

The University of Dublin

Trinity College

Minutes of Audit Committee, Wednesday 9 November 2005

Present Mr T Forsyth (Chairman), Professor J McGilp, Professor B McGing, Dr D O'Donovan
(ex officio) Internal Auditor, Assistant Secretary

The Treasurer, Deputy Treasurer, the Financial Resources Manager attended for AD/05-06/16, AD/05-06/17 and AD/05-06/18 (pt.)

Ms L Gallagher and Mr N Taylor from KPMG attended for minutes AD/05-06/17 and AD/05-06/18 (pt.).

(Items of specific interest to the Board are denoted **XXX**)

AD/05-06/12 Minutes The Minutes of the meetings held on 4 October 2005 were approved and signed subject to two grammatical amendments in the second paragraph of AD/05-06/04.

AD/05-06/13 Resourcing the Internal Audit Function and Terms of Reference (see minute AD/05-06/03 of 4 October 2005) The Committee noted a letter from the Secretary to the College to the Chairman, dated 10 October 2005, which had been circulated. The letter stated that, following consideration of the Chairman's proposals for two additional staff members, and taking into account the College's current financial situation, Executive Officers had approved the appointment of one full-time permanent post to the Internal Audit function. The Committee, welcoming the allocation of additional resources to support internal audit activities, noted that the draft terms of reference would now be revised in the light of the resources available to the Committee.

Action

The secretary to acknowledge the College Secretary's letter and advise that the Committee's revised terms of reference would be presented to Board for approval in due course.

AD/05-06/14 Call-over The secretary invited the Committee's attention to a memorandum dated 2 November 2005 which had been circulated and to the accompanying list of out-standing actions. The Committee noted the actions which had been implemented since the last meeting and those which remained out-standing and which would be addressed in due course.

SECTION A – POLICY ISSUES

AD/05-06/15 Inter-Institutional Arrangements The Chairman invited the Committee's attention to correspondence between the Committee and the Secretary to the College in relation to inter-institutional research arrangements. The Committee noted that, in view of the advanced stage of the College's involvement in the NIBERT and LIBERTY initiatives, the Board, at its meeting on 26 October 2005, had approved the College's involvement in them, subject to a final review of the legal documentation. The Committee also noted the Board's decision to develop a policy in relation to such inter-institutional arrangements and recommended that

the Internal Auditor prepare a checklist of issues which might be addressed in such a policy.

Action

The secretary to write to the College Secretary to: (a) express concern that discussions had reached such an advanced state in relation to some of these initiatives without the Board's approval; (b) welcome the development of the policy and to offer the support of the Internal Auditor in its development.

AD/05-06/16 Auditors' Expenses Under Other Business the Chairman invited the Committee's attention to a tabled memorandum outlining options for the resolution of issues which had arisen in relation to the audit fee and associated expenses incurred by the auditors. The Committee, noting the terms of the contract with KPMG, and, having considered the views of the Treasurer, agreed the parameters whereby the Chairman should resolve the matter with Ms Gallagher.

Action

The Chairman to discuss the matter with Ms Gallagher.

SECTION B – IMPLEMENTATION ISSUES

AD/05-06/17 Consideration of Audited Trust Funds (Benefactions) Financial Statements 2004-2005
XXX

The Treasurer invited the Committee's attention to the Trust Funds (Benefactions) Financial Statements for year 2004-2005 which had been circulated. She highlighted issues in relation to the legal structure of the benefactions and the role of the Investment Committee in managing the funds. The Committee noted the College's long-term investment objectives and the re-profiling of the portfolio which took place following a review carried out in 2003. The Treasurer also advised the Committee on the capital returns and income deriving from the investments.

In response to queries, the Treasurer clarified matters in relation to the cash content of the portfolio. She advised the Committee on the importance of individual fund holders reviewing the funds on a regular basis in order to ensure that the most appropriate balance between income and capital reinvestment of income is maintained. It was agreed that the Treasurer should request the Heads of School to advise individual fund holders to undertake such reviews on a regular basis.

Ms Gallagher of KPMG, present by invitation, advised the Committee that an unqualified audit opinion would be issued.

The Committee approved the submission of the accounts to Board for approval.

Action

The financial statements to be forwarded to Board for approval.

AD/05-06/18 Consideration of Draft Consolidated Accounts for the years 2002-2003 and 2003-2004
XXX

In discussing this item the Committee considered the following documents which had been circulated:

- (i) Report from KPMG on the Consolidated Financial Statements for the year ended 30 September 2004;
- (ii) Consolidated Financial Statements for the year ended 30 September 2003;
- (iii) Consolidated Financial Statements for the year ended 30 September 2004;

and the following documents which had been tabled:

- (iv) letter from Mary Kerr, Deputy Chief Executive, HEA to the Deputy Treasurer, dated 5 September 2005;
- (v) draft minute from the Finance Committee meeting of 2 November 2003;
- (vi) amended note 28 and 29 for the 2002-2003 and 2003-2004 accounts respectively.

The Chairman introduced the topic and advised the Committee that the consolidated financial statements had been prepared according to the Generally Accepted Accounting Principles (GAAP) in response to a sectoral request from the HEA and the Comptroller and Auditor General (C&AG). He noted that the consolidated financial statements are required in addition to the Funding Statement which will continue to be prepared annually in accordance with the format agreed at sectoral level with the HEA.

The Committee noted that the draft GAAP consolidated financial statements for 2002-2003 had been considered previously by the Committee (minute AD/04-05/16 of 23 November 2004 refers) but, as a number of issues in relation to the format and treatment of certain items in the accounts had been under discussion at a sectoral level with the HEA, they were not finalised at that time. The Committee noted that these issues had been resolved to the point where the GAAP consolidated financial statements could now be finalised.

Ms Gallagher, from KPMG, present by invitation, advised the Committee that, as the College's financial systems are not designed to prepare reports according to GAAP, the preparation of consolidated financial statements is largely a manual and very time-consuming exercise putting considerable demands on the resources of the Treasurer's Office. The Committee noted that the specification for the new financial system will include GAAP requirements.

Ms Gallagher invited the Committee's attention to a report which had been circulated, noting in particular the initial agreement which has been reached in relation to the disclosure of all information required under *FRS 17: Retirement Benefits*. She advised the Committee that there are ongoing discussions with the C&AG in relation to the treatment of the pension deficit, noting that the outcome of these discussions will not impact on the presentation of the GAAP consolidated financial statements until FRS 17 becomes fully operational in 2006.

Ms Gallagher invited the Committee's attention to the key differences between the Funding Statement accounts and the GAAP consolidated financial statements noting in particular that:

- (i) the results, assets and liabilities of subsidiary undertakings are included in the GAAP consolidated financial statements as a result of which the accounts of Ghala Ltd are included;
- (ii) internal balances held on the Funding Statement balance sheet cannot be held on the GAAP balance sheet and, as a result, their movement during the year is included in the income and expenditure account and their balance at the year-end is included in the revenue reserves;
- (iii) in the Funding Statement accounts certain items of income and expenditure are included as movements in general reserves and in the GAAP financial statements they are included in the income and expenditure account/balance sheet. These items include depreciation, capital grants received and amortisation of these grants, profit/loss arising on ancillary activities, certain capital expenditure and profits/losses arising on the disposal of assets.

Ms Gallagher invited the Committee's attention to the key reconciling items between the GAAP consolidated financial statements and the Funding Statements for respective year-end results and for net assets and clarified that the figures, as presented, would be amended in the light of the final draft accounts.

Ms Gallagher advised Board that the auditors will have to issue a qualified report in respect of the two years' GAAP consolidated financial statements. The Committee, noting that these qualifications are as a result of the technical requirements of GAAP consolidated financial statements and of matters outside the control of the College in relation to pension issues,

further noted that the qualifications were not the result of any management issues within the College.

The Treasurer, present by invitation, invited the Committee's attention to the risks associated with the lack of institutional comparability of the GAAP consolidated financial statements across the sector resulting from the inclusion of all university activity, both publicly and privately funded, noting that these activities vary significantly in scope and breadth across institutions. The Treasurer also raised issues in relation to the perception of the C&AG, government and others on the financial position of the College as presented in the accounts. The Committee noted the Treasurer's comments in relation to the 'book' surpluses shown in the GAAP consolidated financial statements over the two-year period and to the fact that they do not represent surpluses/discretionary funds available for spending.

The Committee noted concerns which had been expressed by the HEA in its report on '*The Financial Position of Irish Universities at 30 September 2003*' that those unfamiliar with the accounting details of accounts prepared according to GAAP could believe that the universities are making adequate surpluses when in fact they are not.

In response to a query, the Treasurer advised that the preparation of the GAAP consolidated financial statements puts a large strain on the resources of her office and while noting that the consolidated financial statements offer opportunities for the development of management indicators and other financial planning tools, she advised that there were currently insufficient resources available to undertake this work in any detail.

The Treasurer and Ms Gallagher clarified technical issues raised by members of the Committee.

Following a long discussion in which the substance of the GAAP consolidated financial statements and their notes were considered in detail and in the course of which concerns in relation to their public interpretation were raised and suggested additions to the notes were discussed, it was agreed that the final GAAP consolidated financial statements would be presented to the next meeting of the Audit Committee. While noting that the format of the accounts has been approved by the HEA, it was also agreed that consideration would be given to including additional text in the notes and also to including an introduction to the consolidated financial statements which would assist the non-technical reader in interpreting them correctly.

The Committee also recommended that the two sets of GAAP consolidated financial statements would be considered at the Board meeting in January 2006 which would also consider the Funding Statements for 2004-2005. In making this recommendation, the Committee felt that considering the Funding Statement and the GAAP consolidated financial statements together would allow the differences between the two forms of accounting to be clarified and would facilitate a discussion by the Board on the context in which the GAAP consolidated financial statements should be reviewed.

The Chairman thanked Ms Gallagher and Mr Taylor and the Treasurer, the Deputy Treasurer and the Financial Resources Manager for their contributions. They then withdrew from the meeting.

The Committee concluded its discussion by affirming the recommendation that, once it had approved the final versions of the GAAP consolidated financial statements at its next meeting, they should be submitted for approval at the Board meeting in January 2006.

The Committee noted that, while it would be preferable, as a matter of course, for the Board to consider the Funding Statement and the GAAP consolidated financial statements at the same time each year, there are at least two factors inhibiting such an approach, viz. the unavoidable delay in preparing the GAAP consolidated financial statements because of the manual exercise required to adapt the College's financial systems to GAAP requirements; and the College's Statutes which specify when the Board must consider the financial

statements. The Committee, noting the opportunities which the new financial system might offer in relation to the preparation of GAAP accounts, recommended that consideration be given to reviewing the Statutes in this regard.

Action

The secretary to write to the Treasurer summarising the conclusions of the discussion and the Committee's recommendations.

SECTION C – ITEMS FOR NOTING

AD/05-06/19 Meeting Schedule 2005/2006 The Committee noted the following schedule for meetings as tabled by the secretary:

- 4 October 2005 at 9.30am
- 9 November 2005 at 10.30am
- 24 November 2005 at 2.00pm
- 21 December 2005 at 9.00am
- 15 February 2006 at 9.00am
- 26 April 2006 at 9.00am
- 21 June 2006 at 9.00am

Signed:

Date: