

The University of Dublin

Trinity College

Minutes of Audit Committee, Thursday 12 December 2002

Present Mr David Kingston (Chairman), Dr M J Carroll, Dr S Allwright, Professor J McGilp
(ex officio) Internal Auditor, Assistant Secretary
(by invitation) Mr Paul O'Connor and Mr D Byrne of PricewaterhouseCoopers for item 2002/38
Treasurer and Deputy Treasurer for items 2002/38 and 2002/39

2002/35 Minutes The Minutes of the meeting of 1 November 2002 were approved and signed subject to the following amendment:

2002/34 Presentation of College Accounts The word 'will' was replaced by the word 'may' in line 2 of the final paragraph.

2002/36 Draft report on the Haughton Institute (see Minute 2002/31 of 1 November 2002)

The secretary advised the Committee that the full report on the Haughton Institute had been circulated to the Board for consideration at its meeting on 18 December 2002. Dr Allwright advised the meeting that the report prepared by the Dean of Health Sciences on the College's relationship with the Haughton Institute had been considered by the Board of the Haughton Institute on 11 December 2002.

2002/37 Report to the Board on College Governance (see Minute 2002/32 of 1 November 2002)

In response to the dissatisfaction expressed by Professor McGilp at the lack of opportunity to comment on the amendments made to the draft report since it had been discussed at the previous meeting, prior to it being sent to the Board for consideration on 18 December 2002, the secretary undertook to ensure that there would be greater clarity about the status of documents circulated to the Committee in future. The Chairman advised the Committee that the proposal to illustrate how the proposed structures might operate in practice using the Finance Committee as an example had not proved feasible due to the Statutory definition of the membership of the Finance Committee. The Committee noted that the report now recommended that the proposals could either be tested initially on one or two committees and the Executive Officers' group or that they could be tested on all committees simultaneously.

The Committee, approving the recommendations as presented in the report, noted the difficulties which the current financial environment might place on implementing the proposed changes.

2002/38 Presentation of Financial Statements Introducing the topic, the Internal Auditor invited the Committee's attention to the following issues in relation to the presentation of the College's financial statements which had been discussed at the previous meeting (see Minute 2002/30 of 1 November 2002).

In relation to the 2001/2002 accounts, the Committee noted the HEA's instruction 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, the short-fall in funds was to be accounted for in 2002/2003. The Committee, noting that it had already agreed with the College's external auditors that the shortfall in 2002 funding would be recognised in the accounts for 2001/2002 (see Minute 2002/21 of 27 September 2002), expressed disquiet at the requirement to account for these transactions in the manner prescribed by the HEA. The Committee also expressed concern about the movement, on the one hand, to account for substance over form in line with GAAP accounting, while on the other hand the College is obliged, through the presentation of its 2001/2002 accounts, to defer the recognition of the cut in its funding for 2002 until 2002/2003. The Committee agreed that it would seek the opinions of the external auditors and the Treasurer on the

situation and, following clarification of the issues with them, agreed that it may be necessary to advise the Board of its concerns in relation to the approach required of the sector in this regard.

The Internal Auditor also invited the Committee's attention to the main issues arising from the proposal that, as and from 2002/2003, universities must present consolidated financial statements. The Committee, noting that the proposed changes, if introduced, could have a profound effect on the way in which the College manages its resources, agreed that following discussions with the Treasurer and the external auditors it would have to consider how best to advise Board of the risks to the College (both financial and managerial) associated with the proposed approach.

The Treasurer, the Deputy Treasurer, Mr Paul O'Connor and Mr Damien Byrne of PricewaterhouseCoopers joined the meeting.

2001/2002 accounts: The Treasurer invited the Committee's attention to the notification which had been received from the HEA subsequent to the pre-audit meeting with the Audit Committee on 27 September 2002 advising that the reduction in funds associated with the increase in the student charge was to be accounted for in the last quarter of the calendar year 2002 and not in the financial year 2001/2002. The Treasurer advised the meeting that this approach had resulted in a surplus in the order of €800,000 in the year 2001/2002. The Committee noted that the Treasurer's report accompanying the published accounts for 2001/2002 would explain how the surplus has arisen and how it should be interpreted as a provision to address the loss which would be accounted for in the financial year 2002/2003. In response to a number of queries, the Treasurer advised the Committee that as part of the harmonised presentation of accounts in the sector the College is obliged to adopt the approach required by the HEA in relation to the presentation of the State grant in the financial statements. The Committee expressed concern that, arising from the approach required by the HEA, the financial statements, instead of showing a deficit for the year 2001/2002 are in fact showing a surplus and suggested that a note to the accounts might be an appropriate method by which to explain how the surplus has arisen.

2002/2003 and following years: The Treasurer advised the Committee that the possible introduction of consolidated university accounts had been the subject of discussion with the C&AG and the HEA for some time with a view to implementing an agreed approach for the year 2003/2004, noting that, to date, indications had been that the financial statements would include self-financing activities and subsidiaries but would exclude Foundations, Trusts and Pension Funds and that the format would consist of three parts, the consolidated financial statements, a HEA funding statement and a reconciliation between the two, all of which would be published. The Treasurer advised the Committee that, with the agreement of the HEA, the C&AG had brought forward the implementation date for the new approach to 2002/2003 and that, while the format of the accounts had not been finalised, discussions were at an advanced stage in this regard. The meeting noted that the C&AG had indicated that it wished to include management information as part of the new format and that it did not envisage a funding statement forming part of the published accounts.

In response to queries, the Treasurer invited the Committee's attention to the practical difficulties of implementing a new approach for the presentation of the 2002/2003 accounts within the proposed time-scale, particularly as the first quarter of the accounting year is almost completed. The Committee noted that it would not be possible to have comparisons between 2001/2002 and 2002/2003 if the new system were to be introduced for 2002/2003 and as this would not be in accordance with GAAP it would be an audit issue which the external auditors would have to consider in their opinion. The Treasurer also advised the Committee that the College's financial statements should not be used as management accounts.

In considering the implications for the College of introducing the new format of financial statements the Committee noted the following resource issues:

- (i) Comparability across the sector would be lost if the consolidated accounts were published without an accompanying funding statement
- (ii) The preparation of consolidated accounts would, in the first instance, require the introduction of very significant personnel and computer resources at central College and departmental levels, which would put the College's resources under severe strain particularly in view of the

relatively short period of time between the end of the financial year and the presentation to Board of the audited financial statements as required by the Statutes.

- (iii) Major amendments to the purchasing system would be required to provide accurate accruals based data at the end of each financial year for incorporation into the financial statements

The Committee noted with concern the following consequences of the accruals basis of accounting as it would be applied to the College:

- (a) The consolidated income and expenditure account, compiled on the proposed basis, might not reflect the true activity of the College in the year to which the financial statements relate
- (b) The disharmony between the consolidated model and the funding model could endanger sound financial management and obtaining best value for money
- (c) Due to the late notification of the grant it is difficult to predict the financial outcome for each year and under the proposed system it is possible that there would be unavoidable losses arising from the application of the accruals basis of accounting which in turn would have reporting implications as required by the Universities Act, 1997.

The Committee agreed that its concerns in this regard would be included in its Annual Report to Board.

2002/39 Tender for the provision of Audit Services The Chairman invited the Committee's attention to a memorandum from the Internal Auditor, dated 5 December 2002, which had been circulated summarising the key characteristics of the nine firms which had responded to the College's invitation for expressions of interest to provide the College's Audit services. The Committee agreed that the Internal Auditor, the Treasurer and the secretary to the Committee would derive criteria for short-listing with a view to inviting up to four firms to submit full tenders for the provision of the services which would be considered at the next meeting of the Committee, noting that it was expected that the invitations to tender would be issued at the conclusion of the current audit process.

2002/40 Annual Report to Board The Chairman invited the Committee's attention to the draft annual report to Board which had been prepared by the Internal Auditor and which had been circulated. Following a discussion of the issues raised, it was agreed that the Internal Auditor would make the amendments as suggested prior to the report being circulated to Board for consideration at the Board meeting on 18 December 2002.

2002/41 HEA Targetted Initiatives In response to the approval by the HEA of €30,000 from the HEA's Targetted Funding for Special Initiatives for a project to review best practice in the area of risk assessment in a university environment as advised on 2 August 2002, the Committee approved the Internal Auditor's proposal to recruit a temporary auditor with relevant experience for a period of up to 6 months to assist in carrying out the risk assessment element of the project and to facilitate the Internal Auditor in completing the project by undertaking other audit work in College. The Committee requested the secretary to write to the Senior Lecturer's office seeking clarification in relation to the funding of this initiative.

Signed:

Date: