

The University of Dublin

Trinity College

Minutes of Audit Committee, Tuesday 21 September 2004

Present Mr T Forsyth (Chairman), Dr S Allwright, Professor J McGilp

Apologies Professor B McGing

(ex officio) Internal Auditor, Assistant Secretary

The Treasurer and Deputy Treasurer attended for minutes AD/04-05/1, AD/04-05/6 and AD/04-05/7.

Ms L Gallagher, Mr J D'Arcy and Mr N Taylor from KPMG attended for minutes AD/04-05/6 and AD/04-05/7.

SECTION A

AD/04-05/01 HEA Financial Review The Chairman invited the Committee's attention to the recently published HEA *Report on the Financial Position of Irish Universities*, which had been circulated, noting that the report had clarified the current status of funding of the sector. The Committee noted that this is one of three reports which have been published recently (the other two being the OECD's Review of Higher Education in Ireland and the *Review and Prioritisation of Capital Projects in the Higher Education Sector*) which, if implemented, could have a significant impact on the sector.

The Treasurer invited the Committee's attention to the conclusions of the report noting in particular the report's recommendations that the creation of financial surpluses is essential to enable universities to accumulate cash for strategic reasons and that the current levels of surpluses held by institutions are inadequate and should be increased to 3 per cent of income. The Committee also noted the report's specific recommendations in relation to the need for depreciation to be fully funded at a level equivalent to 5 to 7 per cent of income. The Treasurer also invited the Committee's attention to the recommendation that efforts to generate non-State income should not result in penalties by way of reductions in public funds. The Committee also noted the report's comments in relation to the need for universities to finance and manage their strategic development on a sustainable basis and the need to further develop more strategic and professional management skills.

The Committee noted that the report had identified that universities manage a complex portfolio of activities in an increasingly commercial environment.

The Treasurer also advised the Committee that since the publication of the report, representatives of the College had met with the Review Group which had prepared the report and with representatives of the HEA to discuss issues of concern to the sector including: the need to integrate strategic and financial planning within universities; and factors affecting pension funds. The meeting had also addressed matters specific to Trinity including internal balances and cash levels within the College which will be addressed in detail at a future meeting with the HEA.

In discussing the report, the Committee welcomed its main findings, in particular the recognition that universities need to be able to manage their finances in a strategic way without risk of penalty, noting, in particular the acknowledgement in the report that cash surpluses are necessary for the strategic management of universities.

In response to queries the Treasurer invited the meeting's attention to Table 2 of the report which presented the levels of cash and investments held by each university as reported in

their consolidated accounts, noting the disparity across institutions in relation to the different categories of cash. The Treasurer advised the Committee that there is a lack of comparability in the data reflecting different accounting practices within institutions, noting that these differences had not been fully understood in early media reports.

The Committee noted that the views of the Review Group were in line with its own in that the format of the accounts, although based on GAAP, could be misleading and not represent the underlying business cycles and funding realities facing the College and that there are dangers in attempting to use the historic accounts as a basis for funding policy and decisions. The Committee also noted the Treasurer's concerns that, despite significant efforts and resources applied to producing the consolidated GAAP accounts, it may still be necessary to refine and develop additional reporting formats to provide appropriate accounting information for strategic and financial planning. The Committee reiterated its concern that a new format of reporting could emerge which might not accurately reflect the business of the sector and that conflicting interpretation and analysis of the financial situation of institutions could result.

The Chairman thanked the Treasurer and the Deputy Treasurer for attending the meeting and for all their hard work in contributing so effectively to the Financial Review process.

Action

The Committee agreed that the implementation of the report's recommendations would be kept under review.

AD/04-05/02 Minutes The Minutes of the meetings held on 23 June 2004 were approved and signed.

AD/04-05/03 Haughton Institute (see Minute 2003/43 (g) of 23 June 2004) The Internal Auditor advised the Committee that there had been a number of discussions with the Dean of Health Sciences since the last Committee meeting and that progress was being made in clarifying the status of issues of concern to the Committee.

Action

The Committee agreed that there would be a full report at the next meeting.

AD/04-05/04 Status of Implementation of Audit Recommendations Status of Implementation of Audit Recommendations The Internal Auditor invited the Committee's attention to recommendations under the following broad headings:

- (i) IT Security
- (ii) Fixed Assets
- (iii) Resources in the Treasurer's area
- (iv) College's Emergency Plan
- (v) Purchasing Procedures

The Committee reviewed the risks to College arising from the implementation status of each recommendation.

The Committee, noting the very significant work undertaken by IT Security Officers over the past three years, further noted that the area of IT security extends beyond the control of IS Services and that all College personnel have a role and responsibility in this regard and that this is a complex, technical area requiring ongoing monitoring and development.

Actions

4.1 In view of the potential significant exposures to the College in relation to certain aspects of IT Security, the Committee agreed that the secretary, on behalf of the Committee, would write to the Director of IS Services expressing concern that:

- the IT Security Officer post, which is currently a fixed-term contract, is due to expire within a few months

- reporting structures should ensure maximum independence for the function.
 - procedures should be put in place to ensure that all existing and new staff formally acknowledge their responsibilities in relation to the College's IT Security Policy.
- 4.2 the Committee agreed that the implementation of all other recommendations would be kept under review on an on-going basis.

AD/04-05/05 Insurance Tender Under 'Any Other Business' the Committee noted Dr Allwright's concerns in relation to aspects of the College's Professional Indemnity insurance cover, particularly in relation to work being supported by U.S. funding agencies.

Action

It was agreed that the Internal Auditor would raise the matter with the responsible offices in College.

SECTION B

AD/04-05/06 Consideration of Audited Trust Funds (Benefactions) Financial Statements for year 2003/2004 Ms Gallagher of KPMG, present by invitation, invited the Committee's attention to the Trust Funds (Benefactions) Financial Statements for year 2003/2004 which had been circulated and advised the Committee that an unqualified audit opinion would be issued by way of a management letter to the Board.

Action

Following clarification of a number of technical issues, the Committee recommended that the Financial Statements with the appropriate management letter be forwarded to Board for approval.

AD/04-05/07 Plan for Audit of 2003/2004 Accounts Ms Gallagher, Mr D'Arcy and Mr Taylor of KPMG, invited the Committee's attention to a document, which had been circulated, outlining the approach they intend to take in their audit of the College's financial statements for 2003/2004, noting that the plan addresses both the Funding Statement accounts and accounts prepared in accordance with GAAP requirements.

The Auditors invited the Committee's attention to the stages in their audit process. Ms Gallagher advised the Committee that significant findings, if any, will be presented to the Audit Committee in December 2004 and that observations and recommendations in respect of significant control and systems issues will be discussed with management and communicated to the Committee in their Management Letter, noting that they will also be summarised in their Audit Report. The Committee noted that the Audit report will also address issues which have been raised in previous Management Letters, further noting that the audit team will rely, where appropriate, on the work of the Internal Auditor.

The Auditors invited the Committee's attention to the following key risk areas and the proposed audit approach associated with them:

- (i) Future financial performance
- (ii) Capital projects
- (iii) Research grants
- (iv) Provisions
- (v) GAAP accounts
- (vi) Ghala Limited
- (vii) Debtor provision
- (viii) Intellectual Property Rights
- (ix) Reviews undertaken by the College during the period

The Auditors also invited the Committee's attention to other areas on which they will be reporting:

- (a) Corporate governance
- (b) Information technology
- (c) Taxation
- (d) Fraud
- (e) Transactions with related parties
- (f) Financial statements of Ghala Ltd.
- (g) Compliance with relevant laws and regulations

The Committee noted the Auditors' intention to involve specialists from KPMG to assist with specific areas of the audit.

In conclusion, the Auditors invited the Committee's attention to the time-scales for the audit process, noting that the audit clearance meeting in relation to the HEA Funding Statement will take place on 3 December 2004 prior to a meeting with the Audit Committee on 16 December and that these financial statements will be presented to Board on 23 January 2005.

In the course of a detailed discussion in which a number of issues were clarified, the Committee, noting the importance of externally-funded research for the College welcomed the Auditors' opinion that a strong control framework is in place in the College in relation to research grants. The Committee also welcomed the Auditors' opinion that, from the College profile and their cumulative knowledge of management personnel, their preliminary assessment is that there is a low risk of management fraud.

The Treasurer then invited the Committee's attention to audit requirements which Science Foundation Ireland intend to introduce in relation to the funding of overheads associated with their research grants, further noting that the definition of 'research overheads' currently being used by Science Foundation Ireland is at variance with the agreed sectoral definition. The Treasurer advised that a part-time legal advisor has been recruited to her office to review research contracts from a liabilities and warranties point of view, noting that this part-time resource is insufficient to deal with the volume of work arising from the current levels of research in the College. The Auditors agreed that any concerns they may identify in relation to 'research overheads' would be included in their report to Board.

In response to a query, Mr Taylor advised the Committee that the audit of the consolidated GAAP compliant accounts for 2002/2003 was almost complete and that it was hoped to present the findings of their audit to the next Committee meeting. The Deputy Treasurer advised the Committee that as this had been the first year in which accounts according to the GAAP had been prepared by the College it had taken longer than anticipated to complete the exercise and that it was hoped to complete the audit of the consolidated accounts for 2003/2004 by March 2005.

Ms Gallagher advised that the Audit Committee, in line with current best practice in the commercial sector, could be required, at a future date, to provide assurances to the Board on the College's internal control systems, but Ms Gallagher noted that the current level of resources available to the internal audit function is likely to limit what can be achieved in this regard.

In response to a query, Ms Gallagher advised the Committee that the non-audit work undertaken by KPMG for the College that had been carried out during the year did not contravene any Irish technical, legislative or ethical guidelines and would not have any impact on the audit which the audit team would undertake. It was agreed that in future all non-audit work undertaken by KPMG would be approved in advance by the Audit Committee.

The Chairman thanked the representatives of KPMG for attending the meeting.

Action

The Committee noted and agreed the audit plan as presented.

SECTION C

AD/04-05/08 Meeting Schedule 2004/2005 The Committee noted the following dates for future Committee meetings:

- Tuesday 23 November 2004, 8.30am
- Thursday 16 December 2004 at 11.00am
- June 2005 to be decided

All meetings will take place in the Conference Room, Top Floor, 1 College Green unless otherwise advised.

The Committee also noted that the Chairman and the Internal Auditor will present its Annual Report to Board on Tuesday 14 December and that the Chairman will present the Committee's comments on the audited financial statements to Board on 26 January 2005.

AD/04-05/09 Reporting to Board Under 'Any Other Business' the secretary advised the Committee that the Board at its meeting on 7 July 2004 had approved new reporting arrangements for Principal Committees arising from the recommendations of the Governance Working Group. The Committee noted that, in future, draft minutes of its meetings would be submitted to Board at the first opportunity and that the Board representative on the Committee (Dr Allwright) could bring specific matters to the attention of the Board should there be an need to do so.

Signed:

Date: