

The University of Dublin

Trinity College

Minutes of Meeting, Wednesday 17 October 2012

*Present* Ms J O'Neill (Chair), Professor J O'Hagan, Mr P O'Reilly

*Apologies* Mr J Cunningham, Professor J McGilp, Professor J Barry

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

*In Attendance* Secretary Designate, Ms M Thompson, Ms A Cooney

The Chief Operating Officer and Director of Human Resources attended for items AD/12-13/03 to AD/12-13/05.

The Chief Operating Officer also attended for items AD/12-13/06 to AD/12-13/08.

Mr S O'Keefe and Mr R Hobson of KPMG together with the Treasurer and Financial Resources Manager attended for items AD/12-13/06 to AD/12-13/08. The Treasurer also attended for item AD/12-13/09.

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

The Chair welcomed the Secretary Designate to the meeting.

The Internal Auditor advised that, due to the unavoidable absence of three Committee members, a quorum had not been reached for the meeting. As a number of visitors were due to attend the meeting, he proposed that the meeting proceed as planned to gather information and, following the meeting, to seek the views of absent members so as to agree and ratify decisions or recommendations. Following a brief discussion, the Committee members present agreed to proceed on that basis.

**AD/12-13/01 Minutes**

The minutes of the Audit Committee meeting held on 19 June 2012 were noted by the members present and a minor amendment identified.

**AD/12-13/02 Call-over**

The Committee members present noted the actions that had been implemented since the previous meeting and those that remained outstanding.

**AD/12-13/03 Remuneration Issues**

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The Chair welcomed the Chief Operating Officer and the Director of Human Resources to the meeting and advised them that the meeting was inquorate but that a decision had been taken to proceed as scheduled. Referring to a number of agenda items and associated

themes for the meeting, the Chair invited the Internal Auditor to update the Committee on the Remuneration Issues Report, which had been circulated.

Referring to the C&AG Special Report 78 on Education Matters, which had been considered at the April and June meetings, the Internal Auditor advised that he had carried out further work on remuneration issues in order to ascertain the potential risk and scale of further issues arising. He advised members that the review covered an extended timescale, although for reasons he outlined, was not quite the same as the period covered by the C&AG Report, but nevertheless it provided context to the potential scale involved. He advised that annualised figures were also provided, based on the 2010/11 academic year, to facilitate appraisal of the possible scale of ongoing amounts. He advised that the report analyses the difference between total payments coded to basic pay and total gross remuneration payments made by the College, during the period and annually, so as to ensure completeness of the figures. He emphasised that until the analysis being undertaken by the Director of HR is complete and discussions on the results held there will continue to be uncertainty and that the report is intended to give a context and scale to the potential risks and should be read in that light. He advised that having payments coded other than to basic pay does not by itself indicate an issue of concern, as coding categories are used for analysis purposes, citing student stipends and scholarships which are separately coded as an example.

Drawing the Committee's attention to the appendices, which detailed more information on the categories of pay, the Internal Auditor advised that the categorisation of payments presumes coding was accurate but that a more significant difficulty is that no detailed analysis is available for the nature of payments coded to casual pay or miscellaneous pay. Notwithstanding the potential for issues to also arise under casual pay, he drew the Committee's attention in particular to Schedules 3 and 4 of the report which list pay categories where he was of the opinion there was a significant risk that issues could arise and which deserve attention by College. He noted that Schedule 4 contains a significant amount categorised as miscellaneous pay, which similar to casual pay, also requires further analysis. In response to a query, he advised that such analysis is a major exercise beyond the scope of the review, which was to establish the potential scale of the risk of further difficulties for all pay grades, not just those covered by the C&AG exercise.

Invited by the Chair to comment on the report, the Director of Human Resources advised that he found the report useful as the scope of discussion on pay has broadened beyond the allowances issue. He advised that care is needed in interpreting the pay categories and the entire matter remains a work in progress until further detailed work is done to resolve outstanding issues and detailed discussions have taken place with a view to gaining maximum comfort for College around the pay and approval process.

The Chief Operating Officer enquired whether there was a risk of issues arising in categories other than those in Schedules 3 and 4.

The Internal Auditor advised that until further analysis is carried out such a risk exists but that in his opinion the Schedule 3 and 4 categories appeared to be the ones with the highest risk.

In response to a number of queries, the Director of Human Resources advised that he had met with the DES and that the College is still waiting for clarification on payment of allowances to Heads of Schools. The Committee noted the correspondence from the HEA, which had been circulated, advising that the amount identified as excess remuneration had been reduced to €1.2m in the discussions subsequent to the issue of the C&AG Special Report. The Director of HR also agreed that there is a need for a more developed framework to deal with remuneration issues, as mentioned in the Internal Audit report, and that there is a lack of clarity and guidance on many issues which contributes to the uncertainty facing College.

During a detailed discussion, while recognising the issue of needing more clarity in the guidelines, members present emphasised the importance of compliance with regulations and principles in this area and emphasised the financial and reputational consequences that may otherwise arise. Agreeing that the historic situation will need to be managed as best College can, they stressed that there should be no doubts tolerated, however, over approvals in future. The members present also agreed that both the role of HR and associated policies and procedures need significant strengthening and clarification in recognition of the complexities posed by the devolved governance structure.

In conclusion, the members present agreed to keep the matter under review and proposed that the Internal Auditor, after liaising with the full Committee on the discussions, in conjunction with the Chair, draft a memo to Board outlining the concerns of the Committee.

**AD/12-13/04 Outside Earnings - Review of Internal Controls**

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Introducing the topic, the Chair invited the Internal Auditor to update members on the report on Outside Earnings - Review of Internal Controls, which had been circulated.

The Internal Auditor, noting the importance of external associations to the academic affairs of College and its role in society, advised that there is no evidence available to suggest any serious abuse in this area but that College's policy and procedures on outside earnings is weaker than some other institutions in the sector. He advised that he had reported on this area some years previously and that it had also since been referred to as an issue in a more recent C&AG report. Noting that the reputational risk to College is increasing, he advised that there remains a need to make progress on strengthening the procedures so that College can demonstrate transparency and ensure good practices are observed.

During a discussion, members present agreed that it is likely the greater potential risk is reputational rather than financial and that, with the agreement of the full Committee, the matter should be brought to the attention of Executive Officers.

**AD/12-13/05 Payments to Hospital Staff**

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Introducing the item, the Internal Auditor drew members' attention to the following documents, which had been circulated:

- Memorandum from the Chair of the Audit Committee to Board dated 20 June 2012
- Letter from the Provost to the Chairman of St James's Hospital dated 29 June 2012
- Letter from the Chairman of St James's Hospital dated 16 July 2012
- Letter from the Provost to the Chairman of St James's Hospital dated 29 August 2012
- Letter from the Chairman of St James's Hospital dated 21 September 2012

Referring to earlier discussions on this topic at the April and June Committee meetings, the Internal Auditor updated members on the correspondence that had taken place since then, advising that one of the employees had left the hospital and the arrangement with College had ceased; that the College had been assured that the work did not fall within the normal requirements of hospital duties; and that the remaining employee is permitted time by the hospital to attend to his College duties.

During a discussion, members acknowledged the key role that adjunct staff plays in Schools and that in many cases adjunct staff would have very few lectures. The Director of HR expressed concern about the degree of difficulty in managing the reliance in Schools on adjunct staff, respecting the "one person one job" principle and protecting the quality of education.

Although recognising it had probably had unforeseen consequences for the sector, members stressed the importance of College respecting the principle of "one person one job" notwithstanding the valuable contribution of adjunct staff. Members present noted the update and welcomed progress to-date and stressed the need to resolve outstanding issues and bring the matter to a satisfactory conclusion. It was agreed the memo to Board, to be approved by the Committee at its next meeting, would refer to this matter also. The Chair thanked the Director of HR for his valuable contributions to discussions and he withdrew from the meeting.

**AD/12-13/06 Consideration of Draft Trust Funds (Benefactions) Financial Statements for year to 30 June 2012**

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The Chair welcomed the Treasurer, the Financial Resources Manager and Mr O'Keefe and Mr Hobson of KPMG to the meeting.

