

The University of Dublin

Trinity College

Minutes of Audit Committee, Tuesday 27 November 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

In attendance: Mr B McGee, Internal Audit

Apologies

The Treasurer, the Deputy Treasurer and Ms L Gallagher and Mr C Moran from KPMG attended for minute AD/07-08/27.

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

The Chairman welcomed Mr McGee from Internal Audit who was in attendance.

AD/07-08/20 Minutes The Minutes of the meeting held on 2 October 2007 were approved and signed.

AD/07-08/21 Call-over The Committee noted the actions which had been implemented since the previous meeting and those which remained out-standing.

SECTION A - POLICY ISSUES

AD/07-08/22 Consideration of Draft Annual Report to Board The Chairman, introducing the **XXX** topic, invited the Committee's attention to a memorandum, which had been circulated, from the Internal Auditor together with the draft Annual Report, the final version of which will be considered by Board at its meeting on 11 December 2007. The Committee noted that, while the document must be a report of record, it should also invite Board's attention to the key strategic issues facing the College and the Audit Committee's recommendations in relation to same.

In the course of a detailed discussion on the proposed format of the report, the Committee agreed that as the strategic issues identified in the previous year's report were still relevant to the College and they should be re-presented in this year's report, with a report on progress made during the year.

The Committee, expressing concern at the lack of response on the issues raised in 2006, agreed that the Internal Auditor would prepare an interim progress report on the issues raised in the 2007 Report for consideration by Board in Trinity Term 2008.

Following a brief discussion on the content of the draft Annual Report it was agreed that the Internal Auditor would complete the report taking account of the issues raised and that it would be circulated to the Committee Members for

comment prior to its circulation to Board.

Action

The Internal Auditor to complete the report and circulate it to the Committee Members for comment.

AD/07-08/23 Committee self-evaluation The Chairman invited the Committee's attention to the report on the self-evaluation of the Committee and he thanked all committee members and the Internal Auditor and the secretary for their participation. In view of a number of the issues raised it was agreed to defer detailed consideration of this matter until the next meeting.

Action

The Committee self-evaluation to be placed on the agenda for the next meeting.

AD/07-08/24 Management of Information Technology Projects The Committee noted the report on the management of information technology projects which had been circulated and agreed that it would receive detailed consideration at a future meeting. The Committee also agreed that comments on the report would be sent by email to the Internal Auditor:

Actions

- 24.1 The Committee to send comments on the report to the Internal Auditor
- 24.2 The report to be placed on the agenda for a future meeting

AD/07/08/25 Code of Practice - Approach to Opinion on Internal Control Introducing the topic, the Internal Auditor invited the Committee's attention to a document which had been circulated, and advised the Committee that Part 2 of the Code of Practice requires the Board to attest annually that a review of the effectiveness of internal controls has been carried out. In accordance with the Committee's Terms of Reference, the Committee will seek to give support to Board in discharging that function. The Internal Auditor outlined auditing tools and practices which are in common usage by the auditing profession to assess and advise on internal controls, noting the opportunities and limitations offered by any institution's risk management process. In particular, he invited attention to the different types of opinion which can be offered in relation to internal controls, ranging from negative assurance to positive assurance with variations on those. Negative assurance indicates that, having carried out certain work, nothing came to attention that indicates that controls are not working. Positive assurance requires the highest level of evidence and implies that, not only were the controls adequate, but that sufficient work had been carried out to confirm this to be the case. The Committee noted that a key difficulty with positive assurance is that it places an onus on the auditor to understand the full spectrum of issues across an entire organisation and to assess what is important and needs to be tested. (The Committee noted that a recent Institute of Internal Auditors survey indicated that moving from piecemeal audits to giving an overall opinion on an organisation is an enormous challenge and that 60% of organisations are not provided with an overall opinion on internal controls by internal audit.)

XXX

The Committee noted that while the choice of approach is, to a large extent, determined by the resources available to internal audit functions, it is not the complete answer as the scope of the work is virtually endless and staffing alone would never solve the problem.

The Internal Auditor invited the Committee's attention to proposals for fulfilling the Committee's duty to Board on this, noting that the College's risk management

system is not yet sufficiently developed or reliable to be a cornerstone for the audit approach as had been intended.

In considering the issues raised, the Committee discussed potential opportunities for a sectoral approach to the Statement of Internal Control in the context of which the Internal Auditor invited its attention to correspondence from the IUA Finance Officers Group to the Secretaries Group detailing working drafts of such statements. The Committee emphasised the need for a common sectoral approach to this matter given the potential for 'apparent' discrepancies between institutions due mainly to their approach to reviewing the full spectrum of internal controls.

On the basis of the Internal Auditor's proposals, the Committee agreed that, for the foreseeable future, it is probable that opinions on internal controls will of necessity tend towards giving negative assurance with the objective of moving towards positive assurance over time. The Committee also agreed that, in order to partly address the current staffing deficit in the Internal Audit function, the non-pay budget originally intended to fund special project consultancies would be used to fund a temporary two-year contract post to work on internal control reviews. The Committee noted that consideration would have to be given to the long-term resourcing of the Internal Audit function in due course.

The Committee also agreed that the views of the External Auditors would be sought on the proposed approach.

Actions

- 25.1 The Internal Auditor to discuss the proposed approach to providing opinions on internal control with the External Auditors
- 25.2 The secretary to progress the recruitment of a temporary internal auditor to work on internal control matters

AD/07-08/26 Circulation of Board papers to Audit Committee Under Other Business it was agreed that the agenda and minutes for Board meetings would be circulated for information to Committee members.

Action

The secretary to include Board agenda and minutes with the papers for future Audit Committee meetings

SECTION B - IMPLEMENTATION ISSUES

AD/07/08/27 Key judgements and provisioning planned for the audit of the 2006-2007 Funding Statements XXX 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 2006-2007.

The Treasurer, noting that the expected outturn for the year will be a deficit of €2.2m, advised the Committee that the Accounting Policies being applied in the preparation of the Funding Statements for 2006-2007 would be the same as those in the previous year and that the format of the Funding Statements had been approved by the HEA on 9 October 2007.

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

issues:

- (i) Fixed Term Workers Act 2003
- (ii) Supplementary Grant for 2007
- (iii) Information Communications Technology (ICT) Capital provision
- (iv) Restructuring
- (v) General Research Bad debt provision
- (vi) Legal Provision

The Treasurer also advised the Committee that the Funding Statements would be accompanied by a memorandum highlighting the significant issues associated with the Statements and would include, where reliable College-level data permitted, a ten-year trend analysis.

In the course of a discussion on each issue, the Treasurer and Ms Gallagher, from KPMG, present by invitation, clarified technical queries. In the course of a detailed discussion on the provision being made to allocate funds to remove the capital deficit associated with the ICT initiative introduced by the Government in 1999, the Treasurer and the Deputy Treasurer invited the Committee's attention to the funding context in which that decision had been made, noting that, in their view, it was opportune to address this deficit at this time. This was noted by the Committee.

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

Following further debate the key judgements and key provisioning as detailed by the Treasurer were noted and agreed by the Committee.

As this was the last meeting which would be attended by the Treasurer prior to her departure from College on 30 November 2007, the Chairman, on behalf of the Committee, expressed his thanks for the significant contribution which the Treasurer had made to the work of the Committee and wished her well in the next phase of her career.

AD/07-08/28 Reports from the Internal Auditor The Chairman invited the Committee's attention to a number of reports prepared by the Internal Audit Function, noting that, had the function not been asked to undertake the major review of the Student Administration System earlier in the year, these reports would have been presented to the Committee in a more timely fashion.

XXX

Mr McGee invited the Committee's attention to the following three audit reports which addressed issues of internal control:

1. Review of the Casual Payroll
2. Review of Monthly and Weekly Payrolls
3. Review of Outside Earnings by Academic Staff

1. *Review of the Casual Payroll*

The Committee noted that the Casual Payroll accounts for approximately €3 million per annum of the College's total pay costs of €172 million and that the processing of claim forms received from functional areas is carried out by the Wages and Salaries Office, further noting that the Staff Office has no involvement in the administration of this payroll. Mr McGee invited the Committee's attention to the objectives of the audit and to the conclusion that, apart from two identified issues, the control objectives of the system are met effectively.

The Committee noted the contents of the report and agreed that it should be sent to the Secretary to the College with a recommendation that the relevant

functional areas review the areas of concern and develop proposals to address the identified control weaknesses.

2. *Review of Monthly and Weekly Payrolls*

The Committee noted that the monthly and weekly payrolls account for almost 72% of the College's total expenditure and that the processing of the payroll is carried out by the Staff Office and the Treasurer's Office. Mr McGee invited the Committee's attention to the objectives of the audit and to the overall conclusion that there are strong effective controls in place to meet the selected control objectives and that a high degree of reliance may be placed on the integrity of the payrolls and of the data produced.

The Committee, welcoming the report's conclusion, noted a number of issues which had been identified in the course of the audit.

The Committee agreed that the report should be sent to the Secretary to the College with a recommendation that the relevant functional areas give consideration to the implementation of the report's findings.

3. *Review of Outside Earnings of Academic Staff*

The Committee noted that the College policy 'Regulations on Outside Earnings' governs procedures for academic staff in receipt of remuneration for activities undertaken outside College. Mr McGee invited the Committee's attention to the terms of the policy and the implementation procedures used and the objectives of the audit. The Committee, noting the report's findings also noted its conclusions that:

- (a) the policy 'Regulations on Outside Earnings' does not adequately address the potential issues that are associated with staff undertaking external paid work;
- (b) procedures are being applied primarily to enable the provision of professional indemnity insurance cover, rather than to exercise control over the undertaking of such activities;
- (c) the procedures do not provide evidence of effective control that academic benefits accrue to the College from external work undertaken by members of staff.

In discussing the issues raised, Mr McGee also invited the Committee's attention to a number of management issues which had become evident in the course of the audit.

The Committee, noting the importance of academic freedom and the importance which involvement with external agencies can be to the achievement of the College's objectives, agreed that the report's audit findings should be sent to the Secretary to the College with a recommendation that the relevant areas in College develop more appropriate procedures to ensure the full implementation of the College's policy on outside earnings.

4. *Review of the application of the Policy on Inter-Institutional Arrangements*

The Internal Auditor invited the Committee's attention to a review of the application of the Board's policy on Inter-Institutional Arrangements. He invited the Committee's attention to the policy's requirements, noting, in particular, the need to provide Board with a completed checklist addressing the application of the policy when approval is being sought for the establishment of separate legal entities.

The Committee noted that two entities (the National Digital Research Centre Ltd. (NDRC) and the National Institute for Bioprocessing Research and Training Ltd. (NIBRT)) had been approved by Board since the introduction of the policy. The

Internal Auditor advised the Committee that the Board had been informed that the checklist had not been available when the establishment of NIBRT had been approved by Board but that assurance had been given that the final documentation had been reviewed according to checklist criteria. The Committee noted that, as a result of this the Internal Auditor's review had been conducted on the basis of one single venture which had emerged since the introduction of the checklist.

The Internal Auditor invited the Committee's attention to the conclusion that, while a completed checklist had been presented to Board when approval for the establishment of NDRC was being sought, the level of detailed information provided was not considered to be in keeping with the intention of the policy. The Committee was advised by Dr O'Donovan, a member of Board, that he believed that the provision of a checklist to accompany the proposal to Board to establish the NDRC had been an improvement on previous practices. It was agreed however that the information provided should have been more specific and presented in the manner envisaged by the checklist and that, in future, the information should be compiled and presented to Board fully in accordance with the policy so as to allow Board make informed decisions in relation to such proposals.

The Committee agreed that the findings of the report with the Committee's assessment of the achievements to date would be sent to the Secretary to the College and the Dean of Research.

5. Risk Management - Update on Status and Effectiveness

The Internal Auditor invited the Committee's attention to a memorandum, dated 19 November 2007, and an accompanying report on the status of the College's High Level Risk Register. He advised the Committee that the High Level Risk Register considered by Board in January 2007 remains incomplete and the apparent gap between the high level risks and the College's risk appetite, identified at that time, remains unresolved. The Committee also noted that there has been little, if any progress in embedding a structured system of risk management into the normal management and decision-making processes, names and dates for actions not identified and that academic risks have not been reviewed for over eighteen months.

In the course of a discussion, the Committee, noting the linkages between the achievement of strategic objectives and the management of the associated risks, also noted the additional administrative support required to effectively record and manage risk College-wide.

The Committee agreed that its concerns in relation to the College's approach to risk management would be summarised in its Annual Report to Board and would be dealt with at the Board meeting on 23 January 2008 following consideration of the matter at the next Audit Committee meeting when the proposed updated risk register would be available.

6. Disaster Recover Testing

The Internal Auditor invited the Committee's attention to a memorandum, dated 19 November 2007, which had been circulated. He advised the Committee that since the matter had been discussed previously (minute AD/07-08/05 of 18 September 2007 refers) IS Services had provided a status report on disaster recovery testing. The Committee noted that, due a shortage of resources within IS Services, it will not be possible to perform tests on all systems and servers within an acceptable timescale and that a testing programme for five key College systems was being developed and would be rolled-out during the current academic year.

The Committee, noting that the maintenance of IT security is a management function, agreed that the secretary would write to the Secretary to the College recommending that IS Services be asked to assess the degree of risk associated with individual servers and to prioritise those risks and consider whether it warrants allocation from its own resources to manage that risk to an acceptable level. The Committee agreed that, if the risk still remains unacceptable and resources are fully allocated to higher-ranking priorities, then the matter should be raised by IS Services with Executive Officers for assessment in the context of the College's overall risk profile.

Actions

- 28.1 Secretary to send a copy of the Report on the Casual Payroll to the Secretary to the College with a recommendation that identified control weaknesses should be addressed.
- 28.2 Secretary to send a copy of Report on the Monthly and Weekly Payrolls to the Secretary to the College with a recommendation that the relevant functional areas give consideration to the implementation of the report's findings.
- 28.3 Secretary to send the audit findings in relation to outside earnings to the Secretary to the College with a recommendation that procedures be developed to ensure the full implementation of the College's policy on outside earnings.
- 28.4 The Committee agreed that the findings of the report and the achievements to date would be sent to the Secretary to the College and the Dean of Research.
- 28.5 The Internal Auditor to include reference to the conclusions of the review of risk management in the Committee's Annual Report to Board.
- 28.6 Secretary to write to the Secretary to the College recommending that IS Services prioritise IT security risks associated with Disaster Recovery testing and the resources required to minimise those risks.

SECTION C - ITEMS FOR NOTING

AD/07-08/29 Correspondence with C&AG The Committee noted the letter from the secretary to Mr Seamus McGrattan, dated 15 October 2007, which had been circulated, noting that to date no reply had been received.

AD/07-08/30 Appointment of Treasurer The Committee noting the correspondence between the secretary and the Secretary to the College, noted the expected time-scale for the replacement of the Treasurer.

AD/07-08/31 C&AG Audit Report The Board noted the C&AG Audit Report for the year ended 30 September 2005 which had been circulated and which advised that there were no points arising from the audit that warranted the issuing of a Management Letter.

Signed:

Date: