

**The University of Dublin**

**Trinity College**

**Minutes of Audit Committee, Tuesday 27 June 2006**

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

The Treasurer, the Deputy Treasurer, the Financial Resources Manager, and Ms Gallagher and Mr Prior from KPMG attended for item AD/05-06/81

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

**AD/05-06/78 Minutes** The Minutes of the meeting held on 21 June 2006 were approved and signed subject to the following amendment:

**AD/05-06/69 Report on the implementation of the Governance Working Group's recommendations** The phrase 'agreed by Board' was inserted after the word 'principle' on the second line of the third paragraph on page 2.

**AD/05-06/79 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.

**SECTION A – POLICY ISSUES**

**AD/05-06/80 Report on the implementation of the Governance Working Group's recommendations**  
**XXX** The Chairman invited the Committee's attention to a draft memorandum to Board which had been circulated by email and in hard copy, which had been prepared by the Internal Auditor, outlining the areas where the College was not yet in compliance with the Board's decisions in relation to Principal Committees and their role in the governance of the College. The memorandum also noted the impact which restructuring is having on the College in this context, and advised Board of the Executive Officers' response to the issues raised. The Committee also noted editorial amendments proposed by the Chairman which had been circulated.

In discussing the documents, some concerns were expressed about the lack of clarity in relation to the role of Board members on Principal Committees and, in particular, difficulties they can experience in fulfilling their responsibility to act on behalf of Board as members of these committees. The Committee noted that some of these difficulties could be addressed by having Board Members chairing Principle Committees.

The Committee approved the content of the memorandum and agreed that the Internal Auditor should prepare a copy for circulation to Board incorporating the suggested amendments and attaching the minute of the Committee's discussion at its meeting on 21 June 2006.

The Committee agreed that, due to the unavoidable absence of the Chairman, Dr O'Donovan would present the memorandum at the Board meeting on 5 July 2006.

Actions

- 80.1 The Internal Auditor to prepare the final memorandum for Board.  
80.2 Dr O'Donovan to present the memorandum to Board at its meeting on 5 July 2006.

**SECTION B – IMPLEMENTATION ISSUES**

**AD/05-06/81 XXX** **Consideration of Audited Consolidated Financial Statements for year ended 30 September 2005**

The Treasurer, the Deputy Treasurer, the Financial Resources Manager, and Ms Gallagher and Mr Prior from KPMG, present by invitation, attended for this item. In discussing this matter the Committee considered the following documents which had been circulated:

- (a) Report from KPMG on the consolidated financial statements for the year ended 30 September 2005
- (b) Letter of representation to be signed by the Board following approval of financial statements
- (c) Memorandum from the Deputy Treasurer dated 22 June 2006
- (d) Consolidated Financial Statements for the year ended 30 September 2005
- (e) Memorandum from the secretary, dated 22 June 2006 and the draft College Annual report 2004-2005
- (f) Draft memorandum to Board from the Audit Committee

The Treasurer, introducing the item, invited the Committee's attention to the format of the Consolidated Financial Statements for 2004/05, noting that, as previously agreed, they would be published with the College's Annual Report for the same period and therefore did not contain any commentary on the implications for the College of the financial results for the period. She also invited the Committee's attention to corrections which would be made to three notes to the Consolidated Financial Statements prior to their submission to Board.

Ms Gallagher from KPMG invited the Committee's attention to a report which had been circulated. She noted the basis for the preparation of the Consolidated Financial Statements and the HEA's requirement that these statements be compliant with Generally Accepted Accounting Principles (GAAP).

She advised the Committee that the Audit Report on the 2005 Consolidated Financial Statements will be qualified, as pension costs have not been accounted for in accordance with SSAP 24 *Accounting for Pension Costs*. The Committee noted that, in order to comply with SSAP 24, the College would have to increase its contribution to fund the current deficit on the Pension Fund over a period and to make an increased on-going contribution to meet current liability levels. Due to the restriction imposed by the HEA on contributions which universities can make in this regard, the College is unable to comply with SSAP 24: hence the qualified audit report. The Committee noted the Chairman's proposal that a consistent form of wording be adopted to explain the reasons why the College cannot be compliant with SSAP 24. The Treasurer invited the Committee's attention to the establishment of a Pension Review Group by the HEA, noting that discussions are on-going in relation to the pension difficulties in the sector. She stated that this Review Group is also addressing the financial implications of the FTW Act in relation to sectoral pension liabilities. The Committee also noted that these matters are being considered at the highest levels in Government.

Ms Gallagher invited the Committee's attention to the key differences between the Funding Statements and the Consolidated Financial Statements, noting in particular the differing treatments of subsidiary companies, internal balances and movements on reserves between the two accounting methodologies resulting in significant differences between the results and net assets reported in the two sets of accounts. She outlined in some detail the reconciliation between the Income and Expenditure Accounts as reported in the Consolidated Financial Statements and the Funding Statements. The Committee noted the reconciliation of the net assets as reported in the Consolidated Financial Statements and the Funding Statements.

Ms Gallagher advised the Committee that KPMG was satisfied that the accrual made in relation to the Protection of Employee (Fixed Term Work) Act 2003 in the Funding Statements was fairly presented on the basis of currently available information as were the other provisions and contingencies included in these statements. The Committee noted concerns in relation to the full application of *FRS 17 Retirement Benefits* as and from 2005/06 and the impact that this will have on the College's Balance Sheet and Income Statement. The Committee also noted that, unless the HEA Pension Review Group reports in the near future, and the issue of funding of the pension liabilities is resolved, the College could very soon have an excess of liabilities over assets on its Balance Sheet. In response to a query, Ms Gallagher advised the Committee that should the College decide that FRS 17 is not an appropriate accounting standard for the College's retirement liabilities, the College would of necessity have to receive a fully qualified audit report.

Ms Gallagher clarified a number of technical issues in relation to her presentation, noting in particular the accounting standard adopted in relation to the valuation of fixed assets which explained what appeared to be a somewhat low value.

Ms Gallagher invited the Committee's attention to the manual effort which is required of the Treasurer's Office to prepare the Consolidated Financial Statements, noting that this would not be addressed until a new Financial Information System would be put in place.

The Committee noted the Treasurer's concerns about the apparent lack of comparability, and the associated risks of misinterpretation of financial results, across the sector in relation to the Consolidated Financial Statements. She noted that as Trinity is one of the first universities in the sector to produce Consolidated Financial Statements, and the required reconciliation with Funding Statements, which adhere fully to the HEA requirements, the College could be exposed due to a lack of comparability with other institutions.

In considering the interpretation of the Consolidated Financial Statements, the Committee noting the Treasurer's comments in relation to the inherent volatility of these statements (based on the three years consolidated financial statements currently available) agreed that once a number of years' results are available it would be useful to normalise the information to remove once-off items from each year's results to facilitate an analysis of the underlying financial trends. However, the Committee also noted that already there is a clear underlying trend emerging of increasing operating losses due to the under funding.

The Committee considered the Consolidated Financial Statements on a page-by-page basis and clarified a number of technical issues in the course of a discussion.

Introducing the College's Annual Report, the secretary advised that following the Committee's recommendation made in November 2005 (minute AD/05-06/29 of 24 November 2005 refers), the College's Annual Report and the financial statements would now be published in one document. She invited the Committee's attention to the draft Annual Report which had been circulated in the context of KPMG being required to ensure that there is no conflict between any statements in the Annual Report and the financial statements.

In the course of a long discussion, the difficulties of drafting an Annual Report for a general audience which also provides sufficient context and detail in relation to the financial statements were identified. The Committee noted that the need to prepare and publish both the Consolidated Financial Statements and the Funding Statements leads to potential confusion in reaching an understanding of the College's financial position. The question as to whether the Consolidated Financial Statements or the Funding Statements should be presented first in the document was also raised and the Committee noted the Chairman's view that, as the Funding Statements reflect the College's core teaching and research activities, they should be given precedence. The Committee also noted the HEA's requirement that the Consolidated Financial Statements are presented first in any published document and that it is expected that the C&AG will only express an opinion on the these statements. It was agreed that Section 11 of the draft Annual Report dealing with the

College's financial position would be elaborated, drawing on the points made in the memorandum prepared by the Deputy Treasurer. The Committee agreed that the ordering of the financial statements would be a matter for the Treasurer's Office and the Board having considered the messages they wished to convey to third parties about the financial status of the College.

The Committee agreed that consideration be given in the future to presenting the Funding Statements and the Consolidated Financial Statements together to both the Audit Committee and Board. The Treasurer advised the Committee that while there was an urgency in finalising the Funding Statements, as they were the basis of the Estimates submission to the HEA, consideration could be given to concluding their formal approval by the Audit Committee and Board later in the academic year. The Committee, noting that later consideration of the Funding Statement would require a change to the Statutes agreed that a recommendation in this regard would be made to the Board.

The Internal Auditor invited the Committee's attention to the draft memorandum from the Committee to Board recommending approval of the Consolidated Financial Statements. The Committee approved the memorandum subject to a number of editorial changes and the inclusion of a recommendation that consideration be given to amending the Statutes to permit simultaneous consideration of the Consolidated Financial Statements and Funding Statements by the Board.

The Committee agreed that due to unavailability of the Chairman, Professor McGilp would attend Board on his behalf and present the Audit Committee's recommendations in relation to the Consolidated Financial Statements.

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

#### Actions

- 81.1 The Internal Auditor to re-draft the memorandum to Board incorporating the recommendations specified
- 81.2 The Consolidated Financial Statements and accompanying memorandum to be submitted to Board with a recommendation that they be approved
- 81.3 The Letter of Representation to be submitted to Board with a recommendation that it be signed on behalf of Board following approval of the Consolidated Financial Statements
- 81.4 The secretary to re-draft Section 11 of the Annual Report taking account of the agreed amendments
- 81.4 Professor McGilp to attend Board on behalf of the Chairman on 5 July 2006

**AD/05-06/82 XXX Tender for Audit Services–Letters of Engagement** The Chairman invited the Committee's attention to the following letters of engagement from KPMG which had been circulated:

- (a) Letter of engagement: College
- (b) Letter of engagement: Ghala Ltd.
- (c) Letter of engagement: Trust Funds (Benefactions)

The Committee, noting that the terms under which the auditors are appointed were set out in the tender documents, in which the auditors confirmed that their engagement letter takes full account of and does not contradict the terms and conditions on which the tender was issued and the award made, agreed that letters (a) and (c) should be forwarded to Board with a recommendation that they be signed on behalf of the College and that letter (b) be forwarded to the Directors of Ghala Ltd with a similar recommendation.

#### Action

The secretary to forward the relevant Engagement Letters to Board and the Directors of Ghala.

**AD/05-06/83 Meeting Schedule 2006-07** The Committee noted the revised meeting schedule for 2006-2007 which was tabled. It was agreed to include the Chairman’s attendance at Board on 4 July 2007 on the schedule.

Action  
The secretary to circulate a revised schedule

Signed: .....

Date: .....