At the invitation of the Chair, the Treasurer invited members' attention to the Draft Trust Funds (Benefactions) Financial Statements for the year to 30 June 2012, which had been circulated together with a draft letter of representation, advising that the Draft Trust Funds Financial Statements had been noted by Finance Committee on 26 September 2012 and, following approval by the Audit Committee, would be considered by Board on 7 November 2012. He invited the Financial Resources Manager to update

members present on the Draft Trust Funds.

Tabling a summary graph document, the Financial Resources Manager drew members' attention to the Chief Financial Officer's Report and highlighted issues in relation to the investment and governance aspects as well as outlining details of capital and income returns deriving from the investments. The Treasurer also noted, in particular, the key requirement that the funds continue to provide financial support to specific College activities in perpetuity. The Treasurer and Financial Resources Manager clarified a number of technical issues in response to queries from members.

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 members present agreed that, following consultation with absent members and subject to agreement, the financial statements and letter of representation should be recommended for approval by Board.

**AD/12-13/07 Plan for Audit of 2011/2012 Accounts**

At the invitation of the Chair, Mr O'Keefe of KPMG drew members' 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. 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 15 January 2013.

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

- (i) Pension arrangements
- (ii) Liabilities - judgemental estimates/completeness
- (iii) Capital Projects
- (iv) Lir Capital Donations
- (v) Investment Properties
- (vi) Accounting for Research Projects
- (vii) 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 but that the introduction of the new Financial Information System (FIS) in 2013 will streamline and automate this process.

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, KPMG will continue to issue a qualification in their report on the Consolidated GAAP accounts. The Treasurer commented that this remains a sectoral issue and that discussions are continuing with the HEA in order to attempt to resolve the issue. Noting that the C&AG take a different view and do not issue a qualification, members expressed concern about the significance of a qualification in the College financial statements, which will continue as long as the matter remains unresolved with the HEA.

The Internal Auditor confirmed that the KPMG Audit Plan had been circulated to the C&AG, as per the agreed protocol, and advised members present that no comments had been received on it.

In response to the planned audit work to gain assurance on compliance with laws and regulations and referring to the recent issues regarding remuneration that had come to the Committee's attention through media reports, members requested that there be a specific focus on approvals for pay rates in the audit of payroll. Mr O'Keefe advised that KPMG would look at this area with a view to extending tests and procedures and would focus on this area to a greater degree during their audit and report back to the Committee at a subsequent meeting.

Following a brief discussion, the members present noted the KPMG Audit Plan.

**AD/12-13/08 Treatment of Trust Funds (Benefactions) in College financial statements under GAAP**

The Chair invited the Treasurer to update the Committee on the accounting treatment of the Trust Funds in the College's financial statements under GAAP.

Noting that the C&AG rely on KPMG audit files to complete their audit and that the audits proceed sequentially rather than in parallel, the Treasurer advised that the C&AG recently notified College of two audit issues - the major issue being the treatment of the Trust Funds in the GAAP accounts. The Financial Resources Manager advised that it is the view of Ms Mulligan, Office of the C&AG, that they may not have adequate audit evidence without sight of the Trust Funds and that this may lead to citing a limitation of scope in their audit opinion. In response to a query as to KPMG's view on the technical requirements for consolidation, Mr O'Keefe outlined various factors for consideration and, advising that there is a significant degree of judgment required, drew attention to the reasons outlined in the Audit Plan why the Trust Funds and the Foundation are not consolidated. During a discussion, noting that it may be useful to ascertain the approach of other Colleges in the sector and that the Trust Funds and the Foundation need to be considered separately, members present requested that the Internal Auditor liaise with the Treasurer and KPMG and update the Committee further at its next meeting.

The Chair thanked Mr O'Keefe and Mr Hobson, the Chief Operating Office and the Financial Resources Manager for the presentations and their contributions and they withdrew from the meeting.

**AD/12-13/09 KPMG Audit Fee**

The Chair invited members' attention to the KPMG audit fee correspondence, which had been circulated. The Treasurer outlined the background and supported the additional fee being sought. After a brief discussion, members present agreed, subject to the views of the absent members, to approve the additional fee but requested that KPMG be advised that the variation procedures in the tender should be followed in the future. Professor O'Hagan then withdrew from the meeting.

**AD/12-13/10 Review of Human Resources**

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At the invitation of the Chair, the Internal Auditor introduced the item noting that for demonstration purposes the report was being presented in the format outlined in the discussion paper "Presentation of Audit Findings" which had also been circulated. He invited Ms Cooney, Assistant Internal Auditor, to present the report on the review of the HR Department, which had been circulated. Ms Cooney drew members' attention to certain priority issues contained in the report, including the role of HR, ECF issues and the potential for disagreement in regard to pay reduction for new entrants to the public service due to lack of a sectoral direction. She also alluded to a number of other issues and summarised the review findings and recommendations.

During a discussion, members present noted that policies and procedures need to be very clear in a devolved governance environment and that HR needs to be empowered and given a clear mandate, as evidenced by the recently arising instances of where the approval process needed to be strengthened. Members noted that under the current administrative reform process, START, action is being taken to better define and clarify roles. In conclusion, the members present emphasised the need for robust policies and procedures in this area and of the potential financial and reputational risk if such procedures are not applied consistently.

In conclusion, the members present agreed that the Internal Auditor, after liaising with the full Committee on the discussions, also emphasise this matter in the memo to Board outlining the concerns of the Committee on remuneration issues as well as in the Annual Report.

**AD/12-13/11 Discussion Document - Findings of Audit Findings**

The Chair and Committee members present agreed to defer consideration of this item until the next meeting of the Committee in November.

**AD/12-13/12 Annual Report 2012 - Input to Part I**

The Internal Auditor advised that the final version of the Annual Report will be considered by Board at its meeting on 5 December 2012, noting that the Annual Report is in two main parts: one

inviting Board's attention to key strategic or other issues and the Audit Committee's recommendations in relation to same and the other being a report of record for the year. The Chair invited the members present to reflect on the content of this year's Annual Report. In the course of a brief discussion, the members present highlighted certain issues to be included by the Internal Auditor when preparing the Annual Report for consideration at the next meeting of the Committee.

**AD/12-13/13 Membership**

The Chair, noting that due to her retirement from College this was the last meeting at which Ms Anne Fitzgerald, College Secretary, would attend, thanked her for her very valuable and significant work in support of the Committee over many years since its inception. Members extended their appreciation to Ms FitzGerald and wished her a very happy retirement.

At the invitation of the Chair, the Internal Auditor updated members on other developments in regard to the membership of the Committee. He advised that Professor Joe Barry, who unfortunately could not attend the meeting, had replaced Professor John Horne. He also advised that Mr John Cunningham has recently moved to Singapore and he will be stepping down from the Committee after the next meeting.

The Chair thanked Professor Horne for his significant contributions to the Committee during his term and invited members present to forward any suggestions for a replacement external member to the Chair and Internal Auditor.

**Section C - Items for Noting**

**AD/12-13/14 C&AG Special Report 78: Matters Arising out of the Education Audits**

The members present noted the letter from T Boland, HEA dated 20 July 2012, together with a copy of the email dated 20 July 2012 from the Director of HR re HEA correspondence, which had been circulated.

**AD/12-13/15 Recent University Rankings**

The members present noted the recent Sunday Business Post article by Professor O'Hagan, which had been circulated.

**AD/12-13/16 US GAAP Audit**

The members present noted the KPMG Letter of Engagement and KPMG Audit Fee quote which had been circulated.

**AD/12-13/17 Board Papers**

The members present noted the Board Agenda and Minutes, which had been circulated.



**AD/12-13/18 Meeting Schedule 2012-13**

The members present noted the Meeting Schedule for 2012-13 which had been circulated.

**Addendum to Minutes of 17 October 2012**

**Audit Committee**

At its meeting of 20 November 2012, the Audit Committee considered the minutes of the meeting of members present on 17 October 2012, which was not quorate. [AD/12-13/20]

The Committee noted the discussions that had taken place and ratified all the proposals made at that meeting and agreed that, with the addition of this addendum, the minutes of 17 October could be regarded as minutes of the Audit Committee and circulated to Board.