

The University of Dublin

Trinity College

Minutes of Audit Committee, Thursday 10 January 2008

Present: Mr T Forsyth (Chairman), Professor J O'Hagan, Professor B McGing, Dr D O'Donovan,

(ex officio) Internal Auditor.

Apologies: Mr J Collins and the Assistant Secretary

The Senior Lecturer and Secretary attended for item AD/07-08/34

Mr Ian Mathews, Treasurer (Acting), Ms Deirdre Savage, Research Accounting Manager, Ms Jane Corcoran, Financial Accountant, attended for items AD/07-08/37, 38, and 39.

Ms Laura Gallagher and Mr Ciaran Moran from KPMG attended for items AD/07-08/36, 37, 38, and 39 (part).

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

AD/07-08/32 Minutes The Minutes of the meeting held on 27 November 2007 were approved and signed.

AD/07-08/33 Call-over In respect of the item on guidelines for project management the Committee, noting that subsequent to the last meeting it had been agreed that discussion on the draft guidelines would be deferred to the meeting of 28 February, agreed that representatives from IS Services would be invited to attend that meeting. The Committee agreed to also consider the other items on the call over list at the next meeting.

Action

The secretary to write to IS Services inviting attendance as appropriate

SECTION A - Policy Issues

AD/07-08/34 Risk Management in College The Chairman welcomed the Senior Lecturer and College Secretary to the meeting. He noted that the College's High Level Risk Register, containing risks identified by the administrative and support areas, had been included in the papers circulated. He invited the Committee to focus on the high level issues rather than the individual risks identified in that document and specifically to attempt to establish if there are measures the Committee might be able to recommend to assist College in making more substantial progress in this area.

The Secretary, introducing the document, commented that while the specific term "risk management" may not be overtly mentioned at meetings of senior management in College, the concept is strongly embedded in the administrative and support areas. He stated that the departmental registers in those areas, contain a significant amount of detail on risks with clearly defined actions to manage them and that Executive Officers were well attuned to the concept. By way of an example of effective risk management, the Secretary outlined the

manner in which Executive Officers had identified the risk of financial instability posed by the new HEA funding model, (RGAM).

After some further discussion, the Committee observed that the Register, as presented, lacks specific timescales, indicates a mitigation of some risks without defining the reasons why and does not identify individuals as risk owners, with the result that effecting agreed actions may be slow and accountability may be unclear. In response, the Secretary, accepting that while accountability may not be explicit, indicated that the practice is that individual Officers take responsibility for areas within their remit, bringing back proposals to the Executive Officers Group for approval. In response to a query the Secretary confirmed that minutes of the Executive Officers Group meetings would reflect that this is the case and should give comfort to the Committee.

In response to a query on the status of academic risks the Senior Lecturer outlined the position to the Committee stating that it had taken longer than originally envisaged but that the Heads of School Committee had considered the issue of risk at length and had updated the academic risk register at its meeting on 18 December 2007. Outlining some of the principal changes made to the previous assessment of academic risks, he added that a document would be finalised and be made available to the Executive Officers Group within the next two weeks, following which it would be circulated to the Audit Committee. The Chairman, observing that the Committee could not comment on the specific risk issues mentioned without sight of the document under preparation, stated that Board will now be required to sign off on the financial statements in advance of an assessment of academic risks. In response, the Senior Lecturer referring to Board minutes of 24 January 2007 and 21 November 2007 which outline the matters at issue, stated it is the view of the Heads of School Committee that the risk management process is important and needs to be effectively embedded in College processes, but that the policy requirement that the Heads of School Committee both compile the register and review the risks gives rise to conflicting roles. He further elaborated that the view of Heads is that:

- the Heads of School Committee's time should be devoted to policy issues rather than compiling the risk register;
- risk managers should be nominated in each of the 24 schools to liaise with the Secretary to compile the risks and then bring them forward to the Heads of School Committee for review; and
- resources should be put in place to achieve this.

The Senior Lecturer further noted that the Risk Policy may need to be altered to reflect the new academic structures and the role of the three Deans.

The Audit Committee observed that ownership of risks must remain with the persons charged with achieving specific College objectives and that, while support staff could facilitate the process, overall responsibility must remain with the Heads. It asked whether the consultants employed by the administrative and support areas in compiling their register could be used in a similar manner in the academic areas. The Committee also observed that academic risks extend beyond health and safety issues and financial concerns and that while they may interconnect with same, the key academic objectives surround maintenance of quality of teaching and research and reputation as well as the administration of academic functions. Noting the importance of risk management to Board in meeting its obligations, the Audit Committee stressed the importance of making progress in this area and it was agreed that the identification of some practical examples of good risk management at work, obtained from other institutions, could be of assistance to Heads of School.

The Chairman thanked the Secretary and the Senior Lecturer for their helpful

presentations and, noting that it was felt that Heads of Schools need some support, indicated that the Committee would seek to articulate this clearly in its report to Board. The Committee agreed that, as matter stand, the College does not have an effective system to actively and constantly identify, assess, manage and monitor all key risks in a structured, visible and co-ordinated manner and that this needs to be brought to the attention of the Board.

Action

The draft memorandum from the Chairman to be finalised to reflect the discussions and, following review by the Committee members, to be sent to Board.

AD/07-08/35 Committee self-evaluation The Committee noted the memorandum from the Chairman, dated 5 November which had been circulated. After a brief discussion the Committee agreed to consider the item at its next meeting.

Action

The memorandum to be included on the agenda for the next meeting of the Committee.

SECTION B - IMPLEMENTATION ISSUES

AD/07-08/36 Review of Audit procedures Ms Gallagher and Mr Moran attended for this item. In response to queries from the Chairman, Ms Gallagher advised that:

- the audit had proceeded very well;
- no new management letter points had emerged;
- there were no adjusted or unadjusted audit differences;
- there had been full support and cooperation from the Treasurer's Office at all times; and
- there were no issues to raise with the Committee in the context of the conduct of the audit.

AD/07-08/37 Consideration of 2006/2007 Financial Statements The Treasurer (Acting), the Research Accounting Manager, and the Financial Accountant attended for this item along with Ms Gallagher and Mr Moran of KPMG.

XXX

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 2007
3. Additional Information for the year ended 30 September 2007
4. Draft Letter of Representation to KPMG (Appendix 1 to KPMG Report)
5. Memorandum from the Treasurer, dated 30 November 2007
6. Ten-Year Financial Analysis-Memorandum from the Treasurer, dated 30 November 2007
7. Academic Faculties and Departments - Analysis of Recurrent Expenditure and Research Accounts for the year ended 30 September 2007
8. Memorandum from the Research Accounting Manager on Research Trends and Risk dated 12 December 2007
9. Ghala Ltd. Financial Statements for year ended 30 September 2007
10. Ghala Ltd Letter of Representation to KPMG dated 12 December 2007
11. Prompt Payments of Accounts Act 1997: Report from Auditors dated 13 December 2007
12. Minutes of Finance Committee meeting of 19 December 2007 FN/07-08/25 and 26

Ms Gallagher invited the Committee's attention to the report from KPMG, advising that the audit was substantially complete, and an unqualified audit report would be issued 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 since the previous year.

Ms Gallagher advised the Committee that the College will report a deficit of €2.2 million for the year 2006/2007, inviting 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, if adjusted for non-recurring items of income and expenditure, the result would be a surplus of €3.4 million but that this needed to be considered in the context of €1.8 million higher interest earnings, an unspent contingency provision of €2.7 million and savings in other areas. The Committee also noted that the funds unavailable for strategic initiatives in the year amounted to €7 million (2006: €2.5 million) of which €3.5 million was due to the FTWA provision.

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

- Fixed term workers
- Pensions
- Research activity
- Provisions, accruals and contingencies
- Academic Internal Balances
- Capital projects

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
- Taxation
- Non audit services

A number of technical issues were discussed in respect of each of the key findings. In response to a query, Ms Gallagher advised that the Funding Statements reflected only pension contributions at the rate set by the HEA of 15% but that if the rate recommended in the last actuarial valuation were used it would increase the charge for the year by €10 million. In the course of a discussion on the pension deficit, Ms Gallagher confirmed that the issue, which is of major significance to the Consolidated Accounts prepared in accordance with GAAP, remains to be resolved and that finalisation of the 2005/2006 and 2006/2007 Consolidated Accounts will await the outcome of the Pension Group deliberations and Government decisions.

Ms Gallagher, discussing Code of Governance issues and recognising that College has many conflicting resource demands, expressed concern at the inadequate level of internal audit resources and the consequent difficulty of satisfying the requirement for Board to make annual statements of assurance on internal controls. She also expressed concern at the slow rate of progress in implementing risk management stating that much work remained to be done in this area. The Treasurer (Acting) advised the Committee that the auditors had expressed satisfaction, subject to testing, with the internal financial controls within the remit of the Treasurer's Office.

The Treasurer (Acting) stating that the Funding Statements had been considered by the Finance Committee on 19 December 2007 and referring to the minutes FN/07-08/25 and 26 of that meeting, which had been circulated subsequently, stated that the accounts presented were the first part of the annual reporting cycle and represented the core teaching and research activities in the Income and Expenditure Account in accordance with the harmonised basis of accounting. The second part would be the Consolidated Accounts prepared in accordance with GAAP which it is expected will be completed in May or June of the current year but that their finalisation, as already noted, would be dependent on resolution of the pension issues. Confirming that there were no changes to accounting policies and that there were no significant judgement items, other than those previously considered by the Committee, the Treasurer (Acting) drew the attention of the Committee to points in respect of the Income and Expenditure Account and Balance Sheet and in particular, to the effects of the Fixed Term Workers provision for which €32.2 million has been set aside as at 30 September 2007. He also advised the Committee of developments in regard to pension funding, trends in state grants and other income and expenditure and clarified certain technical issues.

In response to queries, the Treasurer (Acting) advised the Committee that:

- (a) levels of unspent balances/reserves are reviewed on a quarterly basis by the Finance Committee;
- (b) the issue of a particular research centre will be reviewed on a quarterly basis and considered by the Finance Committee.

The Committee noted the Analysis of Research Activity, which had been circulated and which provided a useful insight into the scale of research operations.

The Committee noted a memorandum from the former Treasurer, dated 30 November 2007, which had been circulated and which outlined:

- financial reporting requirements of the College
- accounting policies and format of the financial statements
- issues of judgement within the Funding Statements
- observations on financial outcomes and activities during the year
- other matters covering funding, pensions, financial risk, financial governance compliance and value for money obligations and
- comments on the Consolidated financial statements

Noting that the first four topics had already been discussed, the Treasurer (Acting) drew the Committee's attention to the other matters raised in the memorandum which highlighted many issues raised in previous years.

The Committee also noted a memorandum from the former Treasurer, dated 30 November 2007, which had been circulated and which outlined a ten year financial analysis from 1996/97 to 2006/07 setting out facts and figures, sectoral comparisons and the conclusions to be drawn from the data and which posed a range of questions which need to be considered at the appropriate forum in College. The Treasurer (Acting) advised the Committee that the questions raised by the former Treasurer are being addressed; they include complex interconnected issues which require the attention of Executive Officers and are therefore not directly related to the audit. Following discussion, the Committee agreed with the decision of the Finance Committee that these issues were matters primarily for attention by the Executive Officers and Principal Committees as many of them are policy issues.

The Treasurer (Acting) invited the Committee's attention to a letter from Mr McGrattan, Deputy Director of Audit, Office of the Comptroller and Auditor General, dated 9 January 2008, which was tabled at the meeting. The Committee

welcomed the response to the papers which had been sent to the C&AG in accordance with the agreed liaison procedures inviting comment on the key judgments and issues arising from the audit. The Committee noted a number of minor suggested changes to disclosure notes made in the letter under the headings of Accounting Policies and Provisions. After discussion with the Treasurer (Acting) and KPMG it was agreed that these could be reflected appropriately in the changes suggested by the Treasurer (Acting). The view of the C&AG in respect of the provision of €1 million for restructuring costs was noted. While the Committee had already considered and agreed the treatment of this issue in reviewing the key judgements and provisions at its meeting on 27 November 2007 [minute AD/07-08/27 refers], the basis for providing for the costs was discussed with the external auditors. Ms Gallagher detailed the conditions which needed to be satisfied for such costs to be validly provided for in the accounts and stated that she was satisfied that the treatment was the correct one. Following discussion, the Committee agreed that the provision should remain as had been previously decided.

The Committee noted the financial statements of Ghala Limited which had already been approved by the directors.

The Committee also noted the unqualified audit opinion on the College's compliance with the Prompt Payments of Account Act.

The Committee agreed that the Funding Statements, amended as agreed in response to the letter from the C&AG Office, together with the letter of representation and the draft unqualified audit opinion should be forwarded to the Board for consideration and approval.

Action

The audited 2006/2007 Funding Statements and accompanying documents to be forwarded to Board with a recommendation that they be approved.

AD/07-08/38 Review of KPMG correspondence Ms Gallagher invited the Committee's
XXX attention to the letter to the Chairman which had been circulated, dated 10 January 2008, and which summarised her presentation to the Committee on the outcome of the audit. She drew particular attention to six items which had been discussed during her earlier presentation:

- Code of Governance and required statement on internal control
- Status of implementing Risk Management in College
- Pension Fund deficit
- FTWA provision and basis for its estimate
- Deficit on the Capital Programme
- Status of implementation of management letter points from earlier years in view of lack of new financial reporting system

Action

KPMG's letter to be forwarded to Board with the Committee's report on the audited financial statements.

AD/07-08/39 Review of External Auditors In response to queries from the Chairman
XXX Ms Gallagher outlined procedures for ensuring KPMG advise the Committee in advance of accepting non-audit work for College, the internal and external quality control processes in place and the practice of ensuring all staff are appropriately qualified to do the work they are assigned.

The Chairman thanked Ms Gallagher and Mr Moran, before they withdrew from the meeting, for their attendance and helpful contributions to the discussions and for their very clear and concise presentation and reporting.

In response to queries by the Chairman the Treasurer (Acting) stated that the conduct of the audit had been efficient and thorough and that he was satisfied that an appropriate team had been put in place by KPMG.

The Chairman thanked the Treasurer (Acting) and his team for their excellent work in achieving completion of the financial statements in a tight deadline with no differences arising and securing an unqualified audit report. The Chairman thanked the Treasurer (Acting) and his team for their attendance and contribution to the meeting before they withdrew.

The Committee then considered the performance of the external auditors in the light of both the views expressed by the Treasurer (Acting) and its own interface with them. Following discussion, the Committee expressed satisfaction with the performance of the external auditors.

AD/07-08/40 Report to Board on 2006/2007 Funding Statements The Committee noted the draft memorandum from the Chairman to the Board to accompany the Funding Statements which had been circulated. The Committee approved the memorandum as drafted.

Action

The memorandum to be sent to Board to accompany the Funding Statements.

SECTION C - ITEMS FOR NOTING

AD/07-08/41 Annual Report to Board 2007 The Committee noted the Annual Report to Board which had been completed to reflect the discussions and amendments at the previous meeting on 27 November 2007. 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/07-08/42 Board Papers The Committee noted the documents which had been circulated.

Signed:

Date: