



Minutes of Audit Committee, Tuesday 12 March 2019

Present Mr O Cussen (Chair), Professor A Burke, Mr D McCarthy, Professor R Reilly

Apologies Professor R Byrne, Ms A Duffy

(ex officio) Internal Auditor/Secretary (Mr F Sheeran), Secretary to the College (Mr J Coman)

In Attendance Deputy Internal Auditor (Ms F McAuliffe), Deputy Internal Auditor (Ms A Cooney), Ms M Thompson

The Interim Chief Financial Officer (Mr P Reynolds), Deputy Chief Financial Officer (Ms L Ryan) and the Management and Financial Accounting Manager (Ms E Farrell), together with Ms C Mullen and Mr R Hobson of KPMG and Mr P Kinsley and Mr J Byrne of the Office of the Comptroller and Auditor General (C&AG) attended for item AD/18-19/54 to AD/18-19/56

Mr B Gartlan and Mr J Bolger of BDO attended for item AD/18-19/58

Mr B Gartlan of BDO attended for item AD/17-18/59

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

AD/18-19/51 Statements of Interest

The Chair invited members to declare any potential conflict of interest they may have in relation to items on the Agenda. There were no statements of interest.

AD/18-19/52 Minutes

The Minutes of the meeting held on 12 February 2019 were approved and signed.

AD/18-19/53 Call-over

Consideration of the call-over was deferred to the next meeting.

SECTION A and B - Policy & Implementation Issues

AD/18-19/54 Audit of the Consolidated Financial Statements for 2017/18

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

- Presentation on the Consolidated Financial Statements 2018

- Memorandum from the Interim Chief Financial Officer and the Deputy Chief Financial Officer dated 7 March 2019
- Draft Consolidated Financial Statements for year ended 30 September 2018
- KPMG Report to the Audit Committee: Audit Findings for the year ended 30 September 2018
- Draft Letter of Representation to KPMG re the Audit of the Consolidated Financial Statements for the year ended 30 September 2018
- Draft Letter of Representation to the Office of the Comptroller and Auditor General re the Audit of the Consolidated Financial Statements for the year ended 30 September 2018

The Committee noted that the Report from the C&AG on the audit together with the Draft Audit Certificate were not yet available (but also noted that the C&AG would provide verbal sign off on their audit).

The Chair welcomed the C&AG team, Mr Kinsley and Mr Byrne, to the meeting together Ms Mullen and Mr Hobson of KPMG and the FSD team for consideration of the item.

The Secretary to the College also joined the meeting.

The Chair invited the Interim Chief Financial Officer to introduce the draft Consolidated Financial Statements. Referring to his presentation, which had been circulated, the Interim CFO advised that Finance Committee had noted the draft Financial Statements on 7 March 2019 and, subject to recommendation by the Audit Committee, noted that they would be forwarded to Board for approval. The Interim CFO drew the Committee's attention to key highlights and trends and to the figures in the Balance Sheet. In particular, he advised of changes to the accounting policy for academic fees, and capitalisation of interest, the pension asset, new EIB borrowing and other liabilities.

The Interim CFO and his team responded to a number of technical queries from members. In response to a query on the Exchequer/Non-Exchequer income ratio calculation, the Deputy CFO agreed to forward the calculation after the meeting for the information of members.

At the invitation of the Chair, Ms Mullen and Mr Hobson of KPMG presented in detail the KPMG Audit Report, drawing particular attention to the key areas of focus they had considered during the audit: -

- Pensions arrangements
- Management override of controls (standard area of focus and no issues were noted)
- Capital expenditure, depreciation and impairment
- Investment property valuations
- Academic fees
- Completeness of liabilities
- Research projects
- Staff costs
- Consolidation of subsidiary entities

Ms Mullen also drew attention to a number of internal control matters and the draft management letter. In response to the routine formal request of the auditors, the Chair and the Internal Auditor both confirmed they were not aware of any fraud incidents arising during the year under review.

Ms Mullen advised the Committee that the KPMG audit was substantially complete subject to normal conditions: approval of the financial statements and letter of representation by Board and their review of any post balance sheet events. However, Ms Mullen advised that there were serious delays in obtaining certain information for the audit, principally from areas outside of FSD, which had impacted on the timing of KPMG's work. There had also been a change in the policy for recognising academic fees, which KPMG supported but had required additional work. Ms Mullen advised that she had discussed the issues with the FSD team and how best to improve the process in the future including a reduction in the number of late adjustments to the year-end accounts. The interim CFO noted that it was the intention to introduce preparation of quarterly Balance Sheets which would help to reduce the level of late adjustments to the year-end Balance Sheet. In response to a query, she confirmed that the delays necessitated dedicating additional resources to the audit to meet the deadline and that there would be additional fee costs as a result, but she was not able to provide an estimate of these costs for the meeting.

Ms Mullen confirmed that KPMG had no significant additional audit issues to bring to the attention of the Committee. In response to a query, Ms Mullen also confirmed that there were no new items in the draft letters of representation to bring to the attention of the Committee.

The Interim CFO concurred with Ms Mullen's comments, acknowledging that there had been delays in responding to queries. He agreed that FSD would produce quarterly Balance Sheets in future, which would allow issues to be identified at an earlier stage. He assured the Committee that he and his team take the issue of delays very seriously and will review the process with the other areas in the university to ensure that the issues are resolved for the future.

Ms Mullen confirmed that KPMG, as in previous years, and consistent with the approach taken with other Universities in Ireland, would continue to qualify their audit opinion due to the absence of a written guarantee from the HEA to support the recognition of the full amount of pension asset relating to the Model pension scheme and pension supplementation. Ms Mullen advised the Committee that the KPMG position is based on accounting standard FRS102 under which the threshold for income recognition is "virtual certainty". The Interim CFO and Deputy CFO outlined the University's position on this issue:

The University continues to include a retirement benefit receivable asset in the Statement of Financial Position in relation to the Master Pension Scheme, Single Public Service Pension Scheme, Model Pension Scheme and Pension Supplementation (consistent with other Irish universities) to recognise the funding due from the State in respect of all retirement benefit liabilities which are now funded on a 'pay-as-you-go' basis. The HEA has indicated that it is appropriate for the University to account for pension assets on this basis

and make payments for all funding obligations as they fall due. However, it is the opinion of KPMG that no formal obligation, underpinned by legislation, in relation to the Model Pension Scheme and Pension Supplementation was accepted by the State as at 30 September 2018 and they have qualified the audit opinion on this basis. It should be noted that in 2018, the passing of Statutory Instrument 393 of 2018 placed the Model Scheme on a statutory basis, adopting the rules for pre-existing Public Service Pension Scheme Members Regulation 2014 (SI 582 of 2014) as the rules of the Model Scheme, subject to certain modifications as specified in SI 393 of 2018. Therefore the University, on advice from our legal advisors, consider it reasonable, to refer to the State providing a “de facto” guarantee in respect of the Model Scheme.

At the invitation of the Chair, Mr Kinsley of the C&AG gave a verbal presentation on the C&AG audit, which he confirmed as complete subject to the same conditions as outlined by KPMG. He advised that the C&AG rely on the work of KPMG but continue to carry out additional work on regularity and propriety according to their remit.

Mr Kinsley informed the Committee that some delays had been experienced this year and as a consequence it was not possible for them to forward a written Report or Draft Audit Certificate to the Committee in time for today’s meeting. He assured the Committee that the Audit Certificate would be forwarded to the Committee as soon as possible following the meeting. He confirmed that, as in previous years, the C&AG continues to take a contrary view to KPMG in regard to the recognition of the full pension asset and will issue an unqualified audit opinion with an emphasis of matter.

He also advised that a draft management letter had been issued and that the final management letter will be issued on receipt of management responses but that there was nothing to draw to the Committee’s attention in terms of recommending the accounts to Board for approval.

During a brief discussion, the Committee considered a number of issues raised during the presentations. The Committee agreed to consider if it was satisfied with the conduct of the audits after meeting each of the teams in private following the next agenda item.

Action:

- 54.1 FSD to provide the Exchequer / Non-Exchequer income ratio calculation to the Audit Committee.
- 54.2 FSD to provide the final KPMG and C&AG management letters with management responses to the Committee for consideration at a future meeting.

AD/18-19/55 Trinity Endowment Fund Financial Statements for the year ended XXX 30 September 2017

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

- Memorandum from the Chief Financial Officer and Deputy Chief Financial Officer dated 7 March 2019

- Presentation on the Trinity Endowment Fund Financial Statements 2017/18
- Draft Trinity Endowment Fund Financial Statements for the year ended 30 September 2018
- Draft Letter of Representation to KPMG re the Trinity Endowment Fund - Audit for the year ended 30 September 2018
- KPMG Management Letter re Audit of the Financial Statements of Trinity Endowment Fund dated 27 March 2019

The Deputy CFO advised the Committee that Finance Committee noted the Trinity Endowment Fund Financial Statements on 7 March 2019 and, subject to recommendation by the Audit Committee, they would be forwarded to Board for approval.

Ms Mullen advised the Committee that KPMG had completed their audit and expect to issue an unqualified audit opinion, subject to approval of the Financial Statements by Board and receipt of the letter of representation and advised that there were no matters to bring to the attention of the Committee arising from their audit.

AD/18-19/56 Conduct of the Audits
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The Chair reminded members that as in previous years and, in accordance with good practice, the visitor arrangements were designed to afford FSD, KPMG and the C&AG each time by themselves with the Committee should they wish to raise any issues alone with the Committee.

At the invitation of the Chair, the FSD and KPMG teams withdrew temporarily from meeting.

The Chair invited the C&AG team to comment on the conduct of the audit. Mr Kinsley commented that he had no further issues to add to those which had already been raised during the discussions on the draft Financial Statements. He reiterated that the C&AG rely on the audit work of KPMG and that timelines are tight. Mr Kinsley advised that they had met with FSD at the start of the audit, and in particular advised that the planned changes in some accounting policies, which resulted in additional work, were not disclosed to them in advance.

In response to a query if the delays in obtaining information experienced this year had prevented the C&AG from completing all their work, Mr Kinsley confirmed that the C&AG were satisfied that all necessary audit work had been completed.

Mr Kinsley re-confirmed that they would forward the C&AG Audit Opinion and Certificate as soon as possible following the meeting.

The Chair then thanked Mr Kinsley and Mr Byrne and they withdrew from the meeting.

Ms Mullen and Mr Hobson of KPMG rejoined the meeting.

The Internal Auditor, Acting Deputy Internal Auditors, the Secretary to the College together with Ms Thompson then withdrew temporarily from the meeting to allow the KPMG team time with the Committee members.

The Chair thanked Ms Mullen and Mr Hobson and they then withdrew from the meeting.

The FSD team and Internal Audit team together with the Secretary to the College and Ms Thompson rejoined the meeting.

The Chair invited the Interim CFO and his team to comment on the conduct of the audit. The Interim CFO acknowledged that there had been some delays obtaining information from certain areas across the University but also noted that there were issues with the staffing levels, experience and continuity of KPMG staff for the audit which had contributed to the delays. He assured the Committee that FSD would work closely with the external auditors in regard to the issues in advance of the next audit and are working proactively to resolve the issues.

During a detailed discussion, the Committee expressed concern at the three issues raised in the course of discussions with KPMG which had also been referenced in the general session. In particular, they expressed disappointment at the reported delays in obtaining information from certain areas of College and that the flow of information into FSD is important for the ongoing management of the College. The Committee also noted with concern the potential impact of the delays on a very tight timetable and that endangered deadlines. The Committee also noted that this will result in additional costs for the university because of additional resources having to be employed by the auditors, subject to the authorisation and agreement by the University and approval by the Audit Committee.

In regard to the issue reported re the lack of a register of Subsidiary Entities, the Committee stressed the importance of having robust processes and strong governance in place for their formation and management. The Committee also noted with concern that while quarterly Balance Sheets were recommended in the previous year's KPMG management letter, no progress appears to have been made to date and that their introduction would help the process run more smoothly. In relation to the Innovation District, KPMG mentioned that this project involves not just direct capital development by Trinity but will also likely involve, for example, joint venture partnerships. The Committee noted KPMG's view that this latter element particularly will require careful attention to capitalisation of costs and it is also likely, more generally, to require different accounting procedures and controls. The Interim CFO confirmed that this was already a key area of focus and that they would be liaising with KPMG on an on-going basis in relation to the appropriate capitalisation of costs and any other accounting procedures and controls that may arise.

The Chair thanked the Interim CFO and his team for their hard work on completing the audit of the Financial Statements in a tight timeframe and they withdrew from the meeting.

The Committee also noted the Statement of Governance and Internal Control within the Consolidated Financial Statements.

In conclusion, the Committee agreed to recommend both sets of Financial Statements and the letters of representation be forwarded

to Board for approval, but subject to the Committee having sight of the C&AG Audit Certificate beforehand.

Action:

- 56.1 The C&AG Audit Certificate to be circulated to the Committee members on receipt from the C&AG
- 56.2 The Annual Consolidated Financial Statements for the year ended 30 September 2018 to be forwarded to Board (subject to sight of the C&AG Audit Certificate) with a recommendation that they be approved and signed along with the letters of representation.
- 56.3 The financial statements of the Endowment Funds Financial Statements for the year ended 30 September 2018 and the letter of representation to be forwarded to Board with a recommendation that they be approved and signed.

AD/18-19/57 Audit Committee Recommendations Log

The Chair advised the Committee that due to the unavailability of senior management, it had been necessary to defer consideration of the Recommendations Log until the June Committee meeting.

Action:

- 57.1 The Audit Committee Recommendations Log to be considered at the June Committee meeting.

AD/18-19/58 Cyber Security Risk Assessment

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The Chair welcomed Mr B Gartlan and Mr J Bolger of BDO to the meeting.

Introducing the item, the Internal Auditor reminded members that in 2016 BDO had been commissioned to carry out a high-level risk assessment of Cyber Security across the College IT environment. That review identified a number of significant risks to the university's systems and data. He advised that, in accordance with the agreed work plan, BDO were asked to update the 2016 risk assessment and to document and assess the impact of actions taken since 2016, assess how the risks have changed as a result and to identify any new risks

At the invitation of the Chair, Mr Gartlan and Mr Bolger presented the findings outlined in the Risk Assessment. The Committee noted that since the 2016 risk assessment, there had been a major fraud incident in Trinity Foundation, GDPR had come into effect and a Data Protection Officer and a Chief Risk Officer had been appointed.

In regard to the identified risks, Mr Gartlan and Mr Bolger advised that cyber security risks remain high and, in response to a query, confirmed that the eight risks identified in 2016 still remain as they were and are unaltered in ranking and that two new significant risks have since emerged.

Mr Bolger confirmed that the management observations made in the Risk Assessment outlined steps being taken by management to address each of the identified risks. He advised that IT Services management have been working on a multi-purpose project entitled "UC2" to provide secure storage and collaboration services across the

university. However, Mr Gartlan advised that, when implemented, the planned actions should mitigate some but that they will not address all of the significant risks identified.

Mr Bolger confirmed that all risks identified had been discussed and agreed with IT management with inputs from the CRO and DPO.

During a detailed discussion, the Committee acknowledged that managing cyber security risks is a major challenge for all organisations, not just Trinity and that the devolved nature of the university poses particular challenges in implementing appropriate controls. The Committee considered the grading of risks identified in the Risk Assessment which red-flagged 8 of the 10 risks as significant. In response to a query as to how the risks were measured, Mr Gartlan advised that the risks were established and measured in comparison with the international IT Security standard and based on the professional experience and had been discussed and agreed with the Director of IT Services.

The Internal Auditor advised that in planning an audit, a risk assessment is the preliminary step; what controls need to be tested is determined by identifying and assessing the key risks and then looking to what controls management have put in place to manage those key risks. He advised that an audit would be designed to form a view on the effectiveness of the controls and report on the degree of assurance that can be placed on those controls, but that in this case the document before the Committee was only the risk assessment and until controls are in place an audit cannot usefully progress. He clarified that the document was not an audit report and was not making recommendations to management. The Internal Auditor advised that, as in 2016, proceeding to carry out audit testing will have to await controls being put in place and that for the present the only recourse is to draw management's attention to the risk profile.

The Committee, acknowledging the university environment, agreed that any controls implemented by management to mitigate these risks need to be mindful of that context and the devolved governance structures. The Committee noted that it is for management to manage risks and to work with Faculties and Schools to devise and implement sensible solutions. The Committee considered that benchmarking control solutions against other universities may be useful and suggested that its views in this regard be forwarded to management and LIPC.

In conclusion, the Committee noting the Risk Assessment, expressed concern at the apparent high level of risk being carried, that the cyber security risks identified in the 2016 risk assessment still remain unaltered and that two further significant risks have since emerged. Noting that the UC2 project will not address all the risks and that the requirements of GDPR have added to the gravity of the situation, the Committee agreed that it should draw attention to the management of cyber risks in its annual Report to Board.

Mr Bolger of BDO then withdrew from the meeting.

Action:

58.1 The Internal Auditor to provide the Cyber Security Risk

Assessment to management and LIPC expressing the Committee's concerns as expressed and with the suggestion that benchmarking of relevant controls in other universities could be beneficial in devising appropriate responses to the issues.

58.2 The Committee to draw attention to the management of cyber risks in its annual Report to Board.

AD/18-19/59 Audit Committee Terms of Reference

The Chair drew the Committee's attention to a document from BDO dated 6 March 2019, which had been circulated. Following a brief discussion, the Committee noted the advice that the existing terms of reference describe the role of an audit and risk committee in that they already address the fundamental duties of such a committee. The Committee noted that the terms of reference could, if the Committee wished, give more emphasis to that aspect of its role. The Committee, noting that it is scheduled to carry out its annual review at the end of the current cycle, agreed to consider the matter again as part of the scheduled review of its terms of reference at its meeting on 4 June.

Action:

59.1 The Committee to consider the topic again at its meeting on 4 June 2019.

AD/18-19/60 GDPR Update

Due to time constraints, consideration of the GDPR Update was deferred to the next Audit Committee meeting.

AD/18-19/61 Annual Report to Board

Due to time constraints, the discussion on the Draft Annual Report for 2018/19 was deferred until the next Committee meeting.

Given that the next meeting is not until June 4th, the Committee agreed to explore the possibility of holding an additional meeting in early April to discuss the Annual Report and other deferred items.

Action:

61.1 The Internal Auditor to email Committee members proposed dates for an additional meeting in early April.

AD/18-19/62 Audit Function Risk Register

Due to time constraints consideration of the standing item, the Audit Function Risk Register, was deferred.

Section C - Items for Noting

AD/18-19/63 Subsidiary Undertakings

The Committee noted the Subsidiary Undertakings Financial Statements, which had been circulated.

AD/18-19/64 Financial Sustainability of TRIs

Due to time constraints consideration of the financial sustainability of TRIs item was deferred.

AD/18-19/65 Annual Governance Statement

The Committee noted the memorandum from the Secretary to the College dated 6 March 2019, together with attached Annual Governance Statement.

AD/18-19/66 Board Papers

The Committee noted the Board papers, which had been circulated for noting.