

Incorporating any amendments approved at subsequent Board meetings

The University of Dublin

Trinity College

Minutes of Statutory Board Meeting, 25 January 2006

- Present* Provost* (Dr J Hegarty), Vice-Provost (Dr R M J Byrne), Registrar (Dr D J Dickson), Bursar (Dr D C Williams), Senior Lecturer (Dr C Kearney), Dr N Biggar*, Dr A Butterfield, Ms G Clarke, Ms M Coffey, Dr A Donnelly, Mr H Kearns*, Dr J M Kelly, Ms M Leahy, Dr M Lynch*, Dr E Mac Cárthaigh, Mr D McCormack, Dr K J McGinley, Mr J Mannion, Ms S O'Brien, Dr E O'Dell, Dr D O'Donovan, Dr J Parnell, Dr A Piesse, Mr R P Sheridan.
- Apologies* Dr W J Blau, Dr E O'Halpin, Mr B Sweeney.
- In attendance*
- (ex officio)* Secretary, Treasurer, Assistant Secretary.
- (by invitation)* Chairman, Audit Committee (Mr T Forsyth), Internal Auditor (Mr F Sheeran), Deputy Treasurer (Mr I Mathews) and Mr Neal Taylor of KPMG.
- (present for)* * BD/05-06/131-132.

SECTION A

BD/05-06/131 Funding Statements for year ended 30 September 2005 The Provost, introducing the topic, invited the Board's attention to the work which the Finance Committee and the Audit Committee had undertaken on its behalf in relation to the consideration and review of the Funding Statements for the year ended 30 September 2005 and to the discussions which had taken place between these Committees and the Treasurer's Office and KPMG, the College's external auditors, in this regard. He stated that, on the basis of the recommendations of these Principal Committees, which had been noted in their respective minutes (Agenda items B.1 and B.2 refer), the Board was being asked to formally approve the Funding Statements for the year ended 30 September 2005 and to authorise him to sign the associated letter of representation to the external auditors.

The Treasurer invited the Board's attention to a document which had been tabled and which presented explanatory notes on the financial reporting requirements of the College. She advised Board that Funding Statements, which cover core teaching and research activity, are prepared in accordance with the harmonised approach agreed between the sector and the HEA in 1997. The Treasurer also advised that since 2003, the HEA has required that financial statements be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and that as well as covering core teaching and research they include self-financing activities such as catering, residences and the Library Shop and the activities of subsidiaries such as Ghala Ltd. The Board noted that following agreement with the HEA and the Comptroller and Auditor General (C&AG) on the treatment of certain technical matters and on the format of the GAAP consolidated financial statements, they had been prepared retrospectively for 2002/2003

and 2003/2004 and that they would be considered under item A.2 of the Agenda. The Treasurer also advised Board that the 2004/2005 GAAP consolidated financial statements were currently being prepared and would be available for consideration later in the academic year.

The Board noted that the audited Funding Statements, when approved by Board, would be submitted to the HEA as part of the annual estimates process.

The Treasurer invited Board's attention to the following documentation which had been circulated:

- Highlights – paper from the Treasurer
- Funding Statements for the year ended 30 September 2005
- Funding Statements for the year ended 30 September 2005 – Additional Information
- Proposed Letter of Representation to KPMG concerning Funding Statements, dated 25 January 2006
- Academic Faculties and Departments – Analysis of Recurrent Expenditure and Research Accounts, year to 30 September 2005

The Deputy Treasurer invited the Board's attention to the main points arising from the Funding Statements. He noted the increases in both income and expenditure which had occurred since the previous year and the occurrences of once-off funding which had ameliorated the level of the deficit for 2004/2005 which stands at €1.5 million. The Board noted that the pay:non-pay ratio for the year was 75:25 compared to the Board desired level of 70:30 and that the high pay element was as a result of expenditures associated with the Protection of Employee (Fixed Term Work) Act, 2003 (FTW Act), national pay awards and pension supplementation costs.

In considering the Balance Sheet, the Deputy Treasurer invited the Board's attention to the level of cash balances at the year-end and outlined the reasons for their relatively high levels. He noted in particular the impact which the timing of the receipt of funds from the HEA and some large research funders have on the College's cash balance and advised that as this cash was already committed to particular activities in the College it could not be interpreted as funding which the College has at its disposal. The Board also noted the relatively high level of internal balances held by departments at the end of the financial period, similar to historic levels in 2002/2003. The Deputy Treasurer noted that in the absence of multi-annual funding notification it could be difficult to avoid the fluctuations which are evident in the accounts, as all areas in College attempt to manage their finances and get the best value for money for the College.

He also invited the Board's attention to the College's capital activities and to the fact that there is a capital deficit on expenditure and that there are insufficient funds to address back-log and on-going maintenance to the required standards.

The Treasurer invited the Board's attention to the 'Green Book and Research Statistics' which contains detailed analyses of core recurrent and sponsored research activities across all academic units noting in particular:

- (a) the very significant growth in the number of research accounts and the volume of research income in recent years;
- (b) the relative shift in sources of research funds away from EU/foreign sources to Irish sources;
- (c) the relatively low levels of overheads which were available to support the College's research activities;
- (d) the top earning research academic departments;

- (e) the almost doubling of the number of research staff employed on sponsored research over a five year period;
- (f) the number of comprehensive audits required by research funders, noting the pressures which such audits place on the College's support services as well as on the recipient academic areas.

The Treasurer invited the Board's attention to the risks associated with the College's rapid growth in research activity, noting in particular:

- the potential impact on levels of funding which might arise from disagreements with sponsors in relation to the eligibility of certain expenditures;
- the potential for some Principal Investigators to move the direct research costs between different projects;
- poor management of committed expenditure by Principal Investigators which can result in over-spent budgets not being noted on a timely basis;
- the possibility of reputational, financial and non-compliance risks due to inadequate levels of support staff;
- possible inequalities between Institutes and Schools arising from a divergence of indirect cost/overhead arrangements between different sponsors.

The Board noted the Treasurer's observations in relation to these risks, further noting that in the context of the College's objective to double the level of its current research activity over the next five years, there is a need to put in place the necessary academic staff, physical infrastructure, and administration and services to facilitate the increased level of research activity to which the College aspires.

The Treasurer invited the Board's attention to the following key risk areas which if not addressed will impact on the College's future financial situation:

- the demands of pension supplementation and liabilities under the FTW Act;
- the implementation of ARAM during the four-year transition period and the College's response to the financial implications for certain over-funded areas in College;
- the very low level of research overheads available to support an ever-increasing research portfolio in College; the Board noted that the current level of overhead funding yields a 7.9% overhead compared to a recommended 40% by the HEA/Forfas report and the 80% recommended norm in the UK;
- the establishment of an appropriate internal environment to ensure compliance with legislation and College regulations as a basis for the implementation of a new Financial Information System.

The Treasurer concluded her presentation by inviting the Board's attention to the following key issues which will face the College over the coming year:

- the difficulties of introducing new initiatives in the context of an underlying deficit on 'core activity' and the associated lack of financial flexibility;
- the challenges posed by the introduction of the ARAM and the new structural arrangements, noting in particular the responsibilities of the Heads of School in relation to the financial management of the College in supporting the role of Provost as Accounting Officer;
- the balance which needs to be struck between providing funds for the College's short-term needs and the fulfilment of the College's long-term objectives;
- the need for a coordinated College response to the competitive bidding for government funds in order to ensure the best outcome for the College as a whole;
- the difficulties faced by the College in managing its finances arising from the lack of multi-annual funding and the varied sources of funds for core activities.

The Treasurer paid tribute to the staff in her office for preparing the funding statements within such a tight deadline.

