

**The University of Dublin**

**Trinity College**

**Minutes of Audit Committee, Wednesday 21 December 2005**

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

The Secretary to the College attended for AD/05-06/38

The Treasurer, Deputy Treasurer, the Financial Resources Manager attended for AD/05-06/37, 38, 39 (pt.)

Ms L Gallagher and Mr N Taylor from KPMG attended for AD/05-06/37, 38, 39 (pt.)

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

**AD/05-06/32 Minutes** The Minutes of the meeting held on 24 November 2005 were approved and signed subject to the following amendments:

**AD/05-06/25 Inter-Institutional Arrangements** The word 'whoever' was replaced by 'whomever' in bullet point (vii).

**AD.05-06/29 Consideration of the Final Consolidated Accounts for the years 2002-2003 and 2003-2004** The phrase 'the changes' was replaced with 'these changes and corrections' in the second paragraph on page 4.

**AD/05-06/31 Work Plan for Internal Audit** The second sentence of the minute was deleted.

**AD/05-06/33 Draft Annual Report to Board (see minute AD/05-06/24 of 24 November 2005)** The Chairman advised the Committee that he had presented the Committee's Annual Report to Board at its meeting on 13 December 2005. He noted that he believed that the Report had been well received and advised that the Board had extended its thanks to the Committee for its work during the year.

The Committee noted that Board members had raised concerns about the ability of the Internal Audit function to give sufficient comfort to the Board in relation to internal controls due to inadequate resources and about the impact of the proposed Code of Conduct on the College. Issues had also been raised by Board members in relation to separate legal entities.

The Chairman advised the Committee that, following a query from the Treasurer at the Board meeting, it had been agreed that there would be further consideration by both the Audit Committee and Executive Officers in relation to who should provide the appropriate point of contact with the Comptroller and Auditor General (C&AG) in relation to their audits.

The Committee also noted the Board's decision that the Annual Report would be considered by the Executive Officers who would present to Board in due course a further report on the issues raised.

Action

The issue as to who in College would provide the best point of contact in relation to C&AG audits to be placed on the agenda of a future Audit Committee meeting and the Treasurer to be invited to attend.

**AD/05-06/34 Revised Terms of Reference (see minute AD/05-06/26 of 24 November 2005)** The secretary advised the Committee that the Board had approved the Committee's revised Terms of Reference as presented.

**AD/05-06/35 Auditors' Expenses (see minute AD/05-06/21 of 24 November 2005)** The Chairman advised the Committee that Ms Gallagher had indicated that she was satisfied with the arrangements he had proposed in relation to expenses and that she would write formally to him in this regard.

**AD/05-06/36 Call-over** The Committee noted the actions which had been implemented since the previous meeting and those which remained out-standing and which would be addressed in due course. The Committee also reviewed the list of out-standing audit issues which had been included as Part 2 to the call-over.

## SECTION A – POLICY ISSUES

## SECTION B – IMPLEMENTATION ISSUES

**AD/05-06/37 Consideration of the 2004/2005 Financial Statements** The Treasurer, the Deputy Treasurer and the Financial Resources Manager, and Ms Gallagher and Mr Taylor from KPMG, present by invitation, attended for this item.

**XXX**

The Committee noted the following documents which had been circulated for consideration under this item:

1. Report from KPMG (Appendices 2 and 3 considered under AD/05-06/38 below)
2. Memorandum from the Treasurer, dated 7 December 2005
3. Highlights for year ending September 2005
4. Funding Statements for the year ended 30 September 2005
5. Funding Statements – Additional Information for the year ended 30 September 2005
6. Financial Statements for Ghala Ltd. for the year ended 30 September 2005
7. Ghala Letter of Representation
8. Academic Faculties and Departments - Analysis of Recurrent Expenditure and Research Accounts for the year ended 30 September 2005
9. Prompt Payments of Accounts Act 1997, Auditors report for 2004/2005

Ms Gallagher invited the Committee's attention to the report from KPMG which had been circulated. She advised the Committee that the audit was substantially complete, subject to the completion of the subsequent events review and consideration and approval by the Board of the Funding Statement and receipt of the letter of representation. She stated that KPMG expected to issue an unqualified audit opinion on the Funding Statements and that they had issued unqualified audit opinions on the financial statements of Ghala Ltd. and on the College's compliance with the Prompt Payment of Accounts Act.

Ms Gallagher advised the Committee that the College will report a deficit of €1.5 million for the year 2004/2005, noting that the deficit had been off-set by a release of a number of once-off provisions and the realisation of certain assets during the year. The Committee, noting that that KPMG had confirmed that it was considered appropriate to prepare the Funding Statements on a going concern basis, noted Ms Gallagher's opinion that the capacity of the College to secure a surplus position in future years could prove challenging.

In presenting the key findings of the audit, Ms Gallagher invited the Committee's attention to the impacts on the Funding Statements in relation to:

- (i) Fixed term workers, noting that a provision of €18.5 million has been included in the Funding Statements in relation to obligations arising from the Protection of Employee (Fixed Term Work) Act, 2003 (FTW Act)
- (ii) College restructuring
- (iii) Academic Resource Allocation Model

- (iv) Research grants
- (v) Legal and debtors provisions
- (vi) College's pension scheme
- (vii) Capital projects
- (viii) General reserve
- (ix) Intellectual Property Rights

Ms Gallagher stated that no areas of concern had been noted in the course of the audit in relation to the following factors:

- Compliance with laws and regulations
- Fraud and illegal acts
- Related party transactions
- Audit differences

In the course of a discussion on the implications of the FTW Act, the Treasurer invited the Committee's attention to the financial liabilities arising from the Act which are associated with different sources of funds including the core government grant and research funds. The Committee noted in particular that the HEA has not, to date, addressed the funding issues associated with the implementation of the Act either in relation to the retrospective payments for which the College is liable or for future liabilities and that, while progress had been made with some research funders in relation to 2006, the funding levels agreed with SFI and various other sponsors for future liabilities under the Act still fall short of what was required. The Committee noted that these increased liabilities exist in the context of a real decline in core annual funding from the HEA in the years since the application of this legislation.

Introducing the accounts, the Treasurer advised the Committee that, as agreed at a previous Audit Committee meeting (minute AD/05-06/29 refers), the Treasurer's Report which had formerly accompanied the financial statements would be replaced by the Board's Annual Report which would be prepared for publication, in due course, in association with the Consolidated Financial Statements and the Funding Statements. The Deputy Treasurer advised the Committee that the 2004/2005 Funding Statements were the first phase of financial reporting for the year, noting that it was expected that the second phase, by way of the Consolidated Financial Statements, would be available for consideration in April/May 2006. The Committee noted that the audited Funding Statements, when approved by Board, would be submitted to the HEA as part of the annual estimates process.

The Deputy Treasurer invited the Committee's attention to the main points arising from the Funding Statements. He noted the increases in both income and expenditure which had occurred since the previous year and the occurrences of once-off funding which had ameliorated the level of the deficit for 2004/2005 which stands at €1.5 million. The Committee noted that the pay:non-pay ratio for the year was 75:25 compared to the Board desired level of 70:30 and that the high pay element was as a result of expenditures associated with the FTW Act, national pay awards and pension supplementation costs. The Committee noting the underlying deficit to the accounts, expressed concern about its long-term impact and the resultant reduction in financial flexibility for the College.

In considering the Balance Sheet, the Deputy Treasurer invited the Committee's attention to the level of cash balances at the year-end and outlined the reasons for their relatively high levels. He noted in particular the impact which the timing of the receipt of funds from the HEA and some large research funders have on the College's cash balance and advised that as this cash was already committed to particular activities in the College it could not be interpreted as funding which the College has at its disposal. The Committee also noted the relatively high level of internal balances held by departments at the end of the financial period, similar to historic levels in 2002/2003. The Deputy Treasurer noted that in the absence of multi-annual funding notification it could be difficult to avoid the fluctuations which are evident in the accounts, as all areas in College attempt to manage their finances and get the best value for money for the College.

The Committee recommended that a covering letter addressing concerns in relation to the lack of funding for the implementation of the FTW Act should accompany the Funding Statements when they are submitted to the HEA.

The Treasurer invited the Committee's attention to the 'Green Book and Research Statistics' which she noted was a publication unique to Trinity College and which contains detailed analyses of core recurrent and sponsored research activities across all academic units. She also invited attention to a memorandum from the Research Accounting Manager dated 9 December 2005, which had been tabled at the meeting and which summarised the main issues in relation to the College's research activities, noting in particular:

- (a) the very significant growth in the number of research accounts and the volume of research income in recent years;
- (b) the relative shift in sources of research funds away from EU/foreign sources to Irish sources;
- (c) the relatively low levels of overheads which were available to support the College's research activities;
- (d) the top earning research academic departments;
- (e) the almost doubling of the number of research staff employed on sponsored research over a five year period;
- (f) the number of comprehensive audits required by research funders, noting the pressures which such audits place on the College's support services as well as on the recipient academic areas.

The Treasurer invited the Committee's attention to the risks associated with the College's rapid growth in research activity, noting in particular:

- the potential impact on levels of funding which might arise from disagreements with sponsors in relation to the eligibility of certain expenditures;
- the potential for some Principal Investigators to move the direct research costs between different projects;
- poor management of committed expenditure by Principal Investigators which can result in over-spent budgets not being noted on a timely basis;
- the possibility of reputational, financial and non-compliance risks due to inadequate levels of support staff;
- possible inequalities between Institutes and Schools arising from a divergence of indirect cost/overhead arrangements between different sponsors.

The Committee noted the Treasurer's observations in relation to these risks, noting that in the context of the College's objective to double the level of its current research activity over the next five years, there is a need to support the research activity to which the College aspires.

The Treasurer also invited the Committee's attention to the College's capital activities and to the fact that there is a capital deficit on expenditure and that there are insufficient funds to address back-log and on-going maintenance to the required standards.

The Treasurer invited the Committee's attention to the following key risk areas which if not addressed will impact on the College's future financial situation:

- the demands of pension supplementation and liabilities under the FTW Act;
- the implementation of ARAM during the four-year transition period and the College's response to the financial implications for certain over-funded areas in College;
- the very low level of research overheads available to support an ever-increasing research portfolio in College; the Committee noted that the current level of overhead funding yields a 7.9% overhead compared to a recommended 40% by HEA/Forfas report and the 80% recommended norm in the UK;
- the establishment of an appropriate environment for the implementation of a new Financial Information System.

The Treasurer concluded her presentation by inviting the Committee's attention to the following key issues which will face the College over the coming year:

- the difficulties of introducing new initiatives in the context of an underlying deficit on 'core activity' and the associated lack of financial flexibility;
- the challenges posed by the introduction of the ARAM and the new structural arrangements;
- the balance which needs to be struck between providing funds for the College's short-



relevance in academic areas. It was noted that the Senior Lecturer, together with the Heads of School, is responsible for risk management in academic areas and that the Secretary to the College fulfils a similar function in relation to administrative, service and student-related areas.

The Committee noted with concern that there is an increasing requirement for additional resources to meet external compliance requirements without the allocation of appropriate resources to meet these demands by the College's funders.

The Secretary to the College advised the Committee that it was hoped to have the Risk Register available for consideration by the Audit Committee in February 2006 and that it would be presented to Board at its March meeting.

**ARAM:** The auditors recommended that an assessment of the key risks associated with College restructuring and ARAM be undertaken so as to ensure that sufficient controls are in place to mitigate these risks. The Committee, noting that the implementation of the ARAM has been a matter for discussion at a previous meeting and that it remains a concern, (minute AD/04-05/48 of 17 June 2005 refers), also noted the recommendation that a project manager be appointed to coordinate and lead the restructuring programme. The Secretary to the College advised the Committee that consideration is currently being given to the appointment of a Director of Strategic Affairs whose responsibilities could encompass the implementation of the restructuring programme and ARAM. This was welcomed by the Committee.

In response to a query, the Secretary to the College advised that it was hoped that the Government's change fund would provide opportunities for the College to secure some of the funds necessary to fully implement ARAM. He noted that while there could be difficulties in bringing departments/schools which are over-funded according to the model in line with other areas, it was not envisaged that there would be any major delay in the implementation time-table because of the problems which this could create for the College as a whole. This will be kept under review in the implementation process.

**Joint ventures:** The Committee noted the recommendation that robust procedures should be put in place to cover the College's participation in all joint ventures or other entities, and not just those associated with research, and that the associated policy should specifically require the reputational aspects of any investment to be considered in proposals presented to Board. The Committee noted that involvement in such joint ventures is inevitable and noted its concern that there should be adequate procedures in place to manage the associated risk.

The Secretary to the College advised the Committee that the working group which is developing a policy on participation in joint ventures has almost completed its deliberations and is working with the Internal Auditor to develop a check-list of issues for review when potential partnerships are being considered, which would be included as an appendix to the policy.

**Protection of Employees (Fixed Term Work) Act:** Ms Gallagher advised the Committee that while the auditors were satisfied with the calculation of the provision for fixed term workers' liabilities arising from the Act, in view of the uncertainty as to the exact costs that the College will incur, the final liability may differ substantially from the current provision.

In addition to issues discussed in the letter to the Chairman, Ms Gallagher invited the Committee's particular attention to issues in relation to the College's credit policy and the IT disaster recovery plan. The Committee noted that the Secretary to the College and the Treasurer would be addressing, in their respective areas, the issues raised during the coming year.

The Committee thanked the Treasurer and her staff for their hard work in ensuring that the audited Funding Statements had been presented so promptly after the year-end, noting that this had been a significant achievement.

The Chairman thanked the Secretary to the College for attending the meeting.

Action

KPMG's letter to the Chairman to be forwarded to Board with the Committee's report on the audited Funding Statements

The Secretary to the College, Ms Gallagher and Mr Taylor withdrew from the meeting.

**AD/05-06/39 Review of the Audit Procedures and the External Auditors** Introducing the topic the Chairman noted that an annual review of the external auditors had, in accordance with best practice, been included in the Committee's terms of reference and that it was proposed to address the issues outlined in the document accompanying his memorandum dated 13 December 2005 which had been circulated.

The Chairman invited the Treasurer, Deputy Treasurer and the Financial Resources Manager to comment on how the audit had proceeded and in particular how, in their opinion, the external audit team from KPMG had performed. The Treasurer advised the Committee that the audit had proceeded well and that all broad risk areas, both financial and relevant non-financial, had been addressed appropriately. She noted that while the personnel engaged in the audit changed from time to time, the external audit was adequately resourced.

The Chairman thanked the Treasurer, Deputy Treasurer and the Financial Resources Manager for attending the meeting and their contribution to the discussions. They then withdrew.

Ms Gallagher and Mr Taylor re-joined the meeting.

In response to queries from the Chairman, Ms Gallagher advised that the audit had proceeded very smoothly and according to plan and that there had been very good support and cooperation from the Treasurer and her staff at all times. Ms Gallagher invited the Committee's attention to the quality controls which are in place in KPMG to validate the work of its audit teams and to ensure their independence. She advised the Committee that procedures are in place to ensure that the Audit Partner is alerted in advance to any proposed non-audit work which KPMG might be considering undertaking for the College or any of its affiliates.

The Chairman thanked Ms Gallagher and Mr Taylor for their attendance and contribution to the meeting. They then withdrew from the meeting.

Following a discussion of the conduct of the audit the Committee expressed satisfaction with the performance of the external auditors.

**AD/05-06/40 Reports to Board** The Committee noted two draft memoranda from the Chairman to Board to accompany: (a) the audited Funding Statements for 2004/2005 and (b) the Consolidated Financial Statements for 2002/2003 and 2003/2004 respectively, which had been drafted by the Internal Auditor and which had been circulated. The Committee approved the general thrust of the text, confirming that the memorandum dealing with the consolidated accounts be drafted in a non-technical manner. It was agreed that the Chairman should discuss the format of the presentations to Board with the Treasurer in advance of the Board meeting on 25 January 2006.

Actions

- 40.1 The memoranda to be finalised and send to Board for consideration at its meeting on 25 January 2006
- 40.2 The Chairman to discuss the format of the Board presentations with the Treasurer

**AD/05-06/41 Draft Letter of Verification to the HEA** The Internal Auditor invited the Committee's attention to the annual verification letter sent by the Provost to the HEA in September 2005  
**XXX**

and the response received from the HEA's Chief Executive in November 2005 and to several draft paragraphs relating to internal controls and related matters which might be included in a letter for 2004/2005, all of which had been circulated. He advised the Committee that over the past number of years, following consultation with the Audit Committee and the Treasurer's Office, he had drafted the letter of verification to the HEA for consideration by Board, noting that, when he had taken on this task, the focus of the verification letter had been entirely on internal control matters and the role of the Audit Committee. He invited the Committee's attention to the response to last year's verification letter by the Chief Executive of the HEA which had addressed issues which are important to the College and go beyond the remit of the Audit Committee. For this reason he indicated that he believed that it would be important that the College respond to the issues raised in the HEA's response to the last year's verification letter noting that there may be other issues of which the Committee is unaware and which management may wish to include in the 2004/2005 verification letter to the HEA.

Following a discussion of the matter and in the light of the issues raised by the Internal Auditor, the Committee agreed that it would be more appropriate for the management of the College to prepare the final draft of the verification letter for 2004/2005 for consideration by Board. The Committee recommended that the Audit Committee's draft paragraphs in relation to internal controls and related matters be taken into account when the final draft was being prepared.

It was agreed that the secretary would write to the Secretary to the College and the Treasurer recommending that the verification letter be drafted by the appropriate College officers and that the Internal Auditor's draft text be forwarded for inclusion in the letter.

Action

The secretary to write to the Secretary to the College and the Treasurer advising of the Committee's recommendation.

**SECTION C – ITEMS FOR NOTING**

**AD/05-06/42 Annual Report to Board** The Committee noted the Annual Report 2005 which had been re-drafted to incorporate the amendments agreed at the previous meeting and which had been considered by the Board at its meeting on 13 December 2005.

Signed: .....

Date: .....