

The University of Dublin

Trinity College

Minutes of Audit Committee, Wednesday 7 March 2012

*Present* Ms J O'Neill (Chair), Mr P O'Reilly, Mr J Cunningham, Professor J McGilp, Professor J O'Hagan, Professor J Horne

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

*In Attendance* Ms M Thompson

The Treasurer and the Financial Resources Manager attended for items, or part of items, AD/11-12/63 - AD/11-12/65

Mr L Gallagher and Mr R Hobson of KPMG attended for items, or part of items, AD/11-12/64 - AD/11-12/65

Ms M Mulligan and Mr B Hill of the Comptroller and Auditor General attended for items, or part of items, AD/11-12/64 - AD/11-12/65

The Director of Buildings attended for item AD/11-12/67

The Dean of Research attended for item AD/11-12/68

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

The Chair welcomed Mr John Cunningham to his first Audit Committee meeting.

**AD/11-12/60 Minutes**  
The Minutes of the meeting held on 11 January 2012 were approved and signed.

**AD/11-12/61 Call-over**  
The Committee noted the actions which had been implemented since the previous meeting and those that remained outstanding.

**AD/11-12/62 Matters Arising**  
**XXX** There were no matters arising.

**SECTION A - Policy Issues**

**AD/11-12/63 US GAAP Accounts**  
**XXX** Introducing the item, the Chair welcomed the Treasurer and the Financial Resources Manager to the meeting and invited the Treasurer to update the Committee on the status of the proposal to prepare US GAAP accounts, which had been considered at previous meetings.

The Treasurer advised of the key issues involved in the preparation and audit of US GAAP accounts, in particular noting the potential costs and the challenge of delivering three sets of audited accounts in a timely manner. He advised that he will be recommending that College proceeds with the preparation and audit of US GAAP accounts and that he will be briefing

Executive Officers and Finance Committee in the near future on the matter. During a brief discussion, the Financial Resources Manager advised the Committee of KPMG's views on the treatment of the pension asset in the US GAAP accounts and the Treasurer advised that the matter is under consideration.

In response to a query, the Treasurer, confirming that it will also be necessary to outsource an element of the preparation of the accounts given the level of specialist knowledge required, advised the Committee of the indicative costs of both the preparation and audit of the accounts. The Treasurer confirmed that he is continuing to work closely with UCD to scope the exercise and contain the costs where possible. In response to a query, the Treasurer confirmed that the generation of US GAAP accounts by a new financial information system will be included in the functional specifications.

The Committee, noting the potential costs, agreed that the Internal Auditor, on behalf of the Committee, work with the Treasurer to initiate procurement of the audit services. Given the tight time-frame involved, the role of the Committee in the appointment of auditors and the need to progress the matter in advance of the next Audit Committee meeting, members agreed that the Internal Auditor would email members to make arrangements for a tender process if one is required.

The Committee welcomed the up-date and requested that they be kept informed of developments.

**Action:**

The Internal Auditor to liaise with Treasurer on the procurement arrangements for audit services and update Committee members on matters by email.

AD/11-12/64  
XXX

**Consideration of Draft Consolidated Financial Statements for 2009/10**

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

- Memorandum from the Treasurer dated 1 March 2012
- Draft Consolidated Financial Statements for the year ended 30 September 2010
- KPMG Report to the Audit Committee on the Consolidated Financial Statements for the year ended 30 September 2010
- Draft Letter of Representation to KPMG for 2009/10
- Draft Letter of Representation to the Comptroller and Auditor General for 2009/10
- Finance Committee Minute (FN/11-12/60 of 22 February 2012)
- Updated Financial Sustainability graphs based on the Draft Consolidated Financial Statements 2009/10
- C&AG Report on the Audit to the Audit Committee dated 7 March 2012
- Draft C&AG Management Letter dated 1 March 2012 with draft management responses

The Treasurer, having been invited by the Chair to comment on the conduct of the audit, advised that it had been completed satisfactorily but, for all concerned, it had been challenging to deliver the audited financial statements using a manual system of preparation and dealing with both sets of auditors simultaneously. The Committee noted that it is expected that the introduction of the new financial information system will eliminate many of the current difficulties associated with the manual system of accounts preparation.

The Treasurer and Financial Resources Manager then withdrew from the meeting temporarily and the representatives of KPMG joined the meeting by invitation.

Ms Gallagher, having been invited by the Chair to comment on the conduct of the audit, advised that KPMG had no particular issues to report, commenting that the audit continued to pose challenges due to the manual system of preparation and that KPMG will welcome the introduction of a new financial information system. Ms Gallagher advised that the Consolidated Financial Statements for 2010/11 should be before the Committee in the autumn.

The Treasurer and Financial Resources Manager then rejoined the meeting, together with the representatives of the C&AG.

At the invitation of the Chair, the Treasurer and the Financial Resources Manager presented the Consolidated GAAP Accounts for 2009/10. Tabling a slide presentation, the Financial Resources Manager advised that this was the second part of the financial reporting for the year under review, following completion of the Funding Statements. She advised that both the KPMG and the C&AG audits were now complete, subject to Board approval of the financial statements and letters of representation. The Committee noted that there were no unadjusted audit differences and no material control weaknesses identified by the Auditors and also noted a minor addition to the letter of representation to the C&AG that had been circulated. The Financial Resources Manager advised that, as has been the case in previous years, KPMG intend to qualify their audit report in regard to the recognition of a pension asset while the C&AG will be issuing an unqualified audit report in this regard. Drawing the Committee's attention to the reconciliation with the Funding Statements, which highlights the results of the differing accounting treatments for transactions under the Harmonised Basis and GAAP, she also presented a synopsis of the College's overall financial position as reflected in the financial statements. In conclusion, the Financial Resources Manager advised that the financial statements will be presented to Board for approval on 28 March 2012, to be followed by KPMG and C&AG completion of their audit reports, and that the accounts will go before the Oireachtas in due course.

During a brief discussion, the Treasurer answered a number of technical queries from members. The Committee also noted and welcomed the updated graphs on Financial Sustainability indicators which had been circulated.

The Treasurer thanked the staff in his office for their efforts in completing the audit as well as acknowledging the work of the KPMG and C&AG teams.

The Chair thanked the Treasurer and Financial Resources Manager for their very useful and concise presentation.

Ms Gallagher of KPMG, referring to their Audit Report which had been circulated, advised of key audit issues for consideration as follows:

- Audit qualification
- Calculation of pension liability

Ms Gallagher advised that the position taken by KPMG in qualifying their audit report due to the absence of a letter from the HEA that the State will fund full pension liabilities was consistent with that taken by internally appointed firms of auditors in other institutions. She advised, that although legislation has been passed, it does not specifically mention the Model Scheme and Pension Supplementation Scheme and that, in the absence of a letter of confirmation for that portion of the asset, KPMG would continue to

qualify their audit report.

In response to members' concerns about an ongoing qualification, the Treasurer advised that he has previously engaged with the HEA on this matter and confirmed he will be engaging again on a sectoral basis and on behalf of College in an effort to resolve the issue to the satisfaction of KPMG.

Ms Gallagher drew the Committee's attention to key assumptions in regard to the calculation of the pension liability. The Committee noted that the key discount rate applied by the actuary fell slightly above the normal range but Ms Gallagher advised that KPMG considered this assumption appropriate given the College's circumstances. The Financial Resources Manager confirmed it was consistent with the rate used in the sector.

Ms Gallagher also highlighted key differences between the Funding Statements and the GAAP financial statements. During a brief discussion, Ms Gallagher answered a number of technical queries from members.

The Chair, welcoming Ms Mulligan and Mr Hill, Office of the C&AG to the meeting, invited Ms Mulligan to comment on the results of their audit. Ms Mulligan advised that the audit had been completed satisfactorily and confirmed that the C&AG will continue to rely on the work of KPMG to avoid duplication but that the C&AG has additional responsibilities in regard to regularity and probity testing. She advised that, as in previous years, the C&AG has adopted a different view to that of KPMG on the pension issue and will not qualify the accounts. In response to a query, Ms Mulligan confirmed that the C&AG only audit the consolidated GAAP accounts and that the inclusion of the Funding Statements in the accounts to be laid before the Oireachtas is a matter for the College. The Treasurer advised that continuing to include the Funding Statements as part of the College's annual financial reporting is a matter that is currently under review.

Ms Mulligan, also advising that the C&AG will be publishing a Report on Education Audits within the next three months that will include references to College, drew the Committee's attention to the issues that will be reported. In response to a query as to whether College had been given an opportunity to review the factual accuracy and respond to the draft, Ms Mulligan advised that the HEA had contacted the seven Universities asking them to supply data and that the C&AG had been asked, as part of their audit, to test the factual accuracy of these returns. She added that the figures outlined for Trinity in the Report are based on the outcome of that process and that it is matter for College to liaise further with the HEA and Department of Education if issues remain. Following a brief discussion during which doubt was expressed that the figures involved were correct, the Committee expressed concern at the potential reputational damage to the College that would be incurred if inflated amounts are quoted even if subsequently corrected and that in any event, if there are financial consequences, it is imperative that the amounts are accurate. The Committee agreed that the Internal Auditor confirm with the Director of Human Resources that he has been adequately consulted and is satisfied that the statements and amounts as outlined are accurate and represent the facts.

In regard to the reference in the draft C&AG management letter to the Board's review of its Statement on Internal Control, the Secretary to the College clarified the College's procedure which separates the review process from the Board's formal ratification of the Statement which occurs on the presentation of the Consolidated Financial Statements at the appropriate meeting of the Board. The Committee noted that all elements of the review had been conducted in accordance with the procedures and had been available for review by the C&AG in the course of their audit.

Actions:

- 64.1 The Treasurer to advise the Committee in due course of the outcome of his discussions with the HEA on the pension issue and audit qualification
- 64.2 The Internal Auditor to liaise as a matter of urgency with the Director of Human Resources regarding the statements that will be made in the C&AG Report on Education Audits and to advise the Committee

**AD/11-12/65 Arrangements for interaction with the C&AG Auditors**

At the invitation of the Chair, the Internal Auditor advised that a protocol for interaction with the C&AG Auditors had been agreed a number of years previously and was intended to facilitate greater input from the C&AG in the audit planning and reporting process of the Board appointed auditors. Invited to comment, Ms Mulligan advised that, although satisfied with arrangements with College, the C&AG would welcome the development of a sector-wide protocol in which the relationship between the C&AG and internally appointed firms would be formally defined. The Treasurer commented that he would welcome development of an updated protocol and Ms Gallagher confirmed that KPMG would be happy to work with the C&AG on developing a protocol in conjunction with other internally appointed firms in the sector.

Following a brief discussion, the Committee agreed that the Internal Auditor would represent the Committee's views in any discussions on proposals for change to the current protocol and keep it advised of developments.

The Chair thanked the Treasurer and Financial Resources Manager together with Ms Gallagher and Mr Hobson of KPMG for their valuable contributions to the discussion and they withdrew from the meeting.

Before withdrawing from the meeting, the Chair invited Ms Mulligan of the C&AG to comment on the conduct of the C&AG audit. Ms Mulligan, advising of the reasons that delayed the presentation of the accounts to the Committee and that a number of adjustments had been necessary, confirmed that although sometimes logistically difficult, she was satisfied with the conduct of the audit and the good cooperation received from the Treasurer's Office and KPMG. In response to a query, Ms Mulligan advised that all of the universities accounting year-ends were 30 September which presented a challenge but due to most other clients having December year ends there was scope to complete all of the universities within six to seven months of their year end. The Internal Auditor, referring to an earlier comment by the Treasurer that the Consolidated GAAP Accounts might become the College's only annual financial statements in the future, noted that the College Statutes require the Treasurer to present accounts to Board in Hilary term. He advised that this would effectively mean the audit would need to be completed in time for the March Board meeting at the latest and that this would need to be taken into account in developing an updated protocol with the C&AG.

The Chair thanked Ms Mulligan and Mr Hill for their contributions to discussions and they withdrew from the meeting.

Action:

The Internal Auditor to represent the Committee's views in discussions on proposals for change to the current protocol and keep it advised of developments.

**AD/11-12/66 Conduct of the audit**

After a brief discussion, the Committee expressed satisfaction with the conduct of the audit and agreed to recommend the accounts as presented and the letters of representation as amended to Board for approval.

Action:

The Chair to recommend the accounts and letters of representation, as amended, to Board for approval

**AD/11-12/67 Space Utilisation**

The Chair welcomed the Director of Buildings to the meeting. Introducing the topic, the Internal Auditor referred to discussions at previous meetings, following which the Committee had agreed to invite the Director of Buildings to provide an information briefing on space utilisation in College. The Internal Auditor advised that the demand for space and the costs of providing and servicing it are issues that the Committee raised in the context of the resource planning model in its last Annual Report to Board.

The Director of Buildings, welcoming the opportunity to engage with the Committee, advised that the high demand for space in College is a constant and outlined some of the difficulties encountered in efforts to change existing space usage. He advised that a Space Allocation Group is now in place in College and one of its aims is to promote the allocation of space consistent with the College's long-term development plan. He confirmed that the College charges an average operating cost per square metre, which is an unsophisticated calculation and also that there is not any charge for the capital cost of space. Following a general discussion about a number of issues, including international experience, sectoral data, the accuracy of the Space Atlas, adequacy of current systems and the lack of data on actual usage, the Committee agreed that, while there may be significant scope for savings or greater efficiencies in this area, work will be required to establish appropriate measuring mechanisms first and that this is a matter which could be raised with the Planning Group. The Committee agreed that as an initial step, the Internal Auditor would work with the Director of Buildings, to determine what the next step should be to advance the debate on the subject of space utilisation, following which the Committee would consider at a future meeting what further action might be appropriate.

The Chair thanked the Director of Buildings for attending the meeting and for aiding the Committee's understanding of the issues involved.

Action:

The Internal Auditor to confer with the Director of Buildings on possible steps to improve information and measurement and advance the debate on the issues discussed at the meeting.

**AD/11-12/68 University Rankings**

Introducing the topic, the Chair welcomed the Dean of Research to the meeting and invited him to update the Committee on current University rankings. Referring to the College's fall in certain rankings over recent months, the Dean outlined the most prominent ranking schemes and the methodologies used by them to measure performance. He advised that although some indicators such as staff/student ratios and income are generally falling, some of the output matrix such as research output is continuing to perform well but this is likely to decline also as the impact of funding cuts start to affect the level of activity. He also advised that a large contributor to the fall in one ranking table was a change in the methodology to apply exponential distribution and that this change had a negative effect on institutions such as Trinity, which have relatively low volumes of responses and resulted in a large impact on the ranking. In

response to a query as to the significance of a drop in rankings, the Dean acknowledged that there is a reputational risk to the College from a continued fall and that such rankings do carry some weight, as well as being important indicators for international student choice. In response to a query as to how College can mitigate the situation, the Dean advised that the College's new communications strategy will be beneficial as well as developments with regard to increased internationalisation and globalisation. He also emphasised the importance of maintaining a diversified research funding stream and the need to retain talented staff across College. In response to a query as to the methodology used by ranking schemes, the Dean acknowledged that there are certain biases in the methodologies and as some of these are addressed it will further affect the overall rankings as other institutions are brought into the frame. During a brief discussion, members agreed that there is a reputational risk to College arising from a continued fall in rankings and emphasised the need for College to retain its unique identity and brand image nationally as well as internationally.

The Chair thanked the Dean of Research for attending the meeting and for his very useful briefing on this topic.

**AD/11-12/69 Update on GensSIS**

The Committee noted the extract from the report to Board on the e-Strategy programme, dealing with the GeneSIS project, which had been circulated.

**AD/11-12/70 Internal Audit Work-plan and Resources**  
**XXX**

Introducing the item, the Internal Auditor drew the Committee's attention to a memorandum dated 1 March 2012, which had been circulated. Advising of the limitations and difficulties that curtail the scope of work that is possible, he outlined the main areas selected for work. Noting that a significant amount of work is pre-ordained, principally to do with the annual financial statements and audits, he advised that the approach had been to allocate resources remaining after planning for those issues to the items now presented for consideration. He advised that the document under consideration reflected a response to the issues identified in the College High-Level Risk Register, as considered by the Committee at the previous meeting. He further advised that the work-plan also took account of: issues identified by the Committee, either in its formal self-evaluation or arising in the course of its meetings; issues identified by an independent Internal Audit assessment; and by the need to provide independent assurance to Board on internal controls in academic and administrative areas. Noting that while the approach is largely risk based, he informed the Committee that there is also an element of a rolling review, incorporating a series of planned visits to administrative and academic areas over approximately a five-year span. He advised that if there were better risk assessments available at operating levels it would be possible to consider moving to a fully risk based approach and framing an opinion within the context of the risk assessments, which could provide a possibility of giving more assurance to Board.

Noting that the resource available to deliver the Internal Audit Work-plan is very modest, the Internal Auditor expressed concern that there may be an expectation gap between what can be delivered and what Board may require and that it is important to ensure Board is aware of the limited scope of work that is possible.

The Committee, approving the work-plan as presented, agreed that it would be important to remind Board of the extent of assurance that is possible and that, in the context of Board's consideration of the Statement of Internal Control included in the 2009/10 Consolidated GAAP Account, it

would be opportune to do so when the accounts are presented to Board. The Committee also requested that the Internal Auditor continue to develop and refine the work planning system so as to highlight where exposures may exist as a result of the limited scope of work.

Actions:

- 70.1 The Chair to draw Board's attention to the limitations on assurance that exist.
- 70.2 The Internal Auditor to advise the Committee on possible exposures at a future date.

**SECTION C - ITEMS FOR NOTING**

- AD/11-12/71 Handbook for Audit Committee Members**  
The Internal Auditor, drawing the Committee's attention to a comprehensive Handbook For Audit Committee Members, which had been circulated, advised that it would be available with working links to supporting documents on the Internal Audit webpages. The Committee noted and welcomed the development.
- AD/11-12/72 Current Developments and Practices in Audit**  
The Committee noted the Audit Committee Roundup - Offensive side of IT Risk which had been circulated.
- AD/11-12/73 Board Papers**  
The Committee noted the Board Agendas and Minutes which had been circulated.