The Provost thanked the Treasurer and the Deputy Treasurer for their presentation and then invited Board's attention to the following documents which had been circulated:

- Ghala Limited – Financial Statements – year ended 30 September 2005
- Letter of Representation to KPMG concerning Ghala Ltd, dated 7 December 2005
- Report of the Auditors to the Board of the University of Dublin, Trinity College ('College') Pursuant to Section 13 of the Prompt Payment of Accounts, Act 1997

Mr Taylor, KPMG, present by invitation, advised Board that they had presented their audit plan to the Audit Committee in September 2005 and that the audit had been conducted accordingly and that there had been discussions with the Audit Committee at each stage in the process. Mr Taylor advised Board that having concluded their audit they are of the view that the Funding Statements give a true and fair view of the state of the College's affairs as at 30 September 2005 and of its deficit and cash flows for the year then ended.

Mr Taylor also advised Board that in the course of the audit they had considered how governance arrangements and risk management and other related issues were being addressed in the context of the external financial environment and he invited Board's attention to a letter which the auditors had sent to the Chairman of the Audit Committee, and which had been circulated. He advised Board that the provision which had been made for fixed term worker obligations in the Funding Statement had been based on the best assumptions available at the time, noting that the College's final liability may differ from the current provision and that this may have a material effect on the College's financial position in the future. He also invited Board's attention to concerns which KPMG have in relation to the maintenance of strong financial controls during the implementation stages of both the ARAM and the College's new structural arrangements. The Board also noted comments in relation to the procedures which should be adopted to manage the potential risks arising from the College's participation in joint ventures or other entities.

Mr Taylor advised Board that it was KPMG's intention to issue an unqualified audit report in relation to the College's Funding Statements and that unqualified opinions had already been issued in respect of the Financial Statements for Ghala Ltd and in relation to the College's adherence to the Prompt Payment of Accounts Act 1997. He thanked the Audit Committee and the Treasurer's Office for their cooperation during the year.

Mr Forsyth, Chairman of the Audit Committee, present by invitation, invited the Board's attention to a memorandum, dated 17 January 2006, which had been circulated, accompanied by a letter from KPMG. He advised Board that the Audit Committee had considered the Funding Statements in detail at its meeting on 21 December 2005 and that following separate consultation with the Treasurer's Office and the external auditors it had concluded that the audit had proceeded well and in a very timely manner. He recorded the Committee's appreciation to the Treasurer and her staff for their efficiency in this regard.

In considering the financial outcome for the year and the circumstances which led to a deficit of €1.5 million, Mr Forsyth invited Board's attention to KPMG's conclusion, as reported in the Audit Committee minute AD/05-06/37, that the capacity of the College to secure a surplus in the future would be challenging, noting the Audit Committee endorsed this view.

The Board noted that the Audit Committee, at its meeting on 21 December 2005, had also considered internal control issues raised by KPMG. Mr Forsyth advised Board that the Audit Committee, following discussions with the Secretary to the College and the Treasurer who had attended the meeting, was satisfied that the issues raised were being addressed by the College's management in their respective areas.

In conclusion, Mr Forsyth advised Board that, in the opinion of the Audit Committee, based on the advice of the external auditors, the College has sound procedures in place to ensure the integrity of the financial information produced for the year ended 30 September 2005 and that it is not aware of any issues of concern that would preclude Board approval of the Funding Statements and the letter of representation for 2004/2005.

In response to queries from Board members, the Treasurer and the Deputy Treasurer clarified technical issues in relation to research overheads, the provision for the FTW Act liability, the costs associated with the re-structuring programme and student services.

In the course of a discussion on the Funding Statements, in response to queries, the Treasurer and the Secretary advised Board that:

- (i) the previous Board had approved a new pension scheme which came into effect for new staff on 1 February 2005, noting that it will not impact on the pension arrangements for existing staff;
- (ii) should there be any material financial implications arising from fraudulent activities in College they would be notified to the Finance Committee as a matter of course;
- (iii) while high levels of cash balances can create a perception that the College has surplus funds at its disposal, such funds in administrative and academic areas are designated for specific purposes and are generally necessary for the management of the College's activities, a fact which was acknowledged by the HEA in its financial review of the sector in 2003;
- (iv) it is likely that the College's liability under the FTW Act will be known during the current financial year;
- (v) ARAM data for 2004/2005 should be available in early March 2006.

The Board noted Professor Kelly's comments in relation to the value of having a paper available prior to the meeting detailing the points raised by the Treasurer in her presentation.

The Funding Statements for 2004-2005 and the associated letter of representation were approved by the Board and their signing by the Provost was also approved.

BD/05-06/132 Consolidated Financial Statements 2002/2003 and 2003/2004 The Treasurer, introducing the topic, invited the Board's attention to a paper which had been tabled, outlining issues of concern in relation to the interpretation and use of GAAP Consolidated Financial Statements. She also invited attention to the following documents which had been circulated:

- Consolidated Financial Statements for the year ended 30 September 2003, including Funding Statements for year ended 30 September 2003 which had been approved by Board on 21 January 2004
- Proposed letter of Representation to KPMG, in relation to Consolidated Financial Statements for year ended 30 September 2003, dated 25 January 2006

- Consolidated Financial Statements for the year ended 30 September 2004, including Funding Statements for year ended 30 September 2004 which had been approved by Board on 26 January 2005
- Proposed letter of Representation to KPMG, in relation to Consolidated Financial Statements for year ended 30 September 2004, dated 25 January 2006

The Treasurer advised Board that the GAAP Consolidated Financial Statements for 2002/2003 and 2003/2004 had been based on the same financial data as the Funding Statements for the same periods, as previously approved by Board, (minutes 5/136 of 21 January 2004 and BD/04-05/146 of 26 January 2005 refer), but that, because of the different accounting conventions and standards required by GAAP compared to the harmonised sectoral approach, the presentation of the year-end positions according to the two approaches were not the same and required careful interpretation to understand the College's financial position. She invited Board's attention to the reconciliation of the two methodologies as presented in the Consolidated Financial Statements for each year and by way of examples clarified some differences between the two approaches.

The Treasurer invited Board's attention to the detailed issues on which discussions with the HEA and C&AG had been necessary before the consolidated financial statements could be prepared.

The Board noted that the apparently different outcomes according to the two approaches pose challenges for users of the accounts who may not be fully conversant with the accounting methods used, further noting that concerns had also been expressed by the HEA in this regard. The Treasurer advised Board that in order to address these concerns the Audit Committee and Finance Committee had supported a proposal that, from 2004/2005 the Financial Statements, (which would comprise the GAAP Consolidated Financial Statements, the Funding Statements and the reconciliation table), would be preceded by a College Annual Report. The Board also noted the proposal that for each of the two historical periods (2002/2003 and 2003/2004) the Financial Statements would be preceded by a statement from the Board, drafts of which had been circulated together with a memorandum from the Secretary to the College sent on behalf of Executive Officers.

In considering the Consolidated Financial Statements for 2002/2003 the Treasurer advised Board that, as this was the first year for which consolidated financial statements had been prepared, the required comparative data had not been available to fulfil GAAP requirements in this regard. She also noted that the College had been unable to make adequate provision for pension funding due to the limits imposed by the HEA. For both of these technical reasons the Consolidated Financial Statements for 2002/2003 must receive a qualified audit opinion. The Board noted that, while prior year comparative data had been available for the preparation of the 2003/2004 Consolidated Financial Statements, the technical qualification in relation to pension provision still applied and that these Financial Statements would also be qualified on technical grounds.

Mr Taylor, noting that the preparation of the Consolidated Financial Statements was a time-consuming and technical exercise for the Treasurer's Office's staff, advised Board that, apart from the technical issues identified by the Treasurer which required the auditors to give a qualified audit opinion, they were satisfied with the way in which the accounts had been prepared.

Mr Forsyth invited Board's attention to a memorandum, dated 17 January 2006, which had been circulated and advised Board that, in considering GAAP Consolidated Financial Statements, it has to be borne in mind that, while there is nothing intrinsically

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wrong with GAAP accounting, because of the way in which the College is funded by the HEA on an annual cash basis, the GAAP methodology will result in volatility which is not evident in the harmonised Funding Statements.

Mr Forsyth invited Board's attention to a number of concerns which had been identified by the Audit Committee in its consideration of the Consolidated Financial Statements, noting in particular that the College's accounting systems are not geared to the production of these financial statements, thereby resulting in a costly and time-consuming exercise. The Board also noted the Audit Committee's concerns that the value to the College of the Consolidated Financial Statements is as yet unproven and that consideration should be given as to whether resources should be allocated at institutional and/or sectoral level to develop more refined data for use in financial management and planning.

Mr Forsyth advised Board that the Audit Committee had welcomed the proposal to prepare an Annual Report from 2004/2005. He invited Board's attention to the draft statements which had been circulated by Executive Officers and recommended that Board members give serious consideration as to whether the text as proposed would assist users in understanding the Financial Statements.

The Board also noted Mr Forsyth's comments about the ordering of the documents as presented whereby the College's primary financial statement – the Funding Statement – comes after the Consolidated Financial Statements. He advised that, as this was a sectoral approach, it may not be possible to address this issue at this time.

Mr Forsyth advised Board that, in the opinion of the Audit Committee, based on the advice of the external auditors, and noting the technical matters which have resulted in qualified audit opinions, the College has sound procedures in place to ensure the integrity of the financial information produced for the years ended 30 September 2003 and 2004 and that it is not aware of any issues of concern that would preclude Board approval of the GAAP Consolidated Financial Statements and the letters of representations for the years under review.

In a discussion of the Consolidated Financial Statements a number of technical issues were clarified by the Treasurer and the Deputy Treasurer.

In response to a query, the Treasurer advised Board that there is no stated policy in relation to balances held by individual departments, noting that the management of the underlying financial deficit will be addressed in the context of the Estimates. The Board also noted the Bursar's comments in relation to the external funding environment and the acknowledgement by the HEA that surpluses may be required to facilitate good financial management.

The Board agreed that the statements accompanying the Financial Statements should be re-drafted to take account of concerns expressed and that suggestions for their revision should be sent to Secretary over the coming weeks. It was agreed that a revised version would be circulated to Board for approval in due course and that the Financial Statements would not be formally published until the 2004/2005 Consolidated Financial Statements and accompanying annual report are available.

The Consolidated Financial Statements for 2002/2003 and 2003/2004 and the associated letters of representation were approved by the Board and their signing by the Provost was also approved.

The Board thanked the Chairman of the Audit Committee, the Internal Auditor, KPMG and the Treasurer and Deputy Treasurer for their significant efforts in preparing and presenting the Consolidated Financial Statements for approval by the Board.

SECTION B

BD/05-06/133 Audit Committee The Board noted, and where appropriate, approved proposals in the draft minutes of the meeting of the Audit Committee held on 21 December 2005 noting in particular:

AD/05-06/38 Consideration of KPMG correspondence In response to a query, the Chairman of the Audit Committee advised Board that the Committee had welcomed the approval of one additional post to the Internal Audit function and that, when there was greater clarity on the external requirements in relation to reporting on internal controls and other issues, the level of resources required would be reviewed.

BD/05-06/134 Finance Committee The Board noted, and where appropriate, approved proposals in the draft minutes of the meeting of the Finance Committee held on 19 December 2005, noting in particular:

FC/05-06/46 Procurement Annual Report - 2004/05 Professor Parnell advised Board that a report on travel procurement would be considered by the Finance Committee during Hilary Term.

Signed:

Date: