

The University of Dublin

Trinity College

Minutes of Audit Committee, Tuesday 16 December 2003

<i>Present</i>	Mr D Kingston (Chairman), Professor D Dickson, Dr S Allwright, Professor J McGilp.
<i>(ex officio)</i>	Internal Auditor
<i>Apologies</i>	Assistant Secretary

The Treasurer, Deputy Treasurer and Ms Laura Gallagher, Mr Jon D'Arcy and Mr Neal Taylor of KPMG attended for item 2003/30.

2003/30 Consideration of 2002/2003 Financial Statements The Treasurer, present by invitation, advised the Committee that the audit, which was the first conducted by the new auditors KPMG, had progressed well with a significant input having been required from the Treasurer's Office to facilitate the changeover. The Treasurer informed the Committee that because of the ever increasing demands on her Office, arising from the current funding crisis, the preparation of GAAP accounts, and other external demands, there was a significant threat to the continued delivery of a professional service in all areas, noting that risk levels were rising and that some prioritisation of issues would be necessary. The Committee, noting the Treasurer's concerns, observed that it was all the more important to maintain high levels of performance in the finance area in a time of severe financial crisis and that if there were specific areas at risk they should be advised as soon as they become known.

Ms Laura Gallagher, Mr Jon D'Arcy and Mr Neal Taylor of KPMG, present by invitation, joined the meeting.

The Chairman invited the Committee's attention to the documentation circulated for the meeting: Financial Statements for the College and Ghala Limited for the year ended 30 September 2003; Additional Financial Information; Analysis of Recurrent Expenditure and Research Accounts; and a report from KPMG.

The Treasurer tabled a document entitled Treasurer's Presentation and outlined the following points:

- (i) the Format of the Financial Statements would be in two separate stages for 2002/03, the first part of which was contained in the Financial Statements under review;
- (ii) accounting policies had not changed but some changes had been made in reserve provisions and the presentation of research income and expenditure;
- (iii) the legislative environment remained the same as in the previous year and an unqualified opinion would be issued by the auditors on the College's compliance with the Prompt Payment of Accounts, Act 1997;
- (iv) the funding shortfall for 2003/04 was being addressed in line with the Board decision in relation to departmental balances but there could be financial difficulties in 2004/05 and later years as there was no more flexibility in the system;
- (v) the auditors have finished their work and their report would be issued following approval of the Financial Statements by the Board and on receipt of the signed letter of representation;
- (vi) an unqualified audit opinion on the Financial Statements would be forthcoming subject to events arising subsequent to the audit but prior to signing the report;
- (vii) reporting requirements would change over the next number of years to incorporate assurances on governance and controls;
- (viii) the capital deficit for the year was €13.8m arising from the pause in PRTL cash flows and other outstanding funds at the year-end; a number of capital related financial risks were also identified;
- (ix) there was a growth in the complexity of contracts and requirements, notably the EU 6th Framework Programme; a number of research related financial and reputational risks were noted;

- (x) income and expenditure highlights along with ongoing financial risks were identified;
- (xi) the assessment of risks, including non financial risks, and steps taken by the College to institute a process of risk review were noted;
- (xii) issues which had previously been considered in the context of 2000/01 Financial Statements continue to have ongoing relevance to College and need to be addressed in the context of the 'Agenda for Change'.

Ms Gallagher of KPMG invited the Committee's attention to a document entitled "Report to the Audit Committee on 2003 Financial Statements" noting the following points:

- (a) no material control weaknesses were identified during the audit;
- (b) the audit approach followed was the same as that outlined in the plan previously presented to the Committee (minute 2003/20 of 23 October 2003 refers);
- (c) the audit was complete subject to Board approval of the accounts and receipt of a standard letter of representation following which an unqualified opinion would be issued;
- (d) 'going concern' had been identified as an issue but the auditors were satisfied with the steps taken to address the crisis for 2003/04. Ms Gallagher noted that these measures were once-off in nature and that there could be a serious problem in 2004/05 if funding shortfalls continue;
- (e) the accounting treatment accorded new buildings had been examined closely and had been found to be satisfactory;
- (f) backdated pension awards have not been fully provided for but, taking account of additional funding expected from the HEA and other provisions which may be high, particularly against research balances, the auditors accepted that on an overall basis an adequate level of provision in the Financial Statements had been made and were satisfied with the recoverability of other debtor balances;
- (g) an unqualified audit opinion would be issued in relation to the College's compliance with the Prompt Payments of Accounts Act 1997;
- (h) no significant issues had arisen in respect of Ghala Limited and an unqualified audit opinion would be issued;
- (i) the completion of accounts on a GAAP basis would require significant effort and resources. Since the previous meeting with the Committee on 23 October 2003, additional areas, which would require adjustments to conform to GAAP, had been identified, particularly the treatment of research income and expenditure.

In response to a query from the Chairman, about the treatment of pension liabilities in the GAAP accounts, Mr Taylor advised that this matter would be left open until agreement was reached across the sector. Mr D'Arcy advised that the main impact would be the inclusion of ancillary services and Ghala Limited in the consolidated accounts. Mr D'Arcy drew the Committee's attention to the impending reporting requirements on corporate governance noting the broadening of focus beyond financial risks and controls and the fact that statements of assurance, which would be the subject of review by the auditors, would be required in the future.

Ms Gallagher summarised the points contained in both the management letter and the letter to the Chairman, drawing particular attention to the following two points which were emphasised in the latter, viz. the issue of 'going concern' beyond 2003/04 and assurance on internal control.

Members of the Committee sought clarification on a number of items of detail contained in the Financial Statements following which there was a general discussion on the financial situation. The Treasurer, noting that the capacity of the College to deal with further cuts was now severely limited, tabled a letter addressed to the HEA dated 1 December 2003, seeking clarification on aspects of the grant and stated that discussions would be needed with the Department of Education and Science. Professor McGilp, welcoming the comments of the auditors, noted that the problem was one of unplanned shocks to the system and that there were risks in attempting to deal with the situation by cutting services. The Committee agreed that the College's core functions must be delivered and that proper planning and consultation would be required to ensure their continuity within a new government funding regime. Ms Gallagher observed that as 72% of the College's budget is absorbed by pay costs, which are subject to externally imposed increases, the capacity of

the College to deal with cuts is very limited.

The Treasurer and Deputy Treasurer withdrew from the meeting.

Ms Gallagher advised the Committee that the auditors had received the fullest co-operation from the Treasurer's Office and that the very low error level and the fact that there were no serious areas of concern, following an intensive first audit, were very encouraging indications of strong financial controls.

The Chairman thanked the auditors for their work who then withdrew from the meeting.

2003/31 Report to Board on Audit Issues The Committee agreed to a proposal by the Internal Auditor that, in advance of the planned meeting of the Board in January to consider the Financial Statements, he would circulate to members of the Committee, for their consideration and approval, a draft report to Board from the Audit Committee on the outcome of the audit and a draft of the letter of verification which the Provost might wish to send to the HEA.

2003/32 Minutes of meeting 25 November 2003 The minutes of the meeting of 25 November 2003 were approved and signed subject to the following amendment:

2003/27 Working Group on College Governance

In the second last paragraph, lines 5 and 6, to delete the words " those Elected Board Members, who were".

2003/33 Matters Arising In the course of a general discussion on the implications of the funding shortfall and the response being taken by the College, concerns were expressed on the potential impact at department level and the risks associated with the loss of contingency reserves that could in turn lead to deficits in 2004/05. Concern was also expressed at the level of strain being placed on the system by the increasing demands coupled with reducing resources.

Signed:

Date: