

**The University of Dublin**

**Trinity College**

**Minutes of Audit Committee, Thursday 16 December 2004**

*Present* Mr T Forsyth (Chairman), Dr S Allwright, Professor J McGilp, Professor McGing  
*(ex officio)* Internal Auditor, Assistant Secretary

The Treasurer, the Deputy Treasurer and the Financial Resources Manager and Ms L Gallagher, Mr J D'Arcy and Mr N Taylor from KPMG attended for minute AD/04-05/25.

**AD/04-05/20 Minutes** The Minutes of the meetings held on 21 September 2004 were approved and signed subject to a number of grammatical amendments:

**AD/04-05/21 Governance Issues (see minute AD/04-05/15 of 23 November 2004)** The secretary advised the Committee that a letter had been sent to the College Secretary informing him that the revised Terms of Reference are currently being considered.

**AD/04-05/22 Departmental Equipment Registers (see minute AD/04-05/17 of 23 November 2004)** The secretary advised the Committee that a copy of the Internal Auditor's report had been sent to the College Secretary.

**AD/04-05/23 Risk Assessment in College (see minute AD/04-05/19 of 23 November 2004)** The secretary advised the Committee that a letter had been sent to the College Secretary as requested.

**SECTION A**

**AD/04-05/24 Governance Issues – Proposed Revised Terms of Reference** The Chairman invited the Committee's attention to his memorandum, dated 10 December 2004, which had been circulated together with the existing and proposed terms of reference for the Committee. The Committee reviewed the proposals in detail and in response to queries the Chairman explained the background to the proposals in specific cases. The Committee, noting the limited resources available to the internal audit function, agreed that care would have to be taken in drafting the terms of reference to ensure that unrealistic expectations would not be generated in relation to the workload of the function.

Actions

- 24.1 Following a long and detailed discussion it was agreed that the Internal Auditor and the Chairman would revise the proposals on the basis of the comments made, and that the revised document would be circulated to the Committee for further comment.
- 24.2 Following finalisation of the terms of reference by the Committee the Chairman would discuss the proposals with the Provost.
- 24.3 The Internal Auditor would prepare a paper on the scope of, and the resources available to, internal audit functions in other universities.
- 24.4 The Chairman would seek the External Auditors' opinion on appropriate resources for the internal audit function in the College.

## SECTION B

**AD/04-05/25 Consideration of 2003/2004 Financial Statements** The Treasurer, the Deputy Treasurer and the Financial Resources Manager, present by invitation, joined the meeting. In response to a query from the Chairman, the Treasurer and the Deputy Treasurer advised the Committee that, in their view, the External Auditors had conducted a very comprehensive and thorough audit of the 2003/2004 Financial Statements, noting the pressures which the completion of the audit within the required timescale had placed on both the Treasurer's Office and KPMG. The Internal Auditor also advised that from his perspective the audit had been conducted in a satisfactory fashion.

Ms Gallagher, Mr D'Arcy and Mr Taylor from KPMG, present by invitation, then joined the meeting.

The Treasurer invited the Committee's attention to the following documents which had been circulated in relation to the financial year ending on 30 September 2004: Financial Statements for the College; Additional Financial Information; Financial Statements and Letter of Representation for Ghala Limited; and Analysis of Recurrent Expenditure and Research Accounts.

Introducing the Financial Statements, the Treasurer advised the Committee that they represented Phase 1 of the reporting and had been prepared in accordance with the harmonised accounting policies adopted by the university sector following agreement between the HEA and the Comptroller and Auditor General. Phase 2 would involve the preparation of consolidated accounts prepared in accordance Generally Accepted Accounting Principles (GAAP). The Treasurer indicated that the Financial Statements prepared in accordance with the harmonised sectoral policies have helped considerably with transparency and comparability within the sector but that the financial accounts prepared according in GAAP will not be readily comparable across the sector as they encompass all university activity, publicly and privately funded, which varies considerably in breadth and structure across institutions. The Treasurer advised the Committee that the finalisation and publication of consolidated financial accounts in respect of 2002/2003 and 2003/2004 can only be achieved following agreement with the HEA and the State on the format of the accounts and on substantive pension-related issues. The Treasurer noted that work would commence early in 2005 on the preparation of the 2003/2004 consolidated accounts, noting that the scale of this task will necessitate additional resources.

The Treasurer invited the Committee's attention to specific issues in relation to the financial outturn for the year, noting in particular:

- (i) that the State recurrent allocation had remained relatively static during the period and it had not been sufficient to pay the State approved pay awards including benchmarking and sustaining progress;
- (ii) that the normal pay and non-pay inflation had increased the College's cost base by approximately 10%;
- (iii) that the deficit for the year (€130,000) was significantly less than that which had occurred the previous year (€893,000) due to reductions in both pay expenditure and departmental balances noting that, in the current year, the College has made some provision for expected restructuring costs and other contingencies;
- (iv) that the pay:non-pay ratio for the year was 75:25 which represented a significant deviation from the College's objective of 70:30 which had been achieved during the mid-late 1990s;
- (v) the growth in research income of almost twenty percent to reach €56.6m, noting that research activity now supports 1,349 employees.

The Committee, noting that the HEA/Forfás recommendations on research overheads had not been adopted by all sponsors, noted that one major research funder had initiated a process which requires institutions to consider, not just essential support services, but also direct investment in research infrastructure within the recommended thirty percent limit.

The Treasurer advised the Committee that this approach means that overhead contributions will no longer be attributable to specific research projects and that consideration may have to be given in the future as to how the data on research accounts will be presented. The Committee expressed its ongoing concern that because of inadequate indirect cost contributions, an element of the State grant is being used to support research activity and requested that discussions continue to try to ensure that research sponsors provide sufficient funds for all overhead costs associated with externally-funded research.

The Treasurer invited the Committee's attention to the provision in the accounts for the College's estimated liabilities under the Fixed Term Workers Act which came into force in July 2003, noting in particular the requirement to include fixed-term employees in the College's pension scheme. The Treasurer advised the Committee that the associated cost implications in relation to staff employed on research contracts will have to be considered on a case-by-case basis following which the College will enter into discussions with research sponsors in relation to the additional costs incurred by the College in this regard. In response a query, the Treasurer advised the Committee that, with additional resources, it was hoped to have completed the analysis by the end of the current financial year.

The Deputy Treasurer invited the Committee's attention to funding issues in relation to the College's capital programme noting that total expenditure in the year amounted to €32.9m and that at 30 September 2004 €19.6m was due from the HEA in respect of on-going and completed projects.

In response to queries from Committee members the Treasurer clarified specific issues in relation the financial statements and the College's pension fund.

In conclusion, the Treasurer invited the Committee's attention to a number of key reports which had been issued during 2004, including the OECD report, the HEA reviews on the financial position of Irish universities and on the prioritisation of capital projects, and the European Universities Association review of quality related issues in the sector, noting that these reports provided the context for the future funding of the sector. The Treasurer advised the Committee that the College had not yet received notification of its grant for 2005 but the Book of Estimates and the Government's budget had indicated that there would be no significant increase in recurrent funds in real terms and that if this proves to be the case the College will most probably incur a deficit for the year 2004/2005. In response to a query the Treasurer advised the Committee that while the College may not plan for a loss without advising the HEA, should a deficit occur at the end of a financial year it would be the first call on the following year's grant as set out in Section 37 of the Universities Act 1997.

The Chairman thanked the Treasurer and the Deputy Treasurer for their presentations and complimented them on their management of the College's finances in the current difficult environment.

Ms Gallagher from KPMG advised the Committee that the audit of the financial statements for the year ended 30 September 2004 is essentially complete and that following completion of a subsequent events review and the consideration and approval of the accounts by the Board and the receipt of the letter of representation from the Board it is their intention to issue an unqualified audit report.

Ms Gallagher invited the Committee's attention to the KPMG report which had been circulated outlining the key points arising from the audit of the financial statements. Ms Gallagher invited the Committee's attention to issues in relation to the following matters:

- (i) Future financial performance
- (ii) Capital projects
- (iii) Bad debt provision
- (iv) Subsidiaries and related companies
- (v) Provisions for future liabilities
- (vi) Litigation costs
- (vii) Intellectual property rights.

Mr D'Arcy invited the Committee's attention to conclusions in relation to systems of internal control as published by the HEA/CHIU report, 'The Financial Governance of Irish Universities – Balancing Autonomy and Accountability', noting the recommendations that the Board should have arrangements in place to ensure a sound system of internal control and that there should be arrangements to review the effectiveness of internal controls and that verification should be made in writing to the HEA that any material weakness has been brought to the attention of the Board or to report that no material weaknesses have been identified. The Committee also noted that the Department of Education and Science has included similar provisions in a draft Code of Practice for Governance of Third Level Institutions. Mr D'Arcy expressed concern that there are insufficient resources available to the College's internal audit function to give the necessary assurances to the Board in this regard and recommended that this be addressed by the Committee.

Mr D'Arcy, welcoming the College's risk management initiatives, invited the Committee's attention to the recommendations that out-standing work in relation to the preparation of a high level risk register be completed as quickly as possible. The Committee also noted the recommendation that a risk assessment be carried out before any restructuring takes place to ensure that sufficient resources are committed to maintain the internal control environment through the time of change. Mr D'Arcy also advised the Committee that while no material internal control matters were noted in the course of the audit there were a number of areas where further action still has to be taken.

Ms Gallagher invited the Committee's attention to specific issues which would be addressed in a management letter to the College. She also invited the Committee's attention to the letter to the Chairman of the Audit Committee in which issues in relation to internal control, risk management and the College's legal costs were raised.

The Chairman thanked the Treasurer and the Deputy Treasurer for their presentations and expressed the Committee's appreciation to the Treasurer and her staff for their work in bringing the accounts to their final stage within such a short period of time.

The Treasurer, the Deputy Treasurer, Ms Byrne, the Internal Auditor and the secretary withdrew from the meeting.

In response to queries from the Committee, the External Auditors confirmed that they had received full co-operation from the Treasurer's Office at all times and in particular in relation to the audit which they felt went very smoothly. They also confirmed that they had also received full co-operation and support from the Internal Auditor. In conclusion the External Auditors advised the Committee that they had no special issues which they wished to bring to its attention.

The Chairman thanked the Auditors for their presentation.

The Internal Auditor and the secretary rejoined the meeting.

#### Action

Following a general discussion on the matters raised by the Auditors, the Committee agreed that the accounts should be forwarded to Board with a recommendation that they be approved.

**AD/04-05/26 Report to Board on the 2003/2004 Financial Statements** The Internal Auditor invited the Committee's attention to a memorandum, dated 10 December 2004, which had been circulated outlining the issues which might be addressed in the Committee's report to Board on the financial statements.

#### Action

The Committee agreed that the report would be drafted along the lines proposed with particular emphasis being placed on issues raised by the External Auditors. It was agreed that the draft report would be circulated by email to the Committee for comment before

being forwarded to Board and that the report to Board would be accompanied by the letter from the External Auditors to the Chairman.

**SECTION C**

**AD/04-05/27 Annual Report to Board** The Committee noted the Annual Report which had been considered by the Board at its meeting on 24 November 2004. The Chairman advised the Committee that the Board had been very appreciative of the work carried out by the Internal Auditor and the Committee over the past year.

Signed: .....

Date: .....