

The University of Dublin

Trinity College

Minutes of Audit Committee, Monday 2 October 2006

Present Mr T Forsyth (Chairman), Professor J McGilp, Professor B McGing

(ex officio) Internal Auditor, Assistant Secretary

Apologies Dr D O'Donovan

The Treasurer, the Deputy Treasurer and Ms L Gallagher, Mr N Taylor and Mr B Prior from KPMG attended for minutes AD/06-07/05-06.

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

AD/06-07/01 Minutes The Minutes of the meetings held on 27 June 2006 were approved and signed subject to the following amendments:

AD/05-06/81 Consideration of Audited Consolidated Financial Statements for year ended 30 September 2005 The word 'complaint' was amended to read 'compliant' in the second sentence of the third paragraph. The word 'Board' was amended to read 'Committee' in the third line of the second paragraph on page 4.

AD/06-07/02 IT Security and Procurement (see minutes AD/05-06/70 and AD/05-06/71 Of 21 June 2006). The Committee noted memoranda which the secretary had sent to the Secretary to the College in relation to IT security and procurement in accordance with the Committee's recommendations at its meeting on 21 June 2006. The secretary advised the Committee that the Secretary to the College had forwarded the Committee's concerns to the Director of IS Services and the Treasurer and Deputy Treasurer and that the Secretary to the College had advised that he would respond to the Committee as soon as possible.

AD/06-07/03 Report on the implementation of the Governance Working Group's recommendations (see minute AD/05-06/80 of 27 June 2006) In response to a query, the secretary advised the Committee that the Board had approved the appointment of two elected Board members as Chairs of Principal Committees at its meeting on 27 September 2006, noting that the Registrar had advised the Board that while efforts had been made to bring forward proposals for elected Board members to chair more than two Principal Committees, it was only possible at this stage to bring forward two such proposals. The secretary also advised the Committee that the Secretary to the College had initiated work on standardising Terms of Reference of Principal Committees, and on clarifying proposals for delegated powers to Principal Committees, to be considered by Board in due course.

AD/06-07/04 Call-over The Committee noted the actions which had been implemented since the previous meeting and those which remained out-standing. The following items were added to Part 2 of the call-over:

- (i) The Committee's recommendation that an analysis of the underlying financial trends should be carried out when a number of years' data are available from the consolidated financial statements
- (ii) Monitoring progress on the implementation of the Committee's recommendations in relation to procurement.

SECTION A – POLICY ISSUES

SECTION B – IMPLEMENTATION ISSUES

AD/06-07/05 XXX Consideration of Audited Trust Funds (Benefactions) Financial Statements 2005-2006

The Treasurer invited the Committee's attention to the Trust Funds (Benefactions) Financial Statements for year 2005-2006 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, noting the College's investment objectives for income and capital growth, also noted that a new investment strategy had been agreed by the Investment Committee in 2005 and that the investment portfolio had been re-profiled accordingly. The Treasurer advised the Committee that the new investment objectives would continue to be monitored closely during the coming year. The Treasurer also advised on the capital returns and income deriving from the investments.

In response to queries, the Treasurer advised the Committee that the terms of benefactions to the College determine the use to which the funds are put, noting that there is a very wide variation in the size of the individual Trust Funds held by the College. The Committee noted that the primary responsibility for the appropriate use of Trust Funds lies with the Heads of School and that the Treasurer's Office, through the financial advisors working with Schools, is in a position to advise and assist Schools in this regard if required.

The Treasurer also clarified a number of technical issues in relation to the financial statements in response to queries from Committee members.

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, following their consideration by the Finance Committee.

Action

The financial statements to be forwarded to Board for approval, following consideration by the Finance Committee.

AD/06-07/06 XXX Plan for Audit of 2005/2006 Accounts Ms Gallagher of KPMG invited the Committee's attention to a document, which had been circulated, outlining the approach they intend to take in their audit of the College's financial statements for 2005/2006, noting that the plan addressed both the Funding Statement accounts and accounts prepared in accordance with GAAP requirements. She noted that the plan is consistent with the approach outlined in KPMG's Form of Tender of 8 May 2006.

Ms Gallagher advised the Committee that key judgements and risk areas would be discussed with the Audit Committee on 21 November 2006 and that the audit findings would be presented to the Committee on 20 December 2006. She advised the Committee that observations and recommendations in respect of significant control and systems issues would be discussed with management and communicated to the Committee in KPMG's Management Letter. The Committee noted that this report would also address issues which have been raised in the previous year's Management Letter.

The Auditors invited the Committee's attention to the following key risk areas and the proposed audit approach associated with them:

- (i) Financial performance
- (ii) Pensions – funding deficit
- (iii) Fixed Term Workers Provision

- (iv) Research activities
- (v) College restructuring
- (vi) ARAM
- (vii) Provisions and contingent liabilities
- (viii) Capital projects
- (ix) Debtors
- (x) Taxation
- (xi) Preparation of consolidated financial statements
- (xii) Consolidated financial statements: FRS 17
- (xiii) Internal controls

The Auditors also invited the Committee's attention to other areas on which they would be reporting:

- (a) Corporate governance
- (b) Fraud
- (c) Compliance with laws and regulations
- (d) Transactions with related parties

Ms Gallagher advised the Committee that, as part of their review of the College as a going concern, the Auditors will present to the Audit Committee in December an analysis of the College's underlying financial trends based on previous years' audited data which will take out of the analysis once-off issues which could obscure the underlying trend. The Treasurer advised the Committee that if the Board agrees a budget which will result in a deficit it is obliged under Section 37 of the Universities Act to advise the HEA accordingly, noting that this had been done for 2005 and 2006 as a result of the liabilities arising from the implementation of the Protection of Employee (Fixed Term Work) Act. The Committee noted that Section 37 requires that a deficit in any one year has to be the first call on the subsequent year's recurrent grant.

In response to a query, the Treasurer advised the Committee that meeting the obligations under the Fixed Term Workers legislation has removed all financial flexibility from the College and that the College will face an increasing accumulated deficit if the HEA does not provide sufficient funding to meet the College's liabilities in this regard. She stated that the HEA Pension Group, of which the Secretary to the College is a member, is addressing this matter, as well as the situation within the College and other universities, in relation to their under-funded pensions, and the pension funding constraints imposed by the HEA on the sector. The Committee noted that no date has been set as to when proposals for a solution of these matters will be presented. Ms Gallagher, noting the constraints within which the College must operate in this regard, stated that the expected payments arising from the Fixed Term Workers Act will be reflected in the Balance Sheet for the year ended 30 September 2006 based on the best possible estimates of the liability, using the assumptions set out in the sectoral agreement of the IUA.

The Treasurer invited the Committee's attention to issues which have arisen in relation to SFI research grants which, if they remain unresolved, will have an impact on the College's financial statements.

In considering the requirement to produce both a Funding Statement and Consolidated Financial Statements according to GAAP, the Committee noted that it would be preferable if the Statutes could be amended to allow the Board to review both statements simultaneously. Ms Gallagher advised the Committee that until new financial systems are in place the preparation of the consolidated financial statements will be a largely manual exercise but noted that the employment of a part-time accountant will relieve some of the pressure in the Treasurer's Office. The Committee noted that the introduction of a new financial system had been subsumed into proposals for the College's e-strategy for which funding had been sought under the Strategic Innovation Fund.

In response to a query, Ms Gallagher advised the Committee that, if the College were not to conform to FRS 17 in accounting for pension liabilities, the Auditors would have to issue a qualified audit opinion. She noted that the outcome of the HEA Pensions Group's

deliberations and/or any unequivocal Government commitment in regard to it accepting responsibilities for pension liabilities would have an impact on their treatment in the financial statements.

In conclusion, Ms Gallagher invited the Committee's attention to the draft engagement letter. She indicated that there were no material differences in the content of the proposed letter with the current engagement letter.

Mr Taylor advised the Committee that a standard for the preparation of consolidated financial statements in the university sector in the UK was currently being revised which could, in time, provide a model for the Irish sector. In response to a query, he stated that new definitions of subsidiaries would not have any impact on the College's financial statements.

The Committee approved the work plan as presented by the Auditors and thanked Ms Gallagher and her colleagues, and the Treasurer and Deputy Treasurer, for their helpful and constructive contribution to the discussion.

The Treasurer, the Deputy Treasurer and Ms L Gallagher, Mr N Taylor and Mr B Prior withdrew from the meeting.

In discussing the likely financial outcome for the year, based on the range of funding issues raised by both KPMG and the Treasurer, the Committee expressed grave concern about the financial outlook for the College and agreed that this matter would be highlighted in the Committee's Annual Report to Board in December 2006.

The Committee, on behalf, of Board approved the audit fee as indicated in KPMG's Form of Tender.

Actions

- 6.1 The Committee noted and agreed the audit plan as presented.
- 6.2 The Committee approved the audit fee as presented in the KPMG Form of Tender.

AD/06-07/07 External member of Audit Committee Under Other Business, the Chairman advised the Committee that he had met the Provost in July to discuss the Committee's recommendations for an additional member of the Audit Committee. He noted that the Provost had agreed that the Chairman would actively seek a suitable nominee who would have extensive financial expertise, while not necessarily being an accountant, and who would also have experience of the broad range of issues which fall within remit of the Committee's terms of reference. The Committee noted that the Chairman had made some progress in this regard and that he hoped to make a proposal to the Provost, who if agreeable, would present the nomination to Board for approval in due course.

Action

Chairman to discuss proposed nominee with Provost

AD/06-07/08 Staffing of Internal Audit function Under Other Business, the Internal Auditor advised the Committee that the preferred candidate from the competition for post of Assistant Internal Auditor had accepted the position and was due to start on 9 October 2006.

AD/06-07/09 C&AG Client Survey Under Other Business, the Chairman advised the Committee that he had, on request, participated in a survey of C&AG clients which had been carried out by a consultancy company on behalf of the C&AG.

AD/06-07/10 Code of Practice Under Other Business, the Internal Auditor invited the Committee's attention to developments which had taken place in the preparation of a sectoral Code of Practice as required by the Department of Education and Science. The Committee noted that the Internal Auditor was participating, on an on-going basis, in meetings with the IUA and the HEA in relation to drafting of the Code and that it was anticipated that it would be finalised during November 2006. The Internal Auditor expressed satisfaction that it appears

that certain areas which had been of concern to the Committee will be adequately addressed in the final version but noted that there are some issues that remain under discussion and that not all the issues have been entirely resolved.

SECTION C – ITEMS FOR NOTING

AD/06-07/11 Meeting Schedule 2006/2007 The Committee noted the draft schedule for meetings as circulated.

AD/06-07/12 Audit Committee Annual Report to Board: Executive Officers’ response The Committee noted a memorandum from Executive Officers to Board outlining the status of the recommendations made by the Audit Committee in its report to Board in December 2005. The Committee, while noting the resource constraints identified in the memorandum, expressed disappointment that more progress had not been made in a number of areas and agreed that key open issues would be reported in its Annual Report to Board in December 2006.

Action

Review of status of previous recommendations to Board to be included in Annual Report to Board in December 2006.

AD/06-07/13 Implementation status of Board decisions – Principal Committees The Committee noted a memorandum from the Chairman to the Board, dated 22 June 2006, in relation to the implementation of Board’s decisions in relation to Principal Committees. The Committee also noted a memorandum from the Secretary to the College to the Committee in relation to decisions made by the Board on 5 July 2006 in relation to Principal Committees.

AD/06-07/14 Consolidated Financial Statements for year ended 30 September 2005 The Committee noted the minute of a discussion at the Finance Committee on 21 June 2006 on the Consolidated Financial Statements for year ended 30 September 2005.

Signed:

Date: