

The University of Dublin

Trinity College

Minutes of Audit Committee, Friday 1 November 2002

Present Mr David Kingston (Chairman), Dr M J Carroll, Dr S Allwright, Professor J McGilp
(ex officio) Internal Auditor, Assistant Secretary |

The Committee congratulated Mr Sheeran on his appointment as the College's full-time Internal Auditor.

2002/29 Minutes The Minutes of the meeting of 4 October 2002 were approved and signed.

2002/30 College's financial position (see Minutes 2002/20 and 2002/21 of 27 September 2002 and 2002/25 of 4 October 2002) The Internal Auditor advised the Committee that he had been informed by the Treasurer that the previously advised approach to be taken by the Comptroller and Auditor General (C&AG) in reporting on the 2001 financial statements had now changed (see minute 2002/20 of 27 September 2002) and that she had deferred writing to the C&AG until the position is clarified. The Internal Auditor also advised the Committee of recent communications between the HEA and Conference of Heads of Irish Universities (CHIU) concerning the impact of the reduction in the recurrent grant for 2002. The Internal Auditor invited the Committee's attention to the HEA's advice that, as the reduction in the grant for the year 2002 is matched by the increase in student registration charges and is therefore cash neutral, any short-fall in funds should be accounted for in 2002/2003. The Internal Auditor advised the Committee that the differences in the timing of the allocation of the recurrent grant (calendar year 2002) and the application of the increased student charge (academic year 2002/2003) has led to a short-fall in income for the nine months January – September 2002. The Committee, noting that it had already agreed with the College's external auditors that, in accordance the practice of recognising substance over form, the shortfall in 2002 funding would be recognised in the accounts for 2001/2002 (see minute 2002/21 of 27 September 2002) agreed that the proposed HEA approach would have to be discussed with the external auditors.

The Committee agreed that, in view of the lack of clarity concerning the short-fall in recurrent funds for 2002, the Chairman would defer writing to the Board until the matter is clarified.

2002/31 Draft report on the Haughton Institute The Internal Auditor invited the Committee's attention to the final draft report on the Haughton Institute which had been circulated together with memoranda from the Treasurer and the Dean of Health Sciences dated 22 October 2002 and 30 October 2002 respectively.

The Committee, considering the issues raised by the Treasurer, noted in particular, the review of the Haughton Institute which the Finance Committee had initiated in January 2002 and which had been suspended pending the outcome of the Internal Auditor's review. The Committee also noted the efforts which College Officers had made during 2000/2002 to address issues of concern arising from the Haughton Institute's relationship with the College.

The Committee noted the Dean of Health Science's comments on the draft report which, *inter alia*, stressed the importance of the College's relationships with the two major teaching hospitals and the benefits which the Haughton Institute can bring to strengthening teaching and research links between all three partners. The Dean of Health Sciences, in his memorandum, had also invited the Committee's attention to the deliberations of a Faculty working party which had been established in response to a request from the Provost to examine a range of governance and related issues arising from the College's

relationship with the Haughton Institute. The Committee noted that the Faculty Working Party would be reporting to the Provost in due course.

In response to queries raised by Committee members the Internal Auditor clarified a number of technical issues.

The Committee, noting the Dean's support for the issues raised in the Internal Auditor's draft report and the Treasurer's recommendations concerning the College's involvement in future such arrangements, agreed that an Executive Summary of the report and recommendations, together with a covering memorandum from the Chairman, would be presented to Board for consideration and that copies of the full report would also be made available to Board members with a recommendation that it be made available to the Dean of Health Sciences for discussion, if required, with the Haughton Institute and the hospital partners.

2002/32 Report to the Board on College Governance The Chairman and the Internal Auditor invited the Committee's attention to the issues which had arisen during meetings with the representatives of Board constituencies, noting the very high value which all those consulted placed on clear and timely communication from Officers and Committees and the need for greater involvement by Board members in the formulation of College policy.

The Chairman invited the Committee's attention to the draft report on governance procedures which had been circulated with a memorandum from the Internal Auditor dated 30 October 2002, drawing particular attention to a number of out-standing issues as highlighted in the report. The Committee noting the importance of presenting the principles under-lying the report as a context for its recommendations agreed that the operation of the Finance Committee would be used as an example to illustrate how the proposed system would operate in practice. Following a discussion of the issues raised, the Committee agreed that the Internal Auditor would re-draft the report taking account of the issues raised and that the document would be circulated to the Committee for comment prior to its being circulated to Board.

2002/33 HEA Targetted Initiatives The Committee noted a memorandum from the Senior Lecturer's Office advising of the allocation of €30,000 from the HEA's Targetted Funding for Special Initiatives to fund a project, under the rubric of university accountability, reviewing best practice in the area of risk assessment in a university environment. The Committee requested that the Internal Auditor bring forward a proposal on the implementation of this project, noting that it must be completed within 2003 and that results must be disseminated to other universities in the sector.

2002/34 Presentation of College Accounts Under Other Business the Internal Auditor advised the Committee that the Treasurer had notified him that as and from 2002/2003 universities must present fully consolidated accounts as part of their financial statements, including self- financing activities and subsidiaries but excluding Foundations, Trusts and Pension Funds. The Committee noted that the format will consist of three parts, the consolidated financial statements, a HEA funding statement and a reconciliation between the two, all of which will be published.

The Internal Auditor, noting that the on-going late notification of the recurrent grant by the HEA, which can occur up to seven months into the financial year in question, makes it extremely difficult for the College to exercise good financial management and requires extreme prudence until the notification is received, invited the Committee's attention to the following areas of concern in relation to the proposed approach:

1. Grants and expenditure will be recognised on an accruals basis, the effect of which will be that unless all of the grant income is expended in the same year as that to which the grant is applied, the results reported in the financial statements will most likely oscillate between surpluses and deficits.
2. In view of the fact that departments will continue to operate in accordance with the cycle of the academic year, the consolidated income and expenditure account, compiled on an accruals basis,

will not reflect the true activity of the College in the year to which the financial statements relate. Furthermore, there may be a disparity between the proposed funding statement and the final balances from the income and expenditure account highlighting any unspent balances in departmental accounts, many of which could not have been spent within the time available in that accounting period which could lead to possible misinterpretation of the financial statements.

3. The disharmony between the consolidated model and the funding model could endanger sound financial management and obtaining best value for money if departments come under pressure to spend monies within the accounting period.
4. There are likely to be accounting losses in the consolidated format due to timing differences between the recognition of income and expenditure between years. Under the terms of the Universities Act 1997 the Chief Accounting Officer should notify Board and the HEA at budget stage if losses are going to be incurred. It will be difficult to predict the outcome for a year as the grant income is notified so late in the financial year and difficult to avoid losses because of the application of the accruals basis.
5. In order to comply with the College's Statutes the financial statements must be prepared very soon after the end of the financial year end which results in a very short period to review and identify accruals which will mean that there will have to be systems in place in all departments which will be sufficiently robust to generate the necessary data to the required standard.

The Internal Auditor advised the Committee that the requirement to present a true and fair view in the annual financial statements must be paramount and that the inclusion of the Funding Statement as part of the proposed consolidated format is a device to compensate for the short-comings of applying the consolidated model in a university environment; best practice suggests that accounting and reporting processes should reflect the nature and timing of the College's activities. The Committee, noting that under the Universities Act 1997, the Board has a stated responsibility to select and apply suitable accounting policies, agreed that the format of financial reporting must take account of the fact that the HEA grant allocation is on a calendar-year basis whereas the College's activities span two calendar years and that the inherent failure to recognise this by using an accruals basis for the annual accounts could be potentially misleading.

The Committee, noting with disquiet that the process has advanced to a late stage and that, despite reservations expressed to the HEA and CHIU, the College may be obliged to adopt the new format, requested that the Internal Auditor keep the matter under review and keep the Chairman informed of developments. The Committee also agreed that the matter would be discussed with the College's external auditors.