

The University of Dublin

Trinity College

Minutes of Audit Committee, Thursday 24 November 2005

Present Mr T Forsyth (Chairman), Professor J McGilp, Professor B McGing*, Dr D O'Donovan

(ex officio) Internal Auditor, Assistant Secretary

Present for: * AD/05-06/20-26 and AD/05-06/28-29

The Secretary to the College and the Dean of Research attended for AD/05-06/25.

The Treasurer, Deputy Treasurer, the Financial Resources Manager and Ms L Gallagher and Mr B Prior from KPMG attended for AD/05-06/28-29.

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

AD/05-06/20 Minutes The Minutes of the meeting held on 9 November 2005 were approved and signed subject to two grammatical amendments in the last line of AD/05-06/18 on page 3.

AD/05-06/21 Auditors' Expenses (see minute AD/05-06/16 of 9 November 2005) The Chairman advised the Committee that he had contacted Ms Gallagher in relation to the auditors' expenses and that he was awaiting a response.

AD/05-06/22 Consideration of Audited Trust Funds (Benefactions) Financial Statements 2004-2005 (see minute AD/05-06/17 of 9 November 2005) The Committee noted that the Trust Funds (Benefactions) Financial Statements 2004-2005 had been approved by Board at its meeting on 23 November 2005.

AD/05-06/23 Call-over 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. The Committee also agreed that a list of out-standing audit issues which it had agreed to keep under review would be included as Part 2 to the call-over.

Action

The secretary and the Internal Auditor to include out-standing audit issues in the call-over.

SECTION A – POLICY ISSUES

AD/05-06/24 Consideration of Draft Annual Report to Board The Internal Auditor invited the Committee's attention to the draft Annual Report to Board which will be considered by Board at its meeting on 13 December 2005. In discussing the report, a number of suggestions were made by members of the Committee for inclusion in the final draft. Committee members were invited to send any further editorial comments to the Internal Auditor by email as soon as possible.

It was agreed that the Internal Auditor would edit the report in light of the comments made

and that it would be circulated to the Committee for final comment prior to its submission to Board.

The Committee congratulated the Internal Auditor on his excellent report.

Actions

24.1 The Internal Auditor to re-draft the report and circulate it to the Committee for comment.

24.2 The report to be submitted to Board for consideration at its meeting on 13 December 2005.

AD/05-06/25 Inter-Institutional Arrangements The Secretary to the College and the Dean of Research, present by invitation, introduced a draft policy entitled 'Separate Legal Entities in the context of Inter-Institutional Collaboration in Research', dated 10 November 2005, which had been circulated. The Secretary to the College advised the Committee that a working group had been established to develop the policy and that it had taken as its first task the development of high level principles and that the associated process and procedural matters would be addressed as a second stage.

The Dean of Research noted that research funders, particularly government agencies, are increasingly requiring participating institutions to establish separate legal entities in order to secure research funds. He stated that the objective of many research funding programmes is to support enterprise development and that it is expected that significant funds will be available over the next three to four years from agencies supporting such research in both the science/engineering and arts/humanities areas. He noted that commercial corporate models are being increasingly required by funding agencies as a pre-requisite for the receipt of research funds. He also stated that it is likely that the implementation of a new national research plan will involve the establishment of research institutes independent of the university sector which, in turn, will require new governance arrangements in participating universities.

The Committee noted the Secretary's comments that, while companies limited by guarantee appear to be the preferred option for research funders, the College, because of the governance implications for the College as a whole, would prefer to organise such inter-institutional initiatives through memoranda of agreement. The Secretary advised the Committee that in drafting the proposed policy the working party had attempted to strike a balance between limiting College's involvement in a proliferation of separate legal entities while at the same time not precluding any possible such participation in the future. In reviewing the draft policy, he invited the Committee's attention to the primary objective of maintaining the College's research reputation and to the introduction of early warning systems in relation to possible research opportunities which might involve participation in separate legal entities.

The Committee noted that it was hoped that the introduction of the policy would assist College researchers to enter into suitable and appropriate partnerships and to engage in externally-funded research which would be compatible with the College's own Strategic Plan.

In response to a query, the Dean of Research advised the Committee that the direct allocation of research funds to participating institutions is the funding mechanism most appealing to the university sector as a whole but that it may not always be possible to achieve it.

In discussing the proposed policy, the following points were made by members of the Committee:

- (i) care has to be taken to ensure that incremental involvement in a number of separate legal entities will not adversely affect the College's core activities of teaching and research;

- (ii) the implementation of the policy will have to be susceptible to audit in each case and there will have to be assurance that all procedures have been followed when decisions are taken to participate in such separate legal entities;
- (iii) consideration should be given to making the description of processes, outlined in the Appendix to the policy, more specific and thus potentially more useful to the researcher considering participation in a separate legal entity;
- (iv) consideration to be given to including, as an adjunct to the policy, a checklist of required actions and decisions by the researcher and the office of the Dean of Research prior to any recommendation that the College participate in a separate legal entity;
- (v) the benefits to the College from participation in all joint ventures to be clearly identified when recommended to the Board;
- (vi) efforts should be made to secure a sectoral approach to the establishment of separate research consortia. It was noted, however, that, in view of the competition for research funds between institutions, such cooperation might not be easily achieved;
- (vii) any potential involvement in separate legal entities by the College must always be considered by Board at the earliest opportunity and must not proceed without prior approval from the Board or from whomever the Board may delegate such authority.

The Committee, welcoming the introduction of the policy, agreed that the Internal Auditor would assist the working group in preparing a checklist of actions to be addressed when College researchers are considering participation in research-related separate legal entities. The Secretary to the College and the Dean of Research thanked the Committee for their comments which they said would be taken into account in the preparation of the next draft of the policy prior to its submission to Board for approval.

Action

The Internal Auditor to work with the Secretary to the College and the working group in preparing a checklist of actions for inclusion in the redrafted policy.

AD/05-06/26 Revised Terms of Reference The Chairman invited the Committee's attention to a memorandum, dated 14 November 2005, which had been circulated and which proposed amendments to the draft terms of reference for the Committee which had been previously considered by the Committee on 24 May 2005 and which had been outlined to the Provost. The Chairman advised the Committee that the amendments were suggested to reflect the recent approval of one additional staff member to the Internal Audit function rather than the two requested and upon which the originally revised terms of reference were based. The Committee approved the amendments as proposed and agreed that the terms of reference should be submitted to Board for approval by way of appendix to these minutes.

Action

The secretary to submit the revised terms of reference to Board for approval.

AD/-5-06/27 Code of Practice for the governance of third level institutions (see minute AD/05-06/08 of 4 October 2005) Under Other Business, the Internal Auditor advised the Committee that he was concerned that discussions were continuing at sectoral level on the revised code of practice for the governance of third level institutions without regard to the audit implications of any proposals which may be adopted. He noted that it had been agreed that the Internal Auditor and the Committee would be given an opportunity to review the draft revised HEA/IUA code before it would be sent to an external expert for review but that he now understood that the external expert would be involved in the process without any prior consultation on audit issues.

In view of the serious implications for the Internal Audit function and ultimately for the Board arising from commitments under any revised code of practice it was agreed that the

Chairman would write to the Secretary to the College to highlight the Committee's concerns.

Action

The Chairman to write to the Secretary to the College to highlight the Committee's concerns in relation to the revision of the code of practice.

SECTION B – IMPLEMENTATION ISSUES

AD/05-06/28 Key judgements and provisioning planned for the audit of the 2004-2005 Funding Statements The Treasurer, present by invitation, invited the Committee's attention to a paper which had been tabled outlining key areas in which judgements and provisions will be made in the preparation of the Funding Statements for 2004-2005.

The Treasurer, noting that the expected outturn for the year will be a deficit of €1.5m, advised the Committee that a deficit of €6m on operations had been ameliorated by once-off income which had accrued to the College during the year. The Committee also noted uncertainties in relation to income associated with reimbursements from research funders for liabilities under the Fixed Term Workers Act 2003 and the fact that there has been no indication from the HEA whether or not there will be a supplementary grant for 2005.

The Treasurer invited the Committee's attention to provisions which have been made in the Funding Statements in relation to the following issues:

- (i) Fixed Term Workers Act 2003
- (ii) General Research Bad debt provision
- (iii) Legal Provision
- (iv) Debtors Provisions
- (v) SFI overhead
- (vi) The College's Change Fund
- (vii) FRS 17 Disclosure

In the course of a detailed discussion on each issue, the Treasurer and Ms Gallagher, from KPMG, present by invitation, clarified technical queries. In response to a query, Ms Gallagher confirmed that the accounting policies used in the preparation of the 2004-2005 Funding Statements were the same as those applied in previous years.

Ms Gallagher advised the Committee that the auditors were satisfied that the judgements had been made in accordance with best accounting practice and represented a prudent and realistic approach to the issues.

AD/05-06/29 Consideration of the Final Consolidated Accounts for the years 2002-2003 and 2003-2004 The Deputy Treasurer, present by invitation, invited the Committee's attention to the key amendments which had been made to the GAAP consolidated financial statements for 2002-03 and 2003-04 following the discussion at the previous Audit Committee meeting (minute AD/-5-6/18 of 9 November refers). He noted in particular, clarifications which had been included in the notes in relation to 'Academic Fees', 'Retirement Benefits', 'Other Operating Income' and 'Cash Flow'.

The Committee, welcoming these changes and corrections to the notes agreed that they addressed issues which had been of concern previously.

The Committee agreed that the GAAP consolidated financial statements for 2002-03 and 2003-04 could be forwarded to Board with a recommendation that they be adopted. The Committee recommended that these GAAP consolidated financial statements be considered at the Board meeting on 25 January 2006 when the audited Funding Statement for 2004-2005 would also be considered.

The Committee then considered the two draft introductory statements which had been circulated with the GAAP consolidated financial statements for 2002-2003 and 2003-2004. The Treasurer, introducing the documents, noted that the statements were intended to address the Committee's concerns as to how the GAAP consolidated financial statements might be interpreted by the non-technical reader and that she had drafted them having consulted with appropriate College colleagues, Executive Officers and KPMG.

The Treasurer advised the Committee that over the past number of years the Treasurer's report, which accompanied Funding Statements, had become a mechanism by which the College had made public policy statements on issues which were often beyond the scope of the Funding Statements themselves. In the light of this, she invited the Committee's attention to a proposal that the statements currently being considered could be issued by the Board rather than be included in the Treasurer's Report. The Committee, noting the Treasurer's comments in relation to the need for the College to have an Annual Report, noted her proposal that a statement such as she had drafted could, in the future, be part of a more comprehensive Annual Report which would be published by the Board on an annual basis at the same time as the publication of the College's financial reports.

The Committee welcomed the initiative and agreed that the addition of such statements, subject to a number of textual changes which might be considered in the final draft being submitted to Board, could minimise the public's potential to misinterpret the consolidated Accounts.

The Committee also agreed that it would recommend to the Board that it should consider issuing introductory statements, along the lines of those drafted by Treasurer, in conjunction with the 2002-2003 and 2003-2004 GAAP consolidated financial statements and that, in future, the College should prepare and publish a full Annual Report (as required under Section 41 of the Universities Act 1997) together with the GAAP consolidated financial statements. It was agreed that the secretary would write to the Secretary to the College in this regard.

The Committee thanked the Treasurer and her staff for their work in preparing the financial statements.

Actions

- 29.1 The consolidated financial statements to be submitted to Board for approval at its meeting on 25 January 2006.
- 29.2 The secretary to write to the Secretary to the College to advise of the Committee's recommendations in relation to the issuing of introductory statements with the 2002-2003 and 2003-2004 GAAP consolidated financial statements and the production of an Annual Report thereafter.

AD/05-06/30 Report on the review of Internal Financial Controls in Academic Departments The Internal Auditor invited the Committee's attention to a memorandum dated 17 November 2005 which had been circulated with a report entitled 'Review of Internal Financial Controls in Academic Departments'. Noting that the report had been prepared when the previous academic structures were in place, he advised the Committee that, overall, departments were making strong efforts to manage their affairs well despite having little administrative capacity at their disposal. The Committee noted however, that individual problems exist and that some aspects of centrally developed procedures were not being universally applied, notably procurement procedures. The Internal Auditor invited the Committee's attention to the fact that systems of accounting and control vary from department to department and that, as a result, there is a lack of uniformity of systems.

He advised the Committee that as there have been changes to the academic structures since the work was carried out, it was proposed to review the controls applying to the new structures during 2006.

Actions

- 30.1 The Internal Auditor to send a copy of the report to the participating departments.
- 30.2 The Internal Auditor to review the findings in the context of the approved financial responsibilities of Heads of School and then forward any relevant findings to the Heads of School Committee for information.

AD/05-06/31 Work Plan for Internal Audit The Internal Auditor invited the Committee's attention to Section C of the Annual Report to Board which outlined the proposed future work plan for the Internal Audit function and to a memorandum, dated 17 November 2005, which had been circulated outlining the estimated time inputs for each area of work for both the Internal Auditor and the Assistant Auditor. It was noted however that, should unexpected items of work require attention, elements of the work plan would have to be deferred. It was also noted that when the Committee receives the high level Risk Register early in 2006 it may be necessary to revise the workplan in response.

The Committee approved the work plan as presented.

SECTION C – ITEMS FOR NOTING

Signed:

Date:

THE UNIVERSITY OF DUBLIN
TRINITY COLLEGE

AUDIT COMMITTEE

- Terms of Reference

[Approved by Board in -----]

1. Objectives

- 1.1 The Audit Committee is a Principal Committee of the Board. Its main objective is to assist Board fulfil its functions by providing independent and timely advice to Board on areas within its remit.
- 1.2 The main function of the Audit Committee is to review the significant financial reporting issues and judgements made in connection with the College's financial statements and reports, and to review the scope and effectiveness of the College's internal controls, including financial, operational and compliance controls (including systems established by management to identify, assess, manage and monitor key risks, both financial and operational, taking account of the key objectives of the College as contained in the Strategic Plan).

2. Membership

- 2.1 The Committee, which shall be appointed by the Board, shall comprise not less than four (4) members as follows:
- One Board Member
 - One Member of College Staff
 - One former Senior Annual Officer
 - At least one External Member.
- 2.2 The Chairperson of the Committee shall be an External Member.
- 2.3 Membership of the Committee shall be structured to achieve an appropriate balance of recent and relevant experience taking account of the full range of the Committee's activities.
- 2.4 Membership of the Committee shall be reviewed each year by the Provost, in consultation with the Registrar and with the Chairperson of the Audit Committee, and changes as required shall be recommended to the Board at that time.
- 2.5 Membership of the Committee shall normally be for an initial term of three (3) years, with the possibility of an extension of a further three (3) years. The general aim is to change the membership from time to time to ensure an appropriate balance between continuity and fresh perspectives.
- 2.6 The Assistant Secretary shall act as secretary to the Committee and be responsible for the preparation and distribution of agenda, papers, minutes and reports following consultation with the Chairperson of the Committee.

3. Meetings and Quorum

- 3.1 The Committee shall meet on at least three occasions per annum:
- prior to the external audit, to approve the audit plan
 - prior to the issuance of the audited accounts to the Board
 - during the year to discuss internal controls.
- Other meetings as required shall be convened by the Chairperson.
- 3.2 The quorum for meetings shall be three (3) members.
- 3.3 The Internal Auditor, while not a member of the Committee, shall normally attend meetings.
- 3.4 Other College Officers shall attend meetings by invitation for specific agenda items. The

Committee may also invite any Officer of the College, or other person to attend any meeting(s) of the Committee, as it may from time to time consider desirable, to assist the Committee in the attainment of its objectives.

- 3.5 The External Auditors shall attend meetings by invitation for agenda items when the financial accounts and issues in relation to the conduct of their audit are being considered, or at their request for other items, bar the approval of the minutes.
- 3.6 The Committee may meet privately and shall arrange for a programme of separate and joint meetings with the Internal Auditor and the External Auditors.
- 3.7 The Chairperson shall present a written report annually to the Board summarising the work of the Committee in the previous year. Additionally, the Chairperson shall report to the Board the Committee's views in relation to the audited financial accounts. The External Auditors shall attend the Board when the audited financial statements are being considered.
- 3.8 The draft minutes of the Audit Committee shall be circulated to the Board as soon as possible for noting and/or discussion as necessary. The Board representative on the Committee shall be available to report orally to the Board on key aspects of the proceedings of the Committee as required.

4. Duties

In pursuance of its objectives, the Committee shall have regard to:

- Financial Reporting

- 4.1 Reviewing and challenging where necessary, the actions and judgements of management in relation to the annual financial statements before submission to the Board, taking account of the results of the annual audit and any advice and information supplied by the External Auditors, paying particular attention to:
 - critical accounting policies and practices, and any proposed changes to them
 - decisions requiring a major element of judgement
 - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
 - the clarity of disclosures
 - significant adjustments resulting from the audit
 - the "going concern" assumption
 - compliance with accounting standards or other requirements
 - reviewing any statements on internal control prior to endorsement by the Board.

- Internal Control and Risk Management

- 4.2 Subject to the available resources, to review from time to time, at a high level, the College's internal controls, including financial, operational and compliance controls and including systems established by management to identify, assess, manage and monitor key risks, both financial and non financial which might have significant implications for the College.
- 4.3 Reviewing the findings of any third party reports on the governance of the College or regulatory examinations.
- 4.4 Within the resources available, to review, at a high level, the effectiveness of the systems put in place to achieve value for money.

- Compliance

- 4.5 Reviewing arrangements established by management for compliance with all legislative and regulatory requirements and Board policies. Reviewing and advising the Board,

where appropriate, in its consideration of any compliance statement required.

- Internal Audit

- 4.6 Reviewing and approving the internal audit annual plan, including the degree of co-ordination with the external audit plan.
- 4.7 Reviewing internal audit reports and findings and seeking to ensure the implementation by management of significant recommendations by carrying out follow-up reports as necessary.
- 4.8 Reviewing the External Auditors' Management Letter and responses from management and carrying out follow-up reviews as necessary
- 4.9 Monitoring and reviewing, at least annually, the effectiveness of the Internal Audit function and advising on the necessary level of resources and seeking to ensure that it is independent and free from management or other restrictions.

- External Auditors

- 4.10 Making recommendations to the Board on the appointment, re-appointment and removal of the External Auditors.
- 4.11 Approving, following input it deems appropriate from management, the remuneration and terms of engagement of the External Auditors in respect of the provision of audit services to the College and its subsidiary/ies.
- 4.12 Reviewing with the External Auditors their plan for their audit of the College's financial statements.
- 4.13 Reviewing the results of the external audit, including:
 - any problems which may have been encountered by the External Auditors and the degree of co-operation received
 - significant recommendations to management in the management letters and management's response.
- 4.14 Monitoring the performance and quality of the services provided by the External Auditors. Reviewing their qualifications, independence and objectivity annually, taking into consideration all relationships between the College and the External Auditors.
- 4.15 Developing and implementing a policy on the engagement of the External Auditors to supply non-audit services taking into account relevant legal requirements and guidance regarding the provision of non-audit services by the External Auditors and the provision of audit related services by other audit firms, considering their expertise and value for money.
- 4.16 Monitoring the External Auditors' compliance with relevant statutory or regulatory requirements.

5. Authority

- 5.1 The Committee shall operate under delegated authority from the Board, which is ultimately responsible for all matters relating to the presentation of financial accounts and all issues arising from internal and external audits in the College.
- 5.2 The Committee shall act as a channel of communication between the Board, management and the External Auditors and shall report to the Board with its recommendations, where it

considers action or improvement is needed in any area under its remit.

- 5.3 The Committee may investigate any matter falling within its terms of reference, calling on whatever resources and information it considers necessary to so do.
- 5.4 The Committee is authorised to seek any information it requires from any employee of the College to enable it discharge its responsibilities and shall have made available to it on a timely basis all information requested from any employee in a clear, concise and well organised manner.

6. Performance Evaluation

- 6.1 The Committee shall, at least once a year, review its own performance and its terms of reference and shall report its conclusions and recommend any changes it considers necessary to the Board.