

The University of Dublin

Trinity College

Minutes of Audit Committee, Tuesday 15 January 2013

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

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

In Attendance Ms M Thompson

The Chief Financial Officer and the Senior Financial Accountant attended for items AD/12-13/40 (part), AD/12-13/41, AD/12-13/42, AD/12-13/43 and AD/12-13/44

Mr S O'Keefe and Mr R Hobson of KPMG attended for items AD/12-13/40, AD/12-13/41, AD/12-13/42 and AD/12-13/43

The Chief Operating Officer attended for item AD/12-13/45

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

AD/12-13/37 Minutes

The Minutes of the meeting held on 20 November 2012 were approved and signed.

AD/12-13/38 Call-over

The Committee noted the actions that had been implemented since the previous meeting and those that remained outstanding.

AD/12-13/39 Matter Arising

Referring to Minute AD/12-13/34 regarding the Audit Committee self-evaluation process, the Internal Auditor reminded members to complete and return the self-evaluation form that had been recently circulated.

SECTION B - IMPLEMENTATION ISSUES

AD/12-13/40 Consideration of Funding Statements for 2011/12

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The KPMG team, present by invitation, advised that the audit had proceeded very efficiently and according to plan and that there had been very good support and cooperation from the Treasurer's Office throughout and that KPMG had no issues to raise other than as contained in their Report.

The Chair then invited the Chief Financial Officer and Senior Financial Accountant to join the meeting and draw the Committee's attention to the following documents, which had been circulated for consideration:

- a) Report of the Chief Financial Officer on the Funding Statements for the year ended 30 September 2012
- b) Funding Statements for the year ended 30 September 2012
- c) Funding Statements - Additional Information for the year ended 30 September 2012
- d) Draft Letter of Representation to KPMG
- e) Report from KPMG on the Funding Statements Audit

The Chief Financial Officer invited the Committee's attention to his Report on the Funding Statements in which he highlighted key trends and he also tabled Appendices to the Funding Statements, which had been omitted from the circulated document. He advised that the Funding Statements represent the first stage of the College's financial reporting requirements and have been prepared in accordance with the agreed harmonisation policy adopted by all Irish universities, the format of which had been approved by the HEA in September 2012. He advised that the External Auditors intend to issue an unqualified audit opinion, subject to receipt of certain documentation and following approval of the Funding Statements by Board on 23 January 2013.

The Chief Financial Officer briefed the Committee on the financial performance for the year, advising that the outturn for 2011/12 is effectively a breakeven position, a result that had necessitated the use of a significant amount of resources previously retained for strategic purposes. He provided the Committee with details of income and expenditure and key figures from the Balance Sheet. He drew the Committee's attention to key financial highlights and issues, future financial challenges and the key financial risks and outlined the planned outturn on core activity for 2012/13. He stressed the need for regular monitoring and oversight of key strategies and the importance of College continuing to take a conservative approach to financial management.

At the invitation of the Chair, Mr O'Keefe invited the Committee's attention to the Report from KPMG and advised the Committee that the audit was now substantially complete and they were satisfied that it was conducted in accordance with the Plan as presented to the Audit Committee in October. Mr O'Keefe confirmed that an unqualified audit report would be issued subject to consideration and approval by Board of the Funding Statements and receipt of certain documentation. Mr O'Keefe advised that there were no significant issues in respect of financial reporting and the financial audit with which they disagreed, no adjusted or unadjusted audit differences and no material weaknesses in internal control came to their attention.

In presenting the key findings of the audit, Mr O'Keefe invited the Committee's attention to the following significant issues:

- Investment Property Valuations and Capital Projects
- Research Projects
- Judgemental Provisions
- Voluntary Early Retirement Initiative (VERI)
- Funding Statements - presentation and disclosure

In addition, Mr O Keefe confirmed that as requested by the

Committee at a previous meeting, KPMG had carried out specific work in relation to testing that remuneration was paid in accordance with government approved guidelines. He advised of the results of the work and confirmed that KPMG would continue to monitor this area in future audits.

During a discussion that followed, the Chief Financial Officer and representatives of KPMG clarified a number of issues for members. The Committee expressed concern about the significant transfer of resources previously retained for strategic purposes that was required to achieve the result for the year and that the planned outturn for 2012/13 will also require further significant transfers of resources. Noting the constraints on flexibility posed by the level of pay costs and the uncertainty and possibility of further deterioration in State funding, the Committee agreed that the achievement of the planned targets in income generation would be crucial in achieving a sustainable balance between income and costs while continuing stringent control of costs and that this area of risk should be reviewed by the Committee in the future. Noting the significant initiatives in progress, including challenging change management projects, and the similarity of concerns expressed in the reports of KPMG and the Chief Financial Officer with those raised by the Committee in its recent Annual Report to Board, the Committee stressed the need for continued prudent financial management along with strong governance to meet the future challenges.

In conclusion, the Committee agreed that the Funding Statements, together with the letter of representation, should be recommended to Board for consideration and approval.

Actions:

- 40.1 The Internal Auditor to finalise a Memorandum to Board and forward it along with the audited 2011/12 Funding Statements and accompanying documentation with a recommendation that they be approved.
- 40.2 The management of the funding risks to be considered by the Committee at a future date.

AD/12-13/41 US GAAP Accounts

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The Chair invited the Committee's attention to the following documents, which had been circulated for consideration:

- Memorandum from the Senior Financial Accountant, dated 8 January 2013
- US GAAP Consolidated Financial Statements for the year ended 30 September 2011
- Draft Letter of Representation to KPMG
- Report from KPMG on the US GAAP Financial Statements Audit for the year ended 30 September 2011

At the invitation of the Chair, the Chief Financial Officer outlined the background to the requirement to prepare financial statements in accordance with US GAAP and of the steps taken by College to complete them following the approval by Finance Committee in March 2012 and also advised of the approximate costs involved. The Senior Financial Accountant then briefed the Committee on the US GAAP Financial Statements and drew the Committee's attention to

the key reconciling items when converting from Irish to US GAAP. She advised that the financial statements were prepared solely for US filing requirements and will not be published or otherwise distributed. In response to a query, she confirmed that because comparative figures are not required, the preparation and audit of US GAAP accounts will be required only every third year.

The Committee noted the US GAAP Consolidated Financial Statements for the year ended 30 September 2011, along with the draft letter of representation and recommended that they be forwarded to Board for approval.

Action:

The Internal Auditor to finalise a Memorandum to Board and forward it along with the US GAAP Financial Statements and the draft letter of representation for approval.

AD/12-13/42 Funding Statements and US GAAP Financial Statements - Finance Committee Minute of 19 December 2012

The Committee noted the Finance Committee meeting minute of 19 December 2012, which had been circulated.

AD/12-13/43 Ghala Limited

The Committee noted the Financial Statements for Ghala Limited for the year ended 30 September 2012, as circulated and which had already been approved by the directors.

AD/12-13/44 Conduct of Audits

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The Chair thanked the KPMG team for their work on the audits and they withdrew from the meeting.

At the invitation of the Chair, the Chief Financial Officer commented on the audits carried out and confirmed that the audit of the Funding Statements had proceeded efficiently and that he was satisfied with the conduct of the audit. He also noted that KPMG had been very supportive during the US GAAP audit.

The Committee noted a change in the KPMG audit team for College and agreed that it was important a suitably experience replacement is identified by KPMG, requesting the Internal Auditor raise the matter with the External Auditors.

The Chair thanked the Chief Financial Officer and Senior Financial Accountant as well as the Treasurer's Office staff for their hard work and dedication in completing the various financial statements. The Chief Financial Officer and Senior Financial Accountant then withdrew from meeting.

The Committee expressed satisfaction with the conduct of the audits.

Action:

The Internal Auditor to notify the External Auditors of the views of the Committee.

AD/12-13/45 Risk Management in College

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The Chair welcomed the Chief Operating Officer to the meeting. Introducing the item, the Chief Operating Officer drew the Committee's attention to the following documents, which had been circulated for consideration:

- a) Memorandum from the Chief Operating Officer, dated 8 January 2013
- b) Risk Register Summary
- c) College High Level Risk Register

The Chief Operating Officer advised the Committee of the main changes to the Risk Register since it was last presented to the Committee in June 2012.

During a discussion and in response to queries by members, the Chief Operating Officer clarified a number of points in regard to the status of individual risks, particularly in respect of the Funding, HR and eStrategy risks.

In regard to GeneSIS, the Chief Operating Officer advised that work on a revised budget is almost complete and that additional resources will be required. The Committee agreed that it is important to complete this work comprehensively and establish the requirements definitively and to then closely control and monitor the costs until completion.

The Committee noted that several risks are closely related to matters raised in the governance overview contained in the Committee's 2012 Annual Report to Board, which underscores the need to strengthen governance processes as recommended.

The Committee welcomed the significant continued improvement in the process and the High-Level Risk Register as presented and agreed to consider individual risks for follow up, when finalising the Internal Audit work plan at the next meeting.

The Chair thanked the Chief Operating Officer for her presentation before she withdrew from the meeting.

In a subsequent discussion, members stressed the importance of ensuring uniform consideration and classification of risks at a College level to assess their relative significance and priority and that the impact and probability as well as timing are all important factors in that process. The Internal Auditor outlined the assessment process that is undertaken by the Office of the Chief Operating Officer that culminates in a consideration of the risks by the Provost and Executive Officers prior to the finalisation of the Risk Register and he proposed circulating members with some further detail in that regard. He further advised of Internal Audit work that is underway in regard to Schools and that he expected to report to the Committee when it is complete whether there are steps that can be recommended to strengthen the identification and assessment of academic risks.

In conclusion, the Committee agreed that the Internal Auditor would finalise a memorandum to Board expressing the views of the

Committee and referring to the governance overview as expressed in its 2012 Annual Report presented to Board on 5 December.

Actions:

- 45.1 The Internal Auditor to finalise a Memorandum for Board expressing the Committee's views as discussed.
- 45.2 The Committee to consider the Internal Audit work plan taking account of the Risk Register.
- 45.3 The Internal Auditor to circulate background information on the detailed risk assessment process for a future meeting

AD/12-13/46 Code of Governance

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The Internal Auditor invited the Committee's attention to his memorandum dated 9 January 2013, together with the following documents, which had been circulated:

- New Sectoral Code - *Governance of Irish Universities 2012*
- Board Minute BD/12-13/016 of 12 September 2012
- List of 15 new areas addressed in the 2012 Sectoral Code
- Compliance with the new Code in regard to references to the Audit Committee (with attached Audit Committee Terms of Reference and Internal Audit Charter)
- College Risk Policy
- College Fraud Policy

By way of background, the Internal Auditor advised that the State Code of Governance had been revised and re-issued by the Department of Finance in May 2009 and that the HEA/IUA Sectoral Code had been reviewed in light of the new State Code. The Committee noted that in response to the new Sectoral Code, Board had recently established a Governance Sub-Group to consider changes to the College Code which is due to report to Board in March 2012.

The Internal Auditor, drawing the Committee's attention to the document that had been circulated, advised that the current terms of reference and practices address all areas in the new Sectoral Code but that a more specific reference could be made to the meetings held when carrying out its work on reviewing the effectiveness of the risk management system. The Committee agreed that the Internal Auditor would draft a proposal to reflect this minor revision for consideration at the next meeting.

The Chair, referring to the issue of Good Faith Reporting, which is raised in the new Sectoral Code, invited the Committee to consider the matter. The Committee, noting that legislation is being drafted, agreed that it would be prudent to review the Act before finalising a policy. The Internal Auditor, drawing the Committee's attention to the fraud policy, which had been circulated, advised that while it is in need of review to broaden and revise it, as proposed in the work plan, it could usefully inform the development of a Good Faith Reporting policy. The Committee agreed that a direct role for the audit function in such a policy should be seen as a last resort to take place only in very exceptional circumstances because it would be inappropriate to supplant a management process but that the Audit Committee should have an oversight role of the effectiveness of that process.

The Chair, referring to the possible renaming of the Committee as an "Audit and Risk Committee" invited members to also consider this matter. The Committee agreed that its oversight role in regard to the systems of risk management is very explicit and unambiguous in its terms of reference. Members also agreed that the Executive Officers' Group, in fulfilling the role of a Risk Committee under the College Risk Policy, deal with the actual management of risk and that the Audit Committee is satisfied present arrangements are appropriate. The Committee agreed that, having considered the matter, that the word "Audit" sufficiently describes the role of the Committee in its oversight of a broader sphere of activities and that adding "risk" in its title could lead to confusion.

In conclusion, it was agreed that the Internal Auditor would summarise the views of the Committee in a memorandum to assist the Governance Sub-Group in its work on developing a revised College Code of Governance.

Actions:

- 46.1 The Internal Auditor to draft a memorandum to the Governance Sub-Group expressing the Committee's views as discussed.
- 46.2 The Internal Auditor to prepare a proposal to amend the Committee's Term of Reference for consideration at the next meeting.

AD/12-13/47 Discussion Document - Presentation of Audit Findings

The Chair drew the Committee's attention to a discussion document - Presentation of Audit Findings, which had been deferred from the last meeting. At the invitation of the Chair, the Internal Auditor summarised the issues involved and drew the Committee's attention to his proposals as outlined in the document. After a short discussion, the Committee approved the proposals as presented with an extension to include a caveat that the adequacy of management responses in audit reports to address an issue raised is a matter for management. The Committee also discussed the process for tracking progress on audit recommendations and, noting that the status log maintained by Internal Audit, which it receives bi-annually would be presented to the next meeting, agreed that it would review implementation progress at that meeting and consider possible approaches to the escalation of audit recommendations that are outstanding for long periods.

Action:

The Committee to consider the implementation status of audit recommendations at the next meeting.

SECTION C - ITEMS FOR NOTING

AD/12-13/48 Control Exception Report

The Committee noted the Control Exception Report dated November 2012, which had been circulated.

AD/12-13/49 Final Audit Committee Annual Report 2012

The Committee noted the Final Audit Committee Annual Report to Board 2012, which had been circulated.

AD/12-13/50 Trust Funds and Trinity Foundation - C&AG Request

The Committee noted the memorandum from the Chair of the Audit Committee to Board dated 28 November 2012, which had been circulated.

AD/12-13/51 Board Papers

The Committee noted the Board Agenda and Board Minutes, which had been circulated.