

The University of Dublin

Trinity College

Minutes of Audit Committee, Wednesday 26 May 2010

- Present* Mr J Collins (Chairman), Professor J McGilp, Professor B McGing, Mr P O'Reilly
- (ex officio)* Internal Auditor (secretary), Secretary to the College
- Apologies* Professor J O'Hagan
- In Attendance* The Treasurer and the Financial Accountant attended for AD/09-10/65 and part of AD/09-10/66
- Ms L Gallagher and Mr R Hobson, KPMG and Ms M Mulligan and Mr D Christoloulides, Office of the Comptroller and Auditor General attended for part of AD/09-10/66
- The Interim Chief Operating Officer attended for item AD/09-10/68
- (Items of specific interest to the Board are denoted XXX)
- AD/09-10/62** **Minutes** The Minutes of the meeting held on 12 March 2010 were approved and signed.
- AD/09-10/63** **Call-over** The Committee noted the actions which had been implemented since the previous meeting and those that remained outstanding.
- In respect of the audit of travel and subsistence and hospitality and entertainment, the Internal Auditor advised that he had met the Provost and attended Executive Officers and that a policy on hospitality and entertainment is to be developed shortly and the other recommendations are to be addressed in a review of the travel and entertainment policy.
- In respect of Committee membership the College Secretary updated the Committee on her discussions with the Provost.
- The Chairman, thanked Professor McGing attending his last Committee meeting, for his very valuable contribution to the work of the Committee during his term of office
- AD/09-10/64** **Matter Arising** Referring to minute AD/09-10/54 Status of Audit Committee Recommendations, Professor McGilp invited the Committee's attention to concerns that had arisen when the Board had considered the introduction of research quality metrics associated with the implementation of the RPM, notably the absence of a robust risk assessment. Noting that it had strongly championed risk assessment as an essential component of major proposals put to Board for a decision, the Committee discussed the matter in principle and agreed that Board Representatives on the Audit Committee had a duty to draw Board's attention to matters raised by the Committee where they were not being observed and, if necessary, dissent from a Board decision if in their opinion a major decision was being taken by Board without assessment of how the risks would be managed.
- XXX**

SECTION A - POLICY ISSUES

- AD/09-10/65** **Audit Tender Process** The Treasurer and Ms J Corcoran, Financial Accountant, joined the meeting. The Chairman summarised the audit

tender process that had been completed and the deliberations of the evaluation team which recommended that, subject to agreeing a satisfactory letter of engagement and agreement on partner rotation, KPMG be re-appointed as auditors.

Action:

The Chairman to write to Board advising of the outcome and seeking formal approval for the appointment.

SECTION B - IMPLEMENTATION ISSUES

AD/09-10/66
XXX

Consideration of the Draft Consolidated Financial Statements for years ended 30 September 2006, 2007 and 2008 The Treasurer, having been invited by the Chairman to comment on the conduct of the audits, advised that they had been completed satisfactorily but, for all concerned, it had been particularly challenging to deliver the audited financial statements due to having three years together which were unfinalised for a long time, using a manual system of preparation and dealing with both sets of auditors simultaneously. He advised that the situation was unusual and not expected to re-occur but that the process would be reviewed to see if improvements could be made for future years. The representatives of the C&AG and KPMG then joined the meeting by invitation.

At the invitation of the Chairman, the Treasurer presented the three sets of consolidated financial statements prepared in accordance with generally accepted accounting principles (GAAP). Tabling a presentation, he advised that this was the final part of the financial reporting for each of the years under review. He recapped on the reporting requirements, the reasons for the delay and advised that the audits were now complete by both KPMG and the C&AG subject to Board approval of the financial statements and letters of representation. He advised that KPMG intend to qualify their audit reports in regard to the recognition of a pension asset in the balance sheets while the C&AG will be issuing an unqualified report in that regard. Drawing the Committee's attention to the reconciliations with the Funding Statements, which highlight the results of the differing accounting treatments for transactions under the Harmonised Basis and GAAP, he advised that the differences between the sets of accounts are largely due to timing of expenditure. He advised that the treatment of unspent monies as surpluses/revenue reserves under GAAP could give the impression that the College had surplus funds available to invest, whereas in fact funds are already fully planned for and committed. Responding to a query on whether the complexity of the process and the manual system of preparation could have compromised the integrity of the financial statements presented to the Committee, he confirmed that he was satisfied with the accounts as presented and recommended them for approval. In regard to the draft letters of representation to the C&AG he advised that minor textual alterations would be required to reflect the historical situation. Thanking the staff in his Office, he also acknowledged the significant efforts made by both KPMG and the C&AG and the Secretary in facilitating resolution of issues to complete the accounts and for their co-operation in that regard.

Ms Gallagher of KPMG, referring to the KPMG report that had been circulated, advised that the accounting treatment adopted for FRS17 by the College was consistent with the approach generally adopted in the sector. She advised that the position taken by KPMG, of qualifying the audit report due to the absence of a letter of confirmation from the HEA that the State will fund the full pension liabilities, was consistent with that taken by internally appointed firms of auditors in other institutions. She advised that, although legislation has since been passed, it does not specifically cover the pension supplementation and the Model Scheme. As a result, in the absence of a letter of confirmation for those liabilities the qualification would continue in the future, but for lesser amounts if a corresponding

pension asset is recognised. In response to members' concerns about an on-going qualification, the Treasurer advised that every effort is being made to obtain confirmation from the HEA to satisfy the auditors. Ms Gallagher also drew the Committee's attention to the large fluctuations in the results for the years due to timing differences and the effects of the release of the FTWA accrual, confirming that KPMG concurred with the release of that provision. In conclusion, she stressed the need for a new financial system to replace the current manual derivation of the Consolidated GAAP Accounts from CODA, which is designed only to produce the Funding Statements on the Harmonised Basis.

The Chairman welcoming Ms Mulligan and Mr Christoloulides, Office of the C&AG, to their first meeting, invited Ms Mulligan to comment on the results of their audit. Ms Mulligan, welcoming the opportunity to address the Committee, commended the Treasurer's Office for delivering the financial statements given the difficulties involved with having two sets of auditors, and endorsed Ms Gallagher's recommendation for a new financial information system. She advised that the C&AG has adopted a different view to that of KPMG and will not qualify the accounts, but will insert a short explanatory statement, for the following three reasons:

- The legislation has now been passed transferring the full liability for the Master Scheme to the State
- The Universities Act, 1997 underpins the Model Scheme once approved by the HEA
- State funding of legitimate costs, including pensions costs, is the norm in non-commercial bodies

She added that the situation of having separately appointed external auditors was unusual in other sectors but that the C&AG will continue to rely on their work to avoid duplication and was satisfied with the arrangements. She noted, however, that a C&AG report on the third-level sector would issue shortly with a view to improving arrangements and that the C&AG has additional responsibilities in regard to regularity and probity testing. She advised that a management letter would be issued but that the matters were not of a material nature. In response to a query she confirmed that it may include management responses and that management would have an opportunity to review the letter in a draft form before it is finalised and comes before the Committee.

In response to a query on the differing audit opinions, Ms Gallagher stated that KPMG, in accordance with their professional standards, can have regard to FRS 12 only, whereas the C&AG also take account of historical perspective and practice.

The Chairman thanked the Treasurer, Ms Gallagher and Ms Mulligan for their presentations, stating that the explanation of the differing approaches had been useful and noted their call for simplification of the accounting processes to minimise the risk of error. Noting that the Universities Act did not allow a deficit to be incurred, yet there are significant swings in the results from year to year due to the differing accounting treatments in the two sets of accounts, members enquired as to which set of accounts this section of the Act applied. Ms Mulligan confirmed that the C&AG only audit the Consolidated GAAP Accounts and the inclusion of the Funding Statements in the accounts to be laid before the Oireachtas is a matter for the College but that the HEA is aware of the deficit situation. The Internal Auditor, commenting on the format and content of the accounts, as approved annually by the HEA, suggested discussing with the HEA upgrading the standard of presentation in line with annual reporting by entities in the private sector.

After a brief discussion the Committee agreed to recommend the accounts

as presented and the letters of representation to Board for approval, subject to the minor amendment for the letters of representation to the C&AG as advised by the Treasurer.

The Treasurer, the Financial Accountant, Ms Mulligan and Mr Christoloulides then withdrew. On invitation by the Chairman to comment on the conduct of the audit, Ms Gallagher advised that the production of GAAP accounts manually was a significant drain on resources but that the audit had been completed satisfactorily. After KPMG withdrew, the representatives of the Office of the C&AG re-joined the meeting. Ms Mulligan congratulated the College on its initiative in regard to collaboration to achieve better co-ordination of the audit effort. She advised that the audit had been challenging because of having to deal with three sets of accounts simultaneously and two sets of auditors, but that she would be working with the Treasurer and on a sectoral basis to achieve a more efficient process in the future. In response to a query, she advised that discussion with the HEA would be the appropriate way to resolve concerns about the format and content of the accounts and, that while she is open to changes, it is a matter for the HEA. Ms Mulligan also stated that the College Code of Governance, going some way beyond the State Code, imposed a particularly significant challenge in requiring a statement on all internal controls, not just financial ones, which is very unusual although progressive and to be commended. She noted that further development of the risk management system would be critical in being able to assess and report on non-financial controls. Discussing publication of the accounts, the Chairman noted that the contents will be a matter for discussion on a sectoral basis. Thanking Ms Mulligan and Mr Christoloulides, who then withdrew, the Committee welcomed the additional assurance provided by the C&AG audit on the use of public funds.

Action:

- 66.1 The Chairman to recommend the accounts and letters of representation to Board for approval.
- 66.2 The Treasurer to review with the HEA the format of the accounts to be used in the future
- 66.3 The Treasurer to review scope for increasing the efficiency of the audit process with the auditors.

AD/09-10/67
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Update on Internal Audit Work Plan Introducing the topic, the Internal Auditor invited the Committee's attention to a memorandum dated 20 May 2010 which had been circulated that summarised the progress on the work plan to date. Noting that the work plan was ambitious and that it would be challenging to complete by the end of the year given current resources, he advised it was largely on target but that the effort to achieve it was not sustainable in the longer term. The Committee discussed certain resource issues, as advised by the Internal Auditor, that may impact on the successful delivery of the work plan. The Committee considered possible solutions including using external assistance or reducing the scope of work. The Internal Auditor advised that all projects in the work plan are important and that the use of short-term external assistance was not efficient, except in limited circumstances, due to the learning curve involved and subsequent loss of knowledge; was not cost effective; and would not provide good value for money as a result. The Committee expressed serious concern at the implications for its ability to fulfil its terms of reference in a meaningful way. The Committee agreed that the Internal Auditor would examine the choices as discussed and their implications for the work plan and would brief the Committee further.

Actions:

- 67.1 The Internal Auditor to brief the Committee on the matter during the summer break

- 67.2 The Secretary to the College to bring the views of the Committee to the attention of the Interim Chief Operating Officer

AD/09-10/68 Update on College High-Level Risk Register Introducing the item, the Chairman welcomed the Interim Chief Operating Officer who had joined the meeting for this item and invited him to update the Committee on the revised College Risk Register. The Interim Chief Operating Officer invited the Committee's attention to a memorandum dated 19 May 2010, the Summary Quarterly Review dated 26 May 2010 and the revised High-Level Risk Register, which had all been circulated.

Referring to the Summary Quarterly Review, he outlined the revision process that had taken place, including the most significant actions taken since the Register was presented to the Audit Committee on 13 January 2010, together with any changes in risk levels where relevant. As part of the revision process, risk owners highlighted issues and indicated where further actions may be required. He confirmed that the Risk Register was endorsed by the Executive Officer Group on 13 April 2010 and would continue to be a call-over item on a quarterly basis.

He drew the Committee's attention to twenty-two risks which had been identified in the Risk Register and, in particular, to the high risks. Noting that the challenging funding and economic outlook will remain as one of the College's most significant risks, he advised the Committee of the steps being taken and that this risk is being managed effectively. He confirmed that as a result of discussions at a previous Audit Committee meeting, inter-institutional joint ventures have been included in the Risk Register.

During a brief discussion of risks in the IT area, he updated the Committee on the status of a particular risk. On review by the Senior Administrative Management Group, the risk had been escalated to critical but funds were allocated to enable investment in this area and the risk was now re-classified as high.

In response to a query, the Interim Chief Operating Officer updated the Committee on the inclusion of the Biosciences Development in the Risk Register. Acknowledging the concerns of the Audit Committee in regard to this matter, he advised the Committee that this risk has been broadened to include risk to delivery of the project on budget. During a brief discussion on the management of such large-scale projects, the Committee stressed the importance of risk management in the future planning of all such developments.

In conclusion, the Committee welcomed the embedding and implementation process, which is taking place, recommending that this process continue to a greater and deeper degree.

The Chairman, thanking the Interim Chief Operating Officer for his contribution, reiterated the importance of this process to the Audit Committee as well as to College and noted that further updates will be presented to the Committee in the future.

AD/09-10/69 Update on Implementation of Resource Planning Model At the invitation of the Chairman, the Internal Auditor updated the Committee on the status of implementation of the Resource Planning Model. The Internal Auditor, advising the Committee that a written report would be presented to the next meeting when implementation is further advanced, made a detailed verbal report on the development of RPM and its current status. He advised that the main issue, which had recently been under review, was the use of Research Quality Metrics and how they could be applied, especially in relation to the third proposed component and he outlined the interim steps

being taken and the issues which will have to be addressed.

The Committee expressed concern at the absence of a proper risk assessment and will review the matter again in Michaelmas Term.

AD/09-10/70 Review of Long Room Hub The Internal Auditor advised that work had been carried out on the Long Room Hub and that a written report would be presented to the Committee in due course. However, as issues of a governance and funding nature had arisen, which were similar to those that had arisen on the Science Gallery, TRIs and multi-institutional research ventures, he advised the Committee of them briefly and it was agreed to discuss the issues in principle when reviewing the Science Gallery report.

AD/09-10/71 Review of Science Gallery - Governance Issues The Chairman invited the Committee's attention to the internal audit report: Review of the Science Gallery, dated May 2010, which had been circulated and invited the Internal Auditor to summarise the findings. The Internal Auditor advised the Committee the main focus of the report was governance arrangements; a subsequent report will deal with other issues that arose during the review. Referring to previous Audit Committee discussions in regard to governance structures for the establishment and operation of TRIs and multi-institutional ventures, the Internal Auditor advised that similar findings have emerged from the Review of the Science Gallery and Long Room Hub. Given the importance of such ventures to the implementation of the College's Strategic Plan, the Internal Auditor commented that the present manner in which such ventures evolve is unsuitable and their long-term sustainability is often uncertain. He advised that these ventures are essentially College projects and, if appropriate project management methodologies were applied to their establishment and operation, many of the difficulties would be avoided. The College Secretary advised that the Executive Officers' Group has recently approved a protocol for external relations that could perhaps be considered for such projects. The Committee agreed that better risk assessment and scrutiny at an early stage of projects that incur long-term commitments but have only short-term funding is needed and that the recommendations in the report should be brought to the attention of Executive Officers in the first instance.

Action:

The Internal Auditor to bring the views of the Committee to the attention of Executive Officers.

AD/09-10/72 Review of College Insurance Process The Internal Auditor drew the Committee's attention to a report dated May 2010 on the College's insurance process. He advised the Committee that a brief review had been carried out, the main purpose of which was to establish if the College procedures for arranging insurance are effective. During a brief discussion, the Committee discussed the various classes of insurance cover in place, and the Internal Auditor answered several technical queries. In conclusion, the Committee considered that the process for identifying insurance needs in College appears robust and no further action is required at this time.

AD/09-10/73 Review of College Tender The Internal Auditor invited the Committee's attention to a memorandum dated 18 May 2010, which had been circulated, regarding a College tender for equipment and services. The tender consisted of four lots for which nine companies tendered, but two only tendered for a single lot and, after a rigorous tender process were appointed. Subsequently, significant amounts were expended under the tender but very little related to the services in the single lot award and to date the expenditure is well below the tender threshold. No indication had been given in the tender documents of the likely level of business. The Committee agreed with the recommendation that procurement procedures

be expanded to ensure all single lots, to be included in a multi-lot tender, exceed the tender threshold and so avoid a repetition of this situation in the future.

Action:

The Internal Auditor to bring the views of the Committee to the attention of the Procurement Officer.

SECTION C - ITEMS FOR NOTING

- AD/09-10/74 Correspondence with Comptroller & Auditor General**
The Committee noted the correspondence with Ms M Mulligan, Deputy Director of Audit, Office of the Comptroller and Auditor General which had been circulated, dated 13 May 2010.
- AD/09-10/75 Correspondence with the Higher Education Authority**
The Committee noted the letter from the Treasurer to Mr T Boland, Chief Executive, Higher Education Authority re Estimates, dated 17 May 2010.
- AD/09-10/76 Current Developments and Practices in Audit**
The Committee welcomed the circulation of recent articles about developments in audit practice.
- AD/09-10/77 Board Papers**
The Committee noted the Board Agendas and Minutes which had been circulated.