

The University of Dublin

Trinity College

Draft Minutes of Audit Committee, Wednesday 5 October 2011

Present Mr J Collins (Chairman), Mr P O'Reilly, Professor J McGilp, Professor J O'Hagan, Professor J Horne

(ex officio) Internal Auditor (secretary), Secretary to the College

Apologies Ms J O'Neill

In Attendance Ms M Thompson

The Treasurer, Financial Resources Manager and Financial Accountant attended for items AD/11-12/04 and AD/11-12/05. The Treasurer also attended for items AD/11-12/06 and AD/11-12/07

Mr S O'Keefe and Mr R Hobson of KPMG attended for items AD/11-12/04 and AD/11-12/05

Mr B McGee and Ms A Quigley, Assistant Internal Auditors attended for items AD/11-12/08 to AD/11-12/19

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

AD/11-12/01 Minutes
The Minutes of the meeting held on 18 May 2011 were approved and signed.

AD/11-12/02 Call-over
The Committee noted the actions which had been implemented since the previous meeting and those that remained outstanding.

AD/11-12/03 Matter Arising
XXX In reference to AD/10-11/62, the College Secretary advised the Committee that Board has approved new arrangements for approval of the Provost's expenses. She advised that Board decided there would be two approvers: the Secretary to the College and a Senior Fellow of the College. Following some discussion on the options and reasons for the decision and, noting the dual role of the Provost which is uncommon elsewhere, the Committee agreed that the arrangements, as approved, constitute the best solution possible to implementing a best practice approach. The Committee welcomed the strengthening of arrangements on that basis.

SECTION A - POLICY ISSUES

AD/11-12/04 Plan for Audit of 2010/11 Accounts
The Chairman welcomed the Treasurer's Office and KPMG teams to the meeting. Mr O'Keefe of KPMG drew the Committee's attention to a planning document, which had been circulated, outlining the approach they intend to take in their audits of the College's Funding Statements and Consolidated GAAP Accounts. Mr O'Keefe outlined the four phases to the audit plan commenting that it was broadly consistent with previous years: planning stage, evaluation of key internal controls, substantive testing followed by completion. Mr O'Keefe confirmed that any key judgements and provisioning will be considered at a future Audit Committee meeting and the audit findings will be presented to the Committee on 11 January 2012.

Mr O'Keefe drew the Committee's attention to key risk factors and the proposed audit approaches associated with them, as follows:

- (i) Pension arrangements
- (ii) Financial performance
- (iii) Liabilities - judgemental estimates/completeness
- (iv) Capital Projects and investment properties
- (v) Accounting for research projects
- (vi) Funding / covenant compliance
- (vii) IT controls and projects
- (viii) GAAP financial statements preparation process

Mr O'Keefe advised that as part of the audit they would consult with key College personnel to identify any significant issues emerging and would rely on external consultants to advise on pension issues and their internal consultants to advise on IT and tax issues. Mr O'Keefe advised that the production of the Consolidated GAAP accounts remains an inefficient and complex manual exercise due to the existing financial information system.

In regard to pension arrangements, Mr O'Keefe advised that due to the absence of a letter of confirmation from the HEA that the State will fund the College's full pension liabilities, they will continue to issue a qualification in their report on the Consolidated GAAP accounts.

The Internal Auditor confirmed that the KPMG Audit Plan had been circulated to the C&AG, as per the agreed protocol, and advised the Committee that no comments had been received on it. Following discussion and clarification of a number of matters, the Committee, noting the Plan as presented by the Auditors, thanked Mr O'Keefe and his colleague for their presentation.

Responding to a number of queries on capital projects, the Treasurer briefed the Committee on the Biosciences development and the position being taken in regard to a claim by the developers. In response to a query on the delayed 2009/10 GAAP accounts, the Treasurer advised that the production of the GAAP accounts remains a complex manual exercise, that a sectoral issue had arisen in regard to pension disclosure, which had delayed their finalisation and a query had arisen at a late stage that required some additional analysis work to be done. Finalisation of decisions on issues can be slow as both sets of auditors need to be consulted and agreement reached with them. The Treasurer advised that he hoped to present the GAAP accounts to the Committee in the near future.

AD/11-12/05 **Consideration of Trust Funds (Benefactions) Financial Statements for**
XXX **year to 30 June 2011**

The Treasurer, tabling the minute of the Finance Committee meeting that had noted the accounts, invited the Committee's attention to the Draft Trust Funds (Benefactions) Financial Statements for the year to 30 June 2011, which had been circulated together with a draft letter of representation.

Drawing the Committee's attention to the Treasurer's Report and highlighting issues in relation to the investment and governance aspects, the Treasurer noted in particular the key requirement that the funds continue to provide financial support to specific College activities in perpetuity. The Treasurer also advised the Committee of capital and income returns deriving from the investments. The Treasurer clarified a number of technical issues in response to queries from Committee members and advised that the Draft Trust Funds Financial Statements had been noted at the Finance Committee of 21 September 2011, for consideration at the Board meeting on 12 October 2011.

Mr O'Keefe confirmed that KPMG had no issues of concern to bring to the Committee's attention and that the External Auditors intend to issue an unqualified audit opinion.

The Committee agreed that the financial statements and letter of representation should be recommended for approval by Board.

Mr S O'Keefe and Mr Hobson of KPMG, together with the Financial Resources Manager and Financial Accountant, withdrew from the meeting.

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

AD/11-12/06 Review of Funding Risk - Financial Sustainability

Introducing the item, the Chairman drew the Committee's attention to a memorandum from the Treasurer to Finance Committee dated 14 September, which had been circulated. The Treasurer, commenting on the memorandum, advised the Committee that financial sustainability is one of the key challenges facing Irish, UK and European universities. Drawing the attention of the Committee to a number of charts, he stated that they were prepared as an input to aid longer term planning. He advised that key questions to be addressed concern the level of investment in developing teaching and research, the level of surplus to maintain adequate reserves, determining appropriate levels of liquidity and gearing and tracking trends and future prospects of funding. Referring also to the Audit Committee request to develop financial data and tools to aid planning for sustainability, he advised that the indicators were developed based on key financial indicators recognised across the UK HE sector.

Strongly welcoming the initiative, Committee members discussed a number of the indicators and agreed that they were a very useful addition to planning. It was also agreed that care needs to be taken to ensure that they are carefully balanced and considered so that proper interpretations are drawn from them and, in particular, where local priorities can change over time, the university must maintain an international focus. In response to a number of queries, the Treasurer advised that other indicators and ratios are in use by the Planning Group and that over time all such tools would be further developed and refined and used to set internal targets for the College. He also undertook to investigate what comparators exist on cost per student. The Committee, thanking the Treasurer, agreed that the development of such data was a very welcome initiative and their availability would be very helpful to the Committee in the future.

Action: The Treasurer to investigate what comparators exist for the cost per student and advise the Committee in due course.

AD/11-12/07 Resource Allocation - Annual Budgetary Cycle 2011/12

The Chairman drew the Committee's attention to a second memorandum from the Treasurer to Finance Committee, also dated 14 September and to the Financial Plan 2011-2015, both of which had been circulated. The Treasurer advised that a new annual budgetary process, sponsored by the Vice-Provost/Chief Academic Officer, had been approved by Executive Officers. He outlined the outcomes of the process for 2011/12 and the actions which will be considered in the 2012/13 process, noting that the targets were prudent ones and that there is a need to embed savings, he advised that some of the existing one-off financial flexibility available will be needed to achieve a break-even in 2011/12. He advised that although the targets were not fully met, the results represented the best possible outcome in the present difficult circumstances.

The Committee agreed that the process was a very welcome step towards a closer linking of strategic planning with resource allocation, an issue that had been highlighted in the Committee's last Annual Report to Board, but expressed concern that cuts and savings needed to be similarly strategic. Members also discussed the need to incentivise research and raised issues in regard to the negative impact of changes in the resource allocation model used by the HEA and the operation of the research quality metrics in RPM. The Treasurer advised that the Planning Group is aware of the issues and is examining options. In regards to pay : non-pay costs, the Committee noted that the 70:30 ratio is a composite one for College and that the ratio is higher in academic areas, which makes it difficult to achieve progress on reducing deficits. The Treasurer advised that College strategy is targeted at the income side as well as the cost one and, that while it will take some time to progress the strategic basis, the current process had opened an on-going dialogue with heads of area that would assist in that move. In response to a query, the Treasurer confirmed that better utilisation of existing space is needed and that the space atlas is being reviewed and it is planned there will be sign-off by Heads of Schools from 2012/13 onwards. The Committee thanked the Treasurer for his very useful presentation and he then withdrew from the meeting.

SECTION B - IMPLEMENTATION ISSUES

- AD/11-12/08 Review of Cash Handling - Catering Department**
Introducing Section B, the Chairman welcomed Mr McGee and Ms Quigley to the meeting. Mr McGee summarised the findings of a report dated May 2011, which had been circulated, that reviewed controls over cash handling and recording by the Catering Department. Mr McGee advised that, on the basis of tests conducted, there are good internal controls in place for the recording, handling and lodgement of cash sales generated from the catering outlets in College and that a recommendation to ensure the operation of controls are consistently evidenced had been communicated to the Catering Manager for action. The Committee noted the findings and the conclusion.
- AD/11-12/09 Management of Risk: Reduction in Research Funding**
Introducing the item, Mr McGee drew the Committee's attention to the report, which had been circulated. He advised the Committee that a number of high risks in the College High Level Risk Register were identified for follow-up in the Audit Plan, this being one of them. The Internal Auditor advised the Committee that the risk, as stated in the Register, is effectively not within the control of College, but that the actions being taken are aimed at minimising the extent and impact of a reduction and that the overall conclusion was that the risk is being managed as effectively as it is possible for College to do at present. He also referred to the earlier discussion regarding RPM and research metrics, noting that there were issues to be addressed by the Planning Group in this area. In response to a query, the Internal Auditor confirmed that the risk owner is clearly identified in the Risk Register and that the owner identified would be noted in future reports. The Committee, agreeing with the conclusion as presented, noted that the issue of RPM would continue to be a source of interest to the Committee.
- AD/11-12/10 Management of Risk: Quality Reduction in Provision of Teaching and Research**
Mr McGee, referring to the report which had been circulated, advised that the mitigating factors and actions that were identified in the Risk Register are in operation or are being worked on. He also advised that it is not yet possible to establish, with the information currently available, the effects on quality or what further actions may be possible until the results of the survey work currently underway are available. Noting the conclusion in the report that reasonable efforts are being taken to implement the actions

that had been identified, the Committee agreed that a conclusion on the effectiveness of those measures would have to await the results of the surveys, which should provide a useful benchmark for College to monitor this risk. Members also agreed that the research standing of the university was important and that it would be helpful to receive a presentation on how the rankings are compiled at a future meeting, perhaps from the Dean of Research. The College Secretary advised that some data would be available from the Provost's Office also.

Action: The Internal Auditor to organise a presentation on rankings to a future meeting of the Committee.

AD/11-12/11 Review of Purchasing Cards

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Introducing the item, the Internal Auditor advised the Committee that the work had been undertaken in response to the audit work plan and the increased risk due to the economic downturn. He advised that audits of this nature are resource intensive and difficult, due to the spread of activity across almost 100 cardholders and 16,500 transactions in the 18 month period reviewed and the need for a valid basis to allow extrapolation of sample findings. Ms Quigley advised the Committee that the vouching of a randomly selected sample of over 250 individual transactions as well as a review of a number of classes of transactions had been satisfactory. She advised that the controls in place do not fully mitigate the risks but, because of the spread of the risk and the operation of credit limits, the risk of material loss through misuse of cards was relatively low. She drew the Committee's attention to some strengthening measures, which were recommended and agreed with the Treasurer's Office, pending the implementation of the new financial system FIS which is likely to resolve the control issues noted in the report. The Committee noted the report as presented.

AD/11-12/12 Review of Library Shop Cash and Stock Controls

Ms Quigley outlined the results of an audit of controls over cash and stocks in the Library Shop, which had been circulated. The Committee noted that, while there were a number of minor issues, there had been one significant weakness in the control system but that there were compensating factors and further investigation did not uncover any problems. Ms Quigley advised that remedial action to rectify the weakness had been agreed with the Library Shop Manager who has undertaken to implement it. The Committee noted the findings and audit conclusion before discussing a number of general matters, concerning the College strategy for increasing commercialisation and how well it exploits the opportunities. The Committee agreed it may return to this topic at a later date.

AD/11-12/13 GeneSIS

The Internal Auditor advised that, in accordance with the request of the Committee to update it on GeneSIS, the new student administration system, a review had commenced and that a report would be brought to the next meeting. The Chairman, recalling the previous attempt to implement a new student system a number of years ago, expressed the view that the Internal Auditor should assess how the recommendations made by the Committee in response to the issues that arose then have been implemented on the current project. The Committee agreed that this was a good suggestion and Professor McGilp added that, while Board does get regular reports, it may not be best placed to examine the project in detail and that it would be useful to have the Internal Auditor carry out this scrutiny on behalf of Board.

Action: The Internal Auditor to include in his report an assessment of the implementation of the Committee's past recommendations on the new student project.

AD/11-12/14 Review of Implementation of College Policy on Good Research Practice
Introducing the item, the Internal Auditor drew the Committee's attention to a report on the review of implementation of College Policy on Good Research Practice, which had been circulated. Summarising the report, the Internal Auditor advised that a working group, the Research Ethics Policy Group (REPG), had been established and had started an information gathering exercise. He advised that the scope of work to adequately assess the application of good practice was enormous and that the most effective use of the scarce audit resource would be to defer further work until REPG completes that stage and then to review what steps should be taken. He further advised, however, that the level of risk could be high and that there is a danger that, unless it is prioritised and REPG adequately resourced, it may take a long time to complete the gathering of information. The Internal Auditor drew the Committee's attention to the recommendation in the report that Officers consider the risk factors in the process leading to the next updating of the College High Level Risk Register so that appropriate decisions can be in response to how the risk is perceived. The Committee agreed the recommendation.
Action: The Internal Auditor to bring the matter to the attention of the Executive Officers' Group.

AD/11-12/15 Audit Committee Terms of Reference and Internal Audit Charter
The Internal Auditor invited the Committee's attention to the revised Terms of Reference and Audit Charter, which had been circulated. The Internal Auditor advised that the proposed revisions considered at the 18 May meeting, have now been incorporated into the documents. Following a brief discussion, the Committee approved both documents for submission to the Board.
Action: The Internal Auditor to forward the updated Audit Committee Terms of Reference and Internal Audit Charter to Board for approval.

AD/11-12/16 Self-Evaluation of Audit Committee
Introducing this item, the Chairman drew the Committee's attention to the review documentation and self-evaluation form, which had been circulated, and invited the Committee to consider if any changes to the process were necessary. The Committee agreed that no changes were necessary to the documentation and requested the form be sent to them electronically for completion.
Action: The form to be circulated electronically for completion.

SECTION C - ITEMS FOR NOTING

AD/11-12/17 Planning Group Report No 5
The Committee noted the Planning Group Report, which had been circulated.

AD/11-12/18 Public Sector Issues
The Committee noted the Deloitte Public Sector Issues document, which had been circulated.

AD/11-12/19 Board Papers
The Committee noted the Board Agenda and Minutes, which had been circulated.

Signed: _____

Date: _____

