

**The University of Dublin**

**Trinity College**

**Minutes of Audit Committee, Wednesday 15 October 2008**

*Present* Mr T Forsyth (Chairman), Mr J Collins, Professor B McGing, Professor J O'Hagan, Professor J McGilp, Mr P O'Reilly

*(ex officio)* Internal Auditor, College Secretary (Acting)

*Apologies*

The Treasurer (Acting), the Financial Resources Manager and Ms L Gallagher, Mr R Hobson and Mr C Moran from KPMG attended for minutes AD/08-09/04, AD/08-09/05 and AD/08-09/06.

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

**AD/08-09/01 Minutes** The Minutes of the meeting held on 19 May 2008 were approved and signed.

**AD/08-09/02 Call-over** The Committee noted the actions which had been implemented since the previous meeting and those which remained out-standing.

**AD/08-09/03 Composition of Committee and administrative arrangements** The Chairman, welcoming new members Professor John McGilp as Board representative replacing the retired Dr Donal O'Donovan and Mr Pat O'Reilly as an additional external member, noted the Board decisions that the Internal Auditor would act as secretary to the Committee, that the College Secretary (Acting) would be in attendance at meetings in future. He also advised that he would be retiring from the Committee and its Chair at the end of the calendar year and that Mr J Collins would take over the Chair.

**SECTION A – POLICY ISSUES**

**AD/08-09/04 XXX Plan for Audit of 2007/2008 Financial Statements** 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 audits of the College's Funding Statements and the Consolidated GAAP Accounts for 2007/2008 subject to the input of the Committee. Introducing the document, she noted that after completing the planning stage there will be three further distinct phases to the approach: examining before the year end the key internal controls in the Treasurer's Office, Schools and Research areas; substantive testing; and completion procedures. She noted that the extent to which reliance can be placed on the work of Internal Audit by the External Auditors will be considered and that key personnel will be consulted to identify as early as possible any significant issues emerging, even if not yet impacting the financial statements. She also advised that KPMG will be relying on external consultants to advise on pension issues and on their internal consultants to advise on IT and tax issues. The work on IT will include an assessment and rating of the status of IT in College, consideration of e-strategy and SIS and will include specific work on key systems such as CODA on which they rely. Noting the timetable for the various stages of the audit, which is consistent with previous years and the College's requirements, she then drew the Committee's attention to the key risk factors and the proposed audit approach associated with them as follows:-

- (i) Financial Performance
- (ii) Code of Governance and Statement on Internal Controls
- (iii) FRS 17
- (iv) Capital Projects
- (v) Provisions
- (vi) Provision for fixed term workers liability

- (vii) Accounting for research projects
- (viii) Preparation process for the Consolidated GAAP Accounts
- (ix) Debtors
- (x) Taxation

Discussing the issues raised, the Committee noted the advice of the Treasurer (Acting) that breakeven is anticipated for the year against a budgeted deficit of €3 million. He indicated that this is primarily due to lower than anticipated expenditure and the maximising of bank interest income. Ms Gallagher advised that as in previous years the Auditors will report to the Committee on the underlying trends by isolating one-off items of income or expenditure.

She also advised that the Auditors, having noted the adoption of a College Code of Governance based on the HEA/IUA Code, will review progress achieved in this area which is in transition and which involves College in significant work. Specifically, they will review the Board's Statement on Internal Control, or any other such statements included with the Consolidated GAAP Accounts, to assess whether they are consistent with the knowledge and information available to the Auditors from their other work and will report accordingly.

At the invitation of the Chairman, the Internal Auditor outlined the timing of the main developments to-date leading up to full compliance with the Code. The Internal Auditor advised the Committee that the HEA/IUA Working Group had agreed that individual institutions would finalise their own Codes to reflect local issues, having due regard to the principles of the HEA/IUA Code. He reminded the Committee that the original HEA/IUA Code, issued in February 2007, was adopted by Board in April 2007, following which a Working Group was established by Board to adapt the Code's provisions to College's circumstances. This work is reflected in the College Code, which was finalised by the Working Group and approved by Board in June 2008. It also was agreed by the HEA/IUA Working Group, in which he had participated, that a Governance Statement, incorporating a Statement on Internal Control, would be included in the published Consolidated GAAP Accounts, commencing with 2006/07 and, that as the HEA/IUA Code was only approved half way through that year, a transition period of at least three years was envisaged to allow for full implementation to take place. He advised that in the current academic year, 2008/09, the College should ideally be aiming to have fully implemented the Code and be in full compliance.

Ms Gallagher advised that the effect FRS17, which only applies to the Consolidated GAAP Accounts, depends on the outcome of the discussions that are continuing with Government in relation to the future arrangements for the sector's pension schemes. In response to a query, the Treasurer (Acting) indicated that the Trustees of the Pension Fund had recently decided, on the advice of the Actuary, to defer the triennial actuarial valuation pending the outcome of the government's decisions in this regard. The Committee requested that it be advised if such a deferral is permitted by the Pension Board.

#### Action

- 4.1 The secretary to liaise with the Treasurer (Acting) and to report the position of the Pensions Board in relation to the planned deferral of the actuarial valuation to the Committee.

Ms Gallagher clarified a number of technical issues in relation to any future deficits on Capital Projects.

She also invited the Committee's attention to decisions which had been made by the College on the provision for fixed term workers (FTW) and outlined the audit approach which would be adopted for this matter. Noting that the current discussions on the future arrangements for the sector's pension schemes could impact on the College's liability for the pensions of fixed term workers, the Treasurer (Acting) advised that the College, unlike a number of other universities, had taken a prudent approach to the management of its finances and had decided to provide out of its existing funding for a potential liability for FTW. He stated that assuming College will not ultimately have to fund this pension liability, it is the intention of College to identify where the remaining funds should best be spent to seek to recover from the effects of decisions made in the past to defer investment which had resulted in serious underfunding in

certain areas. The Committee endorsed this plan, noting that it is its hope that the College would not be penalised in the future for the prudent management it had shown in regard to this matter to date.

Ms Gallagher noted that the audit would also examine Schools' spending plans, the control environment in the research area and the main taxation issues which arise on Ghala Limited. In the course of her presentation, she expressed concern at the high level of manual input required to produce the Consolidated GAAP Accounts.

In response to queries, the Auditors agreed that certain trends and ratios could be highlighted against benchmarks previously put in place by College. In the course of a discussion several issues of a broad financial nature were raised by the Committee which, it was agreed, while they may not be directly applicable to the audit are of sufficient importance that they should be considered at a future Committee meeting. The Auditors also advised, that as they are responsible for issuing an overall opinion on the financial statements, they ensure that they cover all relevant areas of significance in drawing up their audit plan.

In response to a query, the secretary confirmed that no comments had been received from the Office of the C&AG on the proposed KPMG audit plan that had been circulated to them. The Committee approving the work plan as presented by the Auditors, thanked Ms Gallagher and her colleagues, and the Treasurer (Acting) and Financial Resources Manager for their helpful and constructive contribution to the discussion.

Action

4.2 The secretary to make provision in a future agenda to facilitate consideration of issues of broader concern which had been raised.

**SECTION B – IMPLEMENTATION ISSUES**

**AD/08-09/05  
XXX**

**Consideration of Audited Trust Funds (Benefactions) Financial Statements 2007/08**

The Treasurer (Acting) invited the Committee's attention to the Trust Funds (Benefactions) Financial Statements for the year ended 30 June 2008, which had been circulated along with Finance Committee minute FN/08-09/04, a draft letter of representation and a letter from KPMG to Board which stated that there were no items to be brought to the attention of Board. Noting that the format has been enhanced this year, with additional notes and charts, the Treasurer (Acting) drew the Committee's attention to the Treasurer's Report and highlighted issues in relation to the investment and governance aspects, noting in particular the key requirement that the funds continue to provide support to specific College activities in perpetuity. He also emphasised the role of Faculties and Schools in ensuring continuous monitoring of individual funds' balances and their use for their intended purposes as well as the role of the Investment Committee in managing the funds. Outlining the aims of the College's investment policy, he advised that transition of funds to a new asset class will be completed over the coming months in line with the new investment strategy. In response to a query on the cost of administering each fund, the Treasurer (Acting) confirmed that there is no policy at present on the creation of funds of a minimum size, the only requirement being that they should be capable of existing in perpetuity. The Treasurer (Acting) clarified a number of other queries relating to technical matters. The Committee, confirming that the Auditors intend to issue an unqualified opinion and that the letter of representation contains the standard issues as in other years and noting that the Finance Committee have recommended approval by Board, agreed that the financial statements should be sent to Board along with the letter of representation for approval and signature.

Action

The financial statements and letter of representation to be forwarded to Board with a recommendation that they be approved and signed.

**AD/08-09/06  
XXX**      **Update on status of Consolidated GAAP Accounts for 2005/06 and 2006/07**

At the invitation of the Chairman, the Treasurer (Acting) advised the Committee that, at a recent meeting, the sector's Finance Officers considered the options regarding the finalisation of the Consolidated GAAP Accounts for previous years which had been deferred pending clarification on the pension issues. He noted that this deferral had taken place on the instruction of the HEA and with the approval of the Audit Committee.

Ms Gallagher advised that, in the opinion of KPMG and other professional auditing firms engaged with the sector, the documentation available to date in the absence of enabling legislation is not sufficient to warrant booking of an asset to match the pension liability but indicated that the C&AG is of the contrary opinion. The Committee noted that there could be a situation where both sets of Auditors could be issuing different opinions on the same year, as had happened in the past, if KPMG and the C&AG come to different conclusions.

The Treasurer (Acting) stated that there continues to be uncertainty as to the outcome but that the legislation is expected shortly and recommended that finalisation of the 2005/06 and 2006/07 Consolidated GAAP Accounts be deferred pending greater certainty. Ms Gallagher, supporting that recommendation, stated that it is important to have a broadly consistent approach to the preparation of the accounts, even if that entails potential qualification of the audit opinion in earlier years. In response to queries the Treasurer (Acting) stated that there is a lack of consistency across the sector in deciding on the appropriate approach to the finalisation of the GAAP accounts.

In the course of a discussion, the Committee considering the need to be consistent on the basis of preparation of the accounts from one year to the next, decided that the issues of whether FRS17 applies or not and whether an asset should be booked or not are so fundamental that, in view of the expected imminent emergence of the enabling legislation, a further deferral would be in the best interests of College. The Committee, nonetheless, expressed its concern at this extended delay, noting the possibility that legislation could be further delayed and re-confirmed its belief that the accounts be finalised and published as soon as possible, and agreed that the issue should be re-considered by Committee in early 2009.

Action

The secretary to include the consideration of the Consolidated GAAP Accounts on the agenda for a meeting in 2009.

**AD/08-09/07  
XXX**      **Code of Governance: Statement on Internal Control**      The Internal Auditor advised that the Code of Governance requires Board to make an annual statement on internal control and that in doing so Board will need to look to various sources and processes to gain assurance in making as robust a statement as possible. As the Board retains overall responsibility, but where controls are widely devolved, it is imperative that Board can have confidence in its governance structures and take assurance from various sources in framing its statement. The Audit Committee is one source that can provide assurance and support to Board, although such assurance is necessarily limited because of the lack of resources in Internal Audit, as has been indicated to Board in the last number of Annual Reports. The Internal Auditor invited the Committee's attention to a document that had been circulated proposing further refinement and development of the approach to (and timing of) issuing an overall opinion on internal control and also to a report that had been considered previously by the Committee at its meeting on 27 November 2007 (Minute AC/07-08/25 refers). Recognising that, as already agreed by the Committee, for the foreseeable future the nature of any opinion given by Internal Audit or the Audit Committee will be one of "negative assurance", the Internal Auditor, stressed the need to support Board as much as possible and invited the Committee to consider the following proposals outlined in the document :

- (i) that, wherever possible, notwithstanding the overall opinion, positive assurance would be given on elements or areas where possible;
- (ii) that, subject to the risks involved or level of changes in an area, work over a three year cycle could be taken into account in assessing the internal controls in an area;
- (iii) that the Audit Committee and Internal Audit opinions on internal control will be reported to Board as part of the Committee's annual reporting. This will ensure that Board will receive a report in advance of being required to issue a statement in the

- Consolidated GAAP Accounts;
- (iv) that the Committee will ensure that Board is advised to specifically consider its statement as part of its approval of the Consolidated GAAP Accounts as the Audit Committee cannot have responsibility for an unseen Board statement when recommending accounts for approval by Board;
  - (v) that, in order to assist Board, a draft assurance framework be drawn up outlining the various College structures and processes to which Board might look to gain the broadest possible assurance and to which the appropriate College Officers could contribute, finalise and bring to Board in support of an eventual draft statement.

The Committee, welcoming the paper as representing an approach enabling the best possible support to Board given the resource limitations, approved the proposals as presented and agreed that the Internal Auditor would prepare an initial draft assurance framework to be considered by the Committee. The Committee also noted the correspondence on the Governance Statement from the HEA and the reply from the Provost, which had been circulated.

Action

The Internal Auditor to draft an initial assurance framework for the Committee to consider.

**AD/08-09/08 Proposed self-evaluation of the effectiveness of the Audit Committee** The Chairman introducing the item reminded the Committee of the process for evaluating the effectiveness of the Committee that has been followed to date and, drawing attention to the documents which had been circulated, invited the Committee to consider if changes to the process and the evaluation form would be appropriate. It was agreed that any views would be sent to the secretary or Chairman by 24 October following which a revised evaluation form would be issued for completion.

Action

Members to advise the secretary or Chairman of any proposed revisions by 24 October.

**SECTION C – ITEMS FOR NOTING**

**AD/08-09/09 Update on ARAM** The Internal Auditor, referring to the appointment of consultants by the College to examine options on ARAM and to the Internal Audit report already issued on the status of implementation of ARAM, advised the Committee that he had discussed the matter with the Bursar who advised that the consultants appointed by College had not yet issued their final report but that one was expected shortly and that when received he had requested a copy for circulation to the Committee. In discussing progress on ARAM, members expressed disquiet at the delay in implementing Board decisions and the re-opening of matters previously decided upon by Board. Concern was also expressed that the impact of the HEA model, RGAM, on ARAM needs to be taken into account urgently.

**XXX**

Action

The secretary to circulate a copy of the consultants' report to a future meeting of the Committee.

**AD/08-09/10 Correspondence with the Comptroller & Auditor General (C&AG)** The Committee noted a letter dated 3 September 2008 to the Deputy Director of Audit, Office of the C&AG from the secretary to the Committee which had been circulated.

**AD/08-09/11 Review of College Statutes** The Committee noted the submission made to the Statutes Review Working Party by the Internal Auditor following the attendance of Dr O'Dell at the last meeting of the Committee. The Committee, commending the Internal Auditor on the quality of the submission, noted that there are wider governance issues which may be outside of the brief of the Statutes Review Working Party. Discussing the issue, members noting that

there is no proposal to separate the role of Provost as Chief Executive from the role as Chairman of the Board and, noting that this dual role in College is recognised in the Universities Act, expressed a view that such a separation would be a normal aspect of good governance and would reduce the burden on the Provost.

The Chairman, noting that there has been a lot of change in College and that the Chief Academic Officer and Chief Operating Officer have now taken up their posts, proposed that a brief presentation from them at a future meeting on how they each see structures evolving and functioning in their areas of responsibility would be useful. Following discussion on the potential burden of the new role of Chief Academic Officer, which effectively assumes many of the former duties of the Senior Lecturer and Bursar, and how the development of policy will take place in the new scenario, it was agreed that an organisation diagram of the new structures and job descriptions would be circulated to a future meeting to which the Chief Academic Officer and Chief Operating Officer could be invited to outline to the Committee how College governance structures will operate in the future.

In response to a query, the secretary undertook to ensure that the Chief Academic Officer and the Chief Operating Officer have copies of the report of the Working Group on Governance.

Action

- 11.1 The secretary to invite the Chief Academic Officer and the Chief Operating Officer to the next meeting of the Committee to outline how they see College governance evolving and operating in the new scenario.
- 11.2 The secretary to provide the Chief Academic Officer and the Chief Operating Officer with a copy of the final report of the Working Group on Governance.

**AD/08-09/12 Risk Policy** The Committee noted the revisions to recognise the new structures made to the College Risk Policy as approved by Board on 24 September 2008. It also noted that an inadvertent reference to an appendix will be deleted in a future revision.

**AD/08-09/13 Board Minutes** The Committee noted the minutes which had been circulated.

**AD/08-09/14 Meeting Schedule** The Committee discussed the meeting schedule and proposed some amendments. It was agreed that the secretary would investigate if the changes can be accommodated and would confirm the revisions as soon as possible.

Action

The secretary to confirm changes to schedule and circulate a revised schedule.

Signed: .....

Date: .....