing to occur) after considering a risk management framework and/or internal control(s) in place to mitigate the risk.
 - 5.4 **Risk Appetite:** The overall level of risk an organization is willing to accept given its capabilities and the expectations of its stakeholders.
 - 5.5 **Enterprise Risk Management (ERM):** A coordinated set of activities and methods that is used to direct an organization and to control the many risks that can affect its ability to achieve objectives.

5.6 **Risk Management Framework:** Set of components that provide the foundations and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organization.

5.7 **Enterprise Risk Assessment (ERA):** A systematic and forward-looking analysis of the impact and likelihood of potential future events on the achievement of an institution's objectives within a stated time horizon.

The risk assessment criteria are defined as followed:

Likelihood: The probability that a given risk will occur based on McGill's and other Higher Education Institutions' past experience.

Impact: The effect of a risk occurring which can include financial, reputational, regulatory, safety, environmental, operational, and other losses.

5.8 **Contributing Factors:** Events or circumstances within the University's context that increase the likelihood that a risk will materialize and/or increase its impact.

5.9 **Risk Response:** The process of selecting and implementing one or more risk treatment options.

5.10 **Risk Owner:** A person or entity that has been given the authority to manage a particular risk and is accountable for doing so.

5.11 **Risk Action Owner:** A person that has been given the authority by the Risk Owner to execute the risk mitigating response.

5.12 **Control:** Any measure or action that modifies or regulates risk. Controls include any policy, procedure, practice, process, technology, technique, method, or device that modifies or regulates risk.

There are two types of controls:

Preventive Control: A control procedure designed to prevent an adverse event, error or fraud.

Detective Control: A control designed to monitor the achievement of the relevant process objective, including identifying an adverse event, error or fraud, which has occurred.

6. Roles & Responsibilities

Every individual employed at McGill has a role to play in regards to effective risk management; however, the following roles are critical to the success of ERM:

Title	ERM Program Role
Board of Governors (BoG)	Governance and Policy Setting
Audit Committee	Reporting and Oversight (as delegated by BoG)
Principal and Vice-Chancellor	Executive Sponsorship
Principal's Executive Team (P7)	ERM Standing Committee
Vice-Principal (Administration and Finance)	ERM Administrative Oversight
Internal Audit Unit	ERM Facilitator

6.1 Board of Governors:

- 6.1.1 Approves risk management policies;
- 6.1.2 Encourages an open and receptive risk management culture; and,
- 6.1.3 Oversees risk management within the University (delegated to the Audit Committee).

6.2 Audit Committee:

- 6.2.1 Receives and reviews periodic reports on risk management, including the ERM program and its implementation; and,
- 6.2.2 Recommends to the Board modifications to the University ERM program and related policies and frameworks.

6.3 Principal and Vice-Chancellor – Executive Sponsor:

- 6.3.1 Ultimate Owner of ERM at McGill;
- 6.3.2 Inspires and fosters cultural change in support of ERM as a value and best practice;
- 6.3.3 Leads the setting of strategic objectives for the University; and
- 6.3.4 Leads management discussions with the Board regarding institutional strategy and risk philosophy.

6.4 Principal's Executive Team (P7) – ERM Standing Committee:

- 6.4.1 Formal identification of strategic risks that have an impact on the University's goals;
- 6.4.2 Determination of priorities and risk rankings;
- 6.4.3 Development of strategic risk management plans;
- 6.4.4 Delegation of risk management activities (as appropriate);and,
- 6.4.5 Monitoring progress in managing risk.

6.5 Vice-Principal (Administration and Finance) - Administrative oversight of ERM

- 6.5.1 Responsible and accountable for overseeing the development, implementation, and fostering of a collaborative, campus-wide approach to ERM at the University;
- 6.5.2 Oversees the University's processes for identifying, analyzing, evaluating, responding to and controlling, monitoring, and reporting on key risks;
- 6.5.3 Oversees reporting on risks to the Executive Team and Audit Committee; and,
- 6.5.4 Ensures appropriate staffing and budget is allocated to ERM.

6.6 Internal Audit Unit – ERM Facilitator

- 6.6.1 Facilitates development, oversight and maintenance of the ERM program;
- 6.6.2 Facilitates and coordinates the process of identifying, reviewing, and ranking the University's top risks;
- 6.6.3 Assigns, tracks, and monitors the University's top risks;
- 6.6.4 Facilitates action in those areas where improvements are required; and,
- 6.6.5 Reports the status of risks to the University's Executives and the Audit Committee.

AUTHORITY TO APPROVE PROCEDURES

- 7. The Principal and Vice-Chancellor, or her delegate, has the authority to establish and amend procedures necessary for the purpose of implementing this Policy.

REVIEW

- 8. This Policy will be reviewed by the Board of Governors at least once every five years following its adoption.

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ENTERPRISE RISK MANAGEMENT POLICY

PURPOSE

1. McGill University is committed to the mission of risk management. The purpose of this policy is to formalize the Enterprise Risk Management (“ERM”) program at McGill University.

DEFINITIONS

2. Risk is defined as the “effect of uncertainty on objectives”. The “effect is a deviation from the expected — positive and/or negative”.¹

SCOPE

3. Enterprise risk management is intended to build upon the traditional risk management approach to address risk management in the broadest possible terms. ERM is tied to an organization’s strategic direction to ensure that risks that could impede an organization’s ability to fulfill its objectives are identified and treated.

POLICY

4. McGill University will establish and maintain the Risk Management Steering Committee (“Risk Committee”), chaired by the Assistant Vice-Principal (Financial Services).

5. Members of the Risk Committee will assist in identifying and prioritizing significant University-related risks and ensure that risk management decisions are well informed, aligned with strategic planning initiatives and centrally monitored.

6. With the oversight of the Principal and formal reporting to the Audit Committee of the Board of Governors, ERM at McGill University will identify, assess and address identifiable risks. By evaluating their interdependencies, ERM links the institutional governance, operations and strategic goals of the institution.

¹ ISO/FDIS 31000.