

The University of Dublin

Trinity College

Minutes of Audit Committee, Wednesday 20 December 2006

Present Mr T Forsyth (Chairman), Professor J McGilp, Professor B McGing*, Dr D O'Donovan, Mr J Collins

(ex officio) Internal Auditor, Assistant Secretary

Present for: * AD/06-07/29, 32-37

The Secretary to the College attended for AD/06-07/29-31

The Treasurer and the Deputy Treasurer attended for AD/06-07/32, 33, 35(pt.)

Ms L Gallagher and Mr B Prior from KPMG attended for AD/06-07/32, 33, 34

(Items of specific interest to the Board are denoted **XXX**)

AD/06-07/27 Minutes The Minutes of the meeting held on 21 November 2006 were approved and signed subject to the following amendment:

AD/06-07/25 Research Accounts The phrase 'at this level of exposure' was inserted after the word 'that' on the last line of the first paragraph.

AD/06-07/28 Call-over The Committee noted the actions which had been implemented since the last meeting and those which remained out-standing and which would be addressed in due course.

SECTION A – POLICY ISSUES

AD/06-07/29 Risk Management in College The Secretary to the College, present by invitation, invited the Committee's attention to a memorandum, dated 11 December 2006, which had been circulated together with the College's high level risk register. He advised the Committee that, in accordance with the College's Risk Management Policy, he had coordinated the compilation of the high level risk register following a review of each administrative and support areas' individual register. Executive Officers, at their meeting on 11 December 2006, had reviewed the high level risk register. He noted that the Risk Management Policy states that the Heads of School Committee is responsible for reviewing risks arising in academic units and that the Senior Lecturer advises the Executive Officers' Group of the risks that might have a College-wide significance for consideration in the compilation of the high level register. He stated that the Heads of School Committee had felt that this should not be a matter for that Committee and consequently the current version of the high level register records no adjustment to the academic risks presented to Board in May 2006.

The Secretary to the College advised the Committee that the revised risk register indicates that the level of residual risk had increased in a number of key areas and that this was seen by the Officers as a cause for concern in the management of the College. He invited the Committee's attention to five risk areas where the residual risk was greater than 60%, noting that managing these risks effectively is key to the success of the current restructuring programme.

The Committee noted that in order to embed the risk management process throughout the College, Heads of administrative and support areas will be presenting their individual risk registers to the appropriate Principal Committee over the coming months and that Officers will review the Register on a regular basis over the coming year.

In discussing the Secretary to the College's memorandum and his presentation, the Committee expressed concern that the Heads of School Committee had failed to comply with the Board approved policy on Risk Management. The Committee, while noting that it had been a very busy period for the Committee and that the current Heads of School Committee may not fully appreciate the value of a risk-based approach to managing their Schools, agreed that this matter should be brought to the attention of the Board at its meeting on 24 January 2007.

The Committee also recommended that, in the future, all significant items being presented to Board for decision should be accompanied by a risk analysis. It was appreciated that the inter-relationship of risk areas made the analysis of individual risks difficult but that every effort should be made to prioritise the management of risk areas.

The Internal Auditor advised the Committee that he would be reviewing the effectiveness of the controls which have been put in place to mitigate the high level risks. He noted that dates and time-scales were also required for all high-level risks.

In response to queries, the Secretary to the College advised the Committee that, given the levels of uncertainty in the College in relation to future governance and structures, it will be difficult to address some of the high-level risks effectively in the short-term. He noted that the relationship and areas of possible over-lap between the Resource Management Committee and the Finance Committee would be addressed over the coming months which, when resolved, would bring greater clarity to the allocation of resources in the College.

Noting that KPMG had recommended that the College appoint a manager to ensure that risk assessment is embedded in the College's structures, the Committee agreed that the importance of risk assessment in the management of the College be emphasised to the Board.

In response to a query, the Secretary to the College advised the Committee that Principal Committees had commenced the process of reviewing the risk registers of administrative and support areas within their remit.

The Internal Auditor invited the Committee's attention to a draft memorandum which it was proposed to send to the Board together with the High Level Risk Register for its meeting in January 2007. The Committee approved the general thrust of the memorandum and agreed that it should be finalised taking account of the points raised.

The Chairman thanked the Secretary to the College for his contribution to the discussion.

Action

The memorandum to Board to be finalised and submitted to Board for consideration together with the High Level Risk Register.

AD/06-07/30 Compliance with College Tendering Procedures The Internal Auditor invited the Committee's attention to concerns that had been identified following his review of compliance with the College's tendering procedures (minute AD/05-06/71 of 21 June 2006 refers). As agreed at the meeting on 21 June 2006, these concerns had been brought to the attention of the Secretary to the College who had referred them to the Deputy Treasurer for reply.

In the course of a brief discussion, the potential for cost savings and maximising value for money through the implementation of a centralised procurement programme was raised.

The Chairman invited the Committee's attention to the response from the Deputy Treasurer in a memorandum, dated 24 October 2006. The Committee, noting the emphasis placed by the Deputy Treasurer on the need for an integrated financial information system and the challenges posed by the devolved structures currently being developed agreed that the Internal Auditor should meet with the Deputy Treasurer and the Procurement Officer to clarify those concerns which had not been addressed in the response received. This approach was supported by the Secretary to the College. It was agreed that this matter would be reviewed following these discussions.

Actions

- 30.1 The Internal Auditor to discuss the Committee's concerns with the Deputy Treasurer and the Procurement Officer
- 30.2 The matter to be given further consideration at a future meeting of the Committee

AD/06-07/31 IT Security Issues The Chairman invited the Committee's attention to an email from the Secretary to the College forwarding a response from the Director of Information Systems Services to two issues of concern referred by the Committee to the Secretary to the College following a review of IT security at its meeting on 21 June 2006 (minute AD/05-06/70 refers).

The Committee supporting the Director's concerns in relation to identified security risks agreed that the two matters in question would be referred to the Information Policy Committee.

Action

The secretary to write to the Information Policy Committee advising of the Committee's concerns in relation to two specific IT security risks.

SECTION B – IMPLEMENTATION ISSUES

AD/06-07/32 Consideration of the 2005/2006 Funding Statements The Treasurer, the Deputy Treasurer, and Ms Gallagher and Mr Prior from KPMG, present by invitation, attended for this item.

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The Committee noted the following documents which had been circulated for consideration under this item:

1. Report from KPMG
2. Funding Statements for year ended 30 September 2006
3. Supplementary Volume of Additional Information for the year ended 30 September 2006
4. Draft Letter of Representation to KPMG (Appendix 2 to KPMG Report)
5. Memorandum from the Treasurer, dated 11 December 2006
6. Academic Faculties and Departments - Analysis of Recurrent Expenditure and Research Accounts for the year ended 30 September 2006
7. Memorandum on Research Trends and Risks dated 12 December 2006
8. Ghala Ltd. Financial Statements for year ended 30 September 2006
9. Ghala Ltd Letter of Representation to KPMG dated 7 December 2006
10. Prompt Payments of Accounts Act 1997: Report from Auditors dated 8 December 2006

Ms Gallagher invited the Committee's attention to the report from KPMG which had been circulated. She advised the Committee that the audit was substantially complete, subject to the completion of the subsequent events review and consideration and approval by the Board of the Funding Statements and receipt of the letter of representation. She confirmed that there was no change in the letter of representation over the previous year.

Ms Gallagher advised the Committee that the College will report a deficit of €5.1 million for the year 2005/2006, noting that the Protection of Employee (Fixed Term Work) Act 2003 (FTWA) has continued to have a significant negative impact on the College's financial performance and that the inclusion of a provision of €25.4 million in the Funding Statements for liabilities under the FTWA precludes the use of these funds for investment in strategic initiatives.

Ms Gallagher invited the Committee's attention to an analysis of the underlying trends evident from the College's Income and Expenditure Accounts over a four-year period. The Committee noted that after adjusting for non-recurring items of income and expenditure, the result in two of the last four years would have been substantially worse than previously reported.

In presenting the key findings of the audit, Ms Gallagher invited the Committee's attention to the impacts on the Funding Statements arising from:

- Pensions
- Fixed term workers
- Research activity
- College restructuring
- Academic Resource Allocation Model
- Provisions, accruals and contingencies
- Capital projects
- Taxation

Ms Gallagher stated that no areas of concern had been noted in the course of the audit in relation to the following factors:

- Compliance with laws and regulations
- Fraud and illegal acts
- Related party transactions
- Audit differences

In response to a query, the Treasurer advised the Committee that the HEA Working Group on Pensions is also addressing the issue of financial liabilities arising from the FTWA and that discussions are on-going with the Department of Education and Science and the Department of Finance in this regard. She noted that, as yet, there is no indication as to when the Working Group will conclude its work.

The Committee noted a memorandum from the Treasurer, dated 11 December 2006, which had been circulated and which outlined the financial reporting requirements of the College, the accounting policies and the issues of judgement within the Funding Statements. The Treasurer invited the Committee's attention to the memorandum's key points relating to the College's financial position as reported in the:

- Income and Expenditure Account;
- Balance Sheet;
- Analysis of Research activity as presented in the *Academic Faculties and Departments - Analysis of Recurrent Expenditure and Research Accounts for the year ended 30 September 2006* which had been circulated together with a memorandum from the Research Accounting Manager.

She also noted the financial position of the College's Capital Development Programme.

The Treasurer invited the Committee's attention to the following issues as outlined in her memorandum:

- Financial risk issues
- Funding concerns
- Pension issues
- Development of the 4th Level
- Compliance issues

- Value for money
- Financial governance

In response to queries, the Treasurer advised the Committee that:

- (a) while it is difficult to make direct comparisons with other institutions, indications are that the Board-approved policy of a pay:non-pay ratio of 70:30 is a reasonable norm for the sector. The Committee noted that the ratio currently stands at 73:27;
- (b) the issue of unspent balances within Schools will be considered by the Resource Management Committee. She noted that while it is appropriate for Schools to retain funds for contingency purposes, consideration has to be given to developing a policy on the appropriate level of such balances. The Committee noted Ms Gallagher's comments on the need for Schools to develop and implement spending plans for unspent balances;
- (c) the College has no funds available to establish a Change Fund to assist in the restructuring process and the HEA's Strategic Innovation Fund (SIF) offers potential for discretionary funds in this regard;
- (d) the development of a standardised financial system will pose a significant challenge to the College as it will require a full evaluation of existing procedures and in some cases a modification of existing business processes. It was noted that a new computer-based financial system was included in proposals for the College's e-strategy but as yet there is no specific funding in place to initiate the project.

In the course of a discussion on KPMG's report and the Treasurer's memorandum the following points were made by Committee members:

- the deficit in the College's finances is a cause for serious concern and the cumulative impact of the FTWA poses very significant challenges for the College in the future, unless Government funding is provided to meet the liabilities resulting from this legislation. It was noted that if provision had not to be made for liabilities associated with the FTWA the College's finances would be in a viable situation and that funds would be available to invest in the achievement of the College's strategic objectives;
- the fixed term nature of funding from the SIF limits the impact which it can have on academic activities, particularly if the College is required to provide matching funds;
- the non-financial risks facing the College should be prioritised and internal control systems put in place to minimise unnecessary exposure to the College;
- the absence of senior staff in key administrative areas due to sickness as well as under-staffing were identified as causes of concern.

In response to a query, the Treasurer advised the Committee that, while it would be desirable to seek a change to the Statutes to facilitate the simultaneous consideration of the Funding Statements and the Consolidated Financial Statements by the various College Committees and Board, there would still be a requirement to provide Funding Statements to the HEA at the end of February/early March as part of the Estimates process each year. She stated that in view of the manual exercise required to generate the Consolidated Financial Statements, it is unlikely that they could be audited before May/June of each year.

The Internal Auditor advised the Committee that, following the clarification of a number of issues with the Deputy Treasurer prior to the meeting, he was satisfied with the Funding Statements as presented.

The Treasurer and the Deputy Treasurer, in response to queries from members of the Committee, clarified a number of technical issues in relation to the Funding Statements.

Ms Gallagher invited the Committee's attention to issues outlined in the KPMG report in relation to: corporate governance and internal control issues which had been considered in the context of the requirements of the draft Code of Practice for Governance of Irish Universities; the resources available to the Internal Audit function; issues arising from multi-institutional research ventures; the Student Administration System and College resources generally. She invited the Committee's attention to the following recommendations that:

- the internal audit function be fully resourced to enable it to perform a full body of work and hence be able to provide the Audit Committee, and in turn the Board, with

- an annual assurance on the system of internal control;
- the risk management process be verified independently to give the Board assurance that processes are in place and working effectively and the next stages of the risk management process should be addressed as soon as possible;
- policy and procedures in relation to the establishment of multi-institutional research ventures should be monitored and non-compliance reported to the Board;
- governance and project management issues arising from the implementation of recent major projects should be considered by the Audit Committee;
- sufficient funds should be directed to key staffing roles and functions to enable the College to continue at the current level of activity;
- there is an urgent need to develop an integrated financial reporting system to address the identified control issues.

Ms Gallagher advised the Committee that KPMG expected to issue an unqualified audit opinion on the Funding Statements and that they had issued unqualified audit opinions on the financial statements of Ghala Ltd. and on the College's compliance with the Prompt Payment of Accounts Act. The Committee agreed that the Funding Statements, together with the unqualified audit opinion should be forwarded to Board for consideration and approval.

The Chairman thanked the Treasurer and the Deputy Treasurer and Ms Gallagher for their presentations.

Action

The audited 2005/2006 Funding Statements to be submitted to Board with a recommendation that they be approved.

AD/06-07/33 **Consideration of KPMG Correspondence** Ms Gallagher invited the Committee's attention to the following correspondence which had been circulated:
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- A letter to the Chairman of the Committee
- Management letter

In considering Ms Gallagher's letter to the Chairman, the Committee noted Ms Gallagher's statement that there was no disagreement with the accounting treatment proposed by the Treasurer in the preparation of the Funding Statements and that there were no material adjusted or unadjusted differences.

She invited the Committee's attention to the following specific matters which had arisen from the key audit issues which had been discussed in detail under the previous agenda item (minute AD/06-07/32 refers):

- (i) the implications of Code of Practice for the Governance of Irish Universities and the need for additional resources for the Internal Audit function;
- (ii) the need to implement the next stage of the risk management process across all areas of the College;
- (iii) the need to undertake a full risk assessment of all aspects of the proposed College reorganisation prior to its commencement;
- (iv) issues in relation to the future of the College pension scheme;
- (v) the fact that the provisions made in the Funding Statements for the College's liabilities under the FTWA are based on the best judgements available the actual outturns may differ when they are realised in due course;
- (vi) the need to address the deficit on the College's capital development programme;
- (vii) the satisfactory responses which have been received to the matters raised in the draft Management Letter sent to the Secretary to the College;
- (viii) the lack of consistency in the operation of financial systems in Schools which will militate against the successful introduction of an integrated College-wide financial system.

Action

KPMG's letter to the Chairman to be forwarded to Board with the Committee's report on the audited Funding Statements

AD/06-07/34 XXX **Review of the Audit Procedures** Ms Gallagher and Mr Prior attended for this item. In response to queries from the Chairman, Ms Gallagher advised that the audit had proceeded very smoothly and according to plan and that there had been very good support and cooperation from the Treasurer and her staff at all times. Ms Gallagher advised the Committee that difficulties had been encountered this year in finalising the Management Letter due to the extremely short response time available to the College's management. She stated that the timing and content of the letter will reviewed for future audits.

The Chairman thanked Ms Gallagher and Mr Prior for their attendance and contribution to the meeting.

AD/06-07/35 XXX **Review of the External Auditors** The Treasurer and the Deputy Treasurer attended for this item. Introducing the topic the Chairman noted that an annual review of the external auditors had, in accordance with best practice, been included in the Committee's terms of reference and that it was proposed to address the issues outlined in the document accompanying his memorandum dated 12 December 2006 which had been circulated.

The Chairman invited the Treasurer and the Deputy Treasurer to comment on how the audit had proceeded and in particular how, in their opinion, the external audit team from KPMG had performed. The Treasurer advised the Committee that the audit had proceeded well and that all broad risk areas, both financial and relevant non-financial, had been addressed appropriately. She noted that while the personnel engaged in the audit had changed at the start of the audit, the external audit had been adequately resourced.

The Treasurer advised the Committee that the timing of the Management Letter had caused difficulties this year and that she proposed that an interim management letter be issued after the Interim Audit which could then be reviewed in the context of the full audit.

The Chairman thanked the Treasurer and the Deputy Treasurer for attending the meeting and their contribution to the discussions. He also expressed the Committee's appreciation to the staff in the Treasurer's Office for their work in meeting a very tight deadline.

Following a further discussion of the conduct of the audit the Committee expressed satisfaction with the performance of the external auditors.

AD/06-07/36 XXX **Report to Board on Funding Statements** The Committee noted a draft memorandum from the Chairman to the Board to accompany the audited Funding Statements for 2005/2006 which had been drafted by the Internal Auditor and which had been circulated. The Committee approved the general thrust of the text and agreed that the text should be strengthened to support a number of the specific issues raised by the Treasurer in her presentation. It was agreed that the Chairman would discuss the format of the presentations to Board with the Treasurer in advance of the Board meeting on 24 January 2007.

Actions

- 36.1 The memorandum to be finalised and send to Board for consideration at its meeting on 24 January 2007
- 36.2 The Chairman to discuss the format of the Board presentations with the Treasurer

AD/06-07/37 XXX **Draft Letter of Verification to the HEA** The Internal Auditor invited the Committee's attention to the draft input to the 2006 HEA Verification Letter which addressed issues falling within the Committee's remit. The Committee approved the draft text and agreed that it be forwarded to the Secretary to the College and the Treasurer for inclusion in the

Verification Letter being sent by the College to the HEA.

Action

The secretary to forward the text to the Secretary to the College and the Treasurer for inclusion in the College's response to the HEA.

SECTION C – ITEMS FOR NOTING

AD/06-07/38 Annual Report to Board The Committee noted the Annual Report 2006 which had been re-drafted to incorporate the amendments agreed at the previous meeting and which had been considered by the Board at its meeting on 12 December 2006. The Chairman advised the Committee that the report had been well received and that the Board had expressed its appreciation to the Committee for its work during the past year.

AD/06-07/39 Audit Committee Quarterly: Issue 10: November 2006 The Committee noted the document which had been circulated.

Signed:

Date: