

The University of Dublin

Trinity College

Minutes of Audit Committee, Tuesday 2 October 2007

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

(ex officio) Internal Auditor, Assistant Secretary

Apologies

The Treasurer, the Deputy Treasurer, the Financial Resources Manager and Ms L Gallagher, Mr B Prior and Mr C Moran from KPMG attended for minutes AD/07-08/16 and AD/07-08/17

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

AD/07-08/13 Minutes The Minutes of the meetings held on 18 September 2007 were approved and signed.

AD/07-08/14 Call-over The Committee noted the actions which had been implemented since the previous meeting and those which remained out-standing.

AD/07-08/15 Charter for Internal Audit (see minute AD/06-07/52 of 18 April 2007) The Committee agreed that the Charter for Internal Audit would be presented to Board as an attachment to the minutes of the meeting.

Action

The secretary to forward the Charter to Board with the minutes of the meeting.

SECTION A – POLICY ISSUES

AD/07-08/16 Plan for Audit of 2006/2007 Funding Statements Ms Gallagher of KPMG invited the **XXX** Committee's attention to a document, which had been circulated, outlining the approach they intend to take in their audit of the College's Funding Statements for 2006/2007. She noted that the plan is consistent with the approach outlined in KPMG's Form of Tender of 8 May 2006 and that they will also conduct the audit of Ghala Ltd. at this time.

Ms Gallagher advised the Committee that key judgements and risk areas would be discussed with the Audit Committee on 27 November 2007 and that the audit findings would be presented to the Committee on 10 January 2008. She also 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 it was hoped to audit the Consolidated Financial Statements for 2006/2007 and report accordingly to Board in the period May-July 2008.

Ms Gallagher invited the Committee's attention to the implications for the audit process arising from the HEA's 'Governance of Irish Universities' which had been accepted by the Board in April 2007. The Committee noted that this Code of Governance requires the Board, *inter alia*, to include a Compliance Statement with the audited Consolidated Financial Statements for 2006/2007. This Statement should address the key procedures in place during

2006/2007 to provide an effective internal control environment, including a description of the risk management process. The Statement should also confirm that there had been a review of the effectiveness of the system of internal control as well as providing details of material internal control weaknesses and the corrective action being put in place to address them. It was noted that KPMG, as External Auditors, will be required to comment on this Statement in their audit report. Ms Gallagher advised the Committee that as the system of internal controls refers to both financial and non-financial matters it is likely that compliance with the Code will require significant additional work on the part of the College.

The Internal Auditor advised the Committee that when a similar code was introduced in the UK there was a three-year transition period before universities were expected to be fully compliant. The Treasurer noted that the IUA Finance Officers Group was reviewing Compliance Statements used by comparable universities in the UK and stated that any relevant information would be made available to KPMG and the Internal Auditor.

The Committee noted the approach which KPMG intends to adopt in relation to internal controls and their proposed assessment of the Internal Audit function in order to determine the extent to which the External Auditors can rely on its work. Ms Gallagher stated that KPMG will involve its information risk management specialists at an early stage to update their understanding of the IT control environment. The Committee noted that KPMG also intends to review the implementation of the Student Administration System.

Ms Gallagher advised the Committee that the audit would address the College's compliance with the governance aspects of the Code, the role of the Audit Committee and Internal Audit, as well as the progress made by the College in embedding risk management throughout the organisation.

The Committee noted comments in a tabled letter from the C&AG's Deputy Director of Audit, dated 1 October 2007, on the potential difficulties in preparing Compliance Statements and the importance which the C&AG is placing on this Statement in the context of its audit. The Committee agreed that the College's management and KPMG should engage with the C&AG in the drafting of the annual Compliance Statement, along the lines proposed by Mr McGrattan.

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) Fixed Term Workers Provision
- (iii) Research activities including the treatment of overheads
- (iv) Pensions funding deficit and FRS 17
- (v) Capital projects
- (vi) College restructuring, and the impact of new structures on the control environment
- (vii) Provisions and contingent liabilities including a review of Schools' internal financial balances and their plans in this regard
- (viii) Debtors
- (ix) Taxation

In response to queries, the Treasurer advised the Committee that it is expected that there will be a Government decision over the coming weeks in relation to the future of the sector's pension arrangements. She noted that, while this decision will be welcome, it will be at a high level and there will be a need for detailed discussions with relevant groups, in particular Trustees of existing Pension Schemes, on the implementation of any future arrangements. She also stated that it is likely that the implementation phase will place an additional administrative burden on the College. The Committee noted that, until there is agreement on the College's future pension arrangements, the College will continue to make financial provision for pension liabilities, noting that the implementation of the Fixed Term Workers Act (FTWA) has had a very significant impact on the College's finances in this regard. The Treasurer advised the Committee that had the College not been required to divert funds away from investment in strategic initiatives to meet the FTWA pension liabilities, the College

would now be in a stronger position both financially and in relation to the implementation of its Strategic Plan.

In the course of a discussion on the implications of the FTWA and the current deficit on the pension scheme, the Committee stated that, in its opinion, any future Government funding in respect of pensions should not be at the expense of the College's core grant. It recommended that the Treasurer and other College Officers should do all they could to ensure that pension funds and the College's core grant would be funded as transparent, separate income streams from the Government.

In response to a query on the deficit on the capital development programme, the Treasurer advised the Committee that some funds had become available from the Supplementary Grant allocated to the College in 2006 which had been used to ameliorate this deficit. The Committee noted, with some concern, the impact which the lack of funds for on-going maintenance is having on the College's buildings and infrastructure.

Welcoming KPMG's proposed review of the internal financial balances in Schools, the Committee agreed that while such funds should not be accumulated unnecessarily, there can be occasions where it is appropriate for Schools to hold funds in reserve to spend in a planned manner to achieve their objectives. The Deputy Treasurer advised the Committee that the Finance Committee monitors the balances held on School accounts as part of its quarterly reviews of the College's finances.

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

- (a) Fraud risks
- (b) Compliance with laws and regulations
- (c) 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 January 2008 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 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 Committee, on behalf, of Board confirmed the audit fee as had been indicated in KPMG's Form of Tender.

SECTION B – IMPLEMENTATION ISSUES

AD/07/08/17 Correspondence with the Comptroller & Auditor General (C&AG) The secretary invited the Committee's attention to the following correspondence which had been circulated:

- (i) letter from Seamus McGrattan C&AG's Deputy Director of Audit and Letter of Engagement, dated 10 September 2007 to the Chairman;
- (ii) letter to Director of Audit, C&AG, dated 21 September 2007 from secretary to the Audit Committee;

and

- (iii) letter from Seamus McGrattan, dated 1 October 2007, which had been tabled.

The Committee, noting the C&AG's agreement to work within the College's time-table for the 2006/2007 audit, welcomed the progress which had been made in developing procedures for on-going interaction with the C&AG.

In reviewing the letter from Mr McGrattan dated 1 October 2007, the Committee noted his preference for a six-month deadline for the submission of audited Consolidated Financial Statements, as is the requirement for State Bodies. The Treasurer advised the Committee that this matter was discussed when the *Governance of Irish Universities* was being drafted at which time it was agreed that universities would not be required to conform to such a strict deadline. It was noted that many individual institutions are still operating manual financial systems when preparing the consolidated financial statements and that there will be greater potential to complete this audit closer to the year-end when these systems will be automated.

The Committee noted Mr McGrattan's suggestion that the C&AG should attend the audit closing meeting between the External Auditors and the Treasurer. It expressed concern that the relationships between the Board-appointed auditors and the College, and between the College and the C&AG, could be compromised by the attendance of both sets of auditors at this closing meeting. The Committee recommended that the C&AG should be facilitated in discussing with the External Auditors, and with the Treasurer, issues raised in the External Auditors' report to the Audit Committee in sufficient time for C&AG to convey its views to the Committee in advance of the appropriate Committee meeting.

The Committee agreed that KPMG's audit papers would be released to C&AG as soon as the Board had approved the audited accounts and the accounts had been signed.

Action

The secretary to write to Mr McGrattan advising of the Committee's response to the issues raised in his letter of 1 October 2007.

SECTION C – ITEMS FOR NOTING

AD/07-08/18 Treasurer's Office The Committee noted, with regret, the Chairman's announcement that the Treasurer had tendered her resignation from College with effect from 30 November 2007. The Committee paid tribute to the very significant contribution which the Treasurer has made, both to the strategic development of the College and to its financial management, during her ten years in the post. Notwithstanding the very professional holding arrangements which will be put in place following Ms Dempsey's departure, the Committee, noting the key role which a Treasurer plays in the management of the College, identified a potential risk to the College by leaving the position vacant for any period of time. It was agreed that the secretary would write to the Secretary to the College seeking clarification as to the expected timescale for filling this key vacancy.

In the course of this discussion, the Committee requested access to the documents presented to Board outlining the role of the Chief Operating Officer.

Action

- 18.1 The secretary to write to the Secretary to the College requesting a time-table for the recruitment of a Treasurer to replace Ms Dempsey.
- 18.2 The secretary to send documents in relation to the Chief Operating Officer to the Committee members.

AD/07-08/19 Circulation of Audit Committee papers The Committee requested that, in view of the wide remit of the Code of Governance and the Audit Committee's role in monitoring the College's compliance with its requirements, the Audit Committee's agenda and minutes would, in future, be circulated for information to Executive Officers.

Action

The secretary to include Executive Officers on the mailing list for the agenda and minutes of Audit Committee meetings.

Signed:

Date:

CHARTER FOR INTERNAL AUDIT

1. College Governance

- 1.1. Ultimately, the Board has overall responsibility for ensuring that there are effective systems of control in operation throughout the College; that College complies with all applicable laws and regulations; and that the systems of control ensure the integrity and reliability of external financial reporting. This responsibility is reinforced by the requirement in the Code of Governance for Universities to make annual statements of assurance on internal control and related governance matters.
- 1.2. Heads of function, as co-ordinated through the Principal Committees and Executive Officers' Group, are responsible for the establishment, operation and monitoring of appropriate systems of control.
- 1.3. The College aspires to best practice in governance and in this regard Internal Audit has an important role to play in providing an independent appraisal of the governance and control environment. Board consideration of the financial statements and any statements it may make on governance, internal control or responsibilities in its reporting are informed and supported by the regular reporting of Officers; Principal Committees; Staff; the risk assessment process; and by the Audit Committee and the work carried out by Internal Audit.
- 1.4. Internal Audit is responsible for providing an independent, objective and impartial appraisal of the activities of the university so as to make an assessment of the effectiveness of the systems of governance, risk management, controls and of compliance.

2. Mission of Internal Audit

- 2.1. The general aim of Internal Audit is to help the Audit Committee fulfil its terms of reference so that the College may be supported in accomplishing its objectives and the Board and Officers informed on systems and compliance issues in making judgements and decisions. To achieve this, Internal Audit will carry out reviews independently and report thereon to the Audit Committee.

3. Scope

- 3.1. All the university's activities, funded from whatever source, fall within the remit of Internal Audit, the scope of which is not confined solely to financial matters. Internal Audit may consider any activities, the effectiveness of governance processes, risk assessment; risk management, internal controls, and compliance in all areas, including subsidiary or associated undertakings controlled by the College.
- 3.2. Internal Audit will normally carry out work to a plan agreed by the Audit Committee and advised to the Board. However, it may also conduct any special reviews requested by the Board, the Provost or the Audit Committee provided such reviews do not compromise its objectivity or independence or achievement of the approved audit plan.

4. Authority and Access

- 4.1. Internal Audit derives its authority from the Board through the Audit Committee.
- 4.2. Internal Audit has right of access to, or enquiry into, all of the university's records, information and assets which it considers necessary to fulfil its responsibilities, including access to other bodies or undertakings controlled or funded by the university, or in which it participates or is associated.
- 4.3. The Internal Auditor shall have direct access to the Chair of the Audit Committee and to the Provost in the performance of professional duties. The Internal Auditor shall have access to the Board, normally through the Audit Committee.

- 4.4. Internal Audit shall be afforded the full co-operation of all employees and agents of the university in carrying out professional duties.

5. Independence and Objectivity

- 5.1. Internal Audit has no executive role or authority and has no operating responsibilities. It will remain independent of the activities being examined. Internal Audit is not part of the systems of governance, internal controls, risk management or compliance but, rather is an independent appraisal function, which seeks to objectively and impartially review and report on those areas.
- 5.2. However, if deemed appropriate by the Audit Committee, its remit may extend to systems being developed and it may provide advice on control and related matters arising, provided such work does not prejudice its independence or its right to subsequently audit such systems.
- 5.3. It is the duty of the Internal Auditor to report fully, fairly and impartially and to take the steps necessary to ensure that the Audit Committee, the Provost and Board are fully informed of all significant matters arising in the conduct of the work.

6. Standards

- 6.1. Internal Audit shall carry out its work with due professional care having regard to appropriate professional auditing practice as contained in Auditing Standards published by the Auditing Practices Board and by the Institute of Internal Auditors.

7. Approach to work

- 7.1. The Internal Auditor shall develop an overall audit strategy taking account, *inter alia*, of available resources, the College's risk assessment process, knowledge of the College, work of external auditors and own assessment of risks. The Internal Auditor shall draw to the Audit Committee's attention any limitations placed on the scope of work by lack of resources or other factors.
- 7.2. The Internal Auditor, adopting a risk based approach and exercising professional judgement, shall prepare periodic audit plans proposing areas for audit work, which shall be submitted to the Audit Committee for approval. The plan should encompass steps to appraise the effectiveness of governance processes, risk assessment; risk management, internal controls, and compliance in all areas, including subsidiary or associated undertakings controlled by the College.

8. Reporting and Relationships

- 8.1. The Internal Auditor shall normally advise those responsible for areas being reviewed of the purpose, timing and scope of work to be undertaken; and in due course inform them of the outcome of that work. The Internal Auditor shall have regard to their observations when planning the work, forming opinions and compiling reports. However, this shall not be construed or applied to hinder the work, or limit the scope of the work or reporting, of Internal Audit.
- 8.2. The Internal Auditor shall report to the Audit Committee at regular intervals during the year on the results of audit work undertaken. The Internal Auditor, in consultation with the Audit Committee, shall prepare an annual report on behalf of the Committee that summarises the results of the significant audit activities and provides an overview of the year for consideration by Board. The report shall make clear the extent of the work carried out and review the adequacy of the resources available to Internal Audit. It shall also contain the opinion of the Internal Auditor on the effectiveness of the systems of internal control and the extent to which Board can rely upon them.

The Internal Auditor shall liaise with the external auditors engaged on audits of the financial statements. The Internal Auditor may also liaise with other auditors.