

The University of Dublin

Trinity College

Minutes of Audit Committee, Wednesday 6 October 2010

*Present* Mr J Collins (Chairman), Ms J O'Neill, Professor J McGilp, Professor J O'Hagan, Professor J Horne

*(ex officio)* Internal Auditor (secretary), Secretary to the College

*Apologies* Mr P O'Reilly

*In Attendance* Ms M Thompson

The Treasurer and the Financial Resources Manager attended for items AD/10-11/05, AD/10-11/06, AD/10-11/07 and AD/10-11/08

Ms L Gallagher, Mr S O'Keefe and Mr R Hobson of KPMG attended for items AD/10-11/05 and AD/10-11/06

The Chief Operating Officer attended for items for AD/10-11/05, AD/10-11/06, AD/10-11/07, AD/10-11/08, AD/10-11/09 and AD/10-11/10

Mr B McGee and Mr S James, Assistant Internal Auditors attended for items AD/10-11/12 to AD/10-11/23

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

**AD/10-11/01 Minutes**  
The Minutes of the meeting held on 26 May 2010 were approved.

**AD/10-11/02 Call-over**  
The Committee noted the actions which had been implemented since the previous meeting and those that remained outstanding.

**AD/10-11/03 Committee Membership**  
The Chairman welcomed Professor J Horne and Ms J O'Neill to their first Committee meeting, noting that Professor Horne replaces Professor B McGing whose term of office had expired in May and that Ms J O'Neill joins the Committee as an additional external member.

**AD/10-11/04 Matter Arising**  
Referring to AD/09-10/63, the Internal Auditor advised that a policy on hospitality and entertainment is currently being finalised by Executive Officers. The Committee expressed strong support for the formulation of a clear and robust policy, which would provide clear and unambiguous guidance to staff.

Action:

The Internal Auditor to update the Committee on the progress of the policy and a copy to be brought to a future meeting of the Committee.

SECTION A - POLICY ISSUES

**AD/10-11/05 Consideration of Trust Funds (Benefactions) Financial Statements for year to 30 June 2010**  
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The Treasurer, joining the meeting, invited the Committee's attention to the Draft Trust Funds (Benefactions) Financial Statements for the year to 30

June 2010, which had been circulated along with a draft letter of representation.

Drawing the Committee's attention to the Treasurer's Report and highlighting issues in relation to the investment and governance aspects, the Treasurer noted in particular the key requirement that the funds continue to provide financial support to specific College activities in perpetuity. The Treasurer also advised the Committee of capital and income returns deriving from the investments. The Treasurer clarified a number of technical queries in relation to the financial statements in response to queries from Committee members and advised that the Draft Trust Funds Financial Statements had been approved at the Finance Committee of 22 September 2010 for consideration at the Board meeting in November 2010.

Ms Gallagher, present by invitation, confirmed that there were no issues of concern to bring to the Committee's attention and that the External Auditors intend to issue an unqualified audit opinion.

The Committee agreed that the financial statements and letter of representation should be recommended for approval by Board.

Action:

The financial statements and letter of representation to be forwarded to Board with a recommendation that they be approved.

**AD/10-11/06 Plan for Audit of 2009/10 Accounts**

Ms Gallagher of KPMG drew the Committee's attention to a planning document, which had been circulated, outlining the approach they intend to take in their audits of the College's Funding Statements and Consolidated GAAP Accounts. Ms Gallagher advised that the audit plan was broadly consistent with previous years. Commenting on the four phases to the plan, Ms Gallagher advised that the planning and evaluation of key internal controls stages had now been completed and no material issues had arisen. Ms Gallagher advised that substantive testing would commence in November 2010 to be followed by completion and reporting. Ms Gallagher confirmed that key judgements and risk areas would be discussed at the Audit Committee on 30 November 2010 and the audit findings presented to the Committee on 12 January 2011.

Ms Gallagher drew the Committee's attention to key risk factors and the proposed audit approaches associated with them, as follows:

- (i) Pension arrangements
- (ii) Financial Performance
- (iii) Accounting Judgements and Estimates
- (iv) Capital Projects
- (v) Accounting for Research Projects
- (vi) Covenant Compliance
- (vii) IT Projects
- (viii) GAAP financial statements preparation process

Ms Gallagher advised that as part of the audit they would consult with key College personnel to identify any significant issues emerging and would rely on external consultants to advise on pension issues and their internal consultants to advise on IT and tax issues. Ms Gallagher advised that the audit of the Consolidated GAAP accounts remains an inefficient and complex manual exercise due to the current financial information system.

Ms Gallagher also confirmed that, as normal, KPMG would be making their files available to the C&AG auditors to facilitate the completion of their work.

In regard to pension arrangements, Ms Gallagher advised that due to the absence of letter of confirmation from the HEA that the State will fund the full pension liabilities, they intend to issue a qualification in their report on the Consolidated GAAP accounts, noting that this was consistent with the approach generally adopted by externally appointed auditors in the sector.

Referring to the audit fee, Ms Gallagher confirmed that the fees set out in the Audit Plan are consistent with those presented in the audit tender document presented to the Committee earlier in the year.

The secretary confirmed that the KPMG Audit Plan had been circulated to the C&AG as per the agreed protocol and advised the Committee that no comments had been received on it. The Committee noting the Plan as presented by the Auditors, thanked Ms Gallagher and her colleagues for their presentation and they withdrew from the meeting.

- AD/10-11/07 Draft Policy on Auditor Rotation and Appointment of the Auditors**  
The Internal Auditor invited the Committee to consider the draft policy on Auditor Rotation and Appointment of the Auditors dated October 2010, which had been circulated. The Committee noted and approved the policy and agreed that it be adopted and implemented as presented.

## SECTION B - IMPLEMENTATION ISSUES

- AD/10-11/08 Financial Risks and Biosciences Development - Update**  
At the invitation of the Chairman, the Treasurer presented an overview of the College's financial position, together with an update on the financial status of the Biosciences Development. Noting the impact of the prevailing difficult economic climate on funding, the Treasurer outlined the expected financial position for the year ending 2009/10 in terms of recurrent and capital expenditure. In particular, he commented on the level to which College is dependent on exchequer funding, the lack of multi-annual funding and the observance of good practice by setting aside a minimum of 3%-5% of total revenues for financial resilience and renewal. The Committee also noted the College's limited control over the setting of undergraduate fees and challenges posed by the HEA's core funding/allocation model.

In regard to the outlook for 2011 and beyond, the Treasurer outlined future financial challenges facing College, in particular an anticipated significant decline in exchequer funding for education in the 2011 budget and beyond. He advised that the expected outturn in 2010/11 is to break-even, due to measures approved by Board in June 2010. The Treasurer, further advising that it will be challenging to sustain current levels of expenditure reductions in the manner previously adopted, outlined College's financial strategy to reduce dependence on exchequer funding and to manage costs strategically.

The Treasurer also updated the Committee on the funding status of the Biosciences Development, with particular reference to the European Investment Bank loan and its associated risks. Acknowledging past concerns of the Committee in this regard, he advised of various funding streams now emerging to support the development, including the recent notification of PRTL15 funding. He updated the Committee on the funding of the commercial elements of the development, commenting that the commercial arrangements are reviewed on a regular basis.

In response to a query, the Treasurer confirmed that the cost of completing the fit out of the building has been included in the overall budget, also

advising that a working group is in place to examine future recurrent running costs of the completed development.

In the course of a discussion, members expressed concern that, while such new projects are crucial to College's future strategic development, it is also important that investment takes place in existing building infrastructure. Noting that the cost of space is significant and existing resources need to be utilised in an optimum way members also commented on the need for this to be reflected in allocating resources.

In conclusion, the Committee noted that the funding status of the development had improved significantly since last considered by the Committee in March 2010 and that the commercial aspects would be kept under review.

On behalf of the Committee, the Chairman thanked the Treasurer for his overview of the College's financial position and for the update on the funding status of Biosciences Development. The Treasurer and Financial Resources Manager withdrew from the meeting.

**AD/10-11/09 Risk Management**

Introducing the item, the Chairman noted that the Chief Operating Officer, present by invitation for this and earlier items, had been appointed only recently and, welcoming her to her first meeting, invited her to comment on the risk management process. The Chief Operating Officer advised that the documents circulated for this meeting were several months old and that an update is currently being prepared. The Committee noted that the update will be presented at a future Committee meeting and agreed to consider the process in greater depth then.

**AD/10-11/10 Issues arising from e-Strategy**

The Chairman invited the Internal Auditor to introduce an Interim Report concerning issues arising from e-Strategy, which had been circulated. The Internal Auditor advised that during the review conducted in June 2010 a number of significant issues had arisen and that he had subsequently reviewed progress in addressing them. He stated that while good progress had been made there still remained some significant issues to which he drew the Committee's attention. The Chief Operating Officer, present by invitation for this item, confirmed that e-Strategy will be one of her priorities and advised the Committee that after a period of assessment and review of e-Strategy, she will be reporting to the Executive Officers' Group and proposing future actions. Members agreed to examine issues arising from e-Strategy in greater depth at a future meeting. On behalf of the Committee, the Chairman thanked the Chief Operating Officer for joining the meeting for this topic and earlier items before she withdrew from the meeting.

**AD/10-11/11 Status of Implementation of Audit Committee Recommendations**

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The Internal Auditor drew the Committee's attention to a document dated 25 May 2010, which had been circulated, outlining the response of Executive Officers to the Audit Committee's recommendations as presented in its Annual Report for 2009. During a brief discussion of this item, the Committee considered the response to the Annual Report and, noting the advice of the College Secretary that they would receive a response to the Committee's recommendations at an earlier stage of the year in future, agreed that the response was reasonable although certain issues would need to be considered in the Annual Report.

**AD/10-11/12 Review of Accommodation and Catering**

The Internal Auditor invited Mr James, Assistant Auditor, who had joined

the meeting, to brief the Committee on a review of Accommodation and Catering, dated October 2010, which had been circulated. Mr James advised that no major issues had arisen in the review and that overall the effectiveness of management of risk and setting and achieving of objectives is adequate. The Internal Auditor advised that there was a need to co-ordinate existing policies and strategy to better realise the potential for increasing income, which would need to be addressed at College level and that this had been a feature of a number of other reviews also. The Committee noted the conclusions and recommendations of the report and agreed that the issues to be addressed at College level should be raised in the Annual Report.

**AD/10-11/13 Review of Science Gallery - Operational Issues**

The Internal Auditor drew the Committee's attention to a Report, dated October 2010, reviewing operational issues in the Science Gallery, which had been circulated. He advised the Committee that certain operational issues, which had arisen in the past, have been resolved and that operational management, control and compliance with College procedures have improved. Noting that an earlier report on the Science Gallery had addressed governance issues that would need attention at College level, he advised that the current review of operations had also highlighted the need for greater co-ordination of strategy and services. He also advised that, while risks were being managed effectively, the funding risk is considerable and the significant level of current support from College could become insufficient. The Committee noted the findings and recommendations of the Report and agreed the proposal to address the high level issues in the Annual Report to Board.

**AD/10-11/14 Compliance with College of Code Governance**

Introducing the item, the Internal Auditor drew the Committee's attention to a report on Compliance with the College's Code of Governance, dated October 2010, which had been circulated. Inviting Mr James to comment on the report, Mr James advised that positive progress had been made towards resolving certain outstanding issues and that the College was now reasonably compliant with the Code. The Internal Auditor advised that implementation of the Strategic Plan and its alignment with the risk management process throughout College needs further work, noting that this issue will be included in the Committee's Annual Report to Board. The Committee noted the findings and recommendations of the Report.

**AD/10-11/15 Review of Use of SFI Overhead Funding**

The Internal Auditor invited the Committee's attention to a report on the use of SFI Overhead Funding, which had been circulated. He advised the Committee that, on the basis of the review work, he was satisfied that OIP funds allocated to Schools, Academic Support areas, Research Institutes and Administrative areas were spent on resources to support the research environment in College. The Committee noted the findings and conclusions of the Review.

**AD/10-11/16 Implementation of Resource Planning Model - Update**

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The Internal Auditor invited the Committee's attention to a report on the implementation status of the Resource Planning Model which had been circulated, and summarised the background to its development and progress made to date. He advised members that the move to fully allocating resources strategically had been somewhat overtaken by events in that the difficult economic climate and uncertainty had led to a deferral of full implementation of RPM and that it was likely that its introduction would be phased over an extended period. The Committee, noting that some progress had been made in strategic allocation and, while recognising in the short term it may be more pragmatic to use data from the model as a management tool, expressed disappointment at the delay in implementation of RPM, notwithstanding the challenges posed by the

economic environment. During a discussion, Committee members emphasised the importance of the need for strategic resource allocation in order to deal with likely future reductions in funding. Expressing concern about the impact of further reductions without strategic targeting, the Committee agreed that external events may force change more rapidly and that more radical action may be required to meet the challenges. The Committee also reiterated the need for a comprehensive risk assessment of the impact of implementation of RPM. The Committee noted the conclusions of the report and agreed that the issues raised would be addressed in the Committee's Annual Report to Board.

**AD/10-11/17 School Reviews**

The Internal Auditor, introducing the item, advised the Committee that the purpose of the reviews was to establish if the Audit Committee could give additional independent assurance to Board to support the assurances it receives from the Faculty Deans when it considers the annual Statement of Internal Control. He also drew attention to the programme of work, which had been circulated, that was developed over the course of the reviews and invited any suggestions for improvement to be forwarded to him after the meeting. He advised the Committee that the positive assurances from Faculty Deans are supported by the audit work undertaken in the School reviews undertaken to date. In response to a query, the Internal Auditor confirmed that five single-discipline Schools were audited in order to pilot the programme of work, but that multi-disciplinary Schools will be reviewed next. The Committee noted the recommendations, which will be considered for inclusion in the Committee's Annual Report to Board.

**AD/10-11/18 Effectiveness of the Audit Committee**

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Introducing this item, the Chairman drew the Committee's attention to the review documentation and self-evaluation form, which had been circulated, and invited the Committee to consider if any changes to the process were necessary. During a discussion, the Committee agreed that it would be beneficial if Board, as part of its self-evaluation process, could be invited to comment on the effectiveness of the Audit Committee. The College Secretary advised that Board will be evaluating all Principal Committees as a component of its own self-evaluation and that the result would be available in the future as an input to the Audit Committee's evaluation process.

In regard to Audit Committee membership, the Secretary to the College advised of a proposal made at a recent Board meeting to add an additional external member with an accountancy qualification and invited members' views on the matter. The Committee, discussing the proposal and commenting that although financial expertise is available to the Committee and some members have considerable experience in financial matters, agreed that the suggestion to strengthen this aspect had merit. The Committee, noting that the current number of members at six is relatively large for an Audit Committee, agreed that it was important that the balance between external and internal members be maintained and the number of members be limited. The Committee agreed that, if an additional external member is appointed, the next vacancy for an external member should not be filled and that the experience of the individual should reflect the broad nature of the Committee's role and not lead to undue emphasis on financial matters alone. The Secretary also advised of a suggestion made at Board that the Committee's title be amended to include reference to risk. Following a brief discussion, noting that this had been considered sectorally in compiling the Code of Governance and the reasons why it had been decided to not include risk in the title, the Committee agreed that there should be no change to the Committee's title at this time. In conclusion, the Chairman invited members to reflect on the Committee's effectiveness and to raise any issues when completing the

self-evaluation form.

Action:

The Committee Secretary to circulate the self-evaluation form to members.

**AD/10-11/19 Draft Annual Report - Input to Part I**

The Chairman, introducing the item, invited the Committee's attention to a memorandum from the Internal Auditor dated 29 September 2010, which had been circulated, together with Part I of the 2009 Report for information. Advising that the Report will be in two main parts: Part 1 being a commentary inviting Board's attention to certain high level issues and part 2 being a report of record for the year, he invited members to reflect on the approach to the Annual Report and consider issues for inclusion. The Internal Auditor advised that an initial draft of part I of the 2010 Annual Report will be presented at the next Committee meeting and the final version at the following meeting, prior to its presentation to Board on 8 December 2010. In the course of a discussion, members highlighted certain issues to be included and the Committee agreed that the Internal Auditor should take account of these when preparing the draft.

**SECTION C - ITEMS FOR NOTING**

**AD/10-11/20 Comptroller & Auditor General Report**

The Committee noted the memorandum from the Internal Auditor dated 29 September 2010 together with a summary of and extracts from the C&AG Report 75: Irish Universities Resource Management and Performance, which had been circulated. The Committee noted the Report, welcoming the assurance that no significant internal control issues had emerged concerning the College.

**AD/10-11/21 Comptroller and Auditor General**

The Committee noted the Comptroller and Auditor General's Audit Reports for the years September 2006, 2007 and 2008, which had been circulated.

**AD/10-11/22 Board Papers**

The Committee noted the recent Board Agendas and Minutes which had been circulated. In particular, Dr McGilp drew the Committee's attention to Minute BD/09-10/308 of 30 June 2010, in which the Board noted that the Audit Committee would have to continue to qualify the degree of assurance it could provide to Board because of the limited resources available to Internal Audit.

**AD/10-11/23 Meeting Schedule 2010/11**

The Committee noted the Meeting Schedule for 2010/11 that had been circulated.